

25 Years of Results

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THE VISION



Executive Chairman Bob Swanson (upper photo, at left) confers with cofounder Vice President, Engineering and CTO Bob Dobkin.

“When Linear was founded in 1981, to succeed it had to overcome a lot of what was then conventional wisdom. Investors didn’t think there was still much of an opportunity to back a new chip venture, much less an analog chip company during the dawn of the “Digital Revolution.” The vision of the founding team turned out to be correct. 25 years later we can say with pride, we did it our way and the results speak for themselves.”

Bob Swanson, Founder and Executive Chairman

“Linear’s direction of high-performance standard analog products had many hurdles to overcome 25 years ago. From turning down requests for custom ICs to convincing customers that this new small company was a reliable supplier of new functions were problems taken in stride. Linear aimed to be the best with outstanding designs, first rate processing, test and packaging, data sheets and customer support. The entire team was dedicated and remains so today.”

Bob Dobkin, Founder, Vice President, Engineering and Chief Technical Officer

FINANCIAL HIGHLIGHTS

[illegible]

REVENUES

(\$ in millions)

[illegible]

NET INCOME

(\$ in millions)

[illegible]

REVENUES

PER EMPLOYEE

(\$ in thousands)

02	11	73	108	135	114	06
LT19001	LT32008LT	LT42231	LT37388LT	1977		
LT19353	LT5527	LT10187	LT03822	LT26261		
LT23443	LT30001	LT61141	LT69133	LT55535	LT51437	
LT32922	LT42451	LT16650LT	LT22441	PHW13468LT	91	
24481	LT24481	LT4351	LT22441	LT4351	181TC45	
33462	LT37381	LT55531	LT32459LT	LT301	LT55201	181TC45
34121	LT13468LT	LT75021	LT7491	LT29200LT	LT29001	3024
LT1697	LT34451	LT08041	LT16781	LT6781	LT40541	LT40541
LT29001	LT30001	LT38001	LT0411	LT1	LT37031	LT40341
0581	LT37031	LT40341	LT4071	LT34361	LT34361	LT66901
LT03822	LT30241	LT30241	LT29201	LT29201	LT29201	LT29201
51001	LT29201	LT29201	LT29201	LT29201	LT29201	LT29201
LT29201	LT29201	LT29201	LT29201	LT29201	LT29201	LT29201
LT29201	LT29201	LT29201	LT29201	LT29201	LT29201	LT29201

NET INCOME

PER EMPLOYEE

(\$ in thousands)

120
TJ2101TJ1C3801T1901T80
BLTC06A5ATC3801T3801
BLTC3801T1C3801T8552
TJ2201TJ21T1C3220T515
TJ1C4150T1C6081T0901T
C34201T5822T1C141T366
130
A1T3801T1C34001T04001T
C332501T16601T3433T0424
BLTC17481T1747T1C17501T
551516TCS5091T3425T1C24581
TJ19801T4200T1C34141C60121
8501T1C34071T19761T29081T4

2002

QUARTERLY REVENUES

(\$ in millions)

[illegible]

2003

174
1L631C744121C355071750401C455
1BL1C37321C42531162621C37001C13
1BL001C1921C35821C28481C15401C1
1C1001C1001C1001C1001C1001C1001
186
1C35001C7001C801C7001C7001C7001
1C69001C8021C801C7001C4061C7201
1C7001C7001C801C7001C7221C7001C7214
209
1C3511C171C7371C71C3851C5301C19641C1
16641C6ATC18751C4541C15671C8001C3721C1
1BL6373C33C34C351C119461C7001C7381C19641C
238
1C1961C7051C3757C7401C19541C32021C4251C1C15
1C34C0081C3C4001C9541C32021C4251C1C15

2004

[illegible]

2005

[illegible]

