Financial Highlights

(Dollars In Thousands, Except Per Share Amounts)

		1997	1996	% Change
Operating Results	Net sales	**$275,165**	$241,446	14%
	Gross profit	**111,131**	98,288	13%
	Net income	**25,342**	21,735	17%
	Net income per share	**1.07**	0.91	18%
Cash Flow & Investments	Earnings before interest, taxes, depreciation and amortization	**65,149**	59,394	10%
	Operating cash flows	**$ 36,757**	$ 40,343	– 9%
	Capital expenditures	**$ 18,936**	$ 17,094	11%
	Research and development	**7,927**	7,330	8%
Returns	Return on Net Tangible Assets	**25.8%**	25.0%	3%
	Return on Capital Employed	**15.0%**	13.3%	13%
	Return on Equity	**21.8%**	19.6%	11%
Other	Total assets	**$221,885**	$209,951	6%
	Shareholders' equity	**123,505**	108,622	14%
	Employee associates – average for year	**2,845**	2,550	12%
	Estimated number of shareholders	**2400**	1900	26%

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion provides an analysis of the information contained in the consolidated financial statements and accompanying notes beginning on page 26 for the three years ended January 3, 1998.

Highlights

The engine of our sales growth in 1997 again was electronics. Electronics sales increased 20% in US dollars and 22 % in constant currency. Over the last five years, electronics sales have grown at a compounded annual rate of 15%. Automotive sales in 1997 increased 9% in US dollars and 13% in constant currency. Europe's automotive sales were very strong in local currencies. Over the last five years, automotive sales have grown at a compounded annual rate of 12%. Power fuse sales in 1997 increased 8% both in US dollars and in constant currency. Over the last five years, power fuse sales have grown at a compounded annual rate of 10%. The company's focus on international sales and marketing produced significant results in 1997 as sales outside North America grew 20% compared to 11% sales growth in North America.

Sales increased 14 percent during 1997 compared to 1996. Operating income for 1997 increased 16 percent compared to the prior year and net income increased by 17 percent. Earnings before interest, taxes, depreciation and amortization (EBITDA) increased 10 percent in 1997 compared to the prior year. The company repurchased 105,000 warrants and 155,000 shares of its common stock for $8.6 million during the year and our debt decreased $4.0 million. The company reduced its total debt to equity ratio to .40 to 1 at the end of 1997 from .50 to 1 at the end of 1996.

The company made significant new product introductions and international facility expansions during 1997. In the spring, we introduced a new alarm indicating fuse for use in the electronics industry and a new J case cartridge style fuse for 20 to 80 amp applications in the automotive market. In the fall, we introduced an expanded line of indicating fuses in the electrical market and a surface mount polymeric PTC device for use in the electronics industry. This latest device is our downsized SMD entry into the conductive polymeric resettable market, which is approximately $275 million in size.

The company also made significant investments for the future completing a facility addition in Switzerland for molding equipment and auto Maxi fuse production and substantially completing a small facility addition in Des Plaines to produce the substrates for our electronic thin film fuses. We also made a significant investment in equipment and tooling to add capacity for auto Mini fuses and for electronic Pico fuses and to support our new electronic surface mount resettable PTC device production.

Results of Operations 1997 Compared with 1996

Littelfuse had record sales and earnings for the sixth straight year. Sales increased 14 percent to $275.2 million in 1997 from $241.4 million in 1996. The gross margin was 40.4% compared to 40.7% the prior year and operating income was 15.9% of net sales compared to 15.6% the prior year. EBITDA was $65.1 million compared to $59.4 million in 1996. As a result, the company during 1997 was able to invest $18.9 million in capital improvements and to repurchase $8.6 million of its warrants and common stock, while decreasing its debt $4.0 million.

Sales increased $33.8 million during 1997. The sales growth was strongest in the electronics segment, followed by automotive and power fuses. Electronic sales increased $22.7 million or 20 percent to $135.3 million in 1997 compared to $112.7 million in 1996. The electronics business was very strong in personal computers, tele- and data-communications as well as consumer electronics throughout the year. Electronics sales enjoyed significant growth Asia-Pacific, Europe and North America in 1997. Automotive sales increased $8.4 million or 9 percent to $102.8 million in 1997 compared to $94.4 million in 1996. Automotive sales were very strong in the OEM markets, while they declined slightly in the automotive aftermarkets on a worldwide basis. Power fuse sales increased $2.7 million or 8 percent to $37.0 million in 1997 compared to $34.4 million in 1996. The company believes that its power fuse business grew twice as fast as the underlying markets for capital equipment and construction spending during 1997.

The company's business is dependent on general economic conditions in North America, Europe and Asia-Pacific. The company's electronic and automotive product sales fluctuate with the trends in their respective end-product markets, while power fuse sales are dependent on conditions within the construction and capital equipment markets. North American and Asia-Pacific sales almost exclusively are denominated in US dollars, while European sales generally are denominated in Dutch guilders or British pounds. On a constant currency basis, our European sales growth would have been 20 percent rather than the 8 percent reported, our Asia-Pacific sales growth would have been 32 percent rather than the 29 percent reported, and our consolidated sales growth would have been 16 percent rather than the 14 percent reported.

Gross profit was 40.4% at $111.1 million for 1997 compared to 40.7% at $98.3 million in 1996. The gross margin decline of 32 basis points was primarily caused by the relatively low margins of our new China and Korean operations having a greater impact than our margin improvements due to cost reductions and spreading our fixed costs over higher sales in North America and Europe. Margins for both the automotive and power fuse product segments improved during 1997, while the margins for the electronic segment declined slightly primarily due to lower Asia-Pacific margins. Auto margins improved due to favorable mix as the fuse portion of automotive OEM sales grew to about 94 percent of sales in 1997 compared to about 90 percent of sales in 1996.

Selling, general and administrative expenses were 21.9% of sales for 1997 compared to 22.2% for 1996, with selling expenses accounting for approximately three-fifths of the expenses. The 34 basis point decrease was due primarily to fixed selling expenses being spread over higher sales. The increase in general and administrative expense was due primarily to the installation of new information systems. The decrease in research and development was due to lower legal patent expense. Amortization of reorganization value and other intangibles was 2.6% of sales for 1997 compared to 2.9% the prior year. The total operating expenses including intangible amortization were 24.5% of sales for 1997 compared to 25.1% of sales for 1996.

Operating income for 1997 after the intangible amortization was $43.7 million or 15.9% of sales compared to $37.7 million or 15.6% of sales the prior year. On a constant currency basis, Europe's operating income was unchanged since the currency translation losses were offset by currency translation gains on intercompany transactions with the US. On a constant currency basis, Asia-Pacific's operating income was effected since the currency translation losses were additive to the translation losses on the intercompany transactions with the US. Asia-Pacific operating income would have been $0.5 million and taxes would have been $0.3 million less on a constant currency basis.

Interest expense was $4.1 million for 1997 compared to $4.2 million for 1996 due to declining debt levels during the year. Other income, net, consisting of royalties, minority interest adjustments, revaluation of the Korean non-compete agreement and government grants, was $1.0 million compared to $0.7 million the prior year.

Income before taxes was $40.7 million in 1997 compared to $34.1 million in 1996. Income tax expense was $15.3 million in 1997 compared to $12.4 million the prior year. The company's effective tax rate was 37 2/3% in 1997 compared to 36 1/4% in 1996. Net income for the year was $25.3 million in 1997 compared to $21.7 million the prior year. Diluted earnings per share (split adjusted) increased to $1.07 in 1997 compared to $0.91 in 1996.

EBITDA grew $5.7 million or 10% to $65.1 million in 1997 compared to $59.4 million in 1996. EBITDA was 23.7% of sales in 1997 compared to 24.6% of sales in 1996. EBITDA for 1997 consisted of the reported operating income of $43.8 million plus other income of $1.0 million, depreciation of $13.2 million, and amortization of intangibles of $7.2 million.

1996 Compared with 1995

Sales increased 10 percent to $241.4 million in 1996 from $219.5 million in 1995. The gross margin was 40.7% compared to 40.9% the prior year and operating income was 15.6% of net sales compared to 15.4% the prior year. EBITDA was $59.4 million compared to $52.4 million in 1995. As a result, the company during 1996 was able to invest $17.1 million in capital improvements and to repurchase $26.8 million of its warrants and common stock, while only increasing its debt $3.7 million.

Sales increased $21.9 million during 1996. The sales growth was strongest in the automotive segment, followed by electronics and power fuses. Electronic sales increased $8.9 million or 9 percent to $112.7 million in 1996 compared to $103.8 million in 1995. The electronics business was very strong in consumer electronics and datacommunications all year. This resulted in very strong sales growth in Japan for the year. However, the electronics business was relatively weak in personal computers, telecommunications and general industrial until late in the year. Automotive sales increased $11.0 million or 13 percent to $94.4 million in 1996 compared to $83.4 million in 1995. Automotive sales were very strong in Europe for the year and automotive OEM markets were relatively stronger than automotive aftermarkets all year in North America and Europe. Power fuse sales increased $2.0 million or 6 percent to $34.4 million in 1996 compared to $32.4 million in 1995. The company believes that its power fuse business grew slightly faster than the underlying markets for capital equipment and construction spending during 1996. On a constant currency basis our European sales growth would have been 13 percent rather than the 9 percent reported and our consolidated sales growth would have been 11 percent rather than the 10 percent reported. The company's reported sales in North America increased 6 percent during 1996, while its sales in Europe increased 9 percent, and its sales in Asia-Pacific increased 29 percent.

Gross profit was 40.7% at $98.3 million for 1996 compared to 40.9% at $89.9 million in 1995. The gross margin decline of 20 basis points was primarily caused by the relatively low margins of our new China and Korean operations having a greater impact than our margin improvements due to cost reductions and spreading higher sales over our fixed costs in North America and Europe. Margins for both the automotive and power fuse product segments improved during 1996, while the margins for the electronic segment declined slightly primarily due to lower volume than planned. Auto margins improved due to favorable mix as the fuse portion of automotive OEM sales grew to about 90 percent of sales in 1996 compared to about 80 percent of sales in 1995.

Selling, general and administrative expenses were 22.2% of sales for 1996 compared to 22.6% for 1995, with selling expenses accounting for approximately three-fifths of the expenses. The 40 basis point decrease was due to the general and administrative expense increase of 20 basis points being more than offset by the research and development decrease of 60 basis points. The increase in general and administrative expense was due primarily to the installation of new information systems. The decrease in research and development was due to lower project and patent expenses. Amortization of reorganization value and other intangibles was 2.9% of sales for 1996 compared to 3.0% the prior year. The total operating expenses including intangible amortization were 25.1% of sales for 1996 compared to 25.6% of sales for 1995.

Operating income for 1996 after the intangible amortization was $37.7 million or 15.6% of sales compared to $33.7 million or 15.4% of sales the prior year. On a constant currency basis, Europe's increase in operating income would have been $0.5 million higher. Therefore, currency changes reduced Europe's operating income about 4 percent and reduced consolidated operating income about 1 percent.

Interest expense was $4.2 million for 1996 compared to $4.3 million for 1995. Interest rates declined slightly and debt increased slightly year over year due to the stock and warrant repurchase program. Other income, net, consisting primarily of minority interest adjustments and royalties, was $0.7 million compared to $0.4 million the prior year.

Income before taxes was $34.1 million in 1996 compared to $29.9 million in 1995. Income tax expense was $12.4 million in 1996 compared to $10.6 million the prior year. The company's effective tax rate was 36 1/4% in 1996 compared to 35 1/2% in 1995. Net income for the year was $21.7 million in 1996 compared to $19.3 million the prior year. Diluted earnings per share (split adjusted) increased to $0.91 in 1996 compared to $0.78 in 1995, in part because of the company's stock and warrant repurchase program reduced the number of shares outstanding.

EBITDA grew $7.0 million or 13 1/2% to $59.4 million in 1996 compared to $52.4 million in 1995. EBITDA was 24.6% of sales in 1996 compared to 23.8% of sales in 1995 — an improvement of 80 basis points. EBITDA for 1996 consisted of the reported operating income of $37.7 million plus other income of $0.7 million, depreciation of $14.0 million, and amortization of intangibles of $7.0 million.

Geographical Business Segments

During the last five years, the company's international sales have grown dramatically as a result of increased Asia-Pacific and European sales efforts, new product introductions, and generally strong Asia-Pacific and European economies. International sales increased 20% in 1997 compared to 20% in 1996, 32% in 1995 and 35% in 1994. USA sales growth was 10 percent in

1997 compared to 5 percent in 1996, 5 percent in 1995 and 16 percent in 1994. Over the last five years international sales have increased at a compounded annual rate of 23% versus an USA sales compounded annual growth rate of 8 1/4%.

The geographic area of greatest sales growth during the past five years has been the Asia-Pacific region. Sales growth in Europe has averaged higher than USA. International sales grew to 40.6% of net sales in 1997 compared to 38.5 % of net sales in 1996, 35.3% of net sales in 1995 and 30.1% of net sales in 1994.

The following table summarizes sales based upon destination and total international sales compared to total company net sales (in thousands):

	1997	1996	1995	1994
USA Destinations	**$163,539**	$148,588	$142,070	$135,865
Other North American	**9,725**	7,968	6,336	6,144
Europe	**38,213**	35,373	32,607	25,017
Asia-Pacific & other	**63,688**	49,517	38,522	27,428
Total company sales	**$275,165**	$241,446	$219,535	$194,454
Total international sales	**$111,626**	$ 92,858	$ 77,465	$ 58,589
As percent of total company sales	**40.6%**	38.5%	35.3%	30.1%

Liquidity and Capital Resources

Assuming no material adverse changes in market conditions or interest rates, management expects that the company will have sufficient cash from operations to support both its operations and its debt obligations for the foreseeable future. Approximately eighty percent of the company's sales are denominated in US dollars with the balance primarily in two European currencies, Dutch guilders and British pounds, and in one Asian currency, Korean won. Since over seventy percent of European costs also are in European currencies and the rest of Europe's and the company's costs predominately are denominated in US dollars. The company has decided not to hedge the company's monetary assets, liabilities or commitments at this time. The company did not have any foreign exchange derivative positions at year end 1997.

Littelfuse started 1997 with $1.4 million of cash. Net cash provided by operations was $36.8 million for the year. Cash used to invest in net property, plant and equipment was $18.9 million, to invest in a new Korean operation called Samjoo was $5.3 million and to make a non-compete payment was $0.4 million. Cash used in financing activities included net payments of long term debt of $5.2 million. The purchase of the company's warrants and common stock for $8.6 million was partially offset by cash proceeds from the exercise of stock options of $1.0 million. The effect of exchange rate changes decreased cash by $0.1 million. The net of cash provided by operations, less investing activities, less financing activities, plus the effect of exchange rates resulted in an $0.6 million net decrease in cash. This left the company with a cash balance of $0.8 million at the end of 1997.

Net working capital used $9.4 million of cash flow from operations for 1997. All asset categories used working capital. Accounts receivable increased $3.3 million and inventory increased $8.3 million. Most accruals provided working capital for the year. Accounts payable, accrued payroll, and accrued and deferred taxes each increased by a little less than $1 million and provided funds over $2.5 million. Accrued expenses declined $0.6 million using funds of that amount. Net working capital changes in 1998 probably will result in a small use of cash, as the company expects current asset increases to exceed current liability increases in 1998.

Littelfuse started 1996 with $1.3 million of cash. Net cash provided by operations was $40.3 million for the year, a significant improvement over 1995. Cash used to invest in net property, plant and equipment was $17.1 million and to make a non-compete payment was $0.3 million. Cash used in financing activities included net borrowings of long term debt of $4.2 million. The purchase of the company's warrants and common stock for $26.8 million was partially offset by cash proceeds from the exercise of stock options of $0.3 million. The effect of exchange rate changes decreased cash by $0.4 million. The net of cash provided by operations, less investing activities, less financing activities, plus the effect of exchange rates resulted in an $0.1 million net increase in cash. This left the company with a cash balance of $1.4 million at the end of 1996.

Net working capital used only $1.3 million of cash flow from operations for 1996. All asset categories used working capital, except prepaid expenses, which declined $0.4 million. Accounts receivable increased $5.6 million and inventory increased $1.8 million. All accruals provided

Consolidated Statements of Financial Condition

(In Thousands)

		January 3 1998	December 28 1996
Assets	**Current assets:**		
	Cash and cash equivalents	**$ 755**	$ 1,427
	Accounts receivable, less allowances (1997 – $5,899; 1996 – $5,057)	**37,458**	35,468
	Inventories	**39,075**	31,586
	Deferred income taxes	**3,672**	3,100
	Prepaid expenses and other current assets	**2,896**	2,228
	Total current assets	**83,856**	73,809
	Property, plant, and equipment:		
	Land	**6,355**	5,383
	Buildings	**23,152**	19,271
	Equipment	**111,723**	96,657
		141,230	121,311
	Less: Allowances for depreciation and amortization	**70,467**	57,422
		70,763	63,889
	Intangible assets, net of amortization:		
	Reorganization value in excess of amounts allocable to identifiable assets	**41,202**	44,635
	Patents and licenses	**8,785**	11,102
	Distribution network	**7,126**	7,935
	Trademarks	**3,527**	3,784
	Other	**3,348**	1,157
		63,988	68,613
	Other assets	**3,278**	3,640
		$221,885	$209,951

Consolidated Statements of Financial Condition

(In Thousands)

		January 3 1998	December 28 1996
Liabilities and shareholders' equity	**Current liabilities:**		
	Accounts payable	**$ 13,858**	$ 12,775
	Accrued payroll	**10,316**	9,330
	Accrued expenses	**7,427**	8,159
	Accrued income taxes	**9,952**	10,775
	Current portion of long-term debt	**10,172**	10,005
	Total current liabilities	**51,725**	51,044
	Long-term debt, less current portion	**40,385**	44,556
	Deferred income taxes	**6,205**	5,417
	Minority interest in subsidiary	**65**	312
	Shareholders' equity:		
	Preferred stock, par value $.01 per share: 1,000,000 shares authorized; no shares issued and outstanding	**—**	—
	Common stock, par value $.01 per share: 38,000,000 shares authorized; shares issued and outstanding, 1997 – 19,873,140; 1996 – 19,775,358	**199**	198
	Additional paid-in capital	**52,540**	54,569
	Notes receivable – Common stock	**(1,960)**	(1,470)
	Cumulative foreign currency translation adjustment	**(4,767)**	(870)
	Retained earnings	**77,493**	56,195
		123,505	108,622
		$221,885	$209,951

See accompanying notes.

Consolidated Statements of Income

(In Thousands, Except Per Share Amounts)

Year ended	**January 3 1998**	December 28 1996	December 31 1995
Net sales	**$275,165**	$241,446	$219,535
Cost of sales	**164,034**	143,158	129,663
Gross profit	**111,131**	98,288	89,872
Selling expenses	**38,266**	34,369	31,278
Research and development expenses	**7,927**	7,330	7,901
General and administrative expenses	**13,960**	11,912	10,334
Amortization of intangibles	**7,210**	7,008	6,630
Operating income	**43,768**	37,669	33,729
Interest expense	**4,103**	4,235	4,279
Other income, net	**(987)**	(660)	(430)
Income before income taxes	**40,652**	34,094	29,880
Income taxes	**15,310**	12,359	10,608
Net income	**$ 25,342**	$ 21,735	$ 19,272
Net income per share:			
Basic	**$ 1.28**	$ 1.09	$ 0.95
Diluted	**$ 1.07**	$ 0.91	$ 0.77

See accompanying notes.

Consolidated Statements of Cash Flows

(In Thousands)

Year ended		January 3 1998	December 28 1996	December 31 1995
Operating activities	Net income	**$ 25,342**	$ 21,735	$ 19,272
	Adjustments to reconcile net income to net cash provided by operating activities:			
	Depreciation	**13,184**	14,057	11,569
	Amortization of intangibles	**7,210**	7,008	6,630
	Provision for bad debts	**410**	236	160
	Deferred income taxes	**215**	(962)	(78)
	Minority interest	**(159)**	(411)	(61)
	Changes in operating assets and liabilities:			
	Accounts receivable	**(3,331)**	(5,630)	(3,303)
	Inventories	**(8,281)**	(1,816)	(1,782)
	Accounts payable and accrued expenses	**1,950**	6,550	1,408
	Other, net	**217**	(424)	1,086
	Net cash provided by operating activities	**36,757**	40,343	34,901
Investing activities	Purchases of property, plant, and equipment, net	**(18,936)**	(17,094)	(14,636)
	Purchase of business	**(5,268)**	—	—
	Other	**(357)**	(341)	(276)
	Net cash used in investing activities	**(24,561)**	(17,435)	(14,912)
Financing activities	Proceeds (payments) of long-term debt, net	**(5,192)**	4,196	(17,028)
	Proceeds from exercise of stock options and warrants	**1,055**	276	570
	Purchases of common stock and redemption of warrants	**(8,642)**	(26,845)	(3,533)
	Net cash used in financing activities	**(12,779)**	(22,373)	(19,991)
	Effect of exchange rate changes on cash	**(89)**	(416)	48
	Increase (decrease) in cash and cash equivalents	**(672)**	119	46
	Cash and cash equivalents at beginning of year	**1,427**	1,308	1,262
	Cash and cash equivalents at end of year	**$ 755**	$ 1,427	$ 1,308

See accompanying notes.

Consolidated Statements of Shareholders' Equity

(In Thousands)

Period from January 1, 1995 to January 3, 1998	Common Stock	Additional Paid-in Capital	Notes Receivable – Common Stock	Cumulative Foreign Currency Translation Adjustment	Retained Earnings	Total
Balance at January 1, 1995	$ 202	$ 70,484	$ —	$ (855)	$ 25,868	$ 95,699
Stock options and warrants exercised	2	1,778	(571)	—	—	1,209
Purchase of 220,000 shares of common stock	(2)	(768)	—	—	(2,763)	(3,533)
Translation adjustment	—	—	—	735	—	735
Net income for the year	—	—	—	—	19,272	19,272
Balance at December 31, 1995	202	71,494	(571)	(120)	42,377	113,382
Stock options and warrants exercised	2	1,997	(899)	—	—	1,100
Purchase of 570,260 shares of common stock	(6)	(1,986)	—	—	(7,917)	(9,909)
Redemption of 1,342,120 warrants	—	(16,936)	—	—	—	(16,936)
Translation adjustment	—	—	—	(750)	—	(750)
Net income for the year	—	—	—	—	21,735	21,735
Balance at December 28, 1996	198	54,569	(1,470)	(870)	56,195	108,622
Stock options and warrants exercised	**3**	**2,567**	**(490)**	**—**	**—**	**2,080**
Purchase of 205,000 shares of common stock	**(2)**	**(720)**	**—**	**—**	**(4,044)**	**(4,766)**
Redemption of 210,250 warrants	**—**	**(3,876)**	**—**	**—**	**—**	**(3,876)**
Translation adjustment	**—**	**—**	**—**	**(3,897)**	**—**	**(3,897)**
Net income for the year	**—**	**—**	**—**	**—**	**25,342**	**25,342**
Balance at January 3, 1998	**$199**	**$52,540**	**$(1,960)**	**$(4,767)**	**$77,493**	**$123,505**

See accompanying notes.

Notes to Consolidated Financial Statements

January 3, 1998 and December 28, 1996

1. Summary of Significant Accounting Policies and Other Information

Nature of Operations Littelfuse, Inc. and its subsidiaries (the Company) design, manufacture, and sell fuses and other circuit protection devices for use in the automotive, electronic, and general industrial markets throughout the world. The Company also manufactures and supplies relays, switches, circuit breakers, and indicator lights to the automotive industry and to appliance and general electronics manufacturers. The Company's operations represent a single industry segment for accounting purposes.

Fiscal Year Effective January 1, 1996, the Company changed its fiscal year end from December 31 to a 52-53-week year ending on the Saturday nearest December 31. The Company's 1997 fiscal year ended January 3, 1998, contained 53 weeks. The Company's 1996 fiscal year ended December 28, 1996, contained 52 weeks.

Principles of Consolidation The consolidated financial statements include the accounts of Littelfuse, Inc. and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Cash Equivalents All highly liquid investments, with a maturity of three months or less when purchased, are considered to be cash equivalents.

Accounts Receivable The Company performs credit evaluations of customers' financial condition and generally does not require collateral. