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 December 28, 2014
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	**94-2778785**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1630 McCarthy Boulevard, Milpitas, California	**95035**
(Address of principal executive offices)	(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer (Do not check if a smaller reporting company) ☐	Smaller reporting company ☐

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	Outstanding at January 23, 2015
Common Stock, $0.001 par value per share	239,194,328 shares

LINEAR TECHNOLOGY CORPORATION
FORM 10-Q
THREE AND SIX MONTHS ENDED DECEMBER 28, 2014

INDEX

Item 1. Financial Statements

LINEAR TECHNOLOGY CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)
(unaudited)

	Three Months Ended		Six Months Ended	
	December 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
Revenues	$ 352,575	$ 334,595	$ 723,635	$ 674,952
Cost of sales[1]	86,726	82,521	175,733	166,522
Gross profit	265,849	252,074	547,902	508,430
Expenses:				
Research and development [1]	65,101	62,008	130,701	123,520
Selling, general and administrative[1]	42,537	38,852	84,626	77,530
Total operating expenses	107,638	100,860	215,327	201,050
Operating income	158,211	151,214	332,575	307,380
Interest expense[2]	—	(12,337)	—	(24,596)
Interest income and other income	253	791	834	1,673
Income before income taxes	158,464	139,668	333,409	284,457
Provision for income taxes	34,862	34,917	80,348	71,838
Net income	$ 123,602	$ 104,751	253,061	$ 212,619
Basic earnings per share	$ 0.51	$ 0.44	$ 1.04	$ 0.89
Shares used in the calculation of basic earnings per share	244,033	239,206	244,067	238,857
Diluted earnings per share	$ 0.51	$ 0.44	$ 1.03	$ 0.89
Shares used in the calculation of diluted earnings per share	244,591	240,670	244,674	240,000
Cash dividends per share	$ 0.27	$ 0.26	$ 0.54	$ 0.52

Includes the following non-cash charges:

(1) Stock-based compensation				
Cost of sales	$ 2,223	$ 2,106	$ 4,323	$ 4,070
Research and development	10,350	9,816	20,141	18,978
Selling, general and administrative	5,346	5,069	10,402	9,799
(2) Amortization of debt discount (non-cash interest expense)	—	5,524	—	10,970

See accompanying notes

LINEAR TECHNOLOGY CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(unaudited)

	Three Months Ended		Six Months Ended	
	December 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
Net income	$ 123,602	$ 104,751	$ 253,061	$ 212,619
Other comprehensive income, net of tax:				
Net changes in unrealized (losses) gains on available-for-sale securities	(416)	(45)	(613)	274
Total comprehensive income	$ 123,186	$ 104,706	$ 252,448	$ 212,893

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

	December 28, 2014 (unaudited)	June 29, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 136,289	$ 157,323
Marketable securities	936,577	855,464
Accounts receivable, net of allowance for doubtful accounts of $1,651 ($1,653 at June 29, 2014)	148,584	173,340
Inventories:		
Raw materials	11,318	10,544
Work-in-process	65,226	62,695
Finished goods	23,597	18,071
Total inventories	100,141	91,310
Deferred tax assets	47,492	46,294
Prepaid expenses and other current assets	52,251	40,982
Total current assets	1,421,334	1,364,713
Property, plant and equipment, at cost:		
Land	28,837	28,837
Buildings and improvements	239,182	237,809
Manufacturing and test equipment	720,340	681,071
Office furniture and equipment	6,500	6,028
	994,859	953,745
Accumulated depreciation and amortization	(700,330)	(676,665)
Net property, plant and equipment	294,529	277,080
Identified intangible assets, net and goodwill	12,685	13,785
Total noncurrent assets	307,214	290,865
Total assets	$ 1,728,548	$ 1,655,578
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 20,017	$ 28,221
Accrued payroll and related benefits	89,022	88,326
Deferred income on shipments to distributors	47,083	45,619
Income taxes payable	2,855	41,731
Other accrued liabilities	10,813	11,218
Total current liabilities	169,790	215,115
Deferred tax liabilities	74,136	67,999
Other long-term liabilities	46,130	41,095
Total liabilities	290,056	324,209
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; 238,954 and 239,096 shares issued and outstanding at December 28, 2014 and June 29, 2014, respectively	239	239
Additional paid-in capital	1,989,324	1,947,767
Accumulated other comprehensive (loss) income, net of tax	(258)	355
Accumulated deficit	(550,813)	(616,992)
Total stockholders' equity	1,438,492	1,331,369
Total liabilities and stockholders' equity	$ 1,728,548	$ 1,655,578

See accompanying notes

LINEAR TECHNOLOGY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Six Months Ended	
	December 28, 2014	December 29, 2013
Cash flow from operating activities:		
Net income	$ 253,061	$ 212,619
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	26,769	25,627
Stock-based compensation	34,866	32,847
Amortization of convertible senior notes discount	—	10,970
Excess tax benefit from stock-based compensation	(4,750)	(1,829)
Change in operating assets and liabilities:		
Decrease in accounts receivable	24,756	6,748
Increase in inventories	(8,831)	(566)
Decrease (increase) in prepaid expenses, other current assets and deferred tax assets	5,489	(134)
(Decrease) increase in accounts payable, accrued payroll, other accrued liabilities and noncurrent liabilities	(7,644)	3,193
Increase (decrease) in deferred income on shipments to distributors	1,464	(1,636)
(Decrease) increase in income taxes payable	(40,847)	3,103
Cash provided by operating activities	284,333	290,942
Cash flow from investing activities:		
Purchase of marketable securities	(405,732)	(702,183)
Proceeds from sale and maturities of available-for-sale securities	323,674	795,201
Purchase of property, plant and equipment	(43,118)	(7,897)
Cash (used in) provided by investing activities	(125,176)	85,121
Cash flow from financing activities:		
Excess tax benefit from stock-based compensation	4,750	1,829
Issuance of common stock under employee stock plans	15,415	59,516
Purchase of common stock	(68,795)	(26,853)
Payment of cash dividends	(131,561)	(124,082)
Cash used in financing activities	(180,191)	(89,590)
(Decrease) increase in cash and cash equivalents	(21,034)	286,473
Cash and cash equivalents, beginning of year	157,323	126,650
Cash and cash equivalents, end of year	$ 136,289	$ 413,123

See accompanying notes

1. Basis of Presentation

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 in conformity with U.S. generally accepted accounting principles ("GAAP") have been made. All such adjustments were of a normal recurring nature. The results for the three and six month periods ended December 28, 2014 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 June 29, 2014 included in the Company's Annual Report on Form 10-K. The accompanying balance sheet at June 29, 2014 has been derived from those audited financial statements. Because the Company is viewed as a single operating segment for management purposes, no segment information has been disclosed.

Revenue Recognition

The Company recognizes revenues when the earnings process is complete, when persuasive evidence of an arrangement exists, the product has been delivered, the price is fixed and determinable and collection is reasonably assured. For the quarter and six months ended December 28, 2014, the Company recognized approximately 15% of net revenues from domestic distributors that are recognized under agreements which provide for certain sales price rebates and limited product return privileges. Given the uncertainties associated with the levels of pricing rebates, the ultimate sales price on domestic distributor revenue transactions is not fixed or determinable until domestic distributors sell the merchandise to the end-customer. At the time of shipment to domestic distributors, the Company records a trade receivable and deferred revenue at the distributor purchasing price since there is a legally enforceable obligation from the distributor to pay for the products delivered. The Company relieves inventory as title has passed to the distributor and recognizes deferred cost of sales in the same amount. "Deferred income on shipments to distributors" represents the difference between deferred revenue and deferred cost of sales and is recognized as a current liability until such time as the distributor confirms a final sale to its end customer. At December 28, 2014, the Company had approximately $58.9 million of deferred revenue and $11.8 million of deferred cost of sales recognized as $47.1 million of "Deferred income on shipments to distributors." The Company believes that its deferred costs of revenues have limited risk of material impairment as the Company offers stock rotation privileges to distributors (up to 3% to 5% of quarterly purchases) which enable distributors to rotate slow moving inventory. In addition, stock rotated inventory that is returned to the Company is generally resalable. The Company reviews distributor ending on-hand inventory balances, as well as orders placed on the Company to ensure that distributors are not overstocking parts and are ordering to forecasted demand. To the extent the Company had a significant reduction in distributor price or grants significant price rebates, there could be a material impact on the ultimate revenue and gross profit recognized. The price rebates that have been remitted back to distributors have generally ranged from $2.9 million to $4.4 million per quarter.

The Company's sales to international distributors are made under agreements which permit limited stock return privileges but not sales price rebates. Revenue on these sales is recognized upon shipment at which time title passes. The Company has reserves to cover expected product returns. If product returns for a particular fiscal period exceed or are below expectations, the Company may determine that additional or less sales return allowances are required to properly reflect its estimated exposure for product returns. Generally, changes to sales return allowances have not had a significant impact on operating margin.

2. Fiscal Period

The Company operates on a 52/53-week fiscal year ending on the Sunday nearest June 30. Fiscal years 2015 and 2014 are 52-week years.

3. Earnings Per Share

Basic earnings per share is calculated using the weighted average shares of common stock (including unvested restricted stock) outstanding during the period. Diluted earnings per share is calculated using the weighted average shares of common stock outstanding, the dilutive effect of stock options, calculated using the treasury stock method and the dilutive effect of the conversion premium related to the Convertible Senior Notes. The following table sets forth the reconciliation of weighted average common shares outstanding used in the computation of basic and diluted earnings per share:

	Three Months Ended		Six Months Ended	
In thousands, except per share amounts	December 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
Numerator-net income	$ 123,602	$ 104,751	$ 253,061	$ 212,619
Denominator for basic earnings per share-weighted average shares	244,033	239,206	244,067	238,857
Effect of dilutive securities-employee stock options	558	1,147	607	1,143
Effect of dilutive securities-convertible senior notes	—	317	—	—
Denominator for diluted earnings per share	244,591	240,670	244,674	240,000
Basic earnings per share	$ 0.51	$ 0.44	$ 1.04	$ 0.89
Diluted earnings per share	$ 0.51	$ 0.44	$ 1.03	$ 0.89

For the quarter and six months ended December 28, 2014, there were no out-of-the-money stock options that had to be excluded from the weighted average diluted common shares outstanding. There was no dilutive effect from the conversion premium in the calculation of diluted earnings per common shares for the current fiscal year as a result of the extinguishment of the Convertible Senior Notes at the end of fiscal year 2014.

The weighted average diluted common shares outstanding for the quarter and six months ended December 29, 2013 excludes the effect of 0.6 million and 1.5 million, respectively, out-of-the-money stock options, that if included would be anti-dilutive. In the quarter ended December 29, 2013, the Company included the dilutive effect from the conversion premium related to the convertible senior notes in the calculation of diluted earnings per common share because the average per share market price of the Company's common stock was above the conversion price during the quarter. The conversion premium was not included in the calculation of diluted earnings per common share for the six months ended December 29, 2013 because the average per share market price was below the conversion price during the period.

4. Fair Value

The Company has determined that the only assets and liabilities in the Company's financial statements that are required to be measured at fair value on a recurring basis are the Company's investment portfolio assets. Financial instruments are categorized in a fair value hierarchy that prioritizes the information used to develop assumptions for measuring fair value and expands disclosures about fair value measurements. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 input); then to quoted prices (in non-active markets or in active markets for similar assets or liabilities), inputs other than quoted prices that are observable for the asset or liability, and inputs that are not directly observable, but that are corroborated by observable market data for the asset or liability (Level 2 input); then the lowest priority to unobservable inputs, for example, the Company's data about the assumptions that market participants would use in pricing an asset or liability (Level 3 input). Fair value is a market-based measurement, not an entity-specific measurement, and a fair value measurement should therefore be based on the assumptions that market participants would use in pricing the asset or liability.

The Company's Level 1 assets consist of investments in money-market funds and United States Treasury securities that are actively traded. The Company's Level 2 assets consist of municipal bonds, obligations of U.S. government-sponsored enterprises, corporate debt and commercial paper that are less actively traded in the market, but where quoted market prices exist for similar instruments that are actively traded. The Company determines the fair value of its Level 2 assets by obtaining non-binding market prices from its third-party portfolio managers on the last day of the quarter. The Company has no Level 3 assets.

