



Innovation has its **rewards**

"Its products are so coveted that Linear Tech has averaged a better-than-40% net operating margin for the past five years."

BusinessWeek



Smart Strategies

Crimson Success

Harvard aims for the following asset allocation over time:

U.S. EQUITIES	15%
COMMODITIES	13
PRIVATE EQUITY	13
HEDGE FUNDS	12
U.S. BONDS	11
FOREIGN EQUITIES	10
REAL ESTATE	10
INFLATION-INDEXED BONDS	6
EMERGING MARKETS	5
HIGH-YIELD	5
FOREIGN BONDS	5
BORROWED MONEY	-5

Source: Harvard Management Co.

and their taxes down. No doubt about it.

What have been your biggest disappointments?

I was a fan of emerging-market equities early on, but I was wrong for a long time. And a lot of the trades we make each day are bad. But we try to structure them in such a way so that if things go wrong, we don't lose a great deal of money. And if they go right, we make a lot of money.

Critics argue that your managers are overpaid. Your two top managers

Profits

Margins To Marvel At

Some companies have learned how to prosper in good times and bad. **BY JOSEPH WEBER**

WHAT IS THE SECRET OF TAKING fliers on untested companies? A smarter—and safer—way to go is to find outfits with healthy profit margins year in and year out. Such money in good times and bad—whether they have the latest technology or simply a lock on their industries or market niches that competitors can't touch.

You find such money-makers in all sorts of businesses, from high tech to drugs. At *BusinessWeek's* request, Zacks Investment Research Inc. of Chicago ranked the top performers of the Standard & Poor's 500-stock index by their net operating margin—after-tax income, without unusual items, divided by sales. BW then culled the list to take out those that face humbling challenges, such as drugmaker Merck & Co., which is reeling from the Vioxx fallout and uncertainty in management succession, and mixed companies, such as

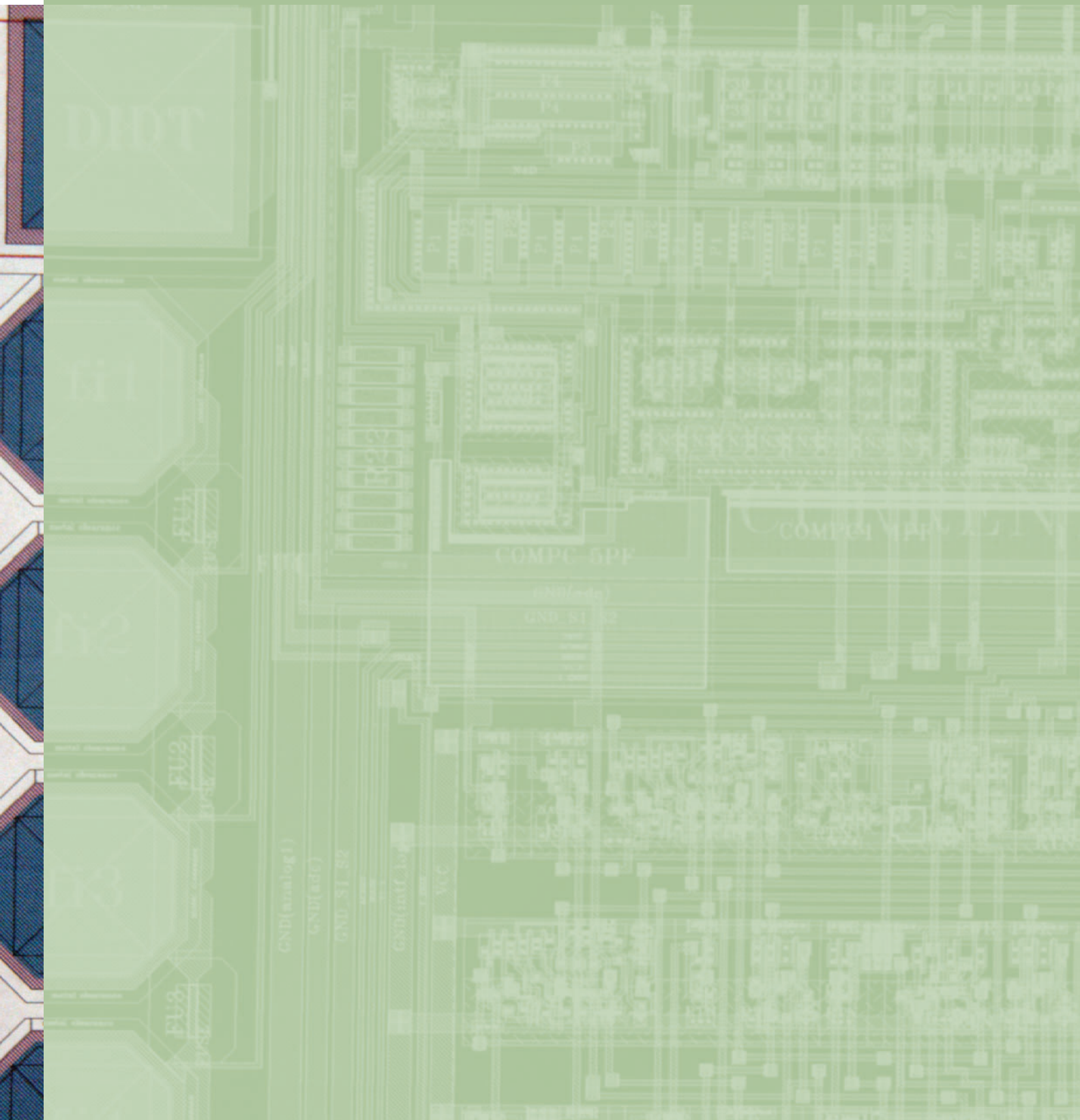
ly priced today, these high performers are likely to continue to be big gainers over time.

