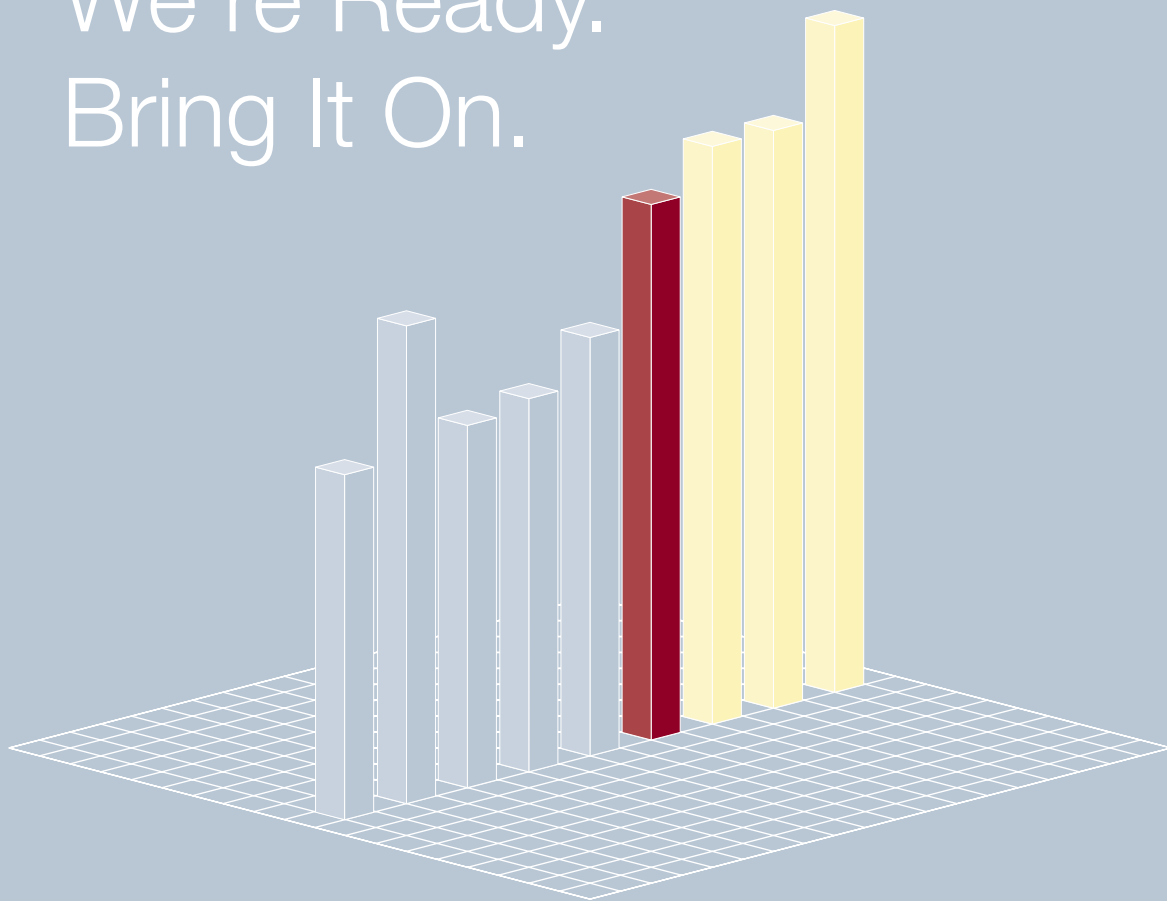


We're Ready.  
Bring It On.



**Linear Technology Corporation**  
Annual Report 2004

## Corporate Profile

Linear Technology Corporation (Nasdaq: LLTC) designs, manufactures and markets a broad line of high performance analog integrated circuits used by major communications, computer and industrial companies worldwide. Linear (or analog) circuits provide an essential bridge between our analog world and the digital microelectronics used in digital consumer products, wireless communications, notebook and handheld computers, computer peripherals, medical instrumentation, factory automation, automotive electronics and many other applications. Linear Technology provides customers with high performance amplifiers, comparators, voltage references, monolithic filters, linear regulators, DC/DC converters, battery chargers, data converters, communications interface circuits, RF signal conditioning circuits and many other analog functions.

