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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM 8-K**

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**CURRENT REPORT  
Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934**

**Date of Report (Date of earliest event reported): November 30, 2016**

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**Analog Devices, Inc.**

(Exact Name of Registrant as Specified in Charter)

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**Massachusetts**  
(State or Other Jurisdiction  
of Incorporation)

**1-7819**  
(Commission  
File Number)

**04-2348234**  
(IRS Employer  
Identification No.)

**One Technology Way**  
**Norwood, MA**  
(Address of Principal Executive Offices)

**02062**  
(Zip Code)

**Registrant's telephone number, including area code: (781) 329-4700**

**Not Applicable**  
(Former Name or Former Address, if Changed Since Last Report)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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## Item 8.01. Other Events.

Analog Devices, Inc. (the “Company”) is filing this Current Report on Form 8-K to provide certain financial information with respect to Linear Technology Corporation (“Linear”), and to update certain pro forma financial information with respect to the Company’s proposed acquisition of Linear previously provided in the Company’s Current Report on Form 8-K filed on November 29, 2016. As previously disclosed in its Current Report on Form 8-K filed on July 26, 2016, the Company and certain of its subsidiaries entered into an Agreement and Plan of Merger dated as of July 26, 2016 (the “Merger Agreement”) with Linear, providing for the acquisition of Linear by the Company.

Included in this Current Report on Form 8-K as Exhibit 99.1 are the audited consolidated financial statements of Linear for the periods described in Item 9.01(a) below, the notes related thereto and the related Report of Independent Registered Public Accounting Firm. Included in this Current Report on Form 8-K as Exhibit 99.2 are the unaudited condensed consolidated financial statements of Linear for the periods described in Item 9.01(a) below and the notes related thereto.

Also included in this Current Report on Form 8-K as Exhibit 99.3 are the unaudited pro forma condensed combined balance sheet as of October 29, 2016 and the unaudited pro forma condensed combined statement of income for the year ended October 29, 2016, which information was not required to be included in the prospectus of the Company and proxy statement of Linear filed on September 16, 2016.

This Current Report on Form 8-K contains forward-looking statements that involve a number of risks and uncertainties. Important factors that could cause actual results to differ materially from those indicated by such forward-looking statements are set forth in the Company’s Annual Report on Form 10-K for the year ended October 29, 2016, under the section “Risk Factors,” which is on file with the Securities and Exchange Commission (the “SEC”). All statements other than statements of historical fact are statements that could be deemed forward-looking statements. These statements are based on current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as “expects,” “anticipates,” “targets,” “goals,” “projects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “continues,” “may,” “could” and “will,” and variations of such words and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections regarding our future financial performance; our anticipated growth and trends in our businesses; the proposed acquisition of Linear and financing for the proposed transaction; the ability to satisfy the conditions to closing of the proposed transaction, on the expected timing or at all; the ability to obtain required regulatory approvals for the proposed transaction, on the expected timing or at all, including the potential for regulatory authorities to require divestitures in connection with the proposed transaction; the occurrence of any event that could give rise to the termination of the merger agreement; the risk of stockholder litigation relating to the proposed transaction, including resulting expense or delay; higher than expected or unexpected costs associated with or relating to the transaction; the risk that expected benefits, synergies and growth prospects of the transaction may not be achieved in a timely manner, or at all; the risk that Linear’s business may not be successfully integrated with ours following the closing; the risk that we and Linear will be unable to retain

and hire key personnel; and the risk that disruption from the transaction may adversely affect Linear's or our business and relationships with their customers, suppliers or employees; our future liquidity, capital needs and capital expenditures; our future market position and expected competitive changes in the marketplace for our products; our ability to pay dividends or repurchase stock; our ability to service our outstanding debt; our expected tax rate; the effect of new accounting pronouncements; our ability to successfully integrate acquired businesses and technologies; and other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict, including those identified in the section entitled "Risk Factors" and elsewhere in our Annual Report on Form 10-K. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update any forward-looking statements, including to reflect events or circumstances occurring after the date of the filing of this Current Report on Form 8-K, except to the extent required by law.

#### **Item 9.01. Financial Statements and Exhibits.**

##### **(a) Financial statements.**

The audited consolidated balance sheets of Linear as of July 3, 2016 and June 28, 2015, the audited consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of stockholders' equity and consolidated statements of cash flows of Linear for each of the three fiscal years in the period ended July 3, 2016 and the schedule and independent registered public accounting firm's report related thereto are filed herewith as Exhibit 99.1 and incorporated herein by reference.

The historical unaudited consolidated balance sheets of Linear as of October 2, 2016 and July 3, 2016 and the unaudited consolidated statements of income, consolidated statements of comprehensive income and consolidated statements of cash flows of Linear for each of the three months ended October 2, 2016 and September 27, 2015 are filed herewith as Exhibit 99.2 and incorporated herein by reference.

##### **(b) Pro forma financial information.**

The unaudited pro forma condensed combined balance sheet of the Company as of October 29, 2016 and the unaudited pro forma condensed combined statement of income of the Company for the year ended October 29, 2016, respectively, are filed herewith as Exhibit 99.3 and incorporated herein by reference.

##### **(d) Exhibits.**

The following exhibits are filed as part of this current report:

23.1 Consent of Ernst & Young LLP, independent registered public accounting firm of Linear Technology Corporation.

99.1 Audited consolidated balance sheets of Linear Technology Corporation as of July 3, 2016 and June 28, 2015, the audited consolidated statements of income, consolidated

statements of comprehensive income, consolidated statements of stockholders' equity and consolidated statements of cash flows of Linear Technology Corporation for each of the three fiscal years in the period ended July 3, 2016 and the schedule and independent registered public accounting firm's report related thereto.

99.2 Historical consolidated balance sheets of Linear Technology Corporation as of October 2, 2016 (unaudited) and July 3, 2016 and the unaudited consolidated statements of income, consolidated statements of comprehensive income and consolidated statements of cash flows of Linear Technology Corporation for each of the three months ended October 2, 2016 and September 27, 2015.

99.3 Unaudited pro forma condensed combined balance sheet of the Company as of October 29, 2016 and the unaudited pro forma condensed combined statement of income of the Company for the year ended October 29, 2016.

### **Important Additional Information Will Be Filed With The SEC**

In connection with the proposed transaction, the Company and Linear have filed and will file relevant information with the SEC, including a registration statement of the Company on Form S-4 (the "registration statement") that includes a prospectus of the Company and a proxy statement of Linear (the "proxy statement/prospectus"). INVESTORS AND SECURITY HOLDERS OF LINEAR ARE URGED TO CAREFULLY READ THE ENTIRE REGISTRATION STATEMENT AND PROXY STATEMENT/PROSPECTUS AND OTHER RELEVANT DOCUMENTS FILED WITH THE SEC, BECAUSE THEY CONTAIN IMPORTANT INFORMATION ABOUT THE COMPANY, LINEAR AND THE PROPOSED TRANSACTION. A definitive proxy statement/prospectus has been sent to Linear's shareholders. The registration statement, proxy statement/prospectus and other documents filed by the Company with the SEC may be obtained free of charge at the Company's website at [www.analog.com](http://www.analog.com) or at the SEC's website at [www.sec.gov](http://www.sec.gov). These documents may also be obtained free of charge from the Company by requesting them by mail at Analog Devices, Inc., One Technology Way, P.O. Box 9106, Norwood, MA 02062-9106, Attention Investor Relations, or by telephone at (781) 461-3282. The documents filed by Linear with the SEC may be obtained free of charge at Linear's website at [www.linear.com](http://www.linear.com) or at the SEC's website at [www.sec.gov](http://www.sec.gov). These documents may also be obtained free of charge from Linear by requesting them by mail at Linear Technology Corporation, 1630 McCarthy Blvd., Milpitas, CA, 95035-7417, Attention: Investor Relations, or by telephone at (408) 432-2407.

### **Non-Solicitation**

This communication shall not constitute an offer to sell or the solicitation of an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offer of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended.

SIGNATURE

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 hereunto duly authorized.

ANALOG DEVICES, INC.

Date: November 30, 2016

/s/ David A. Zinsner

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Name: David A. Zinsner

Title: Senior Vice President,  
Finance and Chief Financial Officer

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
23.1	Consent of Ernst & Young LLP, independent registered public accounting firm of Linear Technology Corporation.
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99.2	Historical consolidated balance sheets of Linear Technology Corporation as of October 2, 2016 (unaudited) and July 3, 2016 and the unaudited consolidated statements of income, consolidated statements of comprehensive income and consolidated statements of cash flows of Linear Technology Corporation for each of the three months ended October 2, 2016 and September 27, 2015.
99.3	Unaudited pro forma condensed combined balance sheet of the Company as of October 29, 2016 and the unaudited pro forma condensed combined statement of income of the Company for the year ended October 29, 2016.

Consent of Independent Registered Public Accounting Firm

We consent to the reference to our firm under the caption “Experts” in the Registration Statement (Form S-3 No. 333-207043) and related Prospectus Supplement for the registration of debt securities of Analog Devices, Inc. and to the incorporation by reference therein of our report dated August 25, 2016, with respect to the consolidated financial statements and schedule of Linear Technology Corporation for the year ended July 3, 2016, included in Analog Devices, Inc.’s Current Report on Form 8-K dated November 30, 2016 filed with the Securities and Exchange Commission.

/s/ Ernst & Young LLP

San Jose, California  
November 30, 2016

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

For the year ended	July 3, 2016	June 28, 2015	June 29, 2014
Revenues	\$1,423,936	\$1,475,139	\$1,388,386
Cost of sales <sup>(1)</sup>	343,801	355,727	338,580
Gross profit	<u>1,080,135</u>	<u>1,119,412</u>	<u>1,049,806</u>
Expenses:			
Research and development <sup>(1)</sup>	276,462	266,761	250,434
Selling, general and administrative <sup>(1)</sup>	170,120	169,952	159,642
Total operating expenses	<u>446,582</u>	<u>436,713</u>	<u>410,076</u>
Operating income	633,553	682,699	639,730
Interest expense <sup>(2)</sup>	—	—	(41,168)
Interest income and other income	5,896	2,690	2,706
Income before income taxes	639,449	685,389	601,268
Provision for income taxes	145,103	164,426	141,307
Net income	<u>\$ 494,346</u>	<u>\$ 520,963</u>	<u>\$ 459,961</u>
Basic earnings per share	<u>\$ 2.02</u>	<u>\$ 2.13</u>	<u>\$ 1.91</u>
Shares used in the calculation of basic earnings per share	<u>244,662</u>	<u>244,408</u>	<u>240,498</u>
Diluted earnings per share	<u>\$ 2.02</u>	<u>\$ 2.12</u>	<u>\$ 1.90</u>
Shares used in the calculation of diluted earnings per share	<u>245,048</u>	<u>245,218</u>	<u>242,551</u>
Cash dividends per share	<u>\$ 1.24</u>	<u>\$ 1.14</u>	<u>\$ 1.06</u>
Includes the following non-cash charges:			
(1) Stock-based compensation			
Cost of sales	\$ 9,894	\$ 8,966	\$ 8,074
Research and development	45,923	41,584	37,624
Selling, general and administrative	23,625	21,581	19,430
(2) Amortization of debt discount (non-cash interest expense)	—	—	18,458

See accompanying notes.



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

<u>For the year ended</u>	July 3, 2016	June 28, 2015	June 29, 2014
Net income	<u>\$494,346</u>	<u>\$520,963</u>	<u>\$459,961</u>
Other comprehensive income, net of tax:			
Net changes in unrealized gains on available-for-sale securities	674	206	621
Total comprehensive income	<u>\$495,020</u>	<u>\$521,169</u>	<u>\$460,582</u>

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

As of	July 3, 2016	June 28, 2015
<b>Assets</b>		
Cash and cash equivalents	\$ 263,682	\$ 195,679
Marketable securities	1,184,593	1,007,043
Accounts receivable, net of allowances (\$1,649 as of July 3, 2016 and \$1,651 as of June 28, 2015)	157,460	179,264
Inventories:		
Raw materials	9,915	10,668
Work-in-process	66,172	66,572
Finished goods	21,164	22,621
Total inventories	97,251	99,861
Deferred tax assets (1)	—	48,493
Prepaid expenses and other current assets	51,744	54,412
Total current assets	1,754,730	1,584,752
Property, plant and equipment, at cost:		
Land	28,834	28,837
Buildings and improvements	264,484	243,977
Manufacturing and test equipment	753,916	730,719
Office furniture and equipment	7,285	6,727
Gross property, plant and equipment	1,054,519	1,010,260
Accumulated depreciation and amortization	(768,653)	(722,518)
Net property, plant and equipment	285,866	287,742
Identified intangible assets, net and goodwill	9,385	11,585
Total noncurrent assets	295,251	299,327
Total assets	<u>\$2,049,981</u>	<u>\$1,884,079</u>
Liabilities and stockholders' equity		
Accounts payable	\$ 17,465	\$ 17,608
Accrued payroll and related benefits	93,187	98,498
Deferred income on shipments to distributors	48,701	46,860
Income taxes payable	3,342	5,822
Other accrued liabilities	17,271	14,130
Total current liabilities	179,966	182,918
Deferred tax liabilities	68,388	85,612
Other long-term liabilities	42,452	37,622
Total liabilities	290,806	306,152
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; 239,654 shares issued and outstanding (239,751 as of June 28, 2015)	240	240
Additional paid-in capital	2,136,910	2,052,250
Accumulated other comprehensive income, net of tax	1,235	561
Accumulated deficit	(379,210)	(475,124)
Total stockholders' equity	1,759,175	1,577,927
Total liabilities and stockholders' equity	<u>\$2,049,981</u>	<u>\$1,884,079</u>

See accompanying notes.

(1) The FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes", which simplifies the presentation of deferred income taxes. This ASU requires that deferred tax assets and liabilities be classified as non-current. During the fourth quarter of fiscal year 2016 the standard was early adopted on a prospective basis. Adoption of this ASU resulted in a reclassification of \$49.0 million of current deferred tax assets to net non-current deferred tax liabilities in the Consolidated Balance Sheet as of July 3, 2016. No prior periods were retrospectively adjusted.