Look at Linear Technology Corp. It's a small player in the giant chip business, with less than \$1 billion in annual sales. But the 23-year-old Milpitas (Calif.) company churns out chips used in such hot areas as cell phones and notebook computers. Its products are so coveted that Linear Tech has averaged a better-than-40% net operating margin for the past five years, nearly twice that of its far bigger rival, Intel Corp. "They make gobs of money," says David Wu, semiconductor

Profit Powerhouses

Companies with an ability to maintain their profit margins make good investments, especially in an era when many face higher costs and little pricing power. Some promising picks:

COMPANY/SYMBOL	NET OPERATING MARGIN 2004*	PROFIT MARGIN 5-YR. AVERAGE**
AMBA FINANCIAL ABK	50.0%	57.6%
LINEAR TECHNOLOGY LLC	40.9	40.6
QUALCOMM QCOM	37.3	27.8
MICROSOFT MSFT	36.7	37.7
MOODY'S MCO	31.6	24.3
AMGN	30.6	31.3
	30.4	25.9
	28.8	22.0
		23.4





BIF\$

*One Billion Dollars in Sales with 41% Net Profit

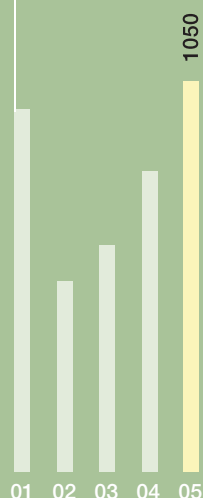
Linear Technology Corporation (Nasdaq: LLTC) designs, manufactures and markets a broad line of high performance analog integrated circuits used by major communications, computer and industrial companies worldwide. Linear (or analog) circuits provide an essential bridge between our analog world and the 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.