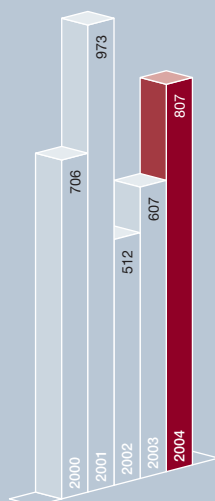
The Company markets over 7,500 products to over 15,000 original equipment manufacturers. These products compete in the marketplace based on their performance, functional value, quality and reliability. Linear Technology products are produced using state-of-the-art silicon gate CMOS, BiCMOS, Complementary Bipolar, High Voltage and RF wafer fabrication process technologies.

Linear Technology is headquartered in Milpitas, California and employs approximately 3,000 people worldwide. In addition to manufacturing and test facilities in California, Washington, Singapore and Malaysia, the company has eight satellite design centers in California (2), Colorado, Vermont, Massachusetts, New Hampshire, North Carolina and Singapore.

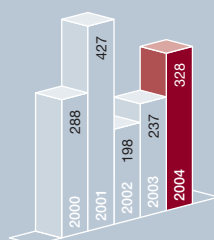
The graph on the cover shows historical numbers and growth projections for the analog semiconductor market by the Semiconductor Industry Association (SIA) from 1999 to 2007. The SIA projects the analog market to reach \$42.7 billion by 2007, up from \$34.3 billion in 2004.

# Financial Highlights

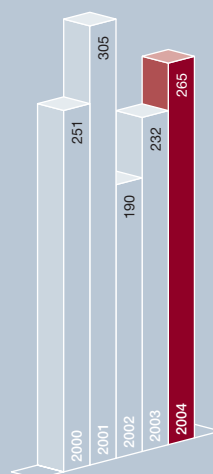
**Net Sales**  
(\$ in millions)



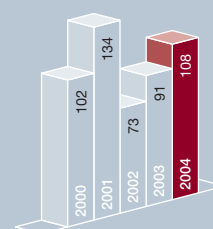
**Net Income**  
(\$ in millions)



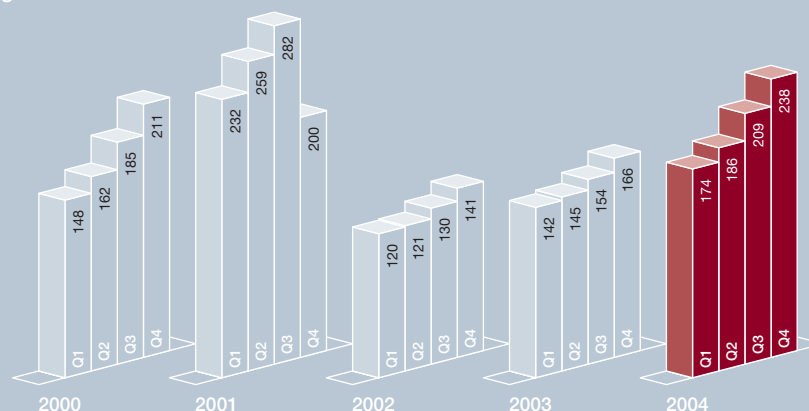
**Net Sales per Employee**  
(\$ in thousands)



**Net Income per Employee**  
(\$ in thousands)



**Quarterly Net Sales**  
(\$ in millions)



In thousands, except per share amounts

	2004	2003	2002	2001	2000
Net Sales	\$ 807,281	\$ 606,573	\$ 512,282	\$ 972,625	\$ 705,917
Operating Income	436,730	294,511	225,099	546,285	374,396
Net Income	328,171	236,591	197,629	427,456	287,906
Diluted Earnings Per Share	1.02	0.74	0.60	1.29	0.88
Cash and Short-Term Investments	1,656,540	1,593,567	1,552,030	1,549,002	1,175,558
Working Capital	1,629,481	1,613,971	1,558,584	1,525,624	1,141,426
Total Assets	2,087,703	2,056,879	1,988,433	2,017,074	1,507,256
Long-Term Debt	-	-	-	-	-
Stockholders' Equity	1,810,605	1,814,929	1,781,454	1,781,957	1,322,197

# To Our Stockholders

## **Preparation meets opportunity.**

Fiscal 2004 was a very strong year. It followed two tough years; one a down but profitable year, followed the next year by a mild recovery in both sales and profits. Tough years are character-building years. Opportunity is not clearly present, but preparation is essential. Lean is in vogue. However, only the committed continue to invest; get better prepared. The effort was to remain strongly profitable and cash flow positive, and to get stronger. We did both; the first rewards came in 2004.