LINEAR TECHNOLOGY CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)

For the year ended	July 3, 2016	June 28, 2015	June 29, 2014
<b>Cash flow from operating activities:</b>			
Net income	\$ 494,346	\$ 520,963	\$ 459,961
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Depreciation and amortization	51,409	54,098	51,255
Stock-based compensation	79,442	72,131	65,128
Amortization of convertible senior notes discount	—	—	18,458
Excess tax benefit from stock-based compensation	(7,997)	(15,190)	(11,038)
<b>Change in operating assets and liabilities:</b>			
Accounts receivable	21,804	(5,924)	(28,066)
Inventories	2,610	(8,551)	(4,081)
Prepaid expenses, other current assets and deferred tax assets	10,758	(3,816)	1,464
Accounts payable, accrued payroll, other accrued liabilities and noncurrent liabilities	(2,281)	(1,496)	21,038
Deferred income on shipments to distributors	1,841	1,241	1,531
Income taxes payable	33,125	(14,537)	20,777
<b>Cash provided by operating activities</b>	<b>685,057</b>	<b>598,919</b>	<b>596,427</b>
<b>Cash flow from investing activities:</b>			
Purchase of marketable securities	(1,433,303)	(886,222)	(1,496,652)
Proceeds from sale and maturities of available-for-sale securities	1,256,796	734,961	2,039,216
Purchase of property, plant and equipment	(47,333)	(62,560)	(37,669)
Cash (used in) provided by investing activities	(223,840)	(213,821)	504,895
<b>Cash flow from financing activities:</b>			
Extinguishment of Convertible Senior Notes	—	—	(845,087)
Excess tax benefit from stock-based compensation	7,997	15,190	11,038
Issuance of common stock under employee stock plans	21,934	40,712	100,491
Purchase of common stock	(119,787)	(124,240)	(81,786)
Payment of cash dividends	(303,358)	(278,404)	(255,305)
Cash used in financing activities	(393,214)	(346,742)	(1,070,649)
Increase in cash and cash equivalents	68,003	38,356	30,673
Cash and cash equivalents, beginning of year	195,679	157,323	126,650
Cash and cash equivalents, end of year	<u>\$ 263,682</u>	<u>\$ 195,679</u>	<u>\$ 157,323</u>
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid for income taxes	<u>\$ 89,749</u>	<u>\$ 186,920</u>	<u>\$ 119,797</u>
Cash paid for interest expense	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 21,127</u>

See accompanying notes.

LINEAR TECHNOLOGY CORPORATION  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(in thousands, except per share amounts)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance at June 30, 2013	233,025	233	1,736,496	(266)	(754,555)	981,908
Issuance of common stock for cash under employee stock option, restricted stock and stock purchase plans	5,059	5	100,483	—	—	100,488
Excess tax benefits from stock-based compensation	—	—	11,038	—	—	11,038
Purchase and retirement of common stock	(1,896)	(2)	(14,691)	—	(67,093)	(81,786)
Release of deferred tax liabilities as a result of the conversion of Convertible Senior Notes	—	—	49,313	—	—	49,313
Shares issued as conversion premium for the conversion of Convertible Senior Notes	2,908	3	—	—	—	3
Cash dividends—\$1.06 per share	—	—	—	—	(255,305)	(255,305)
Stock-based compensation	—	—	65,128	—	—	65,128
Other comprehensive income, net of taxes	—	—	—	621	—	621
Net income	—	—	—	—	459,961	459,961
Balance at June 29, 2014	239,096	239	1,947,767	355	(616,992)	1,331,369
Issuance of common stock for cash under employee stock option, restricted stock and stock purchase plans	3,502	4	40,708	—	—	40,712
Excess tax benefits from stock-based compensation	—	—	15,190	—	—	15,190
Purchase and retirement of common stock	(2,847)	(3)	(23,546)	—	(100,691)	(124,240)
Cash dividends—\$1.14 per share	—	—	—	—	(278,404)	(278,404)
Stock-based compensation	—	—	72,131	—	—	72,131
Other comprehensive income, net of taxes	—	—	—	206	—	206
Net income	—	—	—	—	520,963	520,963
Balance at June 28, 2015	239,751	240	2,052,250	561	(475,124)	1,577,927
Issuance of common stock for cash under employee stock option, restricted stock and stock purchase plans	2,762	3	21,931	—	—	21,934
Excess tax benefits from stock-based compensation	—	—	7,997	—	—	7,997
Purchase and retirement of common stock	(2,859)	(3)	(24,710)	—	(95,074)	(119,787)
Cash dividends—\$1.24 per share	—	—	—	—	(303,358)	(303,358)
Stock-based compensation	—	—	79,442	—	—	79,442
Other comprehensive income, net of taxes	—	—	—	674	—	674
Net income	—	—	—	—	494,346	494,346
Balance at July 3, 2016	<u>239,654</u>	<u>\$ 240</u>	<u>\$2,136,910</u>	<u>\$ 1,235</u>	<u>\$ (379,210)</u>	<u>\$1,759,175</u>

See accompanying notes

**Note 1. Description of Business and Significant Accounting Policies**

*Description of Business*

Linear Technology Corporation (together with its consolidated subsidiaries, “Linear,” “Linear Technology” or the “Company”), 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, transportation, computer, medical, instrumentation, consumer, and military and aerospace systems. Linear Technology produces power management, data conversion, signal conditioning, RF and interface ICs,  $\mu$ Module® subsystems, and wireless sensor network products. The Company is a Delaware corporation; it was originally organized and incorporated in California in 1981.

*Basis of Presentation*

The Company operates on a 52/53-week fiscal year ending on the Sunday nearest June 30. Fiscal years 2015 and 2014 were 52-week years. Fiscal year 2016 is a 53-week fiscal year, with the additional week falling in the second quarter.

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries after elimination of all significant inter-company accounts and transactions. Accounts denominated in foreign currencies have been remeasured using the U.S. dollar as the functional currency.

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates.

*Pending Acquisition by Analog Devices, Inc.*

On July 26, 2016, the Company announced that it had entered into a definitive merger agreement (the “Analog Merger Agreement”) with Analog Devices, Inc. (“Analog Devices”), under which a wholly owned subsidiary of Analog Devices will merge with and into the Company, and the Company will survive as a wholly owned subsidiary of Analog Devices (the “Analog Acquisition”). Under the terms of the Analog Merger Agreement, Linear Technology stockholders who do not exercise their appraisal rights under Delaware law will have the right to receive, for each Linear Technology share held by such stockholders, \$46.00 in cash (the “Cash Consideration”) and 0.2321 shares of Analog Devices common stock, par value \$0.16  $\frac{2}{3}$  per share (the “Stock Consideration,” and together with the Cash Consideration, the “Merger Consideration”) (with the ratio of Stock Consideration to Cash Consideration to be adjusted pursuant to the terms of the Analog Merger Agreement so that the aggregate number of shares issued by Analog Devices as Stock Consideration will not exceed 19.9% of the total outstanding common stock of Analog Devices prior to the Analog Acquisition). Each of the Company’s equity awards that were outstanding as of July 22, 2016 and are unvested as of the closing will be converted into the right to receive the Merger Consideration in respect of each share of the Company’s common stock underlying such award when such award vests. Each of the Company’s other equity awards that were granted after July 22, 2016 and are unvested as of the closing will be converted into the right to receive 0.9947 shares of Analog Devices common stock in respect of each share of the Company’s common stock underlying such award when such award vests. The Analog Merger Agreement includes representations, warranties and covenants, including break-up fees payable or receivable under certain circumstances if the transaction fails to close.

The transaction has been approved by both the Company's Board of Directors and the board of directors of Analog Devices, and the completion of the Analog Acquisition is subject to customary closing conditions including, among others, the approval of Linear Technology's stockholders and various regulatory approvals. The transaction is expected to close during the first half of calendar 2017. For additional information on the Analog Merger Agreement and the Analog Acquisition, please refer to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 29, 2016. The Company cannot guarantee that the Analog Acquisition will be completed or that, if completed, it will be exactly on the terms set forth in the Analog Merger Agreement.

#### *Cash Equivalents and Marketable Securities*

Cash equivalents are highly liquid investments purchased with original maturities of three months or less at the time of purchase. Cash equivalents consist of investment grade securities in commercial paper, bank certificates of deposit, and money market funds.

Investments with maturities over three months at the time of purchase are classified as marketable securities. At July 3, 2016 and June 28, 2015, the Company's marketable securities balance consisted primarily of debt securities in municipal bonds, corporate bonds, commercial paper, U.S. and foreign government and agency securities. The Company's marketable securities are managed by outside professional managers within investment guidelines set by the Company. The Company's investment guidelines generally restrict the professional managers to high quality debt instruments with a credit rating of AAA. Within the Company's investment policy there is a provision that allows the Company to hold AA+ securities under certain circumstances. The Company's investments in debt securities are classified as available-for-sale. Investments in available-for-sale securities are reported at fair value with unrealized gains and losses, net of tax, as a component of "Accumulated other comprehensive income (loss), net of tax" in the Consolidated Balance Sheets. The Company classifies investments with maturities greater than twelve months as current as it considers all investments as a potential source of operating cash regardless of maturity date. The cost of securities matured or sold is based on the specific identification method.

#### *Accounts Receivable*

The allowance for doubtful accounts reflects the Company's best estimate of probable losses inherent in the accounts receivable balance. The Company determines the allowance based on the aging of its accounts receivable, historical experience, known troubled accounts, management judgment and other currently available evidence. The Company writes off accounts receivable against the allowance when it determines a balance is uncollectible and no longer actively pursues collection of the receivable.

#### *Concentrations of Credit Risk*

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents, marketable securities, and accounts receivable. The Company's investment policy restricts investments to high credit quality investments with maturities of three years or less and limits the amount invested with any one issuer.

Accounts receivable from significant customers, those representing 10% or more of total accounts receivable included approximately 42% of the accounts receivable balance from the Company's largest distributor, Arrow, as of July 3, 2016, and 36% as of June 28, 2015. Concentrations of credit risk with respect to accounts receivable are generally not significant due to the diversity of the Company's customers, customer end-markets, and customer geographical locations. The Company performs ongoing credit evaluations of its customers' financial condition and requires collateral, primarily letters of credit, as deemed necessary.

The Company's assets, liabilities and cash flows are predominantly U.S. dollar denominated, including those of its foreign operations. However, the Company's foreign subsidiaries have certain assets, liabilities and cash flows that are subject to foreign currency risk. For the three years ended July 3, 2016, the Company did not utilize derivative instruments to hedge foreign currency risk or for any other purpose. Gains and losses resulting from foreign currency fluctuations are recognized in income.

## *Inventories*

The Company values inventories at the lower of cost or market on a first-in, first-out basis. The Company records charges to write-down inventories for unsalable, excess or obsolete raw materials, work-in-process and finished goods. Newly introduced parts are generally not valued until success in the market place has been determined by a consistent pattern of sales and backlog among other factors. In addition to write-downs based on newly introduced parts, judgmental assessments are calculated for the remaining inventory based on salability, obsolescence, historical experience and current business conditions.

## *Property, Plant and Equipment*

Property, plant and equipment is stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets, which is generally 5-10 years for equipment and 10-30 years for buildings. Leasehold improvements are amortized over the shorter of the asset's useful life or the expected term of the lease. Depreciation expense for fiscal years 2016, 2015, and 2014 was \$49.2 million, \$51.9 million and \$49.1 million, respectively.

## *Goodwill*

Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the net tangible and intangible assets acquired. The Company tests goodwill for impairment at the reporting unit level annually, or earlier if indicators of potential impairment exist. Based on a qualitative assessment, the Company determines if the fair value of a reporting unit is more likely than not to be less than its carrying amount. If potential impairment indicators exist, the Company utilizes a two-step quantitative analysis to complete the impairment test. The first step of the impairment test involves comparing the fair values of the applicable reporting units with their aggregate carrying value using the income approach methodology of valuation. The second step, if necessary, compares the implied fair value of the goodwill with the carrying value of that goodwill. No goodwill impairment charges have been recorded for any of the periods presented.

## *Intangible Assets*

Intangible assets represent acquired intellectual property and customer relationships and are subject to an annual impairment test. Intangible assets are amortized over their estimated useful lives of 5 to 10 years using the straight-line method of amortization.

## *Impairment of Long-Lived Assets*

Long-lived assets consist of property, plant, and equipment and intangible assets. Long-lived assets by geographic area were as follows, net of accumulated depreciation:

<i>In thousands</i>	July 3, 2016	June 30, 2015
United States	\$183,507	\$189,248
Malaysia	47,481	51,356
Singapore	63,967	58,375
Other	296	348
Total long-lived assets	<u>\$295,251</u>	<u>\$299,327</u>

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable or that the useful life is shorter than originally estimated.

## *Advertising Expense*

The Company expenses advertising costs in the period in which they occur. Advertising expenses for fiscal years 2016, 2015, and 2014 were approximately \$5.2 million, \$5.9 million and \$5.5 million, respectively.

## *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. The Company recognized approximately 15% of net revenues in fiscal year 2016 from North American (“domestic”) distributors. Domestic distributor revenues 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 sales transactions is not fixed or determinable until domestic distributors sell the merchandise to the end-customer. Domestic distributor agreements permit the following: price protection on certain domestic distribution inventory if the Company lowers the prices of its products; exchanges up to 5% of certain purchases on a quarterly basis; and ship and debit transactions. Ship and debit transactions occur when the Company agrees to accept a lower selling price for a specific quantity of product at the request of the domestic distributor in order to complete a sales transaction in the domestic distributor channel. For such sales, the Company rebates the negotiated price decrease to the distributor upon shipment as a reduction in the accounts receivable from the distributor.

At the time of shipment to domestic distributors, the Company records a trade receivable and deferred revenue at the distributor’s purchase 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 costs of sales and is recognized as a current liability until such time as the distributor confirms a final sale to its end customer. “Deferred income on shipments to distributors” effectively represents the deferred gross margin on the sale to the distributor; however, the actual amount of gross margin the Company ultimately recognizes in future periods may be less than the originally recorded amount as a result of price protection, negotiated price rebates and exchanges as mentioned above. The wide range and variability of negotiated price rebates granted to distributors does not allow the Company to accurately estimate the portion of the balance in the “Deferred income on shipments to distributors” that will be remitted back to the distributors. During fiscal years 2016 and 2015, these price rebates that have been remitted back to distributors have ranged from \$3.5 million to \$4.4 million per quarter. The Company does not reduce deferred income by anticipated future price rebates. Instead, price rebates are recorded against “Deferred income on shipments to distributors” when incurred, which is generally at the time the distributor sells the product to the end customers.

The Company’s sales to international distributors are made under agreements which permit limited stock return privileges but not sales price rebates. The agreements generally permit distributors to exchange up to 5% of purchases on a semi-annual basis. Revenue on international distributor sales is recognized upon shipment at which time title passes. The Company estimates international distributor returns based on historical data and current business expectations and defers a portion of international distributor revenues and costs based on these estimated returns.

## *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 of epidemic failure. Warranty expense historically has been immaterial.

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, which the Company might be required to make as a result of these agreements, and accordingly, the Company has not accrued any amounts for its indemnification obligations.



## Stock-Based Compensation

The Company has equity incentive plans, which are described more fully in “*Note 2: Stock-Based Compensation.*” Stock-based compensation is measured at the grant date, based on the fair value of the award. The Company’s equity awards granted in fiscal years 2016, 2015, and 2014 were restricted stock awards. Stock-based compensation cost for restricted stock awards is based on the fair market value of the Company’s stock on the date of grant. Stock-based 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 Black-Scholes valuation model requires the Company to estimate key assumptions such as expected option term and stock price volatility 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. The Company amortizes restricted stock and stock option award compensation cost straight-line over the awards vesting period, which is generally 5 years.