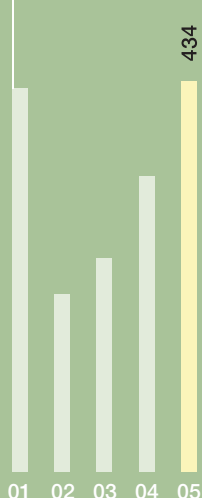
Linear Technology is headquartered in Milpitas, California and employs approximately 3,200 people worldwide. In addition to manufacturing and test facilities in California, Washington, Singapore and Malaysia, the company has nine satellite design centers in California (2), Colorado, Vermont, Massachusetts, New Hampshire, North Carolina, Arizona and Singapore.

Financial Highlights

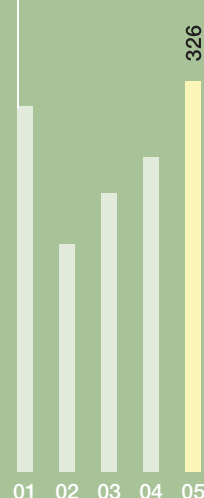
NET REVENUES
(\$ in millions)



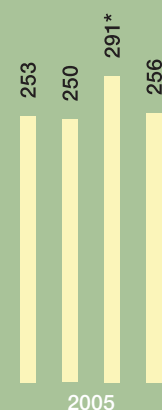
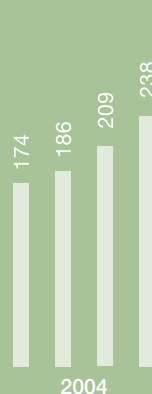
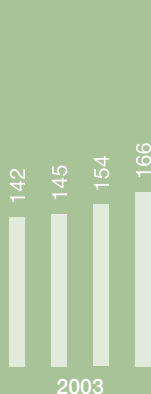
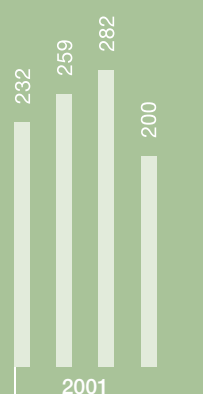
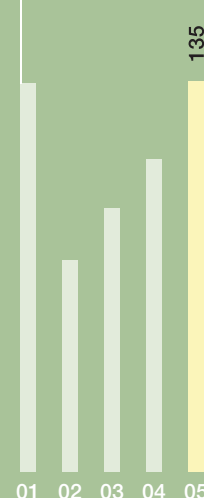
NET INCOME
(\$ in millions)



**NET REVENUES
PER EMPLOYEE**
(\$ in thousands)



**NET INCOME
PER EMPLOYEE**
(\$ in thousands)



QUARTERLY NET REVENUES
(\$ in millions)

*includes \$40 million of royalty revenue

\$ in thousands, except per share amounts	2005	2004	2003	2002	2001
Net Revenues	\$ 1,049,694	\$ 807,281	\$ 606,573	\$ 512,282	\$ 972,625
Operating Income	589,629	436,730	294,511	225,099	546,285
Net Income	433,974	328,171	236,591	197,629	427,456
Return on Sales	41.3%	40.7%	39.0%	38.6%	43.9%
Diluted Earnings Per Share	1.38	1.02	0.74	0.60	1.29
Cash and Short-Term Investments	1,790,912	1,656,540	1,593,567	1,552,030	1,549,002
Working Capital	1,799,570	1,629,481	1,613,971	1,558,584	1,525,624
Total Assets	2,286,234	2,087,703	2,056,879	1,988,433	2,017,074
Long-Term Debt	-	-	-	-	-
Stockholders' Equity	2,007,034	1,810,605	1,814,929	1,781,454	1,781,957

“Linear’s gold mine is unique analog chips.”

San Jose Mercury News

“... Linear’s focus on the cream of the analog market allows it to crank out operating margins ... of better than 50 percent, outperforming software companies like Oracle and Microsoft.”

Red Herring



“... Linear has executed with laser precision. Its gross margins of 78 percent are the highest in the chip industry, and its pretax profits have exceeded 50 percent of sales for 39 consecutive quarters.”