The following table presents the Company's fair value hierarchy for its financial assets (cash equivalents and marketable securities) measured at fair value on a recurring basis as of December 28, 2014:

In thousands Description	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Assets			
Investments in U.S. Treasury securities and money-market funds	$ 446,571	$ —	$ 446,571
Investments in municipal bonds, obligations of U.S. government-sponsored enterprises and commercial paper	—	566,612	566,612
Total assets measured at fair value	$ 446,571	$ 566,612	$ 1,013,183

The following table presents the Company's fair value hierarchy for its financial assets (cash equivalents and marketable securities) measured at fair value on a recurring basis as of June 29, 2014:

In thousands Description	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Assets			
Investments in U.S. Treasury securities and money-market funds	$ 443,635	$ —	$ 443,635
Investments in municipal bonds, obligations of U.S. government-sponsored enterprises and commercial paper	—	446,931	446,931
Total assets measured at fair value	$ 443,635	$ 446,931	$ 890,566

5. Marketable Securities

The Company's cash equivalents and marketable securities in debt instruments are classified as available-for-sale; most of the debt instruments have an investment rating of AA+ to AAA. The following is a summary of cash equivalents and marketable securities at December 28, 2014 and June 29, 2014:

In thousands	December 28, 2014 Amortized Cost	Unrealized Gain	Unrealized (Loss) [1]	Fair Value
U.S. Treasury securities	$ 422,278	$ 49	$ (169)	$ 422,158
Obligations of U.S. government-sponsored enterprises	178,867	2	(154)	178,715
Municipal bonds	106,590	10	(94)	106,506
Corporate debt securities and other	281,424	10	(43)	281,391
Money market funds	24,413	—	—	24,413
Total	$ 1,013,572	$ 71	$ (460)	$ 1,013,183
Amounts included in:				
Cash equivalents	$ 76,606	$ —	$ —	$ 76,606
Marketable securities	936,966	71	(460)	936,577
Total	$ 1,013,572	$ 71	$ (460)	$ 1,013,183

In thousands	June 29, 2014 Amortized Cost	Unrealized Gain	Unrealized (Loss) [1]	Fair Value
U.S. Treasury securities	$ 426,777	$ 455	$ (2)	$ 427,230
Obligations of U.S. government-sponsored enterprises	133,131	46	(2)	133,175
Municipal bonds	60,267	49	(4)	60,312
Corporate debt securities and other	253,429	18	(3)	253,444
Money market funds	16,405	—	—	16,405
Total	$ 890,009	$ 568	$ (11)	$ 890,566
Amounts included in:				
Cash equivalents	$ 35,102	$ —	$ —	$ 35,102
Marketable securities	854,907	568	(11)	855,464
Total	$ 890,009	$ 568	$ (11)	$ 890,566

[1] The Company evaluated the nature of the investments with a loss position at December 28, 2014 and June 29, 2014, which are primarily obligations of the U.S. government and its sponsored enterprises, municipal bonds and U.S. corporate notes. In evaluating the investments, the Company considered the duration of the impairments, and the amount of the impairments relative to the underlying portfolio and concluded that such amounts were not other-than-temporary. The Company principally holds securities until maturity, however, they may be sold under certain circumstances. Unrealized losses on the investments greater than twelve months old were not significant as of December 28, 2014 and June 29, 2014.

The estimated fair value of debt investments in marketable securities, by effective maturity date is as follows:

In thousands	December 28, 2014	June 29, 2014
Due in one year or less	$ 500,832	$ 470,453
Due after one year through three years	435,745	385,011
Total	$ 936,577	$ 855,464

6. Stock-based Compensation

Equity Incentive Plans

At December 28, 2014, 20.8 million shares were available for grant under the Company’s equity incentive plans. The Company’s restricted awards generally vest annually over a period of five years (20% a year) based upon continued employment with the Company. Options vest over a five-year period (generally 10% every six months) based upon continued employment. Options expire seven years after the date of the grant. The Company's last stock option grant to an employee was in January 2009.

The Company has an Employee Stock Purchase Plan (“ESPP”) that 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 generally commence on approximately May 1 and November 1 of each year. At December 28, 2014, 0.6 million shares were available for issuance under the ESPP.

Accounting for Stock-Based Compensation

Compensation cost for restricted stock awards is based on the fair market value of the Company’s stock on the date of grant. Compensation cost for stock options 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 option term, stock price 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 December 28, 2014, there was approximately $176.2 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 5 years. Future grants will add to this total, whereas quarterly amortization and the vesting of the existing grants will reduce this total.

The Company issues new shares of common stock upon exercise of stock options. For the six months ended December 28, 2014, options for approximately 440.0 thousand shares were exercised for a gain to the optionee (aggregate intrinsic value) of $8.9 million determined as of the dates of the option exercises.

Stock Options

The following table summarizes stock option activity and related information under all stock option plans during the period indicated:

	Stock Options Outstanding	Weighted Average Exercise Price
Outstanding options, June 29, 2014	1,810,099	$ 23.05
Granted	—	—
Forfeited and expired	—	—
Exercised	(440,010)	24.03
Outstanding options, December 28, 2014	1,370,089	$ 22.74
Options vested and exercisable at:		
December 28, 2014	1,369,589	$ 22.74

Restricted Stock

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

	Restricted Awards Outstanding	Weighted-Average Grant-Date Fair Value
Non-vested at June 29, 2014	6,117,087	$ 36.46
Granted	938,310	42.55
Vested	(922,954)	32.56
Forfeited	(68,006)	35.85
Non-vested at December 28, 2014	6,064,437	$ 37.98

7. Accumulated Other Comprehensive Income

Accumulated other comprehensive income consists of unrealized gains or losses on available-for-sale securities. The components of other comprehensive income at December 28, 2014 and December 29, 2013 were as follows:

	Accumulated Other Comprehensive Income
Balance, June 29, 2014	$ 355
Net changes in unrealized losses on available-for-sale securities, net of tax	(613)
Accumulated other comprehensive loss, December 28, 2014	$ (258)

	Accumulated Other Comprehensive Income
Balance, June 30, 2013	$ (266)
Net changes in unrealized gains on available-for-sale securities, net of tax	274
Accumulated other comprehensive income, December 29, 2013	$ 8

8. Goodwill and Intangible Assets

Goodwill

The Company annually evaluates goodwill for impairment as well as whenever events or changes in circumstances might suggest that the carrying value of goodwill may not be recoverable. The Company expects that none of the goodwill will be deductible for tax purposes. The goodwill balance of $2.2 million at December 28, 2014 is attributable to the acquisition of Dust Networks ("Dust") in fiscal year 2012. There were no changes to the goodwill balance for the quarter ended December 28, 2014.