## Income Taxes

The Company recognizes a 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 Company recognizes liabilities for uncertain tax positions based on the two-step process prescribed in the authoritative accounting literature. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires the Company to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. See Note 10 for further information related to income taxes.

## Earnings Per Share

Basic earnings per share is calculated using the weighted average shares of common stock and unvested restricted stock outstanding during the period. Diluted earnings per share is calculated using the weighted average shares of common stock outstanding and unvested restricted stock awards, plus the dilutive effect of stock options and restricted stock units calculated using the treasury stock method, and prior to fiscal year 2015, 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:

<i>In thousands, except per share amounts</i>	July 3, 2016	June 28, 2015	June 29, 2014
Net income	<u>\$494,346</u>	<u>\$520,963</u>	<u>\$459,961</u>
Basic shares:			
Weighted-average shares outstanding – Basic	244,662	244,408	240,498
Basic earnings per share	<u>\$ 2.02</u>	<u>\$ 2.13</u>	<u>\$ 1.91</u>
Diluted shares:			
Dilutive effect of equity plans	386	810	1,173
Dilutive effect of the conversion premium	—	—	880
Weighted-average shares outstanding – Diluted	<u>245,048</u>	<u>245,218</u>	<u>242,551</u>
Diluted earnings per share	<u>\$ 2.02</u>	<u>\$ 2.12</u>	<u>\$ 1.90</u>

## Comprehensive Income

Comprehensive income consists of net income and other comprehensive income or loss. Other comprehensive income or loss components include unrealized gains or losses on available-for-sale securities, net of tax.

## Segment Reporting

The Company competes in a single operating segment, and as a result, no segment information has been disclosed outside of geographical information. Disclosures about products and services, and major customers are included above in Note 1. Export sales by geographic area in fiscal years 2016, 2015, and 2014 were as follows:

<i>In thousands</i>	July 3, 2016	June 28, 2015	June 29, 2014
Europe	\$ 280,479	\$ 291,988	\$ 267,219
Japan	203,981	229,110	222,792
Rest of the world	543,513	545,828	520,322
Total export sales	<u>\$1,027,973</u>	<u>\$1,066,926</u>	<u>\$1,010,333</u>

## Adoption of New and Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standard Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09 Revenue from Contracts with Customers (Topic 606). On July 9, 2015, the FASB agreed to delay the effective date by one year from the first quarter of fiscal year 2018. In accordance with the agreed upon delay, the new standard is effective for the Company beginning in the first quarter of fiscal year 2019. Early adoption is permitted, but not before the original effective date of the standard. The core principle of ASU No. 2014-09 is that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASU No. 2014-09 provides for one of the two methods of transition: retrospective application to each prior period presented; or recognition of the cumulative effect of retrospective application of the new standard in the period of initial application. The Company is currently evaluating the impact of ASU No. 2014-09 on its consolidated financial statements and which transition method to elect.

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. Each reporting period, management is required to assess whether there is substantial doubt about an entity’s ability to continue as a going concern and if so to provide related footnote disclosures. The new guidance is effective for annual and interim periods ending after December 15, 2016. Early adoption is permitted. This ASU is not expected to have an impact on the Company’s financial statements or disclosures.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory. The new guidance changes the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value. The new guidance is effective for annual and interim periods ending after December 15, 2016. Early adoption is permitted. The Company intends to implement this guidance beginning in fiscal year 2017. This ASU is not expected to have a material impact on the Company’s financial statements or disclosures.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes. All deferred tax assets and liabilities, along with any related valuation allowance, will be classified as noncurrent on the balance sheet. As a result, each jurisdiction will now only have one net noncurrent deferred tax asset or liability. The new guidance is effective for annual and interim periods ending after December 15, 2016. Early adoption is permitted and may be applied either prospectively or retrospectively. The Company adopted this update in the fourth quarter of fiscal year 2016 on a prospective basis. Prior reporting periods were not retrospectively adjusted. The adoption of this guidance had no impact on our Consolidated Statements of Income. See Note 10 of Notes to Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02, Leases. This standard requires entities that lease assets, with a lease term of more than 12 months, to recognize lease assets and lease liabilities on the balance sheet. Under existing guidance, operating leases are not recorded as lease assets and lease liabilities on the balance sheet. The standard is effective for fiscal years and the interim periods within those fiscal years beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the timing and effects of adoption of this ASU on the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. This standard will impact how to account for certain aspects of share-based payments to employees. The standard is effective for fiscal years and the interim periods within those fiscal years beginning after December 15, 2016. Early adoption is permitted. The Company is currently evaluating the timing and effects of adoption of this ASU on the consolidated financial statements.

## **Note 2. Stock-Based Compensation**

### Equity Incentive Plans

The Company currently has a 2010 Equity Incentive Plan, under which the Company may grant Incentive Stock Options, Nonstatutory Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units. Prior to its expiration in July 2015, the Company also had a 2005 Equity Incentive Plan, under which it could grant similar awards. Under the plans, the Company may grant awards to employees, executive officers, directors and consultants who provide services to the Company. To date, the Company has only granted Nonstatutory Stock Options, Restricted Stock and Restricted Stock Units. At July 3, 2016, 14.9 million shares were available for grant under the 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. There were no outstanding options as of July 3, 2016.

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 July 3, 2016, 2.2 million shares were available for issuance under the ESPP.

The following is a brief description of each of the Company's equity incentive plans:

**2010 Equity Incentive Plan.** The 2010 Equity Incentive Plan enables the Company to issue Incentive Stock Options, Nonstatutory Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performances Shares and Performance Units. Under the 2010 Equity Incentive Plan, the Company may grant awards to employees, executive officers, directors and consultants who provide services to the Company.

**2005 Equity Incentive Plan.** The 2005 Equity Incentive Plan expired in July 2015. Prior to its expiration, the plan enabled the Company to issue Incentive Stock Options, Nonstatutory Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performances Shares and Performance Units. Under the 2005 Equity Incentive Plan, the Company could grant awards to employees, executive officers, directors and consultants who provided services to the Company.

**2005 Employee Stock Purchase Plan.** The 2005 Employee Stock Purchase Plan provides employees of the Company with an opportunity to purchase common stock of the Company through accumulated payroll deductions. The maximum number of shares that may be issued to any one participant in any six-month offering period under the ESPP is currently 300 shares.

As of July 3, 2016 there was approximately \$202.2 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 five 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 fiscal year ended July 3, 2016, 0.5 million stock options were exercised for a gain (aggregate intrinsic value) of \$9.8 million determined as of the date of option exercise.

### Stock Options

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

	Stock Options Outstanding	Weighted Average Exercise Price
Outstanding options, June 30, 2013	6,736,330	\$ 31.51
Granted	—	—
Forfeited and expired	(1,915,375)	41.19
Exercised	(3,010,856)	30.44
Outstanding options, June 29, 2014	1,810,099	\$ 23.05
Granted	—	—
Forfeited and expired	—	—
Exercised	(1,328,337)	23.17
Outstanding options, June 28, 2015	481,762	\$ 22.75
Granted	—	—
Forfeited and expired	—	—
Exercised	(481,762)	22.75
Outstanding options, July 3, 2016	<u>—</u>	\$ —
Options vested and exercisable at:		
June 29, 2014	1,809,099	23.05
June 28, 2015	481,762	22.75

### Restricted Awards

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

	Restricted Awards Outstanding	Weighted- Average Grant- Date Fair Value
Non-vested at June 30, 2013	5,668,273	\$ 31.54
Granted	2,367,730	43.49
Vested	(1,789,488)	30.37
Forfeited	(129,428)	33.36
Non-vested at June 29, 2014	6,117,087	\$ 36.46
Granted	2,495,074	44.71
Vested	(1,903,091)	34.63
Forfeited	(127,306)	36.70
Non-vested at June 28, 2015	6,581,764	\$ 40.13
Granted	1,917,351	42.92
Vested	(1,995,323)	37.67
Forfeited	(210,684)	39.64
Non-vested at July 3, 2016	<u>6,293,108</u>	\$ 41.36

### Note 3. 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 had no Level 3 assets in fiscal years 2016 and 2015.

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 July 3, 2016:

<i>In thousands</i>	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Total
<u>Description</u>			
<u>Assets</u>			
Investments in U.S. Treasury securities and money-market funds	\$ 513,193	\$ —	\$ 513,193
Investments in municipal bonds, obligations of U.S. government-sponsored enterprises and commercial paper	—	832,438	832,438
Total assets measured at fair value	<u>\$ 513,193</u>	<u>\$832,438</u>	<u>\$1,345,631</u>

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 28, 2015:

<i>In thousands</i>	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Total
<u>Description</u>			
<u>Assets</u>			
Investments in U.S. Treasury securities and money-market funds	\$ 427,800	\$ —	\$ 427,800
Investments in municipal bonds, obligations of U.S. government-sponsored enterprises and commercial paper	—	677,899	677,899
Total assets measured at fair value	<u>\$ 427,800</u>	<u>\$677,899</u>	<u>\$1,105,699</u>

**Note 4. Marketable Securities**

The following is a summary of cash equivalents and marketable securities at July 3, 2016:

<i>In thousands</i>	July 3, 2016			Fair Value
	Amortized Cost	Unrealized Gain	Unrealized (Loss) (1)	
U.S. Treasury securities	\$ 441,925	\$ 783	\$ (5)	\$ 442,703
Obligations of U.S. government-sponsored enterprises	316,368	855	—	317,223
Municipal bonds	119,680	158	(10)	119,828
Corporate debt securities and other	395,254	143	(10)	395,387
Money market funds	70,490	—	—	70,490
<b>Total</b>	<b>\$1,343,717</b>	<b>\$ 1,939</b>	<b>\$ (25)</b>	<b>\$1,345,631</b>
<b>Amounts included in:</b>				
Cash equivalents	\$ 161,028	\$ 10	\$ —	\$ 161,038
Marketable securities	1,182,689	1,929	(25)	1,184,593
<b>Total</b>	<b>\$1,343,717</b>	<b>\$ 1,939</b>	<b>\$ (25)</b>	<b>\$1,345,631</b>

The following is a summary of cash equivalents and marketable securities at June 28, 2015:

<i>In thousands</i>	June 28, 2015			Fair Value
	Amortized Cost	Unrealized Gain	Unrealized (Loss) (1)	
U.S. Treasury securities	\$ 364,925	\$ 618	\$ (6)	\$ 365,537
Obligations of U.S. government-sponsored enterprises	258,519	299	(1)	258,817
Municipal bonds	138,419	26	(80)	138,365
Corporate debt securities and other	280,699	21	(3)	280,717
Money market funds	62,263	—	—	62,263
<b>Total</b>	<b>\$1,104,825</b>	<b>\$ 964</b>	<b>\$ (90)</b>	<b>\$1,105,699</b>
<b>Amounts included in:</b>				
Cash equivalents	\$ 98,657	\$ —	\$ (1)	\$ 98,656
Marketable securities	1,006,168	964	(89)	1,007,043
<b>Total</b>	<b>\$1,104,825</b>	<b>\$ 964</b>	<b>\$ (90)</b>	<b>\$1,105,699</b>

- (1) The Company evaluated the nature of the investments with a loss position at July 3, 2016 and June 28, 2015, 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 July 3, 2016 and June 28, 2015.

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

<i>In thousands</i>	July 3, 2016	June 28, 2015
Due in one year or less	\$ 943,323	\$ 605,726
Due after one year through five years	241,270	401,317
<b>Total marketable securities</b>	<b>\$1,184,593</b>	<b>\$1,007,043</b>

## Note 5. Goodwill and Intangible Assets

On December 20, 2011, the Company acquired 100% of the outstanding stock of privately held Dust Networks (“Dust”) of Hayward, California, a provider of low power wireless sensor network technology. As a result of the acquisition the Company recorded goodwill and intangible assets during fiscal year 2012.

### Goodwill

The goodwill balance of \$2.2 million at July 3, 2016 is attributable to the acquisition of Dust. There were no changes to the goodwill balance for the year ended July 3, 2016. 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.

### Intangible Assets

Attributable to the acquisition of Dust the Company recorded intangible assets of \$13.1 million for intellectual property and \$4.0 million for 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 is expected to reflect the estimated pattern of economic use.

The remaining amortization expense, related to finite-lived intangible assets, will be recognized over a weighted-average period of approximately 5.2 years. The useful lives of amortizable intangible assets are as follows:

Intangible assets consisted of the following:

In thousands	July 3, 2016			June 28, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intellectual property	\$13,100	\$ (8,100)	\$5,000	\$13,100	\$ (6,300)	\$6,800
Customer relationships	4,000	(1,800)	2,200	4,000	(1,400)	2,600
Total intangible assets	<u>\$17,100</u>	<u>\$ (9,900)</u>	<u>\$7,200</u>	<u>\$17,100</u>	<u>\$ (7,700)</u>	<u>\$9,400</u>

Amortization expense associated with intangible assets for fiscal year 2016, 2015, and 2014 was \$2.2 million, \$2.2 million and \$2.2 million, respectively. Amortization expense for intangible assets is estimated to be \$1.7 million in fiscal year 2017, \$1.2 million in fiscal year 2018, \$1.2 million in fiscal year 2019, \$1.2 million in fiscal year 2020, \$1.2 million in fiscal year 2021 and \$0.6 million thereafter.

## Note 6. Convertible Senior Notes

During the fourth quarter of fiscal year 2007, the Company issued \$1.7 billion aggregate principal amount of Convertible Senior Notes (the “Notes”). The Notes paid cash interest ranging from 3.00% to 3.125% semiannually. 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.

On May 1, 2014 the Company executed the conversion of the outstanding principal amount of the Notes totaling \$845.1 million. Based upon the conversion price of \$40.68 per share, each \$1,000 principal amount of the Notes was converted at a rate of 24.582 shares of the Company’s common stock. As a result of the conversion, holders of the 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.

Prior to the conversion, interest expense related to the Notes included in interest expense on the condensed consolidated statements of income for fiscal year 2014 was as follows:

<i>In thousands</i>	June 29, 2014
Contractual coupon interest	\$21,127
Amortization of debt discount	18,458
Amortization of debt issuance costs	1,583
Total interest expense related to the Notes	<u>\$41,168</u>

#### **Note 7. Credit Facility**

On October 23, 2013, the Company entered into a credit agreement (the "Credit Agreement") with Wells Fargo Bank, National Association (the "Bank"). On July 27, 2015, the Credit Agreement was amended to extend the maturity date and increase the size of the line of credit. The Company entered into the Credit Agreement to enhance cash deployment flexibility.

As amended, the Credit Agreement provides for a \$150.0 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 July 27, 2017 (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%. Any then-outstanding 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. In addition, the Company's ability to borrow under the Credit Agreement or other means of obtaining capital may be restricted by the terms of the Analog Merger Agreement. To date, the Company has not utilized the Credit Agreement and was in compliance with the covenants under this credit facility.

Pursuant to the terms of the Linear Merger Agreement, the Company's ability to borrow under the Credit Agreement cannot exceed \$75 million without Analog Devices' consent. As such, the Company's ability to borrow under the Credit Agreement or other means of obtaining capital may be restricted by the terms of the Analog Merger Agreement.