2006

\$ in thousands, except per share amounts	2006	2005	2004	2003	2002
Revenues	\$1,092,977	\$1,049,694	\$807,281	\$606,573	\$512,282
Operating Income*	563,950	589,629	436,730	294,511	225,099
Net Income*	428,680	433,974	328,171	236,591	197,629
Return on Sales*	39.2%	41.3%	40.7%	39.0%	38.6%
Diluted Earnings Per Share*	1.37	1.38	1.02	0.74	0.60
Cash and Short-Term Investments	1,819,587	1,790,912	1,656,540	1,593,567	1,552,030
Working Capital	1,840,310	1,799,570	1,629,481	1,613,971	1,558,584
Total Assets	2,390,895	2,286,234	2,087,703	2,056,879	1,988,433
Long-Term Debt	—	—	—	—	—
Stockholders' Equity	2,104,498	2,007,034	1,810,605	1,814,929	1,781,454

* Includes the impact of all forms of stock-based compensation as a result of the Company implementing statement of Financial Accounting Standards 123(R) ("SFAS 123R")



Photos from Linear Technology's first annual report, published 20 years ago in 1986. Current employees include: Executive Chairman Bob Swanson seated in lower right photo; VP of Quality and Reliability Paul Chantalat standing at right in lower left photo; Hillview Plant Manager Larry Hernandez in middle left photo; and VP Engineering and CTO Bob Dobkin standing at right in middle right photo.

"The theme of our first annual report as a public company doesn't deal so much with buildings or equipment, but with a group of very special people. While every company would agree that people are important, in the linear integrated circuit (IC) business it's even more critical."

Bob Swanson, Executive Chairman

From Linear Technology's first Annual Report, 1986

25 years from startup to the analog high-performance franchise. 25 years of performance, leadership and results. The job is both well done and just begun.

The beginning—1981. The analog market was \$2 billion serviced by divisions of large multiproduct semiconductor manufacturers. Consumer, industrial and military were the primary end-markets; most analog products were commodity generic functions.

The vision. Start a specialty analog company predicated on progress in digital technology fostering the need for new high-performance analog.

The strategy. Continuously design and develop cutting edge analog integrated circuits. Attract, develop and reward the very best technical talent to invent new, more precise, faster, smaller, better integrated products. Support those products with an energetic, technical sales force and with a flawlessly executing manufacturing infrastructure. Sell the products for their functional value. Reward customers with feature-rich products, stockholders with industry leading financial returns, and employees with a challenging professional environment and unmatched total compensation.

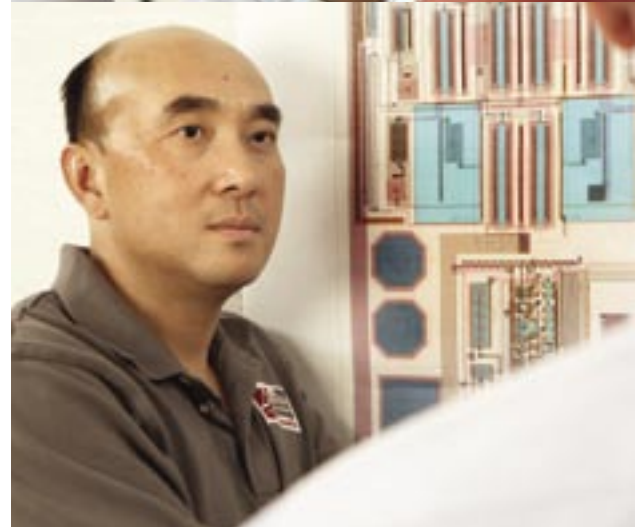
The execution. It's a good 25 years. We have been a leader in technology in introducing industry renowned products including multiphase switching, Hot Swap™ controllers, Power-over-Ethernet drivers, micromodule power supplies, etc. In total we have introduced roughly 7,500 products, spanning four analog product groups: power management, mixed signal, signal conditioning and high frequency.

These products have permeated several diverse end-markets, evolving over time in response to then current demand. In our initial five years we serviced primarily the military market followed by industrial; in our second ►

five years industrial was the leader with computing becoming 25% of our business by year 10; in the third five years computing became the leader, growing to 35% by year 15 with communications reaching 19%; in our fourth five years communications became dominant at 42% in year 20. In our most recent five years communications and industrial were the strongest, with high-end consumer and automotive beginning to show their promise for the upcoming period. In fiscal year 2006 34% of our business was in communications, within which 15% was in networking, 12% in cell phone infrastructure, and 7% in handsets. 33% of our business was in industrial, including medical, 14% was in computing, 9% in high-end consumer, 7% in automotive, and finally, 3% in satellite and military.