Intangible Assets

As a result of the acquisition of Dust during the second quarter of fiscal year 2012 the Company recorded intangible assets consisting of $13.1 million of intellectual property and $4.0 million of customer relationships. The Company reviews intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of assets may not be recoverable. Finite-intangible assets are amortized on a straight-line basis over their estimated useful lives that are expected to reflect the estimated pattern of economic use.

The remaining amortization expense, related to finite-intangible assets, will be recognized over a weighted-average period of approximately 6.1 years. The useful lives of amortizable intangible assets are as follows:

Assets	Life
Intellectual property	5-10 years
Customer	10 years

Intangible assets consisted of the following:

In thousands	December 28, 2014		
	Original Cost	Accumulated Amortization	Net
Intellectual property	$ 13,100	$ (5,400)	$ 7,700
Customer relationships	4,000	(1,200)	2,800
Total intangible assets	$ 17,100	$ (6,600)	$ 10,500

9. 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 $700.0 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 an initial purchaser in a private offering. 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 Company redeemed for cash $395.8 million (the remaining principal amount) of its 2027B notes in fiscal 2011 using a portion of its existing cash and marketable securities balances. On May 1, 2014 the Company executed the conversion of the remaining principal amount of $845.1 million of its 2027A notes. On such date, each $1,000 principal amount of the 2027A notes was convertible at a rate of 24.582 shares (which is equivalent to a conversion price of approximately $40.68 per share) of the Company’s common stock. The first $1,000 in conversion value of $845.1 million was paid in cash and the remaining conversion premium of $138.9 million was settled in common stock, as provided in the Indenture for the 2027A Notes. As a result of the conversion, holders of the 2027A notes received the principal amount of $845.1 million in cash and the remaining conversion premium was settled in shares of the Company’s common stock totaling approximately 2.9 million shares. There was no gain or loss recognized as a result of the conversion.

The 2027A notes paid cash interest of 3.00% semiannually in arrears on May 1 and November 1. In accordance with the provisions of ASC 470-20-10 to 35, the Company recognized an effective interest rate of 5.69% on the carrying value of the 2027A notes. The effective rate was based on the interest rates of similar instruments issued at the time of issuance of the 2027A notes that did not have conversion features such as the 2027A notes. The difference between the effective interest rate of 5.69% and the coupon rate of 3.00%, resulted in non-cash interest expense.

Prior to the conversion, interest expense related to the Notes included in the interest expense on the consolidated statement of income for the quarter and the six months ended December 29, 2013 was as follows:

	December 29, 2013	
	Three Months Ended	Six Months Ended
In thousands		
Contractual coupon interest	$ 6,338	$ 12,676
Amortization of debt discount	5,524	10,970
Amortization of debt issuance costs	475	950
Total interest expense related to the Notes	$ 12,337	$ 24,596

10. Credit Facility

On October 23, 2013, the Company entered into a Credit Agreement (the "Credit Agreement") with Wells Fargo Bank, National Association (the "Bank") to enhance cash deployment flexibility.

The Credit Agreement provides for a $100.0 million unsecured revolving line of credit, under which the Company may borrow, repay and reborrow loans from time to time prior to its scheduled maturity date of October 22, 2015 (the "Maturity Date"). Proceeds of loans made under the Credit Agreement may be used for working capital and other general corporate purposes of the Company and its subsidiaries. The Company may prepay the loans under the Credit Agreement in whole or in part at any time without premium or penalty, subject to customary breakage costs.

The loans bear interest at LIBOR plus 1.0%. The principal amount, together with all accrued and unpaid interest, is due and payable on the Maturity Date.

The Company is required to maintain with the Bank average account balances, calculated on a quarterly basis, of not less than $30.0 million. The Company must also maintain EBITDA of not less than $75.0 million measured quarterly, and, in order to take certain actions such as payments of dividends, must also maintain a balance of $500.0 million of cash and cash equivalents and marketable securities on a worldwide consolidated basis. The Credit Agreement contains other customary affirmative and negative covenants, as well as customary events of default. Presently, the Company has not utilized the Credit Agreement.

11. Stockholders' Equity

Stock Repurchase

On October 14, 2014, the Company's Board of Directors authorized the Company to purchase up to 10.0 million shares of its outstanding common stock in the open market over a two-year time period. During the quarter ended December 28, 2014, the Company repurchased approximately 0.7 million shares of its common stock for approximately $28.6 million.

In addition to open market repurchases, the Company also repurchases shares related to equity award vestings as outlined below. During the quarter ended December 28, 2014, the Company repurchased approximately 151.1 thousand shares related to equity grants of its common stock for approximately $6.1 million. The Company generally grants restricted stock awards and restricted stock units under its equity incentive plans, which are subject to vesting. Recipients are required to pay tax on such awards and units at the time they vest. For the majority of restricted stock awards and units granted, the number of shares issued on the date the awards and units vest is net of the minimum statutory withholding requirements that the Company pays in cash to the appropriate taxing authorities on behalf of its employees. These withheld shares are not included in the open market common stock repurchase totals in the above paragraph even though they are treated as common stock repurchases in our financial statements, as they reduce the number of shares that would otherwise have been issued.

Dividends

In January 2015, the Company's Board of Directors approved an increase in the Company's quarterly dividend from $0.27 per share to $0.30 per share. This marked the 23rd consecutive year the Company has increased its dividend. A cash dividend of $0.30 per share will be paid on February 25, 2015 to stockholders of record on February 13, 2015. During the six months ended December 28, 2014, the Company paid $131.6 million in dividends representing $0.54 per share. The payment of future dividends will be based on the Company's financial performance.

12. 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 was to take place. To date there have been no significant 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 it might be required to make as a result of these agreements, and accordingly, the Company has not accrued any amounts for its indemnification obligations.

13. Income Taxes

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. As of December 28, 2014, the Company's other long-term liabilities account includes $36.0 million of unrecognized tax benefits of which approximately $14.3 million would favorably impact its effective income tax rate in future periods if the Company's positions on these tax matters are upheld. 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 was $2.5 million accrued for interest at December 28, 2014.

14. 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.

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

Overview

Linear Technology Corporation, a member of the S&P 500, has been designing, manufacturing and marketing a broad line of high performance analog integrated circuits for major companies worldwide for over three decades. The Company's products provide an essential bridge between our analog world and the digital electronics in communications, networking, industrial, automotive, computer, medical, instrumentation, consumer, and military and aerospace systems. Linear Technology produces power management, data conversion, signal conditioning, RF and interface ICs, µModule subsystems, and wireless sensor network products.

Revenues of $352.6 million for the second quarter of fiscal year 2015 increased $18.0 million or 5.4% over $334.6 million reported in the second quarter of fiscal year 2014, but decreased sequentially $18.5 million or 5.0% from the previous quarter's revenue of $371.1 million. Net income of $123.6 million increased $18.9 million or 18.0% over the second quarter of fiscal year 2014, but decreased $5.9 million from the first quarter of fiscal year 2015. Second quarter net income and earnings per share were positively impacted by a lower effective income tax rate of 22%. In addition, the Company had no interest expense compared with $12.3 million of interest expense in the second quarter of the prior fiscal year as a result of the extinguishment of the Convertible Senior Notes at the end of fiscal year 2014. Diluted earnings per share of $0.51 per share in the second quarter of fiscal year 2015 increased $0.07 per share or 16% over the second quarter of fiscal year 2014, but decreased $.02 per share or 4% compared to the first quarter of fiscal year 2015.

Critical Accounting Estimates

There have been no significant changes to the Company's critical accounting policies during six months ended December 28, 2014, 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 June 29, 2014.

Results of Operations

The table below summarizes the income statement items for the three and six months ended December 28, 2014 and December 29, 2013 as a percentage of total revenues and provides the percentage change in absolute dollars of such items comparing the interim periods ended December 28, 2014 to the corresponding periods from the prior fiscal year:

	Three Months Ended			Six Months Ended		
	December 28, 2014	December 29, 2013	Increase/ (Decrease)	December 28, 2014	December 29, 2013	Increase/ (Decrease)
Revenues	100.0 %	100.0 %	5.4 %	100.0 %	100.0 %	7.2 %
Cost of sales	24.6	24.7	5.1	24.3	24.7	5.5
Gross margin	75.4	75.3	5.5	75.7	75.3	7.8
Expenses:						
Research & development	18.5	18.5	5.0	18.0	18.3	5.8
Selling, general & administrative	12.1	11.6	9.5	11.7	11.5	9.2
	30.6	30.1	6.7	29.7	29.8	7.1
Operating margin	44.8	45.2	4.6	46.0	45.5	8.2
Interest expense	—	(3.7)	—	—	(3.6)	—
Interest and other income	0.1	0.2	(68.0)	0.1	0.2	(50.1)
Income before income taxes	44.9 %	41.7 %	13.5	46.1 %	42.1 %	17.2
Tax rate	22.0 %	25.0 %		24.1 %	25.25 %	

Revenues for the quarter ended December 28, 2014 were $352.6 million, an increase of $18.0 million or 5.4% over revenues of $334.6 million for the same quarter of fiscal year 2014. Revenues grew over the prior year across most of the Company's end-markets primarily in the Industrial and Automotive end-markets and were generally unchanged in the Computer and Communications end-markets. Revenues for the quarter ended December 28, 2014 increased over the prior fiscal year quarter primarily due to a higher number of units shipped and a higher average selling price ("ASP"). The number of units shipped in the second quarter of fiscal 2015 increased by approximately 4% to 188.8 million units over 180.9 million units shipped in the same quarter of fiscal year 2014. The ASP of $1.88 per unit in the second quarter of fiscal year 2015 increased as compared to the ASP of $1.83 per unit in the same quarter of fiscal year 2014.

Geographically, revenues for the quarter ended December 28, 2014 increased over revenues for the same quarter of fiscal 2014 in each major geographical region except Japan. International revenues for the quarter ended December 28, 2014 were $256.2 million or 73% of revenues, an increase of $14.2 million as compared to international revenues of $242.0 million or 72% of revenues for the same period in fiscal year 2014. Revenues for the quarter ended December 28, 2014 for Rest of World ("ROW"), which is primarily Asia excluding Japan, represented $135.1 million or 38% of revenues, while revenues to Europe and Japan were $66.4 million or 19% of revenues and $54.7 million or 16% of revenues, respectively. Domestic revenues were $96.4 million or 27% of revenues in the second quarter of fiscal year 2015. Domestic revenues increased by $3.8 million and were $92.6 million or 28% of revenues in the same period of fiscal year 2014.

Revenues for the six months ended December 28, 2014 was $723.6 million, an increase of $48.7 million or 7.2% over revenue of $675.0 million for the same period of the previous fiscal year. The increase in revenues for the six months ended December 28, 2014 compared to the same period in the prior fiscal year was primarily due to increases in revenues in the Automotive, Industrial and Communications end-markets. The number of units shipped increased by approximately 5% from 368.9 million units in the prior year period to 389.3 million units in the current year period. The ASP of $1.87 per unit for the first six-month period of fiscal year 2015 increased as compared to the ASP of $1.82 per unit in the same period of fiscal year 2014.

Geographically, revenues for the six months ended December 28, 2014 increased in each major geographical region. International revenues for the six months ended December 28, 2014 were $525.5 million or 73% of revenues, an increase of $36.4 million as compared to international revenues of $489.2 million or 72% of revenues for the same period in the previous fiscal year. Revenues for the six months ended December 28, 2014 for ROW, represented $274.7 million or 38% of revenues, while sales to Europe and Japan were $140.2 million or 19% of revenues and $110.6 million or 15% of revenues, respectively. Domestic revenues were $198.1 million or 27% of revenues for the six months ended December 28, 2014, an increase of $12.2 million over $185.8 million or 28% of revenues in the same period of fiscal year 2014.

Gross profit of $265.8 million for the quarter ended December 28, 2014 increased $13.8 million or 5.5% over gross profit of $252.1 million in the same quarter of fiscal year 2014. Gross profit of $547.9 million for the six months ended December 28, 2014 increased $39.5 million or 7.8% over gross profit of $508.4 million in the same quarter of fiscal year 2014. Gross profit as a percentage of revenues increased to 75.4% in the second quarter of fiscal year 2015 as compared to 75.3% for the same period in fiscal year 2014. Gross profit as a percentage of revenues increased to 75.7% in the first six months of fiscal year 2015 as compared to 75.3% for the same period in fiscal year 2014. The increase in gross profit as a percentage of revenues for the quarter and six months ended December 28, 2014 was primarily due to a higher ASP and spreading fixed costs over a higher revenue base, partially offset by higher labor costs.