For fiscal 2004 we reported net sales of \$807,281,000, an increase of \$200,708,000, or 33% from the previous year. Net income was \$328,171,000, an increase of \$91,580,000, or 39% from the prior year, giving us a 41% return on sales. The resulting diluted earnings per share were \$1.02 versus \$0.74 in fiscal 2003. We paid cash dividends of \$0.28 per share for the year versus \$0.21 per share in fiscal 2003. The Company repurchased 8,411,200 shares of common stock for \$331,937,000. The cash and short-term investment balance after these common stock repurchases was \$1,656,540,000. This balance represents 91% of stockholders' equity. Our return on equity was 18% and our return on equity, net of cash, was 175%.

In addition to stellar financial performance, fiscal 2004 showed strong quarterly momentum. During each quarter, we accelerated our rate of year-over-year quarterly sales growth from 23% in the first quarter to 28% in the second, 36% in the third and 44% in the fourth. Similarly our return on equity increased each quarter from 15% to 16%, 18%, and 22%. In response, the common stock repurchased also increased quarterly.

We had a strong year; also the industry had a strong year. The most recognized prognosticator of future semiconductor sales is the Semiconductor Industry Association. Entering our fiscal 2004, its forecast for analog semiconductor sales for calendar 2004 was \$30.0 billion, which it then amended to \$33.7 billion and most recently to \$34.4 billion, growing to \$42.7 billion in 2007, as the outlook grew increasingly stronger. Considering that analog was \$23.9 billion in calendar 2002, these forecasts, if reasonably accurate, represent a remarkable opportunity.

The opportunity is clearly present and Linear is ready. The opportunity is diverse, as it extends to all of our major end markets: communications, industrial, computer, automotive, and high-end consumer. To respond to these markets we made investments in technology, geographic sales presence and manufacturing.

These markets are rich in opportunity for high-performance analog solutions and require the expertise of very talented professionals. In 2004, we opened another design center in California and expanded our overall satellite design center headcount in our eight locations by 33%. We introduced many new products into the marketplace including: Power over Ethernet (PoE) controllers; cell phone Xenon photoflash chargers; RF active down converting mixers; and very fast, high bit count, analog to digital converters for 3G cellular base stations.

To populate the increasingly global marketplaces with our solutions, we opened several new sales offices: a fourth in the Republic of China, one in Nagoya, Japan and one in Milan, Italy. Our sales professionals have become increasingly technical and we have added 25% to our international sales staff in 2004.

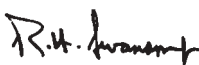
We also added to our manufacturing capability and capacity in 2004 by commencing expansion projects in each of our major plants: wafer fabrication, test and assembly. We now have capacity within reach to support annual sales of \$2 billion. We therefore continue to have unique standing in both customer response, as evidenced by low lead times, and product quality, as evidenced by leading semiconductor supplier awards both domestically and internationally. Linear is ready.

We have executed in the past, as we have just completed our 73rd consecutive quarter of positive cash flow from operations and our 37th consecutive quarter with pre-tax profits exceeding 50% of net sales. And we are prepared for the future.

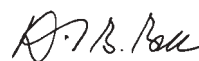
We are grateful to our employees for their skills, energy and commitment. We are also grateful to our customers and investors for their demanding standards and their confidence. In summary, 2004 was a terrific year and our markets are expecting further growth. The opportunity is present for leading edge analog technology, well executed, in a vibrant marketplace. Our twenty-three year focus on high performance analog has uniquely positioned us to serve this market.

We're ready. Bring it on.