Electronics Supply & Manufacturing

“In sum, we believe Linear remains a very well-managed, highly profitable, R&D-driven, highly diversified cash-generating machine.”

Tore Svanberg
US Bancorp Piper Jaffray



Robert H. Swanson, Jr.
Executive Chairman



Lothar Maier
Chief Executive Officer



David B. Bell
President



Paul Coghlan
Vice President, Finance
and Chief Financial Officer

To Our Stockholders

Linear Technology's single business objective has always been to innovate in delivering high performance analog integrated circuits to the electronics marketplace. Innovation starts with high performance integrated circuit design. Innovation is also prominent in our manufacturing facilities where new wafer manufacturing processes are developed, and where flawless execution in delivery of quality products within consistently low lead times is differentiating to our customer base. This cutting edge innovation is introduced to the market through a solutions focused technical sales force. We do only high performance analog from circuit design to shipment. We do it well!

Innovation has its rewards.

Fiscal 2005 was a rewarding year. Revenues grew 30%, net profits grew 32%, cash and short-term investments grew \$134.4 million, net of spending \$257 million to buy back 7 million shares of common stock and net of distributing \$111 million in cash dividends.

Fiscal 2005 was also a milestone year. Revenues for the first time exceeded \$1 billion dollars. Profits before tax exceeded 50% of net revenues for the 41st consecutive quarter, 10 years. Cash flow from operations was positive for the 77th consecutive quarter, 19 years.

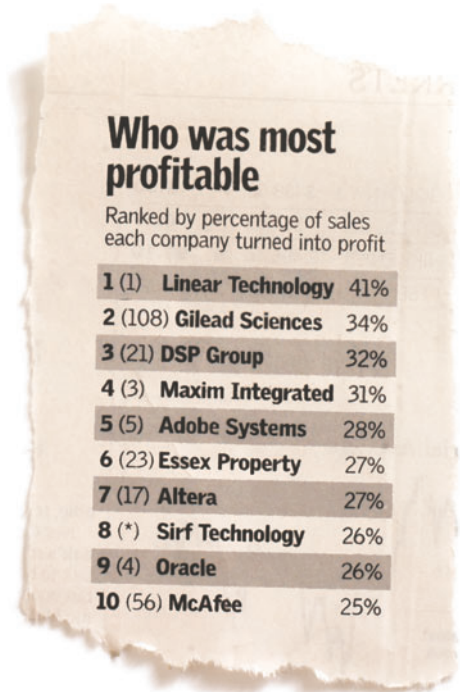
Total revenue of \$1,050,000,000 including royalty revenue of \$40,000,000 was an increase of \$242,000,000 or 30% from the previous year. Net income was \$434,000,000, an increase of \$106,000,000 or 32% from the prior year. Our return on sales was 41%. The resulting diluted earnings per share were \$1.38 versus \$1.02 per share in fiscal 2004. We paid

cash dividends of \$0.36 per share for the year versus \$0.28 per share in fiscal 2004. Our return on equity was 23% and our return on equity, net of cash, was 234%.

These results were attained in what was generally described as a slow growth environment. We outgrew all of our major competitors, all of whom had one or more substantially down sales quarters. Innovation drove our effectiveness as we had unique solutions for those markets that demonstrated above average growth such as MP3 players, Power-over-Ethernet applications, automotive electronics and applications for very high speed, high resolution mixed signal analog to digital converters.

In other markets, where growth in 2005 was more modest, innovation afforded us good relative performance. Xenon flash chargers and other battery associated power management products facilitated growth in cell phones and digital still cameras. Delta Sigma analog to digital converters and new generation amplifiers helped our continual presence in the industrial marketplace. As a result of these and many other products we continue to be very diversified in the electronics marketplace. 35% of our business is in communications, of which 11% is in handsets; 11% in cell phone infrastructure; and 13% in networking. 32% of our business is in industrial including medical; 16% is in computing; 9% in high end consumer; 5% in automotive; and finally, 3% in satellite and military.