Research and development ("R&D") expense for the quarter ended December 28, 2014 was $65.1 million, an increase of $3.1 million or 5.0% over R&D expense of $62.0 million for the same period in fiscal year 2014. R&D increased $2.0 million due to higher labor costs as a result of increased headcount, merit compensation and fringe benefit costs. In addition, employee profit sharing increased $0.6 million and employee stock-based compensation increased $0.5 million.

R&D expense for the six months ended December 28, 2014 was $130.7 million, an increase of $7.2 million or 5.8% over R&D expense of $123.5 million for the same period in the previous fiscal year. R&D increased $4.1 million due to higher labor costs as a result of increased headcount, merit compensation and fringe benefit costs. In addition, employee profit sharing increased $2.0 million and employee stock-based compensation increased $1.1 million.

Selling, general and administrative expense ("SG&A") for the quarter ended December 28, 2014 was $42.5 million, an increase of $3.7 million or 9.5% over SG&A expense of $38.9 million for the same period in fiscal year 2014. The increase in SG&A expense was due to a $0.9 million increase in compensation costs as a result of increased headcount, merit compensation, commissions and fringe benefit costs. In addition, employee profit sharing increased $0.5 million and employee stock-based compensation increased $0.3 million. Other SG&A expenses increased $2.0 million primarily due to advertising and legal expenses.

SG&A for the six months ended December 28, 2014 was $84.6 million, an increase of $7.1 million or 9.1% over SG&A expense of $77.5 million for the same period in the previous fiscal year. The increase in SG&A expense was primarily due to a $2.0 million increase in compensation costs primarily due to increased merit compensation, commissions and fringe benefit costs. In addition, employee profit sharing increased $1.6 million and employee stock-based compensation increased $0.6 million. Other SG&A expenses increased $2.9 million primarily due to advertising and legal expenses.

Interest expense decreased $12.3 million and $24.6 million for the quarter and six months ended December 28, 2014, respectively, from the corresponding periods of fiscal year 2014 primarily due to the May 1, 2014 extinguishment of the Company's Convertible Senior Notes.

Interest and other income was $0.3 million and $0.8 million for the quarter and six months ended December 28, 2014, respectively, a decrease of $0.5 million and $0.8 million, respectively, from the corresponding periods of fiscal year 2014. Interest income decreased due to lower cash, cash equivalents and marketable security balances as a result of the extinguishment of the Company's Convertible Senior Notes on May 1, 2014, a decrease in the average interest rate earned on the Company's cash, cash equivalents and marketable securities balances and marginally due to higher foreign currency exchange losses on non-trade foreign receivables.

The Company's effective income tax rate for the second quarter and the first six months of fiscal year 2015 was 22.0% and 24.1%, respectively, as compared to 25.00% and 25.25%, respectively, in the same periods of fiscal year 2014. The decrease in the effective income tax rate from the prior year periods was primarily due to the retroactive reinstatement of the Federal Research and Development Tax Credit ("R&D Tax Credit") for calendar year 2014 during the second fiscal quarter. As a result, during the second quarter of fiscal 2015, the Company adjusted its fiscal 2015 effective tax rate for the R&D Tax Credit available for half the fiscal year ending December 31, 2014, and recorded a discrete tax benefit for the R&D Tax Credit for the first six months of 2014 that was previously unavailable for the 2014 fiscal year.

Excluding the effect of quarterly discrete tax adjustments, the Company estimates that its annual effective income tax rate for fiscal year 2015 will be in the range of 25% to 25.5%.

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; changes in costs associated with utilities, transportation and raw materials; currency fluctuations; the effects of adverse economic conditions in the United States and/or international markets and other factors described below and in "Item 1A – Risk Factors" section of this Quarterly Report on Form 10-Q.

Second quarter revenues decreased 5.0% sequentially from the first quarter of fiscal year 2015 and were up 5.4% year over year. The Company had expected a sequential decline in this range as the second quarter in recent history has been seasonally weak. The Company's bookings declined slightly from the previous quarter although they improved as the quarter progressed with the Industrial end-market showing the most strength. Compared to the first quarter, gross margin and operating margin of 75.4% and 44.9% were also down modestly on lower revenue but remain industry leading. The Company typically expects its major end-markets to improve during the second half of its fiscal year. Looking ahead, although there remain some weaker pockets of the global economy, the US economy is strong. The Company's book-to-bill ratio was slightly positive in the December quarter and

there is typically positive bookings momentum in the Automotive and Industrial end-markets in the March quarter. Accordingly, the Company expects revenues to grow sequentially by 4% to 7% in the fiscal third quarter.

In the near term the Company does not anticipate the recent strengthening of the U.S. dollar to significantly impact operating results due to the Company's revenues and billings being transacted in U.S. dollars. In addition, product pricing for global customers is generally determined at the time of initial design acceptance rather than the subsequent date of shipment. The Company expects that minor pricing pressure as a result of the strengthening dollar will be partially offset by lower operating expenses at its foreign operations.

Although the Company believes that it has the product lines, manufacturing facilities and technical and financial resources for its current operations, revenue and profitability could be significantly affected by factors described above and in Item 1A – "Risk Factors" section of this Quarterly Report on Form 10-Q, as well as other factors. Additionally, the Company's common stock could be subject to significant price volatility should revenue and/or earnings fail to meet expectations of the investment community.

Liquidity and Capital Resources

At December 28, 2014, the Company's cash, cash equivalents and marketable securities balances were $1,072.9 million in aggregate, representing an increase of $60.1 million over the June 29, 2014 balances of $1,012.8 million. The increase was primarily due to positive cash flows from operations of $284.3 million and to a lesser extent the issuance of common stock under employee stock plans of $15.4 million and the excess tax benefit from stock-based compensation of $4.8 million. These were partially offset by $131.6 million for the payment of cash dividends, representing $0.54 per share for the six months ended December 28, 2014, $68.8 million to purchase common stock; and $43.1 million for capital additions. Working capital at December 28, 2014 was $1,251.5 million.