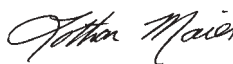
Sincerely,



**Robert H. Swanson, Jr.**  
Chairman and Chief Executive Officer



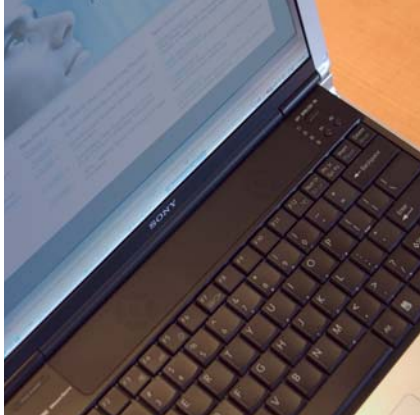
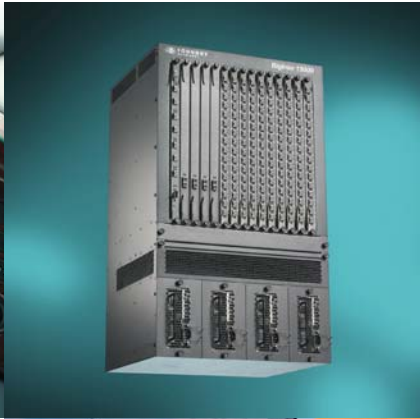
**David B. Bell**  
President



**Lothar Maier**  
Vice President and Chief Operating Officer



**Paul Coghlan**  
Vice President, Finance and Chief Financial Officer



1	2	3
4	5	6
7	8	9

1. Industrial 2. Automotive 3. Networking  
 4. Wireless Communications 5. Consumer GPS 6. Notebook Computers  
 7. Medical 8. Telecommunications Infrastructure 9. High-End Cellular Phones



# We're Ready. Bring it On.

The analog semiconductor market is surging, fueled by traditional markets such as communications, computer and industrial, plus the emerging markets of high-end consumer, automotive and security. The high performance opportunities within these markets, which we target, are growing even faster.

## **Networking and Telecommunications**

Linear Technology continues to deliver new products to the networking and telecommunications markets before our competitors by anticipating system requirements and leveraging our agile infrastructure. In addition to power management and Hot Swap™ products, we introduced industry leading solutions for Power over Ethernet, an exciting new technology for products such as IP phones and wireless routers. We also introduced the industry's smallest and most efficient products to power cellular phones, and high speed data converters and RF mixers that enable 3G cellular base stations that are more compact and significantly lower cost.

## **High-End Consumer Electronics**

The high-end consumer electronics market is growing rapidly, with the introduction of multi-function camera phones, PDAs, digital cameras, MP3 players, and GPS navigators. These consumer products increasingly play to our strengths, given the trend toward smaller, portable products with increased functionality. The race is on to

provide consumer products that feature excellent image and sound quality and maximum battery life in small form factors.

## **Industrial, Medical and Security**

The industrial market continues to grow as automation advances and fast developing countries such as China rapidly improve their infrastructure. Linear Technology products are used in the most advanced industrial control and monitoring equipment and in the rapidly growing medical and security markets. Our highly accurate signal chain devices are used in products that monitor and control such aspects of the real world as temperature, pressure and light.

## **Automotive Electronics**

The automotive electronics market continues to evolve rapidly as GPS navigation and telematics systems become increasingly complex, demanding higher performance solutions. Such applications as engine control, heads-up displays, and safety systems also leverage our ability to deliver high reliability products that are compact, rugged, and power efficient.

These diverse end markets are key to our rapid growth. Our broad portfolio of over 7,500 products provides design solutions for a wide range of applications that serve these markets and many new ones that emerge every day.

\$42.7  
BILLION

According to the latest Semiconductor Industry Association (SIA) forecast, the worldwide analog semiconductor market is expected to reach \$42.7 billion by 2007. This represents a large 24% increase over the projected \$34.3 billion analog market in 2004, and the high performance segment is projected to grow even faster. With the surge in growth of the analog market, the SIA expects it to surpass the worldwide microprocessor market this year. Linear Technology is well positioned to capitalize on this significant market growth.



1

2

3

4

1, 2. Manufacturing 3. Design 4. Sales Support



# Prepared for Growth

For the past two decades, Linear Technology has designed a portfolio of high performance analog ICs and an infrastructure to deliver these products to our customers. We understand that our customers demand value beyond product performance. We anticipate their needs and develop products in a timely fashion to solve their application requirements. We deliver products that surpass our customers' performance requirements and provide the technical support they require to help them get to market on time. And our products provide unparalleled quality and reliability. We understand the meaning of value and we deliver.

## Design

We have grown our analog design team to 390, based at our Silicon Valley headquarters and at eight satellite design centers worldwide. Analog engineering is a unique skill set that we've steadily grown over our 23-year history and is essential to produce leading edge products. Our expertise in process technology, circuit design, and applications engineering keeps us ahead of the competition. And our broad capability to design power management, mixed analog and digital, precision and high speed, and RF products ensures our success across diverse markets.

## Manufacturing

Unlike many of our competitors, we utilize our own wafer manufacturing processes, since they are essential to create the highest performance products for applications

demanding a range of speeds, precision and voltages. In addition, we have our own assembly and test facilities in Penang, Malaysia and Singapore which allow us to develop industry leading packages and react quickly to customer demand. Control over the entire manufacturing process allows us to provide customers the industry's best products, delivery, quality and reliability.

## Sales Support

We provide our customers the best support with our highly skilled team of field and factory applications engineers and sales engineers located throughout North America, Europe and Asia. The complexity of today's high performance analog circuit design requires the hands-on technical support that we provide. Our engineers, located in 50 key worldwide locations, work closely with customers to solve their most demanding design challenges to ensure their products get to market on time.

We have invested in the people and facilities to allow us to take advantage of rapidly growing markets for high performance analog products. We are currently expanding both our wafer fabrication plants and our assembly and test facilities to prepare for future growth. Our current facilities, combined with these expansion plans, position us well to support sales growth to \$2 billion and beyond.

We're ready. Bring it on.

\$2.0  
BILLION

After growing revenues 33% in fiscal 2004, Linear Technology is looking forward to continued strong growth in the coming year. With our own wafer fabrication, assembly and test operations, we have control of the entire manufacturing process. Our manufacturing infrastructure, combined with current expansion plans, positions us well to capitalize on future market growth and to support sales growth to \$2 billion and beyond.

# 2004 Financial Report

## Financial Analysis (Year ended June 27, 2004)

### Profitability:

Operating Margin	54.1%
Return on Equity	18.1%
Return on Assets	15.8%
Return on Sales	40.7%

### Liquidity:

Quick Ratio	8.6
Current Ratio	9.0

### Leverage:

Long-Term Debt	none
----------------	------

### Asset Turns:

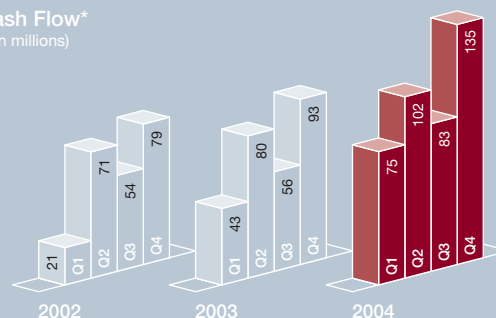
Inventory Turns	5.7
Sales/Fixed Assets (ROI)	3.8

### Cash Flow\*:

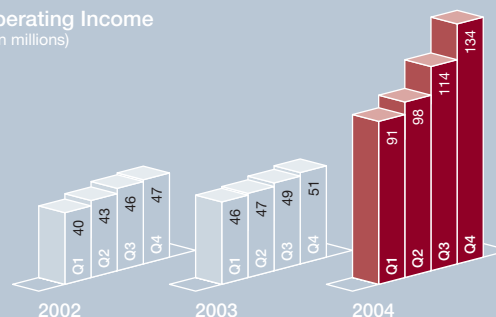
As a % of Net Sales	48.9%
---------------------	-------

\* excludes common stock repurchases

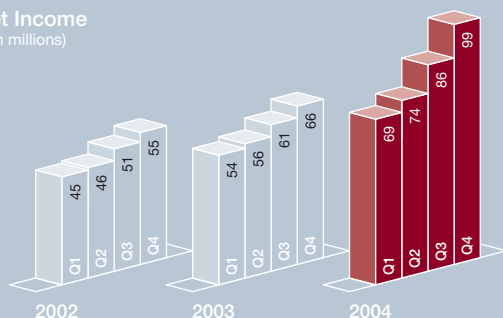
## Cash Flow\* (\$ in millions)



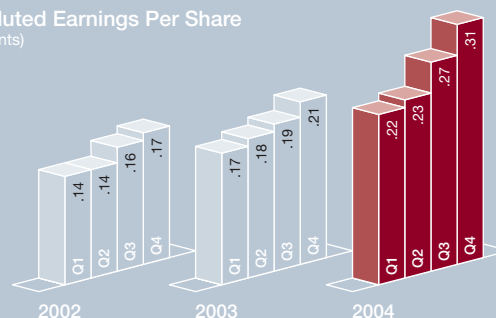
## Operating Income (\$ in millions)



## Net Income (\$ in millions)



## Diluted Earnings Per Share (cents)



Fiscal 2004 was a very strong year for Linear Technology. The recovery that began during fiscal 2003 continued at an accelerated rate. As worldwide economic conditions improved, the Company experienced broad-based and robust growth across each of its geographic markets and each of its end markets: Industrial, Communications, Computer, Automotive, High-End Consumer and Space/Military. Year-over-year sales and earnings growth were 33% and 39%, respectively. The Company generated cash of \$395 million before repurchasing roughly 8.4 million shares of its common stock for \$332 million. The Company paid cash dividends of \$0.28 per share, an increase of \$0.07 per share over the previous year.

Return on sales for the year of 41% continued to be at an industry leading level. Through the quarter ended June 27, 2004 the Company achieved:

- 43 consecutive quarters with pretax profits exceeding 40% of net sales
- 37 consecutive quarters with pretax profits exceeding 50% of net sales
- 73 consecutive quarters with positive cash flow from operations

The table entitled "Financial Analysis" shows the strength of the Company's operating results and financial position as expressed in ratios used by the financial community.

The success of the Company is attributable to its employees. In recognition of this performance, the Company funds an attractive profit sharing and 401(k) retirement plan. The plan covers essentially all full-time employees; payout for fiscal 2004 was approximately 37% of salary, making it one of the industry's most attractive profit sharing programs.

# Corporate Information

## BOARD OF DIRECTORS

### David S. Lee (1)(2)

Director since 1988  
Chairman of the Board  
Cortelco Systems Holding Corp.  
Manufacturer, Telecommunication  
Systems and Products

### Leo T. McCarthy (1)(2)

Director since 1994  
President  
The Daniel Group  
International Consulting Firm  
Former Lieutenant Governor  
State of California

### Richard M. Moley (1)(2)

Director since 1994  
Former President and Chief Executive Officer  
StrataCom, Inc.  
Manufacturer, Telecommunication  
Systems and Products

### Robert H. Swanson, Jr.

Director since 1981  
Chairman and Chief Executive Officer  
Linear Technology Corporation

### Thomas S. Volpe (1)(2)

Chairman of Audit Committee  
Director since 1984  
Founder & CEO  
Volpe Investments LLC

## OFFICERS

### Robert H. Swanson, Jr.

Chairman and Chief Executive Officer

### David B. Bell

President

### Paul V. Chantalat

Vice President, Quality and Reliability

### Paul Coghlan

Vice President, Finance and Chief Financial Officer

### Robert C. Dobkin

Vice President, Engineering and Chief Technical Officer

### William H. Gross

Vice President, Signal Conditioning Products

### Lothar Maier

Vice President and Chief Operating Officer

### Alexander R. McCann

Vice President, Operations

### Richard E. Nickson

Vice President, North American Sales

### Donald E. Paulus

Vice President, Power Management Products

### David A. Quarles

Vice President, International Sales

### Robert L. Reay

Vice President, Mixed Signal Products

### Arthur F. Schneiderman

Secretary  
Wilson, Sonsini, Goodrich & Rosati  
Professional Corporation  
Legal Counsel

## TRANSFER AGENT AND REGISTRAR

EquiServe Trust Company N.A.  
Providence, Rhode Island

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP  
San Jose, California

## CORPORATE AND INVESTOR INFORMATION

Please direct inquiries to:

Paul Coghlan  
Vice President, Finance and CFO  
Linear Technology Corporation  
1630 McCarthy Blvd.  
Milpitas, California 95035-7417

(1) Member of the Compensation Committee

(2) Member of the Audit Committee

Thanks to the following companies who provided photos used in this report:  
Ericsson AB, Foundry Networks, Fluke, Garmin, Nellcor Puritan Bennett Inc.,  
Samsung, and Sony.

LT, LT and LTC are registered trademarks and Hot Swap is a trademark of Linear Technology Corporation. All other names are trademarks or registered trademarks of their respective companies and manufacturers. The appearance of a manufacturer's product does not imply any endorsement of or by Linear Technology Corporation.  
Printed in USA, Copyright 2004, Linear Technology Corporation.



**Linear Technology Corporation**

1630 McCarthy Blvd. Milpitas, CA 95035-7417 Tel: 408-432-1900  
[www.linear.com](http://www.linear.com)