Our penetration into these markets is global as 28% of our product sales took place in the United States, 17% in Europe, 14% in Japan and 41% in the rest of Asia. However, 47% of the demand for our products is created in the USA, although roughly one-third of this demand is shipped offshore. To match this distribution of demand we expanded our sales force, principally overseas.



“It’s unquestionably true—nobody comes close to their margins.”

Tore Svanberg
US Bancorp Piper Jaffray

“Today, analog is even trendy.”

Reed Business Publications' Mover & Shakers



“Now that the world is moving to multi-media, we need people who understand analog. We’re coming up short.”

Will Strauss
Forward Concepts

“The accelerating speeds and falling costs of all things digital are creating new opportunities for Linear.”

Red Herring

*“Wall Street analysts consider the 23-year-old company to be one of the **best-managed** players in the chip industry.”*

Electronics Supply & Manufacturing



“Linear Technology continues to enjoy profitability about which many other companies can only dream.”

Reed Business Publications' Mover & Shakers

*“I challenge you to find any company anywhere with a **better business model.**”*

Tom Thornhill
UBS Securities

“Analog companies’ assets are their people, and those assets appreciate over time.”

Ramesh Misra
C.E. Unterberg, Towbin



“By focusing on this hot market, Linear has made itself one of the most profitable companies in the technology industry.”

San Jose Mercury News

Critical advances were made in factory execution in 2005. New processes were developed to support forthcoming new business objectives in high frequency product development and ever more demanding power management requirements. Also manufacturing capacity was expanded. New clean room expansion in both our fabrication plants has been completed, which would support a doubling of our current sales level. In addition we are well advanced in the construction of an additional test facility adjacent to our existing facility in Singapore.

Innovation is challenging, exciting, but also demanding. It is better to lead than chase. People, our employees, innovate and execute. High performance should be rewarded. In 2005 Linear's profit sharing program paid out roughly 44% of base pay to all domestic employees, of which approximately one-third went into a 401(k) based retirement program. Linear has historically had a balanced compensation philosophy between cash and stock based compensation. In fiscal 2006, an expense will be estimated for all forms of stock based compensation and charged to the income statement. We believe the impact for Linear will be roughly 10% of net income, which will be modest compared to other technology companies and affords us flexibility going forward in competing for and retaining unique analog talent.

2005 was also a good year in attracting this unique analog talent. We added to our cadre of satellite design centers by opening a new location in Phoenix, Arizona. We now have 9 satellite centers. We also further enhanced our analog intern program, recruiting from the top engineering schools. This was our most prolific year in adding to our circuit design professional talent.

In fiscal 2005 our innovation was rewarded, not only by customers, but by competitors as well. We finalized a royalty agreement with a significant competitor. We believe that this is the largest dollar royalty in the analog circuit design area, with an initial payment of \$40,000,000 for past royalties and further royalties to be earned quarterly from July 2005 through June 2013.

In summary, innovation, flawless execution and shared profits result in outstanding financial performance. A true high performance analog business has high return financials as demonstrated in this annual report.

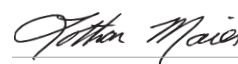
Innovation has its rewards.

For this opportunity we are grateful to our employees and thankful for the demands and support of our customers and stockholders.

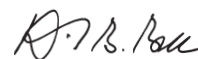
Sincerely,



Robert H. Swanson, Jr.
Executive Chairman



Lothar Maier
Chief Executive Officer



David B. Bell
President



Paul Coghlan
Vice President, Finance
and Chief Financial Officer

2005 Financial Report

FINANCIAL ANALYSIS

(Year ended July 3, 2005)

Profitability:	Operating Margin	56.2%
	Return on Equity	22.7%
	Return on Assets	19.8%
	Return on Sales	41.3%

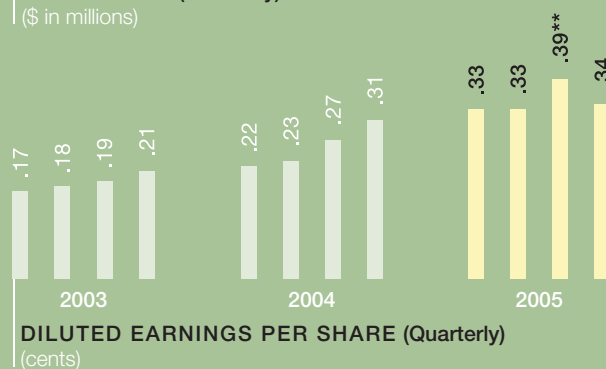
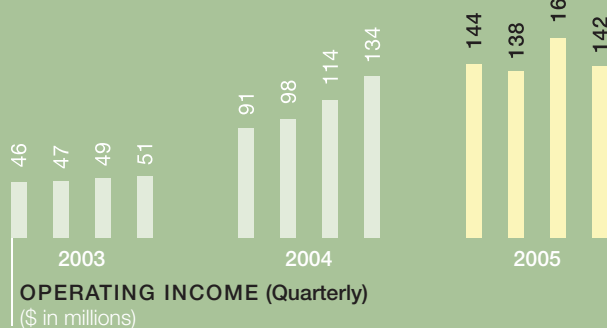
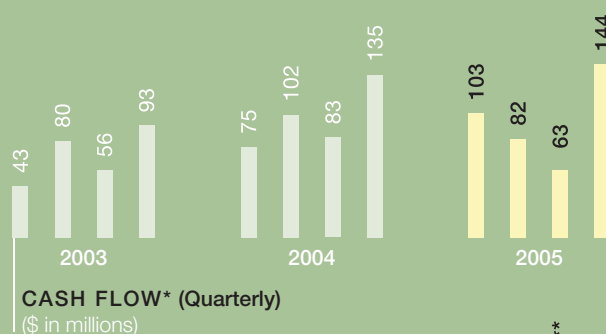
Liquidity:	Quick Ratio	9.2
	Current Ratio	9.7

Leverage:	Long-Term Debt	none
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Asset Turns:	Inventory Turns	6.5
	Sales/Fixed Assets (ROI)	5.0

Cash Flow:*	As a % of Net Revenues	37.3%
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*excludes common stock repurchases



**includes royalty income

Fiscal 2005 was a strong year for the Company as net revenues and net income grew 30% and 32%, respectively. The Company's growth was broad based as revenues grew in each of its major end-markets: Communications, Industrial, Computer, High-End Consumer, Automotive and Military. For the first time in the Company's history net revenue reached \$1 billion, which included a \$40 million royalty. The royalty revenue was a significant event for the Company since it confirms the strength of its intellectual property. The Company generated \$134.4 million in cash and short-term investments after repurchasing roughly 7.0 million shares of its common stock for \$257.2 million. The Company paid cash dividends of \$0.36 per share, an increase of \$0.08 per share over the previous fiscal year.

Return on sales for the year of 41% continued to be at an industry leading level. Through the quarter ended July 3, 2005 the Company achieved:

- **47 consecutive quarters with pretax profits exceeding 40% of net revenues**
- **41 consecutive quarters with pretax profits exceeding 50% of net revenues**
- **77 consecutive quarters with positive cash flow from operations**

The table above 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 2005 was approximately 44% of salary, making it one of the industry's most attractive profit sharing programs.

Corporate Information

BOARD OF DIRECTORS

Robert H. Swanson, Jr.

Director since 1981

Executive Chairman

Co-Founder and Chief Executive Officer

Linear Technology Corporation

From 1981 to January 2005

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

Thomas S. Volpe (1)(2)

Chairman of Audit Committee

Director since 1984

Founder & CEO

Volpe Investments LLC

OFFICERS

Robert H. Swanson, Jr.

Executive Chairman

Lothar Maier

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

Alexander R. McCann

Chief Operating Officer

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

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