Accounts receivable totaled $148.6 million at the end of the second quarter of fiscal year 2015, a decrease of $24.8 million from the June 29, 2014 balance of $173.3 million primarily due to lower shipments in the second quarter of fiscal year 2015 as compared to the fourth quarter of fiscal year 2014. Inventory totaled $100.1 million at the end of the second quarter of fiscal year 2015, an increase of $8.8 million over the fourth quarter of fiscal year 2014 primarily due to work in process and finished goods inventories. The Company increased inventory levels for its newer products and increased its finished goods level to build up shippable inventory prior to Chinese New Year, when the Company's Asian factories will be closed. Net property, plant and equipment increased $17.4 million over the fourth quarter of fiscal year 2014. Fixed asset additions totaled $43.1 million primarily due to the procurement of assembly, test and wafer fabrication equipment offset by $25.7 million in depreciation expense.

Income taxes payable totaled $2.9 million at the end of the second quarter of fiscal year 2015, a decrease of $38.9 million from the fourth quarter of fiscal year 2014 primarily due to the timing of quarterly tax payments.

In January 2015, the Company's Board of Directors approved an increase to the Company's quarterly dividend from $0.27 per share to $0.30 per share. This marked the 23rd consecutive year the Company has increased its dividend. This was an 11% increase in the quarterly dividend. The Company no longer has debt to pay down and has more discretion to utilize its free cash flow. A cash dividend of $0.30 per share will be paid on February 25, 2015 to stockholders of record on February 13, 2015. During the six months ended December 28, 2014, the Company paid $131.6 million in dividends representing $0.54 per share. The payment of future dividends will be based on the Company's financial performance.

Historically, the Company has satisfied its liquidity needs through cash generated from operations. Given its financial condition and historical operating 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 near future.

On October 23, 2013, the Company entered into a $100.0 million Credit Agreement with Wells Fargo Bank, National Association. The Company entered into the Credit Agreement to enhance cash deployment flexibility in connection with the redemption of its Convertible Senior Notes, for further information on the credit facility see Note 10 of Notes to Consolidated Financial Statement. Presently, the Company has not utilized the Credit Agreement.

Off Balance-Sheet Arrangements

As of December 28, 2014, the Company had no off-balance sheet financing arrangements.

Contractual Obligations

During the second quarter of fiscal 2014, the Company entered into a $100.0 million Credit Agreement with Wells Fargo Bank, National Association. Presently, the Company has not utilized the Credit Agreement.

Fair Value

As of December 28, 2014, the Company's cash equivalents and marketable securities investments in debt securities had a fair value of $1,013.2 million. The Company's cash equivalents and marketable securities investment portfolio consists of money-market funds, U.S. Treasury securities, obligations of U.S. government-sponsored enterprises, municipal bonds, commercial debt and corporate debt securities. For further information see Note 5 of Notes to Consolidated Financial Statements, included in Part 1, "Financial Information," for additional information. Most of the Company's investments in debt instruments have an investment rating of AA+ to AAA.

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 June 29, 2014. 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 2014. At December 28, 2014, the Company's cash and cash equivalents, and marketable securities consisted of money-market funds, U.S. Treasury securities, obligations of U.S. government sponsored enterprises, municipal bonds, commercial debt and corporate debt 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 directly impacted by foreign currency rate changes, although the Company's expenses can be impacted by such foreign currency rate changes. To date, fluctuations in foreign currency exchange rates have had a minor 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,* as defined in Rules 13a-15(c) and 15d-15(e) under the Securities Exchange Act of 1934 (15 U.S.C 78a et seq.) (the "Exchange Act") 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 Exchange Act 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 Exchange 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 as of December 28, 2014. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, 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 Exchange Act at a reasonable assurance level 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 December 28, 2014 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 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.

Item 1A. Risk Factors

Erratic consumer and/or corporate spending due to uncertainties in the macroeconomic environment could adversely affect our revenues and profitability.

We depend on demand from the industrial, communication, computer, consumer and automotive end-markets we serve. Our revenues and profitability are based on certain levels of consumer and corporate spending. Reductions or other fluctuations in consumer and/or corporate spending as a result of uncertain conditions in the macroeconomic environment, such as government economic or fiscal instability, restricted global credit conditions, reduced demand, imbalanced inventory levels, mortgage failures, fluctuations in interest rates, higher energy prices, or other conditions, could adversely affect our revenues and profitability. The impact of general economic sluggishness relating to US and European debt, government debt limits, unemployment issues and other causes can cause customers to be cautious, or delay or reduce orders for our products until these economic uncertainties improve.

Sudden adverse shifts 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 turmoil or depressed conditions in financial or credit markets, depressed business or consumer confidence, inventory excesses, increased unemployment, inflation for goods, services or materials, volatility in oil pricing, 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 and profitability 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 revenue and profitability and limit our ability to predict such levels*.**

Historically, we have maintained low lead times, which have 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 products. As a result, in any quarterly fiscal period we are subject to the risk of cancellation of orders leading to a fall-off of revenue 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 unsalable 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. Our results in any period, or sequence of periods, may be positively affected by the fact that a customer has designed one of our products into one of their high selling products. This positive effect may not last, however, as our customers frequently redesign their high selling products, especially to lower their products' costs. In such redesigns, they may decide to no longer use our product or may seek pricing terms from us that we choose not to accede to, thus resulting in the customer ceasing or significantly decreasing its purchases from us. The loss of, or a significant reduction in purchases by a portion of our customer base, for this or other reasons, such as changes in purchasing practices, could adversely affect our results of operations. 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 offerings by competitors and customer demands for increasing linear integrated circuit performance or lower prices may render our products less competitive over time, thus necessitating our continual development of new products. New product introductions are thus a critical factor for maintaining or increasing future revenue growth and sustained or increased profitability, but they 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, accurate anticipation of competitors' actions and offerings, 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, revenue 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.

In addition, with respect to our acquisition of Dust Networks, we may not achieve benefits we expected to achieve, and we may incur write-downs, impairment charges or unforeseen liabilities that could negatively affect our operating results or financial position or could otherwise harm our business.

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. We depend on outside silicon foundries for a small portion (roughly 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 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 15%-20%) are processed offshore by independent assembly subcontractors primarily located in Thailand. These subcontractors separate wafers into individual circuits and assemble them into various finished package types. During periods of increasing demand and volatile lead times, sub-contractors can become over committed and therefore unable to meet all of their customer demand requirements thereby causing inconsistencies in availability of supply. In addition, 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 (roughly 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 vendors for materials, supplies, critical manufacturing equipment and freight services that may not have adequate capacity or may be impacted by outside influences such as natural disasters or material sourcing that could impact 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 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 equipment, 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 these components, which could adversely affect future revenue 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 components or could have quality problems that could affect our ability to meet customer commitments.

Our manufacturing processes rely on critical manufacturing equipment purchased from third party suppliers. During periods of increasing demand we could experience difficulties or delays in obtaining additional critical manufacturing equipment. 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 rely on third parties including freight forwarders, airlines, and ground transportation companies to deliver our products to customers. Interruptions in the ability of these third parties to deliver our products to customers due to geological events such volcanic eruptions, earthquakes, hurricanes or other such natural disasters may cause a temporary delay in meeting our shipping estimates and schedules.

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

During the six months ended December 28, 2014, 73% of our revenues were derived from customers in international markets. In addition, we have test and assembly facilities in Singapore and Malaysia. Accordingly, we are subject to the economic and political risks inherent in international revenue and 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, economic disruption from financial and economic declines or turmoil, dysfunction in the credit markets, acts of terrorism, natural disasters or the response to any of the foregoing by the United States and other major countries. In past years, natural disasters in Japan and Thailand have affected the global marketplace.

Changes in currency exchange rates where the Company conducts business may impact it financially. As mentioned above, during the six months ended December 28, 2014, 73% of the Company's revenues were derived from customers in international markets. The Company's revenues and billings are transacted in U.S. dollars. Recently, the U.S. dollar has significantly strengthened against other currencies. The strengthening of the U.S. dollar results in the Company's products being more expensive for certain of its international customers. Accordingly, the Company's competitive position may be adversely affected if the U.S. dollar continues to strengthen. The adverse effect to revenue may be partially offset in operating expenses since the Company generally incurs its foreign operating expenses, primarily labor, in the corresponding local currency.

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 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 entered into 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.

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 loss of sales or 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 that 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 those of 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. In most cases we have contractual provisions in our customer contracts that seek to limit our liability to the replacement of the defective parts shipped. Nonetheless, 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 integrated circuit market. Our competitors include among others, Analog Devices, Inc., Intersil, Maxim Integrated Products, Inc. and Texas Instruments, Inc. Competition among manufacturers of linear integrated circuits is intense, and certain of our competitors 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 we 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.

We are subject to a variety of domestic and international laws and regulations, including the use of "conflict minerals", U.S. Customs and Export Regulations and the Foreign Corrupt Practices Act.

As part of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Act"), the SEC has promulgated disclosure requirements regarding the use of certain minerals (tantalum, tin, tungsten and gold), which are mined from the Democratic Republic of Congo and adjoining countries, known as conflict minerals. Certain of the Company's products contain gold, tungsten and tin. As a result of the Act, the Company must annually publicly disclose whether it manufactures (as defined in the Act) any products that contain conflict minerals. Additionally, customers typically rely on the Company to provide critical data

regarding the parts they purchase, including conflict mineral information. The Company's material sourcing is broad-based and multi-tiered, and it is difficult to verify the origins for conflict minerals used in the products it sells. The Company has many suppliers and each provides conflict mineral information in a different manner, if at all. Accordingly, because the supply chain is complex, the Company may face reputational challenges if it is unable to sufficiently verify the origins of conflict minerals used in its products. Additionally, customers may demand that the products they purchase be free of conflict minerals. This may limit the number of suppliers that can provide products in sufficient quantities to meet customer demand or at competitive prices.

Among other laws and regulations, the Company is also subject to U.S. Customs and Export Regulations, including U.S. International Traffic and Arms Regulations and similar laws, which collectively control import, export and sale of technologies by companies and various other aspects of the operation of the Company’s business, and the Foreign Corrupt Practices Act and similar anti-bribery laws, which prohibit companies from making improper payments to government officials for the purposes of obtaining or retaining business. While the Company’s policies and procedures mandate compliance with such laws and regulations, there can be no assurance that the Company’s employees and agents will always act in strict compliance. Failure to comply with such laws and regulations may result in civil and criminal enforcement, including monetary fines and possible injunctions against shipment of product or other activities of the Company, which could have a material adverse impact on the Company’s results of operations and financial condition.

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 our 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. We have a partial tax holiday through July 2015 in Malaysia which we expect to extend if certain conditions are met and a partial tax holiday in Singapore through August 2019. 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. Finally, jurisdictions could change their tax regulations to include profits that were previously exempt.

We have not provided for U.S. federal and state income taxes on a portion of our undistributed earnings of our non-U.S. subsidiaries that are considered permanently reinvested outside the United States. If in the future we decide to repatriate such foreign earnings to fund U.S. operations, we would incur incremental U.S. federal and state income taxes. However, it is our intent to keep these funds permanently reinvested outside of the United States and current plans do not demonstrate a need to repatriate them to fund our U.S. operations.

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 general United States and world economic and financial conditions, our own 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 those of our customers. 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.

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

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs (2)
Month #1 (September 29, 2014 – October 26, 2014)	—	$ —	—	10,000,000
Month #2 (October 27, 2014 - November 23, 2014)	876,137	$ 39.62	725,000	9,275,000
Month #3 (November 24, 2014 – December 28, 2014)	—	$ —	—	9,275,000
Total	876,137	$ 38.64	725,000	9,275,000

(1) During the quarter ended December 28, 2014, the Company withheld 151,137 shares of restricted stock for $6.1 million to satisfy employee tax withholding requirements related to the vesting of restricted stock awards. In addition, the Company repurchased 725,000 shares of its common stock in the open market for approximately $28.6 million under an open market repurchase program authorized by the Board of Director in October 2014.

(2) On October 14, 2014, the Company's Board of Directors authorized the Company to purchase up to 10.0 million shares of its outstanding common stock in the open market over a two-year time period.

Item 3. Defaults Upon Senior Securities

N/A

Item 5. Other Information

N/A

Item 6. Exhibits

Exhibit Number	Description
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
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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: February 6 , 2015

BY /s/Paul Coghlan

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