

# Linear technology

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Beginning more conservatively than their original estimates, Linear Technology began with a \$0.00625 dividend per share. Linear Technology has steadily increased its dividend per share increasing the payout approximately every four quarters by \$0.00125. This pattern was maintained from Q 1993 to Q 2000. Beginning in Q 2000, Linear Technology began increasing its dividend per share by a new pattern of \$0.01 increases per four quarters. The current dividend per share is \$0.05 during Q 2003.

Its current dividend yield of 1% is relatively higher than the average dividend yield rate for Information Technology firms in the S 500, around 0.3%.

What are Linear's financing needs? Should Linear return cash to its shareholders? What are the tax consequences of keeping cash inside the firm? Linear Technology's financing needs are to optimize its cash flow, investments, and cash balances in order to maximize its shareholder values. Linear cash balance in March 2003 stood at around \$1.5 billion, which was being conservatively invested in short-term debt securities.

The cash flow from these investments, the interest income, was around \$52 million. Due to the tax cuts implemented by the Bush administration, the tax rate on dividends and capital gains were greatly reduced. The dividend tax rate dropped from an approximate 38% and the capital gains tax dropped from an approximate 20%. More important than the magnitude of the tax cuts, however, is that the capital gains tax was equalized with the dividends tax. When the dividends tax is higher than the capital gains tax, the optimal dividend policy is to pay no dividends.

In this situation, the firm will use share repurchases instead in order to take advantage of tax savings. Before the tax cuts, the firm has less incentive to raise funds for dividend payouts due to the higher tax rate on dividends and the negative effect on shareholders. However, with the equalized tax rate of 15%, the firm is no longer discouraged from raising dividends. 3. IF Linear were to pay out its entire cash balance as a special dividend, what would be the effect on value? On the share price? On earnings? On earnings per share? What if Linear repurchased shares instead? Assume a 3% rate of interest. Mime? Firms pay dividends for several reasons despite the MM proposition that Heraclites dividend policy as irrelevant. One main reason for dividend policy is based on the manager's belief that investors prefer stable dividends with sustained growth. This kind of dividend signals to the investor the firm has reached a steady state growth I. E. A mature market position. A company usually only begins to consider releasing dividends once it has established regular and predictable operations cash flows. However, dividends can also act as a negative signal telling investors that the firm's growth rate is slowing.

Increasing the dividend can, on one hand, signal the manager's perspective for future growth and optimism over future cash flows; on the other hand, increasing the dividend can also signal a lack of investment opportunities. The use of dividend payouts has steadily decreased over the last 30 years. This trend is in part related to the changes in dividend tax rate, however, I believe the majority of this trend or trends can be attributed to changes in investor preferences. The dividend payout decision is ultimately chosen by a manager, whose main objective is to satisfy shareholder preferences.