## Note 8. Stockholders' Equity

### Stock Repurchase

On October 16, 2012, the Company's Board of Directors authorized the Company to repurchase up to 10.0 million shares of its outstanding common stock in the open market over a two-year time period. As this stock repurchase expired after the two-year time period, on October 14, 2014, the Company's Board of Directors authorized the Company to repurchase up to 10.0 million shares of its outstanding common stock in the open market over a two-year time period. For the majority of restricted stock awards and units granted, the number of shares issued on the date the restricted stock awards and units vest is net of the minimum statutory tax withholding requirements that the Company pays in cash to the appropriate taxing authorities on behalf of its employees. The table below includes these withheld shares because they are treated as common stock repurchases in the Company's financial statements, as they reduce the number of shares that would have been issued upon vesting. In addition, the table below includes open market repurchases.

Shares repurchased in fiscal years 2016, 2015 and 2014 are as follows:

<i>In thousands</i>	July 3, 2016	June 28, 2015	June 29, 2014
Number of shares of common stock repurchased	2,860	2,847	1,896
Total cost of repurchase	<u>\$119,787</u>	<u>\$124,240</u>	<u>\$81,786</u>

The Analog Merger Agreement restricts the ability of the Company to repurchase shares of its common stock until the time that the transaction is consummated or the Analog Merger Agreement is terminated.

### Dividends

A cash dividend of \$0.32 per share will be paid on August 24, 2016 to stockholders of record on August 12, 2016. During fiscal year 2016, the Company paid \$303.4 million in dividends representing \$1.24 per share. The payment of future dividends will be based on quarterly financial performance.

## Note 9. Retirement Plan

The Company has established a 401(k) retirement plan for its qualified U.S. employees. Under the plan, participating employees may defer up to 25% of their pre-tax earnings, subject to the Internal Revenue Service annual contribution limits. The Company contributes to qualified U.S. employees' 401(k) accounts as part of the Company's semi-annual profit sharing payouts. Contributions made by the Company within the fiscal year to this plan were approximately \$11.7 million, \$11.7 million and \$9.7 million in fiscal years 2016, 2015, and 2014, respectively.

## Note 10. Income Taxes

The components of income before income taxes for fiscal years 2016, 2015, and 2014 are as follows:

<i>In thousands</i>	July 3, 2016	June 28, 2015	June 29, 2014
United States operations	\$431,266	\$406,579	\$364,275
Foreign operations	208,183	278,810	236,993
	<u>\$639,449</u>	<u>\$685,389</u>	<u>\$601,268</u>

The provision for income taxes for fiscal years 2016, 2015, and 2014 consists of the following:

<i>In thousands</i>	July 3, 2016	June 28, 2015	June 29, 2014
United States federal:			
Current	\$106,564	\$142,630	\$153,396
Deferred	30,403	14,819	(11,706)
	<u>136,967</u>	<u>157,449</u>	<u>141,690</u>
State:			
Current	1,665	1,910	(4,207)
Deferred	17	229	(392)
	<u>1,682</u>	<u>2,139</u>	<u>(4,599)</u>
Foreign:			
Current	5,604	4,584	3,986
Deferred	850	254	230
	<u>6,454</u>	<u>4,838</u>	<u>4,216</u>
	<u>\$145,103</u>	<u>\$164,426</u>	<u>\$141,307</u>

The provision for income taxes reconciles to the amount computed by applying the statutory U.S. Federal rate at 35% to income before income taxes for fiscal years 2016, 2015, and 2014 as follows:

<i>In thousands</i>	July 3, 2016	June 28, 2015	June 29, 2014
Tax at U.S. statutory rate	\$223,807	\$239,886	\$210,443
State income taxes, net of federal benefit	1,266	1,131	(2,989)
Earnings of foreign subsidiaries subject to lower rates	(52,440)	(54,965)	(49,149)
Domestic manufacturing deduction	(13,604)	(14,043)	(13,342)
Research and development credit	(18,212)	(12,813)	(6,378)
Other	4,286	5,230	2,722
	<u>\$145,103</u>	<u>\$164,426</u>	<u>\$141,307</u>

The tax benefits attributable to equity-based compensation transactions that were applied to additional paid-in capital were \$8.0 million, \$15.2 million and 11.0 million, for fiscal years 2016, 2015, and 2014, respectively.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities recorded in the balance sheet as of July 3, 2016 and June 28, 2015 are as follows:

<i>In thousands</i>	July 3, 2016	June 28, 2015
<b>Deferred tax assets:</b>		
Loss carryforwards	\$ 4,190	\$ 5,071
Credit carryforwards	20,716	18,659
Inventory valuation	6,301	17,267
Deferred income on shipments to distributors	17,270	16,623
Stock-based compensation	10,605	10,897
Accrued compensation and benefits	8,664	8,307
Other	2,015	2,501
Valuation allowance	<u>(20,716)</u>	<u>(18,659)</u>
Total deferred tax assets	49,045	60,666
<b>Deferred tax liabilities:</b>		
Depreciation and amortization	\$ 7,782	\$ 6,256
Unremitted earnings of subsidiaries	105,517	89,688
Other	4,134	1,841
Total deferred tax liabilities	<u>117,433</u>	<u>97,785</u>
Net deferred tax liabilities	<u>\$ (68,388)</u>	<u>\$ (37,119)</u>

The Company has a gross state tax credit carryforward that does not expire of \$35.4 million. The Company provided a full valuation allowance on the state credit carryforwards which are not likely to be utilized.

As of July 3, 2016, the Company has gross federal and state net operating loss carryforwards of \$11.8 million and \$11.8 million, respectively. The federal and state net operating loss carryforwards will expire at various dates from 2017 through 2030. The net operating loss carryforwards are subject to an annual limitation as a result of the acquisition of Dust Networks by the Company, which constitutes a change of ownership as defined under Internal Revenue Code Section 382.

The Company is subject to examination by the United States federal tax authorities for the tax years 2013 and later. State income tax returns are generally subject to examination for a period of three to five years after filing of the respective return. Foreign income tax examination period varies from jurisdiction to jurisdiction. Singapore has a statute of limitations of four years. The Company is not currently under any significant tax returns examination.

The FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes," which simplifies the presentation of deferred income taxes. This ASU requires that deferred tax assets and liabilities be classified as non-current. During the fourth quarter of fiscal year 2016 the standard was early adopted on a prospective basis. Adoption of this ASU resulted in a reclassification of \$49.0 million of current deferred tax assets to net non-current deferred tax liabilities in the Consolidated Balance Sheet as of July 3, 2016. No prior periods were retrospectively adjusted.

The Company has a partial tax holiday in Singapore and Malaysia whereby the local statutory rate is significantly reduced, if certain conditions are met. The tax holiday for Singapore is effective through August 2019 and the tax holiday for Malaysia is effective through July 2025.

The impact of the Singapore and Malaysia tax holidays was to increase net income by approximately \$24.4 million, or \$0.10 per diluted share, in fiscal year 2016, \$25.6 million, or \$0.10 per diluted share, in fiscal year 2015, and \$22.6 million, or \$0.09 per diluted share, in fiscal year 2014. The Company does not provide a residual U.S. tax on a portion of the undistributed earnings of its Singapore and Malaysian subsidiaries, as it is the Company's intention to permanently invest these earnings overseas. Should these earnings be remitted to the U.S. parent then the additional U.S. taxable income would be approximately \$1,149.0 million.

At July 3, 2016, the Company had \$36.8 million of unrecognized tax benefits, of which \$14.5 million if recognized, would favorably impact the effective income tax rate in future periods.

The Company's policy is to recognize interest and/or penalties related to income tax matters in income tax expense. Income tax expense for fiscal year 2016 includes accrued interest on unrecognized tax benefits totaling \$0.8 million. At July 3, 2016, the total amount of interest on unrecognized tax benefits was \$2.0 million. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

<i>In thousands</i>	<u>Unrecognized Tax Benefits</u>
Balance at June 29, 2014	\$ 29,443
Net additions for current year tax positions	6,534
Net additions for prior year tax positions	1,173
Lapse in statute of limitations	<u>(7,534)</u>
Balance at June 28, 2015	29,616
Net additions for current year tax positions	6,608
Net additions for prior year tax positions	8,048
Lapse in statute of limitations	<u>(7,486)</u>
Balance at July 3, 2016	<u>\$ 36,786</u>

The Company estimates that it is reasonably possible that the liability for gross unrecognized tax benefits could decrease up to \$6.5 million within the next 12 months. These changes could occur as a result of expiration of various statutes of limitations.

During fiscal year 2016 the Company had \$3.6 million of discrete tax benefits that positively impacted the effective tax rate, related to the reversal of estimated tax liabilities for uncertain tax positions as a result of the expiration of open tax years.

During fiscal year 2015 the Company had \$2.7 million of discrete tax benefits that positively impacted the effective tax rate, related to the reversal of estimated tax liabilities for uncertain tax positions as a result of the expiration of open tax years.

#### **Note 11. Commitments and Contingencies**

##### *Contractual Obligations*

The Company leases certain of its facilities under operating leases, some of which have options to extend the lease period. In addition, the Company has entered into long-term land leases for the sites of its Singapore and Malaysia manufacturing facilities. Total rent expense was \$4.0 million, \$3.9 million, and \$3.7 million in fiscal years 2016, 2015, and 2014, respectively.

The following is a schedule of future minimum rental payments required under long-term operating leases at July 3, 2016:

<u>Fiscal Years</u>	<u>Operating Leases</u>
2017	\$ 3,557
2018	2,471
2019	2,024
2020	1,437
2021	1,227
Thereafter	<u>2,147</u>
Total	<u>\$12,863</u>

Under the Analog Merger Agreement, the Company has agreed to pay a termination fee of \$490 million to Analog Devices if the Analog Merger Agreement is terminated under certain circumstances, including termination by the Company to enter into a superior alternative transaction or following an adverse recommendation change of the Company's Board of Directors.

#### 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.

#### Note 12. Quarterly Information (Unaudited)

The following table sets forth our unaudited consolidated financial results, for the last eight fiscal quarters:

<i>In thousands, except per share amounts</i> Quarter Ended Fiscal Year 2016	July 3, 2016	April 3, 2016	January 3, 2016	September 27, 2015
Revenues	\$373,766	\$361,125	\$347,128	\$ 341,917
Gross profit	285,514	275,165	262,744	256,712
Net income	132,375	128,392	121,532	112,047
Basic earnings per share	0.54	0.53	0.50	0.46
Diluted earnings per share	0.54	0.52	0.50	0.46
Cash dividends per share	0.32	0.32	0.30	0.30
Stock price range per share:				
High	47.79	44.68	45.24	43.18
Low	43.57	38.13	37.48	36.60

<i>In thousands, except per share amounts</i> Quarter Ended Fiscal Year 2015	June 28, 2015	March 29, 2015	December 28, 2014	September 28, 2014
Revenues	\$379,483	\$372,021	\$ 352,575	\$ 371,060
Gross profit	288,636	282,874	265,849	282,053
Net income	132,715	135,187	123,602	129,459
Basic earnings per share	0.54	0.55	0.51	0.53
Diluted earnings per share	0.54	0.55	0.51	0.53
Cash dividends per share	0.30	0.30	0.27	0.27
Stock price range per share:				
High	48.04	49.23	46.52	46.83
Low	45.13	43.49	37.95	42.43

The stock activity in the above table is based on the high and low closing prices. These prices represent quotations between dealers without adjustment for retail markups, markdowns or commissions, and may not represent actual transactions. The Company's common stock is traded on the NASDAQ Global Market under the symbol LLTC.

At July 3, 2016 there were approximately 1,658 stockholders of record.

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Linear Technology Corporation

We have audited the accompanying consolidated balance sheets of Linear Technology Corporation as of July 3, 2016 and June 28, 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three fiscal years in the period ended July 3, 2016. Our audits also included the financial statement schedule. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Linear Technology Corporation as of July 3, 2016 and June 28, 2015, and the consolidated results of its operations and its cash flows for each of the three fiscal years in the period ended July 3, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

San Jose, California  
August 25, 2016

**VALUATION AND QUALIFYING ACCOUNTS**  
(in thousands)

	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at End of Period
Allowance for doubtful accounts:				
June 29, 2014	\$ 1,891	\$ —	\$ 238	\$ 1,653
June 28, 2015	1,653	—	2	1,651
July 3, 2016	1,651	—	2	1,649

Schedules other than the schedule listed above have been omitted since they are either not required or the information is included elsewhere.

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

	Three Months Ended	
	October 2, 2016	September 27, 2015
Revenues	\$373,895	\$ 341,917
Cost of sales (1) (2)	91,826	85,205
Gross profit	<u>282,069</u>	<u>256,712</u>
Operating expenses		
Research and development (1) (2)	76,359	66,602
Selling, general and administrative (1) (2)	56,409	40,193
Total operating expenses	<u>132,768</u>	<u>106,795</u>
Operating income	149,301	149,917
Interest income and other income	2,173	987
Income before income taxes	151,474	150,904
Provision for income taxes	36,352	38,857
Net income	<u>\$ 115,122</u>	<u>\$ 112,047</u>
Basic earnings per share	<u>\$ 0.47</u>	<u>\$ 0.46</u>
Shares used in the calculation of basic earnings per share	<u>245,271</u>	<u>244,863</u>
Diluted earnings per share	<u>\$ 0.47</u>	<u>\$ 0.46</u>
Shares used in the calculation of diluted earnings per share	<u>245,709</u>	<u>245,234</u>
Cash dividends per share	<u>\$ 0.32</u>	<u>\$ 0.30</u>
Includes the following non-cash charges:		
(1) Stock-based compensation		
Cost of sales	\$ 2,547	\$ 2,342
Research and development	11,868	10,922
Selling, general and administrative	6,129	5,638
Includes the following pre-tax impact of items:		
(2) Merger-related charges		
Cost of sales	\$ 2,000	\$ —
Research and development	5,000	—
Selling, general and administrative	12,794	—

See accompanying notes



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

	Three Months Ended	
	October 2, 2016	September 27, 2015
Net income	\$115,122	\$ 112,047
Other comprehensive income, net of tax:		
Net changes in unrealized (losses) gains on available-for-sale securities	(615)	438
Total comprehensive income	<u>\$114,507</u>	<u>\$ 112,485</u>

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

As of	October 2, 2016	July 3, 2016
<b>Assets</b>		
Cash and cash equivalents	\$ 217,135	\$ 263,682
Marketable securities	1,304,011	1,184,593
Accounts receivable, net of allowances (\$1,649 as of October 2, 2016) and (\$1,649 as of July 3, 2016)	162,434	157,460
<b>Inventories:</b>		
Raw materials	11,191	9,915
Work-in-process	65,867	66,172
Finished goods	21,015	21,164
Total inventories	98,073	97,251
Prepaid expenses and other current assets	53,337	51,744
Total current assets	<u>1,834,990</u>	<u>1,754,730</u>
<b>Property, plant and equipment, at cost:</b>		
Land	28,834	28,834
Buildings and improvements	264,658	264,484
Manufacturing and test equipment	756,982	753,916
Office furniture and equipment	7,725	7,285
Gross property, plant and equipment	1,058,199	1,054,519
Accumulated depreciation and amortization	(776,628)	(768,653)
Net property, plant and equipment	281,571	285,866
Identified intangible assets, net and goodwill	8,835	9,385
Total noncurrent assets	<u>290,406</u>	<u>295,251</u>
Total assets	<u>\$2,125,396</u>	<u>\$2,049,981</u>
<b>Liabilities and stockholders' equity</b>		
Accounts payable	\$ 17,019	\$ 17,465
Accrued payroll and related benefits	85,334	93,187
Deferred income on shipments to distributors	48,759	48,701
Income taxes payable	36,488	3,342
Other accrued liabilities	16,706	17,271
Total current liabilities	<u>204,306</u>	<u>179,966</u>
Deferred tax liabilities	68,129	68,388
Other long-term liabilities	44,360	42,452
Total liabilities	<u>316,795</u>	<u>290,806</u>
<b>Commitments and contingencies</b>		
<b>Stockholders' equity:</b>		
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; 240,006 shares issued and outstanding (239,654 as of July 3, 2016)	240	240
Additional paid-in capital	2,159,624	2,136,910
Accumulated other comprehensive income, net of tax	620	1,235
Accumulated deficit	(351,883)	(379,210)
Total stockholders' equity	<u>1,808,601</u>	<u>1,759,175</u>
Total liabilities and stockholders' equity	<u>\$2,125,396</u>	<u>\$2,049,981</u>

See accompanying notes

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

	Three Months Ended	
	October 2, 2016	September 27, 2015
<b>Cash flow from operating activities:</b>		
Net income	\$ 115,122	\$ 112,047
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	13,176	13,248
Stock-based compensation	20,544	18,902
Excess tax benefit from stock-based compensation	(3,783)	(1,627)
<b>Change in operating assets and liabilities:</b>		
Accounts receivable	(4,974)	25,592
Inventories	(822)	3,723
Prepaid expenses, other current assets and deferred tax assets	(4,548)	(2,572)
Accounts payable, accrued payroll, other accrued liabilities and noncurrent liabilities	(8,700)	(31,886)
Deferred income on shipments to distributors	58	368
Income taxes payable	41,704	37,947
Cash provided by operating activities	<u>167,777</u>	<u>175,742</u>
<b>Cash flow from investing activities:</b>		
Purchase of marketable securities	(406,696)	(294,496)
Proceeds from sale and maturities of available-for-sale securities	286,329	274,692
Purchase of property, plant and equipment	(8,332)	(10,160)
Cash used in investing activities	<u>(128,699)</u>	<u>(29,964)</u>
<b>Cash flow from financing activities:</b>		
Excess tax benefit from stock-based compensation	3,783	1,627
Issuance of common stock under employee stock plans	—	4,253
Purchase of common stock	(10,800)	(56,557)
Payment of cash dividends	(78,608)	(73,312)
Cash used in financing activities	<u>(85,625)</u>	<u>(123,989)</u>
(Decrease) increase in cash and cash equivalents	(46,547)	21,789
Cash and cash equivalents, beginning of year	263,682	195,679
Cash and cash equivalents, end of period	<u>\$ 217,135</u>	<u>\$ 217,468</u>

See accompanying notes

LINEAR TECHNOLOGY CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

**1. Description of Business and Significant Accounting Policies**

*Description of Business*

Linear Technology Corporation (together with its consolidated subsidiaries, “Linear,” “Linear Technology” or the “Company”), 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, transportation, computer, medical, instrumentation, consumer, and military and aerospace systems. Linear Technology produces power management, data conversion, signal conditioning, RF and interface ICs,  $\mu$ Module<sup>®</sup> subsystems, and wireless sensor network products. The Company is a Delaware corporation; it was originally organized and incorporated in California in 1981.

*Recent Developments*

On July 26, 2016, the Company announced that it had entered into a definitive merger agreement (the “Analog Merger Agreement”) with Analog Devices, Inc., a Massachusetts corporation (“Analog Devices”), under which a wholly owned subsidiary of Analog Devices will merge with and into the Company, and the Company will survive as a wholly owned subsidiary of Analog Devices (the “Analog Acquisition”). Under the terms of the Analog Merger Agreement, Linear Technology stockholders who do not exercise their appraisal rights under Delaware law will have the right to receive, for each Linear Technology share held by such stockholders, \$46.00 in cash (the “Cash Consideration”) and 0.2321 shares of Analog Devices common stock, par value \$0.16 2/3 per share (the “Stock Consideration,” and together with the Cash Consideration, the “Merger Consideration”) (with the ratio of Stock Consideration to Cash Consideration subject to adjustment pursuant to the terms of the Analog Merger Agreement so that the aggregate number of shares issued by Analog Devices as Stock Consideration will not exceed 19.9% of the total outstanding common stock of Analog Devices prior to the Analog Acquisition). Each of the Company’s equity awards that were outstanding as of July 22, 2016 and are unvested as of the closing of the Analog Acquisition will be converted into the right to receive the Merger Consideration in respect of each share of the Company’s common stock underlying such award when such award vests. Each of the Company’s other equity awards that were granted after July 22, 2016 and are unvested as of the closing of the Analog Acquisition will be converted into the right to receive 0.9947 shares of Analog Devices common stock in respect of each share of the Company’s common stock underlying such award when such award vests.

The transaction has been approved by both the Company’s Board of Directors and the board of directors of Analog Devices, and was approved by Linear Technology stockholders at the Company’s Annual Meeting of Stockholders held on October 18, 2016. The completion of the Analog Acquisition is subject to customary closing conditions including, among others, various regulatory approvals. The transaction is expected to close during the first half of calendar 2017. For additional information on the Analog Merger Agreement and the Analog Acquisition, please refer to the Company’s definitive proxy statement, filed with the Securities and Exchange Commission on September 16, 2016. The Company cannot guarantee that the Analog Acquisition will be completed or that, if completed, it will be exactly on the terms set forth in the Analog Merger Agreement. Should the Analog Acquisition not be completed, the Company will continue to be responsible for payment of commitments to current employees under retention agreements and may receive a termination fee depending on the circumstances, as provided for in the Analog Merger Agreement.

*Basis of Presentation*

The accompanying 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. All information

reported in this Form 10-Q should be read in conjunction with the Company's annual consolidated financial statements for the fiscal year ended July 3, 2016 included in the Company's Annual Report on Form 10-K. The accompanying year-end balance sheet data has been presented for comparative purposes from the audited financial statements. The results of operations for any interim period are not necessarily indicative of, nor comparable to, the results of operations for any other interim period or for a full fiscal year.

The Company operates on a 52/53-week fiscal year ending on the Sunday nearest June 30. Fiscal year 2017 is a 52-week year. Fiscal year 2016 was a 53-week fiscal year, with the additional week falling in the second quarter.

#### *Cash Equivalents and Marketable Securities*

Cash equivalents are highly liquid investments purchased with original maturities of three months or less at the time of purchase. Cash equivalents consist of investment grade securities in commercial paper, bank certificates of deposit, and money market funds.

Investments with maturities over three months at the time of purchase are classified as marketable securities. At October 2, 2016 and July 3, 2016, the Company's marketable securities balance consisted primarily of debt securities in municipal bonds, corporate bonds, commercial paper, U.S. and foreign government and agency securities. The Company's marketable securities are managed by outside professional managers within investment guidelines set by the Company. The Company's investment guidelines generally restrict the professional managers to high quality debt instruments with a credit rating of AAA. Within the Company's investment policy there is a provision that allows the Company to hold AA+ securities under certain circumstances. The Company's investments in debt securities are classified as available-for-sale. Investments in available-for-sale securities are reported at fair value with unrealized gains and losses, net of tax, as a component of "Accumulated other comprehensive income (loss)" in the Consolidated Balance Sheets. The Company classifies investments with maturities greater than twelve months as current as it considers all investments as a potential source of operating cash regardless of maturity date. The cost of securities matured or sold is based on the specific identification method.

#### *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 three months ended October 2, 2016, the Company recognized approximately 15% of net revenues from North American ("domestic") distributors. Domestic distributor revenues 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 sales transactions is not fixed or determinable until domestic distributors sell the merchandise to the end-customer. Domestic distributor agreements permit the following: price protection on certain domestic distribution inventory if the Company lowers the prices of its products; exchanges up to 5% of certain purchases on a quarterly basis; and ship and debit transactions. Ship and debit transactions occur when the Company agrees to accept a lower selling price for a specific quantity of product at the request of the domestic distributor in order to complete a sales transaction in the domestic distributor channel. For such sales, the Company rebates the negotiated price decrease to the distributor upon shipment as a reduction in the accounts receivable from the distributor.

At the time of shipment to domestic distributors, the Company records a trade receivable and deferred revenue at the distributor's purchase 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 costs of sales and is recognized as a current liability until such time as the distributor confirms a final sale to its end customer. "Deferred income on shipments to distributors" effectively represents the deferred gross margin on the sale to the distributor, however, the actual amount of gross margin the Company ultimately recognizes in future periods may be less than the originally recorded amount as a result of price protection, negotiated price rebates and exchanges as mentioned above. The wide range and variability of negotiated price rebates granted to distributors does not allow the Company to accurately estimate the portion of

the balance in the “Deferred income on shipments to distributors” that will be remitted back to the distributors. At October 2, 2016, the Company had approximately \$61.3 million of deferred revenue and \$12.5 million of deferred cost of sales recognized as \$48.8 million of “Deferred income on shipments to distributors.” During fiscal years 2016 and 2017, the price rebates that have been remitted back to distributors have ranged from \$3.4 million to \$4.1 million per quarter. The Company does not reduce deferred income by anticipated future price rebates. Instead, price rebates are recorded against “Deferred income on shipments to distributors” when incurred, which is generally at the time the distributor sells the product to the end customers.

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.

#### *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 of epidemic failure. Warranty expense historically has been immaterial.

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, which the Company might be required to make as a result of these agreements, and accordingly, the Company has not accrued any amounts for its indemnification obligations.

#### *Stock-Based Compensation*

The Company has equity incentive plans, which are described more fully in “Note 5: Stock-Based Compensation.” Stock-based compensation is measured at the grant date, based on the fair value of the award. The Company’s equity awards granted in fiscal years 2017 and 2016 were restricted stock awards. Stock-based compensation cost for restricted stock awards is based on the fair market value of the Company’s stock on the date of grant. Stock-based 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 Black-Scholes valuation model requires the Company to estimate key assumptions such as expected option term and stock price volatility 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. The Company amortizes restricted stock and stock option award compensation cost straight-line over the awards vesting period, which is generally 5 years.

#### *Comprehensive Income*

Comprehensive income consists of net income and other comprehensive income or loss. Other comprehensive income or loss components include unrealized gains or losses on available-for-sale securities, net of tax.

#### *Adoption of New and Recently Issued Accounting Pronouncements*

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. Each reporting period, management is required to assess whether there is substantial doubt about an entity’s ability to continue as a going concern and if so to provide related footnote disclosures. The Company will adopted this update in the fourth quarter of fiscal year 2017. The adoption of this standard is not expected to have a material impact on the Company’s financial statements or disclosures.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory. The new guidance changes the measurement principle for inventory from the lower of cost or market to lower of cost or net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. No other changes were made to the current guidance on inventory measurement. The Company adopted this update in the first quarter of fiscal year 2017. The adoption of this standard did not have a material impact on the Company's financial statements or disclosures.

In May 2014, the Financial Accounting Standard Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09 Revenue from Contracts with Customers (Topic 606). On July 9, 2015, the FASB agreed to delay the effective date by one year from the first quarter of fiscal year 2018. In accordance with the agreed upon delay, the new standard is effective for the Company beginning in the first quarter of fiscal year 2019. Early adoption is permitted, but not before the original effective date of the standard. The core principle of ASU No. 2014-09 is that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASU No. 2014-09 provides for one of the two methods of transition: retrospective application to each prior period presented; or recognition of the cumulative effect of retrospective application of the new standard in the period of initial application. The Company is currently evaluating the impact of ASU No. 2014-09 on its consolidated financial statements and which transition method to elect.

In February 2016, the FASB issued ASU 2016-02, Leases. This standard requires entities that lease assets, with a lease term of more than 12 months, to recognize lease assets and lease liabilities on the balance sheet. Under existing guidance, operating leases are not recorded as lease assets and lease liabilities on the balance sheet. The standard is effective for fiscal years and the interim periods within those fiscal years beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the timing of adoption and the effects of the adoption of this ASU on the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. This standard will impact how to account for certain aspects of share-based payments to employees. The standard is effective for fiscal years and the interim periods within those fiscal years beginning after December 15, 2016. Early adoption is permitted. The Company is currently evaluating the timing of adoption and the effects of the adoption of this ASU on the consolidated financial statements.

## 2. Earnings Per Share

Basic earnings per share is calculated using the weighted average shares of common stock and unvested restricted stock awards outstanding during the period. Diluted earnings per share is calculated using the weighted average shares of common stock outstanding and unvested restricted stock awards, plus the dilutive effect of stock options and restricted stock units calculated using the treasury stock method. The following table sets forth the reconciliation of weighted average common shares outstanding used in the computation of basic and diluted earnings per share:

<i>In thousands, except per share amounts</i>	Three Months Ended	
	October 2, 2016	September 27, 2015
Net income available to shareholders	\$ 115,122	\$ 112,047
Basic shares:		
Weighted-average shares outstanding – Basic	245,271	244,863
Basic earnings per share	\$ 0.47	\$ 0.46
Diluted shares:		
Dilutive effect of equity plans	438	371
Weighted-average shares outstanding – Diluted	245,709	245,234
Diluted earnings per share	\$ 0.47	\$ 0.46

### 3. 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 October 2, 2016:

<i>In thousands</i>	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Total
<u>Description</u>			
<u>Assets</u>			
Investments in U.S. Treasury securities and money-market funds	\$ 528,185	\$ —	\$ 528,185
Investments in municipal bonds, obligations of U.S. government-sponsored enterprises and commercial paper	—	865,915	865,915
Total assets measured at fair value	<u>\$ 528,185</u>	<u>\$865,915</u>	<u>\$1,394,100</u>

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 July 3, 2016:

<i>In thousands</i>	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Total
<u>Description</u>			
<u>Assets</u>			
Investments in U.S. Treasury securities and money-market funds	\$ 513,193	\$ —	\$ 513,193
Investments in municipal bonds, obligations of U.S. government-sponsored enterprises and commercial paper	—	832,438	832,438
Total assets measured at fair value	<u>\$ 513,193</u>	<u>\$832,438</u>	<u>\$1,345,631</u>



#### 4. Marketable Securities

The following is a summary of cash equivalents and marketable securities as of October 2, 2016:

<i>In thousands</i>	October 2, 2016			Fair Value
	Amortized Cost	Unrealized Gain	Unrealized (Loss) <sup>(1)</sup>	
U.S. Treasury securities	\$ 504,838	\$ 514	\$ (43)	\$ 505,309
Obligations of U.S. government-sponsored enterprises	353,991	594	(32)	354,553
Municipal bonds	144,863	31	(163)	144,731
Corporate debt securities and other	366,566	80	(15)	366,631
Money market funds	22,876	—	—	22,876
Total	<u>\$1,393,134</u>	<u>\$ 1,219</u>	<u>\$ (253)</u>	<u>\$1,394,100</u>
Amounts included in:				
Cash equivalents	\$ 90,085	\$ 4	\$ —	\$ 90,089
Marketable securities	1,303,049	1,215	(253)	1,304,011
Total	<u>\$1,393,134</u>	<u>\$ 1,219</u>	<u>\$ (253)</u>	<u>\$1,394,100</u>

The following is a summary of cash equivalents and marketable securities as of July 3, 2016:

<i>In thousands</i>	July 3, 2016			Fair Value
	Amortized Cost	Unrealized Gain	Unrealized (Loss) <sup>(1)</sup>	
U.S. Treasury securities	\$ 441,925	\$ 783	\$ (5)	\$ 442,703
Obligations of U.S. government-sponsored enterprises	316,368	855	—	317,223
Municipal bonds	119,680	158	(10)	119,828
Corporate debt securities and other	395,254	143	(10)	395,387
Money market funds	70,490	—	—	70,490
Total	<u>\$1,343,717</u>	<u>\$ 1,939</u>	<u>\$ (25)</u>	<u>\$1,345,631</u>
Amounts included in:				
Cash equivalents	\$ 161,028	\$ 10	\$ —	\$ 161,038
Marketable securities	1,182,689	1,929	(25)	1,184,593
Total	<u>\$1,343,717</u>	<u>\$ 1,939</u>	<u>\$ (25)</u>	<u>\$1,345,631</u>

- (1) The Company evaluated the nature of the investments with a loss position at October 2, 2016 and July 3, 2016, 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 October 2, 2016 and July 3, 2016.

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

<i>In thousands</i>	October 2, 2016	July 3, 2016
Due in one year or less	\$1,094,180	\$ 943,323
Due after one year through three years	209,831	241,270
Total marketable securities	<u>\$1,304,011</u>	<u>\$1,184,593</u>

## 5. Stock-based Compensation

### Equity Incentive Plans

The Company currently has a 2010 Equity Incentive Plan, under which the Company may grant Incentive Stock Options, Nonstatutory Stock Options, Stock Appreciation Rights, Restricted Stock Awards, Restricted Stock Units, Performance Shares and Performance Units. Under the plan, the Company may grant awards to employees, executive officers, directors and consultants who provide services to the Company. To date, the Company has only granted Nonstatutory Stock Options (under previous equity incentive plans), Restricted Stock Awards and Restricted Stock Units. At October 2, 2016, 13.8 million shares were available for grant under the current plan. The Company's restricted awards generally vest annually over a period of five years (20% a year) based upon continued employment with the Company.

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 October 2, 2016, 2.2 million shares were available for issuance under the ESPP.

As of October 2, 2016, there was approximately \$239.4 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.

### 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 July 3, 2016	6,293,108	\$ 41.36
Granted	1,096,422	59.97
Vested	(532,561)	36.09
Forfeited	(113,545)	42.40
Non-vested at October 2, 2016	<u>6,743,424</u>	<u>\$ 44.78</u>

### Stock Options

There were no outstanding options during the period ended October 2, 2016. The Company's last stock option grant to an employee was in January 2009.

## 6. Goodwill and Intangible Assets

### Goodwill

The goodwill balance of \$2.2 million at October 2, 2016 is attributable to the acquisition in fiscal year 2012 of Dust Networks ("Dust") of Hayward, California, a provider of low power wireless sensor network technology. There were no changes to the goodwill balance for the period ended October 2, 2016. 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.

## Intangible Assets

Attributable to the acquisition of Dust the Company recorded intangible assets of \$13.1 million for intellectual property and \$4.0 million for 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.

Intangible assets are amortized over their estimated useful lives of 5 to 10 years using the straight-line method of amortization. The remaining amortization expense, related to finite-lived intangible assets, will be recognized over a weighted-average period of approximately 5.1 years.

Intangible assets consisted of the following:

<i>In thousands</i>	October 2, 2016			July 3, 2016		
	Original Cost	Accumulated Amortization	Net	Original Cost	Accumulated Amortization	Net
Intellectual property	\$ 13,100	\$ (8,550)	\$4,550	\$ 13,100	\$ (8,100)	\$5,000
Customer relationships	4,000	(1,900)	2,100	4,000	(1,800)	2,200
Total intangible assets	<u>\$ 17,100</u>	<u>\$ (10,450)</u>	<u>\$6,650</u>	<u>\$ 17,100</u>	<u>\$ (9,900)</u>	<u>\$7,200</u>

## 7. Credit Facility

On October 23, 2013, the Company entered into a credit agreement (the "Credit Agreement") with Wells Fargo Bank, National Association (the "Bank"). On July 27, 2015, the Credit Agreement was amended to extend the maturity date and increase the size of the line of credit. The Company entered into the Credit Agreement to enhance cash deployment flexibility.

As amended, the Credit Agreement provides for a \$150.0 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 July 27, 2017 (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%. Any then-outstanding 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. To date, the Company has not utilized the Credit Agreement and was in compliance with the covenants under this credit facility. Effective November 1, 2016, the Credit Agreement has been terminated.

## 8. Stockholders' Equity

### Stock Repurchase

The Analog Merger Agreement restricts the ability of the Company to repurchase shares of its common stock until the time that the transaction is consummated or the Analog Merger Agreement is terminated.

For the majority of restricted stock awards and units granted, the number of shares issued on the date the restricted stock awards and units vest is net of the minimum statutory tax withholding requirements that the Company pays in cash to the appropriate taxing authorities on behalf of its employees. During the quarter ended October 2, 2016, the Company repurchased approximately 0.2 million shares related to equity grants of its common stock for approximately \$10.8 million.

#### *Dividends*

A cash dividend of \$0.32 per share will be paid on November 30, 2016 to stockholders of record on November 18, 2016. During the three months ended October 2, 2016, the Company paid \$78.6 million in dividends representing \$0.32 per share. The payment of future dividends will be based on the Company's financial performance.

### **9. 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 October 2, 2016, the Company's other long-term liabilities account includes \$38.3 million of unrecognized tax benefits of which approximately \$17.1 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 \$2.4 million accrued for interest at October 2, 2016.

The effective tax rate decreased from 25.7% to 24.0% for the three months ended October 2, 2016, compared to the same period in the prior fiscal year primarily due to the permanent reinstatement of the R&D tax credit in the December quarter of fiscal year 2015.

### **10. 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.

## UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following tables present unaudited pro forma condensed combined financial information about Analog Devices, Inc.'s ("Analog Devices") consolidated balance sheet and statement of income, after giving effect to the proposed merger (the "Merger") with Linear Technology Corporation ("Linear"), certain related financing arrangements described in Note 5—Estimated Merger Consideration and Allocation (the "Financing Arrangements"), and Analog Devices' proposed offering described herein (the "Offering", and collectively with the Merger and the Financing Arrangements, the "Transactions"). The unaudited pro forma condensed combined financial information is derived from and should be read in conjunction with:

- the historical consolidated financial statements and related notes of Analog Devices as of and for the year ended October 29, 2016 included in Analog Devices' Annual Report on Form 10-K, filed with the SEC on November 22, 2016;
- the historical consolidated financial statements and related notes of Linear as of and for the year ended July 3, 2016 included in Linear's Annual Report on Form 10-K, filed with the SEC on August 26, 2016;
- the historical consolidated financial statements and related notes of Linear as of and for the three months ended October 2, 2016 included in Linear's Quarterly Report on Form 10-Q, filed with the SEC on November 2, 2016; and
- the historical consolidated financial statements and related notes of Linear as of and for the three months ended September 27, 2015 included in Linear's Quarterly Report on Form 10-Q, filed with the SEC on November 5, 2015.

The unaudited pro forma condensed combined balance sheet as of October 29, 2016 and the unaudited pro forma condensed combined statement of income for the year ended October 29, 2016, are presented herein. The unaudited pro forma condensed combined balance sheet combines the audited consolidated balance sheets of Analog Devices and the unaudited consolidated balance sheets of Linear as of October 29, 2016 and October 2, 2016, respectively, and gives effect to the Transactions as if they had been completed on October 29, 2016. The unaudited pro forma condensed combined statement of income combine the historical results of Analog Devices and Linear for the year ended October 29, 2016 and twelve months ended October 2, 2016, respectively, and gives effect to the Transactions as if they occurred on November 1, 2015. The historical financial information has been adjusted to give effect to pro forma adjustments that are (i) directly attributable to the Transactions, (ii) factually supportable, and (iii) with respect to the unaudited pro forma condensed combined statement of income, expected to have a continuing impact on the combined entity's consolidated results.

The unaudited pro forma condensed combined financial information presented is based on the assumptions and adjustments described in the accompanying notes, which should be read together with the pro forma condensed consolidated financial statements. The unaudited pro forma condensed combined financial information is presented for illustrative purposes only and does not purport to represent what the financial position or results of operations would actually have been if the Transactions occurred as of the dates indicated or what financial position or results would be for any future periods. The unaudited pro forma condensed combined financial information is based upon the respective historical consolidated financial statements of Analog Devices and Linear as described further in Note 2—Basis of Pro Forma Presentation.

The Merger will be accounted for as a business combination using the acquisition method of accounting under the provisions of Accounting Standards Codification ("ASC") 805, Business Combinations ("ASC 805"), with Analog Devices representing the accounting acquirer. The following unaudited pro forma condensed combined financial information primarily gives effect to:

- Application of the acquisition method of accounting in connection with the Merger;
- Adjustments to reflect the Financing Arrangements;
- Transaction costs incurred in connection with the Merger; and
- Adjustments to reflect the Offering.

The unaudited pro forma condensed combined statement of income also includes certain acquisition accounting and related financing adjustments, including items expected to have a continuing impact on the results of the combined company, such as increased amortization expense on acquired intangible assets. The unaudited pro forma condensed combined statement of income does not include the impact of any revenue, cost or other operating synergies that may result from the Merger.

The unaudited pro forma condensed combined financial information includes preliminary adjustments that may be revised. There can be no assurance that such revisions will not result in material changes. The unaudited pro forma condensed combined financial information is presented for illustrative purposes only and does not purport to be indicative of the results or financial position that actually would have occurred or that may occur in the future had the Transactions been completed on the dates indicated, nor does it purport to be indicative of the future operating results or financial position of Analog Devices after the Transactions. Future results may vary significantly from the results reflected because of various factors, including those discussed in the section entitled “Risk Factors” of Analog Devices’ Annual Report on Form 10-K, filed with the SEC on November 22, 2016.

The unaudited pro forma condensed combined financial information has been compiled in a manner consistent with the accounting policies adopted by Analog Devices. Analog Devices believes these accounting policies are similar in most material respects to those of Linear. Upon completion of the Merger, or as more information becomes available, Analog Devices will perform a more detailed review of the Linear accounting policies. As a result of that review, differences could be identified between the accounting policies of the two companies that, when conformed, could have a material impact on the combined financial statements.

**ANALOG DEVICES, INC.**  
**UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET**  
**AS OF OCTOBER 29, 2016**  
(In thousands)

	Historical		Pro Forma Adjustments for Acquisition	(Note References)	Pro Forma Adjustments for Financing	(Note References)	Pro Forma Adjustments for the November Notes Offering	(Note References)	Pro Forma Condensed Combined
	Analog Devices as of 10/29/16	Linear Technology as of 10/2/16 (Note 3)							
<b>ASSETS</b>									
<b>Current Assets</b>									
Cash	\$ 921,132	\$ 217,135	\$ (11,101,514)	5 (a)(k)	\$ 9,075,513	5 (l)	\$ 1,985,000	5 (m)	\$ 1,097,266
Short-term investments	3,134,661	1,304,011	—		—		—		4,438,672
Accounts receivable	477,609	162,434	—		—		—		640,043
Inventories	376,555	98,073	317,227	5 (b)	—		—		791,855
Prepaid income tax	6,405	—	—		—		—		6,405
Prepaid expenses and other current assets	58,501	53,337	—		(13,431)	5 (l)	—		98,407
Total current assets	4,974,863	1,834,990	(10,784,287)		9,062,082		1,985,000		7,072,648
Property, plant and equipment, net	636,116	281,571	90,055	5 (c)	—		—		1,007,742
<b>Other Assets</b>									
Deferred compensation plan investments	26,152	—	—		—		—		26,152
Other investments	21,937	—	—		—		—		21,937
Goodwill	1,679,116	2,185	9,937,579	5 (d)	—		—		11,618,880
Intangible assets, net	549,368	6,650	4,718,050	5 (e)	—		—		5,274,068
Deferred tax assets	36,005	—	—		—		—		36,005
Other assets	46,721	—	—		—		—		46,721
Total other assets	2,359,299	8,835	14,655,629		—		—		17,023,763
	<u>\$ 7,970,278</u>	<u>\$ 2,125,396</u>	<u>\$ 3,961,397</u>		<u>\$ 9,062,082</u>		<u>\$ 1,985,000</u>		<u>\$ 25,104,153</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>									
<b>Current Liabilities</b>									
Accounts payable	\$ 171,439	\$ 17,019	\$ —		\$ —		\$ —		\$ 188,458
Deferred income on shipments to distributors, net	351,538	48,759	(48,759)	5 (f)	—		—		351,538
Income taxes payable	4,100	36,488	(27,383)	5 (j)(k)	(3,127)	5 (l)	—		10,078
Accrued liabilities	255,857	102,040	96,000	5 (j)	(7,850)	5 (l)	—		446,047
Short-term debt	—	—	—		4,087,525	5 (l)	—		4,087,525
Total current liabilities	782,934	204,306	19,858		4,076,548		—		5,083,646
<b>Non-current liabilities</b>									
Long-term debt	1,732,177	—	—		4,990,637	5 (l)	1,985,000	5 (m)	8,707,814
Deferred income taxes	109,931	68,129	1,622,966	5 (g)	—		—		1,801,026
Deferred compensation plan liability	26,152	—	—		—		—		26,152
Other non-current liabilities	153,466	44,360	22,497	5 (h)	—		—		220,323
Total non-current liabilities	2,021,726	112,489	1,645,463		4,990,637		1,985,000		10,755,315
Commitments and contingencies									
<b>Shareholders' Equity</b>									
Common stock	51,363	240	9,096	5 (i)(k)	—		—		60,699
Capital in excess of par value	402,270	2,159,624	2,009,194	5 (i)(k)	—		—		4,571,088
Retained earnings and accumulated deficit	4,785,799	(351,883)	278,406	5 (i)(j)(k)	(5,103)	5 (l)	—		4,707,219
Accumulated other comprehensive income or loss	(73,814)	620	(620)	5 (i)	—		—		(73,814)
Total shareholders' equity	5,165,618	1,808,601	2,296,076		(5,103)		—		9,265,192

\$ 7,970,278

\$2,125,396

\$ 3,961,397

\$ 9,062,082

\$ 1,985,000

\$25,104,153

See the accompanying notes to Unaudited Pro Forma Condensed Combined Financial Information.



**ANALOG DEVICES, INC.**  
**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME**  
**FOR THE YEAR ENDED OCTOBER 29, 2016**  
(In thousands)

	<u>Historical</u>		<u>Pro Forma Adjustments for Acquisition</u>	(Note References)	<u>Pro Forma Adjustments for Financing</u>	(Note References)	<u>Pro Forma Adjustments for the November Notes Offering</u>	(Note References)	<u>Pro Forma Condensed Combined</u>
	<u>Analog Devices 12 Months Ended 10/29/16</u>	<u>Linear Technology 12 Months Ended 10/2/2016</u>							
Revenue	\$ 3,421,409	\$ 1,455,914	\$ —		\$ —		\$ —		\$4,877,323
Cost of sales	1,194,236	350,422	51,783	6 (a)(b)(c)(d)	—		—		1,596,441
Gross Margin	2,227,173	1,105,492	(51,783)		—		—		3,280,882
Operating expenses:									
Research and development	653,816	286,219	14,066	6 (a)(b)(c)	—		—		954,101
Selling, marketing, general and administrative	461,438	186,336	(15,599)	6 (a)(b)(c)	—		—		632,175
Amortization of intangibles	70,123	—	435,660	6 (d)	—		—		505,783
Other operating expense	13,684	—	—		—		—		13,684
	<u>1,199,061</u>	<u>472,555</u>	<u>434,127</u>		<u>—</u>		<u>—</u>		<u>2,105,743</u>
Operating income	1,028,112	632,937	(485,910)		—		—		1,175,139
Nonoperating (income) expenses:									
Interest expense	88,757	—	—		100,573	6 (g)	71,875	6 (h)	261,205
Interest income and other income	(21,221)	(7,082)	—		—		—		(28,303)
Other, net	3,655	—	—		—		—		3,655
	<u>71,191</u>	<u>(7,082)</u>	<u>—</u>		<u>100,573</u>		<u>71,875</u>		<u>236,557</u>
Income before income taxes	956,921	640,019	(485,910)		(100,573)		(71,875)		938,582
Provision for income taxes	95,257	142,598	(160,064)	6 (e)	(38,217)	6 (e)	(27,313)	6 (e)	12,261
Net income (loss)	<u>\$ 861,664</u>	<u>\$ 497,421</u>	<u>\$ (325,846)</u>		<u>\$ (62,356)</u>		<u>\$ (44,562)</u>		<u>\$ 926,321</u>
Shares used to compute earnings per share - Basic	<u>308,736</u>		56,014	6 (f)					<u>364,750</u>
Shares used to compute earnings per share - Diluted	<u>312,308</u>		56,014	6 (f)					<u>368,322</u>
Basic earnings per share	<u>\$ 2.79</u>								<u>\$ 2.54</u>
Diluted earnings per share	<u>\$ 2.76</u>								<u>\$ 2.51</u>

See the accompanying notes to Unaudited Pro Forma Condensed Combined Financial Information.

## Note 1 – Description of the Merger

On July 26, 2016, Linear, Analog Devices and Merger Sub entered into the merger agreement. Upon the terms and subject to the conditions of the merger agreement, Merger Sub will merge with and into Linear, with Linear surviving the merger as a wholly owned subsidiary of Analog Devices. If the Merger is completed, Analog Devices will acquire all of the issued and outstanding shares of Linear.

Under the terms of the merger agreement, at the effective time, each outstanding share of common stock of Linear, including each restricted stock award and restricted stock unit award that become automatically vested at the effective time, will be cancelled. In exchange, holders of such common stock will receive (i) an amount in cash equal to the product of (a) the number of shares of Linear common stock outstanding immediately prior the effective time and (b) \$46.00, and (ii) a number of shares of Analog Devices common stock equal to the product (rounded to the nearest whole number of shares) of (a) the number of shares of Linear common stock outstanding immediately prior to the effective time and (b) the exchange ratio of 0.2321 (“Merger Consideration”).

Separately, under the terms of the merger agreement, at the effective time, each outstanding Linear restricted stock award and restricted stock unit award that is outstanding immediately prior to the effective time, and does not become vested at the effective time, will be cancelled and converted into the right to receive the following:

- For awards granted on or prior to July 22, 2016: Two adjusted awards with the same terms and conditions (including vesting) as were applicable to the corresponding Linear award immediately prior to the effective time, which adjusted awards will be in the form of (i) the right to receive an amount in cash equal to the product of (a) the number of shares of Linear common stock subject to such Linear restricted stock or restricted stock unit award immediately prior the effective time and (b) \$46.00, and (ii) an Analog Devices restricted stock award or restricted stock unit award, as applicable, relating to the number of shares of Analog Devices common stock equal to the product (rounded to the nearest whole number of shares) of (a) the number of shares of Linear common stock subject to the Linear restricted stock award or restricted stock unit award immediately prior to the effective time and (b) the exchange ratio of 0.2321.
- For awards granted after July 22, 2016: An adjusted Analog Devices restricted stock award or restricted stock unit award, as applicable, relating to the number of shares of Analog Devices common stock equal to the product (rounded to the nearest whole number of shares) of (i) the number of shares of Linear common stock subject to such Linear restricted stock award or restricted stock unit award immediately prior to the effective time and (ii) 0.9947.

Analog Devices expects to fund the cash portion of the Merger with a combination of short and long-term debt and cash on hand. On July 26, 2016, Analog Devices obtained debt commitment letters from certain initial lenders to provide a 364-Day Bridge Facility initially for \$7.5 billion and a 90-Day Bridge Facility for \$4.1 billion. On September 23, 2016, Analog Devices entered into a term loan agreement, which consists of a 3-Year Term Loan Facility in the principal amount of \$2.5 billion and a 5-Year Term Loan Facility in the principal amount of \$2.5 billion. Upon Analog Devices' entry into the term loan agreement, the initial lenders' commitments with respect to the 364-Day Bridge Facility were reduced by an aggregate amount of \$5.0 billion. The accompanying unaudited pro forma condensed combined financial information assumes that Analog Devices finances the Merger using proceeds from the Offering; borrowing the full amounts available under the 90-Day Bridge Facility, the 3-Year Term Loan and the 5-Year Term Loan; and up to \$500 million of cash on hand. The 90-Day Bridge Facility is expected to be repaid within 90 days after the closing date. The 364-Day Bridge Facility is expected to remain undrawn at closing and the lenders' commitments thereunder would be reduced in an amount equal to the net cash proceeds from the Offering.

## **Note 2 — Basis of Pro Forma Presentation**

The accompanying unaudited pro forma condensed combined financial information was prepared in accordance with Article 11 of SEC Regulation S-X. The unaudited pro forma condensed combined balance sheet was prepared using the historical balance sheets of Analog Devices as of October 29, 2016 and Linear as of October 2, 2016. Linear's 2016 fiscal year ended on July 3 and Analog Devices' 2016 fiscal year ended on October 29. To comply with SEC rules and regulations for companies with different fiscal year ends, the pro forma condensed combined financial information has been prepared utilizing periods that differ by less than 93 days. The unaudited pro forma condensed combined statement of income was prepared using:

- the historical audited statement of income of Analog Devices for the year ended October 29, 2016;
- the historical unaudited consolidated statement of income of Linear for the three months ended October 2, 2016;
- the historical audited consolidated statement of income of Linear for the year ended July 3, 2016; and
- the historical unaudited consolidated statement of income of Linear for the three months ended September 27, 2015.

Both Analog Devices' and Linear's historical audited and unaudited financial statements were prepared in accordance with U.S. GAAP and are presented in thousands of U.S. dollars. The historical Linear financial statements included within the unaudited pro forma condensed combined balance sheet and statement of income include certain reclassifications that were made to conform Linear's financial statement presentation to that of Analog Devices.

The acquisition of Linear by Analog Devices will be accounted for as a business combination using the acquisition method of accounting under the provisions of ASC 805, with Analog Devices representing the accounting acquirer. In the unaudited pro forma condensed combined balance sheet, Analog Devices has reflected the estimated acquisition date value of the assets acquired and liabilities assumed, based upon management's preliminary estimate of what their respective fair values would be as of the date of the Merger. The pro forma adjustments are preliminary and are based upon available information and certain assumptions, which management believes are reasonable under the circumstances and are described in the accompanying notes herein. Actual results may differ materially from the assumptions within the accompanying unaudited pro forma condensed combined financial information. Under ASC 805, generally all assets acquired and liabilities assumed are recorded at their acquisition date fair value. For purposes of the pro forma information presented herein, the fair value of Linear's identifiable tangible and intangible assets acquired and liabilities assumed are based on preliminary estimates of fair values. The excess of merger consideration over the fair value of identified tangible and intangible assets acquired and liabilities assumed will be recognized as goodwill. The final allocation may include (1) changes in fair values of property, plant and equipment, (2) changes in allocations to intangible assets such as trade names, technology and customer relationships as well as goodwill, (3) other changes to assets and liabilities and (4) any resulting impact to deferred income taxes.

The unaudited pro forma condensed combined statement of income also includes certain acquisition accounting adjustments, including items expected to have a continuing impact on the results of the combined

company, such as increased amortization expense on acquired intangible assets. The unaudited pro forma condensed combined statement of income does not include the impacts of any revenue, cost, or other operating synergies that may result from the Merger or any related restructuring costs that may be contemplated.

### *The Financing Arrangements*

The commitment letters entered into provide for a 364-Day Bridge Facility initially for \$7.5 billion and a 90-Day Bridge Facility for \$4.1 billion. Upon entry into the \$2.5 billion 3-year Term Loan Facility and \$2.5 billion 5-Year Term Loan Facility, the initial lenders' commitments with respect to the 364-Day Bridge Facility were reduced by an aggregate amount of \$5.0 billion. The accompanying unaudited pro forma condensed combined financial information assumes that Analog Devices finances the transaction using proceeds from the Offering; borrowing the full amounts available under the 90-Day Bridge Facility, the 3-Year Term Loan and the 5-Year Term Loan; and up to \$500 million of cash on hand. In addition, the 90-Day Bridge Facility is expected to be repaid within 90 days after the closing date. The 364-Day Bridge Facility is expected to remain undrawn at closing and the lenders' commitments thereunder would be reduced in an amount equal to the net cash proceeds from the Offering.

The cash proceeds from the borrowing under the 90-Day Bridge Facility and term loan facilities are expected to be \$9.1 billion, prior to the consideration of debt issuance costs of \$21.8 million which will be amortized over the term of the bridge facility and term loans. The 90-Day Bridge Facility and the 3-year Term Loan Facility are expected to bear interest at LIBOR plus a margin of 1.125% while the 5-year Term Loan Facility is expected to bear interest at LIBOR plus a margin of 1.25%. Duration fees are payable with respect to the 364-Day Bridge Facility as follows: (1) 50 basis points on the amount outstanding at 90 days from the date of first borrowing under the 364-Day Bridge Facility; (2) 75 basis points on the amount outstanding at 180 days from the date of first borrowing under the 364-Day Bridge Facility; and (3) 100 basis points on the amount outstanding at 270 days from the date of first borrowing under the 364-Day Bridge Facility.

## The Offering

This unaudited pro forma condensed combined financial information assumes Analog Devices is offering \$2.0 billion in aggregate principal amount of senior notes (net of issuance costs of \$15.0 million which includes underwriters' fees, commissions and other fees associated with the Offering). These proceeds, along with the 90-Day Bridge Facility, the 3-year Term Loan Facility and the 5-year Term Loan Facility will be used to finance the cash consideration due in connection with the Merger.

### Note 3 – Reclassifications

Historical Linear financial information included within the unaudited pro forma condensed combined financial information has been reclassified to conform the presentation to that of Analog Devices as indicated in the table below:

*Balance Sheet as of October 29, 2016 (in thousands)*

<u>Amount</u>	<u>Presentation in Linear's Financial Statements</u>	<u>Presentation in Unaudited Pro Forma Condensed Consolidated Financial Statements</u>
\$ 2,185	Identifiable intangible assets, net and goodwill	Goodwill
6,650	Identifiable intangible assets, net and goodwill	Intangible assets, net
85,334	Accrued payroll and related benefits	Accrued liabilities

### Note 4 – Conforming Accounting Policies

At this time, except for Note 3 to reclassify certain balances presented in the historical financial statements of Linear to conform their presentation to that of Analog Devices, Analog Devices is not aware of any material differences between the accounting policies of the two companies that would continue to exist subsequent to the application of purchase accounting. Following the consummation of the Merger, Analog Devices will conduct a more detailed review of Linear's accounting policies in an effort to determine if differences in accounting policies require further reclassification of Linear's results of operations or reclassification of assets or liabilities to conform to Analog Devices' accounting policies and classifications. As a result, Analog Devices may identify additional differences between the accounting policies of the two companies that, when conformed, could have a material impact on these unaudited pro forma condensed combined financial information.

### Note 5 – Estimated Merger Consideration and Allocation

The estimated merger consideration is approximately \$15.3 billion based on the closing share price of Analog Devices common stock of \$74.20 on November 25, 2016. The actual value of the merger consideration will fluctuate based upon changes in the price of Analog Devices common stock and the number of Linear common shares, restricted stock awards and restricted stock unit awards outstanding at the effective time.

The following table summarizes the components of the estimated merger consideration reflected in the unaudited pro forma condensed combined financial information (in thousands of dollars and shares, except for per share amounts and the exchange ratios):

Estimated Linear shares *	240,988
Cash consideration (per Linear share)	\$ 46.00
Estimated cash portion of purchase price	<u>\$11,085,448</u>
Estimated Linear shares	240,988
Exchange ratio (per Linear share)	<u>0.2321</u>
Estimated shares of Analog Devices common stock to be issued for existing shares of Linear common stock	55,933
Analog Devices share price **	\$ 74.20
Estimated equity portion of purchase price	<u>\$ 4,150,229</u>
Total estimated merger consideration to be paid at closing	<u>\$15,235,677</u>
FV of estimated restricted stock awards and restricted stock units to be replaced with Analog Devices shares***	\$ 233,984
FV of estimated restricted stock awards and restricted stock units to be replaced with a cash award***	172,037
Less: Estimated fair value of RSAs and RSUs to be expensed by Analog Devices	<u>\$ (344,393)</u>
Total estimated merger consideration	<u>\$15,297,305</u>

The value of the merger consideration and resulting goodwill may change based on fluctuations in the share price of Analog Devices common stock and the number of shares of Linear common stock outstanding on the closing date. The fair value of the equity securities issued as part of the consideration transferred will be measured on the closing date. A 25% fluctuation in the market price of Analog Devices common stock would affect the value of the consideration with a corresponding change to goodwill related to the Merger, as illustrated in the table below (in thousands):

<u>Change in stock price</u>	<u>Stock Price</u>	<u>Estimated Merger Consideration</u>	<u>Estimated Goodwill</u>
25% increase in share price	\$ 92.75	\$ 16,341,512	\$ 10,981,786
25% decrease in share price	\$ 55.65	\$ 14,253,098	\$ 8,893,372

\* Represents shares of Linear common stock outstanding as of October 2, 2016, plus an estimate of vested restricted stock awards and restricted stock unit awards and shares expected to be purchased under the Linear employee stock purchase plan and assumes the Merger closes by the end of the second quarter of Analog Devices' fiscal year 2017.

\*\* Represents Analog Devices stock price as of November 25, 2016. The final purchase price per share and corresponding total consideration will be determined on the closing date.

\*\*\* Represents estimated fair value of restricted stock awards and restricted stock unit awards cancelled and exchanged for Analog Devices' common stock and common stock awards at close of the Merger, including awards of restricted stock and restricted stock units which automatically vest upon the effective time of the Merger. This calculation is based on the market value of Analog Devices common stock as of November 25, 2016 and assumes the Merger closes by the end of the second quarter of Analog Devices' fiscal year 2017. The final value of Linear restricted stock awards and restricted stock unit awards to be expensed will be impacted by changes in the market value of Analog Devices common stock as well as the actual closing date of the Merger.

The following is a preliminary estimate of the assets to be acquired and the liabilities to be assumed by Analog Devices in the transaction, reconciled to the estimate of the consideration to be transferred (in thousands):

Total estimated consideration		\$15,297,305
Book value of net assets acquired	(i)	\$ 1,808,601
Adjustments to:		
Inventory	(b)	317,227
Property, plant and equipment	(c)	90,055
Intangible assets	(e)	4,718,050
Write off of deferred income on shipments to distributors, net	(f)	48,759
Deferred income taxes	(g)	(1,622,966)
Residual Goodwill	(d)	\$ 9,937,579

*Adjustments for the Merger:*

- (a) Reflects the cash portion of the purchase price paid to Linear shareholders of approximately \$11,098.0 million, including the cash-settled portion of consideration paid to holders of restricted stock and restricted stock awards which automatically vest at the effective time pursuant to pre-existing change-of-control agreements in the amount of \$12.5 million.
- (b) Reflects an estimated \$317.2 million increase in book value for Linear's inventory balances to reflect their acquisition date fair value of \$415.3 million. The fair value of inventory was estimated using the comparative sales method. This method utilizes the expected selling prices to customers as a basis of valuing finished goods, which is then adjusted for additional factors, including the time to dispose of inventory, expenses incurred at disposition and the profit commensurate with the amount of investment and degree of risk. The final fair value determination for inventories may differ materially from this preliminary determination. The increase will be expensed as the acquired inventory is sold, which is projected to occur within the first year after the closing date of the Merger. As this item will not have a continuing impact on the combined entity, these costs have not been included in the unaudited pro forma condensed combined statement of income.
- (c) Reflects an estimated \$90.1 million increase in book value for Linear's property, plant and equipment balances to reflect their estimated acquisition date fair values of \$371.6 million. The fair value estimate for property, plant and equipment is preliminary and has been determined based on the assumptions that management believes market participants would use in pricing an asset, based on the most advantageous market for the asset (i.e., its highest and best use). The final fair value determination for property, plant and equipment may differ materially from this preliminary determination.
- (d) Goodwill is calculated as the difference between the fair value of the consideration paid and the values assigned to the identifiable tangible and intangible assets acquired and liabilities assumed. The pro forma adjustment to goodwill is calculated as follows (in thousands):

	<u>As of October 29, 2016</u>
Estimated goodwill related to this transaction	\$ 9,939,764
Elimination of Linear's historical goodwill	(2,185)
Pro forma adjustment	<u>\$ 9,937,579</u>

- (e) Adjustments to intangible assets expected to be recognized in connection with the Merger, consist of the following (in thousands):

Description	Estimated Useful Life	Estimated Fair Value	Balance Sheet Classification
Customer relationships	10	\$ 4,205,300	Intangible assets, net
Technology-based	8	368,100	Intangible assets, net
Trade name	10	151,300	Intangible assets, net
Total identifiable intangible assets		4,724,700	
Historical Linear intangible assets		(6,650)	
Pro forma adjustment		\$ 4,718,050	

The fair value of the customer relationships was estimated using a multi-period excess earnings method, a form of the income approach, which incorporates the preliminary estimates of future cash flows to be generated from Linear's existing customer base. Excess earnings are the earnings remaining after deducting the market rates of return on the estimated values of contributory assets, including debt-free net working capital, tangible assets and other identifiable intangible assets. The excess earnings are thereby calculated for each year of a multi-year projection period and discounted to present value. The primary components of this method consist of the estimated customer attrition rate, determination of excess earnings and an appropriate rate of return.

The fair values of Linear's technology-based and trade name intangible assets were estimated using the relief from royalty method under the income approach, which estimates the cost savings generated by a company related to the ownership of an asset for which it would otherwise have had to pay royalties or license fees on revenues earned through the use of the asset. The discount rate used is determined at the time of measurement based on an analysis of the implied internal rate of return of the transaction, weighted average cost of capital and weighted average return on assets.

The fair value estimates for all identifiable intangible assets are preliminary and are based on assumptions that market participants would use in pricing an asset, based on the most advantageous market for the asset (i.e., its highest and best use). The final fair value determination for identifiable intangibles may differ materially from this preliminary determination.

- (f) Reflects the elimination of \$48.8 million of deferred income on past shipments made by Linear to distributors. Given that there are no remaining performance obligations in respect of these past shipments, the deferred income on shipments to distributors balance has been fair valued at \$0 for the preliminary acquisition accounting price allocation. As this item will not have a continuing impact on the combined entity, these costs have not been included in the unaudited pro forma condensed combined statement of income.
- (g) The Merger is expected to result in carryover basis for all tax attributes. Based on the preliminary acquisition accounting, an adjustment was recorded to reflect an increase in deferred income taxes of \$1,623.0 million as a result of the pro forma fair value adjustments for the assets acquired and liabilities assumed, including a deferred tax asset reflecting the expected future tax benefit for the vested portion of restricted stock awards and restricted stock units to be cancelled and converted into (i) common stock and common stock awards of Analog Devices and (ii) a cash award, in connection with the Merger and included within merger consideration above.

The estimate of deferred taxes was determined based on the estimated book basis of the net assets acquired after the application of acquisition accounting as compared to the tax basis of the net assets acquired using a blended statutory tax rate. These estimates are preliminary and adjustments to established deferred tax assets and liabilities could change due to refined determination of statutory rates, as well as the changes in the estimates of the fair values of assets acquired and liabilities assumed occur in conjunction with the finalization of the acquisition accounting and these changes in estimates could be material.



- (h) Reflects an increase to other non-current liabilities of \$22.5 million to reflect the estimate of the cash-settled portion of replacement awards included in the merger consideration.
- (i) Reflects the elimination of historical book value of the net assets acquired from Linear as of October 2, 2016, derived from Linear's 10-Q filed with the SEC on November 9, 2016. The unaudited pro forma condensed combined balance sheet reflects the elimination of Linear's historical common stock, capital in excess of par, accumulated other comprehensive income or loss and retained earnings and accumulated deficit as part of purchase accounting. This adjustment also reflects the issuance of (a) approximately 56.0 million shares of Analog Devices common stock, consisting of 55.9 million shares, being the equity portion of merger consideration, and 0.1 million shares as equity to replace certain restricted stock awards and restricted stock units which will be accelerated and cancelled at the effective time in exchange for the right to receive merger consideration, for a total adjustment to par value of \$9.3 million and (b) excess paid in capital associated with the issuance of such shares, as well as the fair value of the portion of assumed restricted stock awards and restricted stock units included in consideration transferred, for a total adjustment to capital in excess of par value of \$4,167.5 million.
- (j) Reflects an adjustment to accrued expenses of \$96.0 million for contingent transaction fees that are only payable upon close, and a corresponding reduction in retained earnings, net of a tax benefit of \$25.5 million, for the portion of the transaction costs that is expected to be deductible for tax purposes. The evaluation of the deductibility of the transaction costs, and the ability to utilize such benefits, is preliminary and subject to change and such changes could be material.
- (k) Reflects an adjustment of \$4.8 million for a non-recurring stock-based compensation expense associated with the settlement of certain restricted stock awards and restricted awards units, as required by the merger agreement. The adjustment has been recorded as a reduction to retained earnings, net of a corresponding tax benefit of \$1.8 million. Such expense is expected to be incurred by Analog Devices upon the closing of the Merger and will be settled with \$3.5 million of cash and \$1.3 million of equity in the combined company. As this item will not have a continuing impact on the combined entity, these costs have not been included in the unaudited pro forma condensed combined statement of income.

*Adjustments for Financing Arrangements:*

- (l) The estimated total cash consideration to Linear stockholders of \$11.1 billion is expected to be funded by the Financing and the Offering. As part of the Financing, Analog Devices will incur debt of \$9.1 billion, prior to the consideration of debt issuance costs of \$21.8 million which will be recorded as a direct reduction to the carrying amount of the respective debt facilities and amortized over the term of the bridge facilities and term loans. Of the net debt of \$9.1 billion, \$4.1 billion and \$5.0 billion will be recognized as short-term debt and long-term debt, respectively.

Analog Devices will be required to pay \$28.7 million in financing related fees for the 364-Day Bridge Facility. As of October 29, 2016, Analog Devices has incurred \$20.4 million in financing costs that are included in historical retained earnings, of which \$7.9 million remain accrued and unpaid as of October 29, 2016. An adjustment has been recorded to retained earnings in the pro forma condensed combined balance sheet to reflect the incremental \$8.2 million of financing fees to be incurred in connection with the 364-Day Bridge Facility, net of the estimated tax benefit of \$3.1 million, with a corresponding adjustment to accrued expenses and cash of \$7.9 million and \$16.1 million, respectively.

In addition, as of October 29, 2016, Analog Devices had prepaid \$13.4 million of financing fees. An adjustment was recorded to remove the prepaid financing fees, with a corresponding adjustment to cash of \$13.4 million.

*Adjustments for the Offering:*

- (m) The estimated total cash consideration to Linear stockholders of \$11.1 billion is expected to be funded by the Financing Arrangements and the Offering. As part of the Offering, the accompanying unaudited pro forma condensed combined financial information assumes Analog Devices will incur debt of \$2.0 billion, prior to debt issuance costs of \$15.0 million. All of the senior notes assumed issued in the Offering have been recorded as long-term debt.

**Note 6 – Unaudited Pro Forma Condensed Combined Statement of income Adjustments**

The pro forma adjustments in the unaudited pro forma condensed combined statement of income are as follows:

- (a) Reflects additional depreciation expense for the estimated fair value adjustment of acquired property, plant and equipment on a straight-line basis over an estimated weighted average useful life of 10 years as follows (in thousands):

	<b>Twelve months ended October 29, 2016</b>
Cost of sales	\$ 6,304
Research and development	2,054
Selling, marketing, general and administrative	648
	<u>\$ 9,006</u>

- (b) Reflects an adjustment of \$32.0 million for the twelve months ended October 29, 2016 representing the elimination of the compensation, advisory, legal and accounting expenses incurred by both Analog Devices and Linear in connection with the Merger, which are not expected to have a continuing impact on results of operations (in thousands):

	<b>Twelve months ended October 29, 2016</b>
Cost of sales	\$ 2,000
Research and development	5,000
Selling, marketing, general and administrative	25,000
	<u>\$ 32,000</u>

- (c) Reflects an adjustment for additional stock-based compensation expense of \$29.4 million for the twelve months ended October 29, 2016 representing the estimated differences between historical amounts recorded in the financial statements and the estimated preliminary value related to the unvested portion of the Linear equity awards to be cancelled and exchanged for Analog Devices' equity awards in connection with the Merger as follows (in thousands):

	<b>Twelve months ended October 29, 2016</b>
Cost of sales	\$ 3,666
Research and development	17,012
Selling, marketing, general and administrative	8,753
	<u>\$ 29,431</u>

- (d) Reflects additional amortization expense for the estimated fair value adjustment of acquired intangible assets, recognized on a straight-line basis, of \$479.5 million for the twelve months ended October 29, 2016 as follows (in thousands):

	<b>Twelve months ended October 29, 2016</b>
Cost of sales	\$ 43,813
Amortization of intangibles	435,660
	<u>\$ 479,473</u>

These preliminary estimates of fair value and estimated useful lives will likely differ from final amounts that Analog Devices will calculate after completing a detailed valuation analysis and the difference could have a material effect on the accompanying unaudited pro forma condensed combined financial statements. A 10% increase in the valuation of intangible assets would cause a corresponding increase in the amortization expense of approximately \$48.2 million for the twelve months ended October 29, 2016. A 10% increase in the estimated useful lives of intangible assets would cause a corresponding decrease in the amortization expense of approximately \$43.8 million for the twelve months ended October 29, 2016.

- (e) Reflects tax effects of the pro forma adjustments based on the estimated blended statutory tax rate in effect.
- (f) Reflects the weighted average shares outstanding used to compute basic and diluted net income per share for the year ended October 29, 2016 that has been adjusted to give effect to the issuance of 56.0 million shares of Analog Devices common stock issued upon closing of the Merger as if such issuances had occurred on November 1, 2015.
- (g) Reflects the following financing adjustments to interest expense resulting from the bridge facilities and term loan facilities:
  - (i) increase of \$106.1 million for the twelve months ended October 29, 2016 to reflect the estimated interest expense associated with the 90-Day Bridge Facility and the term loan facilities. The condensed combined statement of operations reflects three months of interest expense under the assumption that the 90-Day Bridge Facility will be repaid within 90 days of the closing date. Borrowings bear interest at a variable rate based on the one-month LIBOR plus an estimated margin of 1.125% per annum for the 3-Year Term Loan Facility, while the 5-Year Term Loan Facility bears interest at a variable rate based on the one-month LIBOR plus an estimated margin of 1.25% per annum; and
  - (ii) increase of \$14.9 million for the twelve months ended October 29, 2016 to reflect the amortization of estimated debt issuance costs associated with the establishment of the financing facilities, less historic amortization of debt issuance costs.
  - (iii) decrease of \$20.4 million to eliminate the non-recurring impact of commitment fees and finance structuring fees incurred in the twelve months ended October 29, 2016 associated with the Financing Arrangements.

If LIBOR were to increase by 0.125%, interest expense would increase by \$7.5 million for the twelve months ended October 29, 2016.

- (h) Reflects the following adjustments to interest expense resulting from the Offering:
  - (i) increase of \$70.0 million for the twelve months ended October 29, 2016 to reflect the estimated interest expense associated with the Offering at an assumed interest rate of 3.5% per annum. If interest rates were to increase by 0.125%, interest expense would increase by \$2.5 million for the twelve months ended October 29, 2016; and
  - (ii) increase of \$1.9 million for the twelve months ended October 29, 2016 to reflect the amortization of estimated debt issuance costs associated with the Offering.