After initially focusing primarily on the domestic US market we have become multinational with talented support personnel in the US, Europe, Japan and Asia. This past year 30% of our revenues were in the US; 18% in Europe; 14% in Japan and 38% in the rest of Asia.

Manufacturing execution has always been critical to our success. We were one of very few companies to build a wafer fabrication plant in which we manufactured our very first product. Today we continue this heritage and are vertically integrated, performing 95% of our own wafer fabrication, 80% of our own assembly and 100% of our own testing. This year we added to our capacity by increasing our cleanroom capacity in both our wafer fabrication plants in Camas, Washington and Milpitas, California. We also completed and occupied a new building at our Singapore test and worldwide distribution location. These capacity additions give us the basic infrastructure to roughly double our existing revenue capacity when we add the required equipment and labor. ►



Engineers at work in the areas of design, applications, product, process, quality and test engineering.



Our management team meets to set strategy and define next generation products, and our marketing group plans a new product launch.



We strive to present our customers with excellent quality, reliability and on-time delivery. Accordingly, over the 25 years we have received many outstanding supplier awards from customers around the world.

The results. Our 25 years had a good 25th year. We reported record revenues of \$1.093 billion, an increase of \$43.3 million, or 4% over the previous year, which had benefited from a \$40.0 million royalty payment. Net income of \$428.7 million was down \$5.3 million. The resulting diluted earnings per share were \$1.37 versus \$1.38 in fiscal year 2005. Fiscal year 2006 results include the effects of the implementation of Statement of Financial Accounting Standards 123(R) ("SFAS 123R") "Share-based Payment." The after-tax charge for all forms of stock compensation, including stock options, restricted stock and the employee stock purchase plan, was \$38.3 million versus \$14.5 million for only restricted stock in fiscal year 2005. Consequently, net income on a pro forma basis would have been \$466.9 million versus pro forma net income of \$448.5 million in fiscal year 2005. On a pro forma basis, before the impact of SFAS 123R, fiscal year 2006 diluted earnings per share would have been \$1.50 versus \$1.42 per share on a similar pro forma basis in fiscal year 2005.

Once again the Company generated positive cash flow from operations. The overall cash and short-term investments balance increased by \$28.7 million, net of spending \$342.8 million to buy back 9.5 million shares of common stock and paying \$153.9 million in cash dividends. During the year we increased the quarterly cash dividend payment by 50% from 10¢ per share to 15¢ per share per quarter. We initially began paying a dividend in 1992 and have increased it every year since. ►

Linear has a complete manufacturing capability, with wafer manufacturing in California and Washington, assembly operations in Penang, Malaysia and automated test in Singapore.



EXECUTION: MAKING THE PRODUCTS

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During our 20 years as a publicly traded company we have been profitable every single year. The cumulative 20 year return on sales was 38%. For fiscal year 2006 return on sales was 39% and return on equity was 21%. Profits before tax exceeded 50% of revenues for the 45th consecutive quarter, over 11 years. Cash flow from operations was positive for the 81st consecutive quarter, over 20 years.

The talent. Results take talent. Analog is a complex craft. We have recruited, developed, challenged and compensated a disproportionate share of uniquely skilled individuals. In 2006 we opened two new design centers in Munich, Germany and Dallas, Texas. We closed the year with 12 circuit design locations including our headquarters in Milpitas, California.

The franchise. In September 2006 the Company will be 25 years old. Old enough to know our craft; young enough to be driven and focused to be the best: the best products, the best service, the best financials.

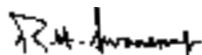
To our employees—keep raising the bar.

To our customers and stockholders—we plan to be the high-performance analog franchise for years to come.

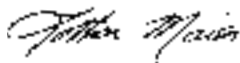
Thank you all for your support.

Sincerely,

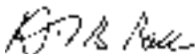
Robert H. Swanson, Jr., Executive Chairman



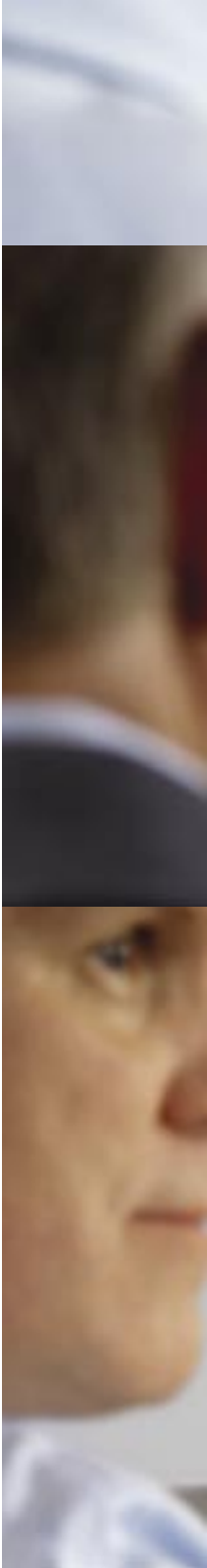
Lothar Maier, Chief Executive Officer



David B. Bell, President



Paul Coghlan, Vice President,
Finance and Chief Financial Officer





Clockwise from top left, Executive Chairman Bob Swanson, CEO Lothar Maier, President David Bell and VP Finance & CFO Paul Coghlan.

THE FRANCHISE

Quarter over quarter, year after year, Linear Technology's management team has made it happen. Taken all together Linear Technology has built a high-performance analog Franchise. One observer stated that Linear has built a "moat of analog excellence." We've set the bar ... and continue to raise it further year after year ... for 25 years and going. We've built an analog IC Franchise, piece by piece, chip by chip. We've built it in countries all over the US, Europe and Asia.

What does it take to build a Franchise? It takes the brightest, most innovative engineers to imagine, design and build the next generation of analog products. It takes 3,800 people, committed to delivering the highest quality analog products. And it takes a focused management team with years of experience working together. Finally, as a public company it takes loyal shareholders, who understand Linear's value and support it year after year.

2006 FINANCIAL REPORT

Fiscal year 2006 was a good year for the Company with strong product sales growth in the last three quarters of the year. The Company achieved record annual revenues of \$1.093 billion, growing 4% over the previous fiscal year. The Company's major markets are Communications, Industrial, Computer, High-End Consumer, Automotive, and Military. The Company saw annual revenue growth in all of its major end-markets except Computer. The Company generated an impressive 39% return on sales including the effects of all forms of stock-based compensation as required under SFAS 123R. The Company generated \$28.7 million in cash and short-term investments after repurchasing roughly 9.5 million shares of its common stock for \$342.8 million. The Company paid cash dividends of \$0.50 per share, an increase of \$0.14 per share over the previous fiscal year. Through the quarter ended July 2, 2006 the Company achieved:

- 51 consecutive quarters with pretax profit exceeding 40% of revenues
- 45 consecutive quarters with pretax profit exceeding 50% of revenues
- 81 consecutive quarters with positive cash flow from operations

The table below 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 year 2006 was approximately 43% of employees' salaries, making it one of the industry's most attractive profit sharing programs.

FINANCIAL ANALYSIS

(Year ended July 2, 2006)

Profitability:	Operating Margin*	51.6%
	Return on Equity*	20.9%
	Return on Assets*	18.3%
	Return on Sales*	39.2%
Liquidity:	Quick Ratio	8.3
	Current Ratio	8.8

[illegible]

*Includes the impact of all forms of stock-based compensation

**Excludes common stock repurchases

***Includes royalty income

Board of Directors

Robert H. Swanson, Jr.
Director since 1981
Executive Chairman
Cofounder and Chief Executive Officer
Linear Technology Corporation
From 1981 to January 2005

Lothar Maier
Director since 2005
Chief Executive Officer since January 2005
Linear Technology Corporation

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

Transfer Agent and Registrar

Computershare Trust Company N.A.
PO Box 43078
Providence, Rhode Island 02940-3078

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

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
Vice President and 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

Linear Technology Corporation (Nasdaq: LLTC), a member of the S&P 500, designs, manufactures and markets high-performance analog integrated circuits for 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 consumer products, wireless communications, computers, medical instrumentation, factory automation, and automotive electronics. The Company markets over 7,500 products in the areas of power management, signal conditioning, mixed signal and high frequency RF products to over 15,000 customers. Linear Technology employs 3,800 people worldwide. In addition to manufacturing, assembly and test facilities in California, Washington, Singapore and Malaysia, the Company has 12 design centers throughout the world.

[1] Member of the Compensation Committee

[2] Member of the Audit Committee

Linear Technology Corporation
1630 McCarthy Blvd.
Milpitas, CA 95035
Tel: 408-432-1900
www.linear.com



Ramond Perry, William Gifford, Jacob Hamilton,
Rene Martin, Eric Welch Jr., Jerad Stewart,
Kyeong Kim, Pia Jaskelevian, Laura Goodsell,
Hani Rashid, Joji Niokeles, Phengshui Suwaymah,
Pauline Burton, Candace Lujan, Bruce Pigott,
Kathryn Ryan, Yen Zhao, Jong-Man Park, Udo Rehler,
Daniel Maddox, Warren Spear, Brian Holloway,
Mith Tan, Dennis Weiss, Melissa Lawrence, Brian Smith,
Michael Stephen Lee, Michael Lee, Michael Hui Lee,
Leroy Mick, Thomas Jones, Stuart Roberts,
Gregory Blais, James Douglass, Mark Miller,
Joyce Ko, Huoyong Wu, Atsuhiko Furukawa, Yoshihiro Ieda,
Min Yu Luo, Myles Tian, Joseph Aukawa, Oscar Mallers,
Ludwig Kurigen, Thomas Richter, Del Laczko, Debra Powell,
Jason Lavin, Gary Costa, Victoria Schmitt, Lori Martin, Brian Roe,
Gary Warner, Jun Hoi, Freyja Ren, James Tasi, Rich Chen,
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Daniel Hsieh, Richard Bolosan, Nick Baranov, Jr., Bruce Huang,
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Mark Fagenda, Dong Cao, Michael O'Connor, Ping Guo,
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Robert Sheely, Timothy Rickard, Tim Thi Nguyen, Todd Hoffman,
Daniel Villazui, Anh Tian, Markus Maltzer, Wei Hao,
Joseph Huang, David Kerr, Monty Gonzalez, Xiaohua Fan, Giral Lo,
Josefina Newberry, Jayvise Bilo, John Kelley, Michael Waudby,
David Mogge, Lee Tuong, David Culbert, Ti Pham, Winne Yang,
Ryan McNamara, Anne Carrington, John Caston, Bailey Parker,
Zachary Lemko, Leland Nguyen, Richard Tiers, Kigstone Savang,
Michael Hui Lee, Michael Hui Lee, Michael Hui Lee,
Choi Han Seung, Michael Whittaker, Xander Salas, Yun Guo, Brij Lee,
Johua Jin Morgan, Hao Zhao, Daniel Katz, Jan-Gabriel Andal-Balaguer,
Richard Garrison, John Scougale, Simon Cho, Esther Dumrille, Patrick Chen,
Queenie Ye, Seth Sharada, Nolan Tian, Wayne Sarte Jr., Chu I Park,
Ming-Chen Chen, Rav Palakoddi, Mabel Fong, Ayo Ashabaro, Jamie Bowdoin,
Joyce Kim, Teri Yager, Stephen Lashings, Dongming Xu, Anna Rimoldi,
Suresh Jayawant, Kevin Dowdy, Ahmed Hamed, Chung Chang,
Anishak Kamath, Zheng Zhang, Benjamin Sedon, Boaz Waker, Heemin Yang,
John Kim, Kerry Hobbay, John Pate, Brian Gill, Timothy Soudri, Benjamin West,
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David Hui Lee, Michael Hui Lee, Michael Hui Lee, Michael Hui Lee,
Hajime Sano, Andrea Melodia, Teresa Baretzke, J. Zhang, Vikram Gang,
Dagmar Cuthus, Muthubraman Subramanian, Wei Guo, Gresh Ramish,
Tyaga Borklund, Steven Gorman, Margaret Musselwhite, Pesamino Semalia,
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Bang Nguyen, Maria Melia Luermans, Maurice Ochoa, Kevin Luermans, Eric Sheldon,
Yolanda Meghno, Lourdes Luo, Ramonji Seng,
Cheryl McGinley, Ronald Fontaine, Mark Lintz, Yoon-Shin Choi, David Clemons,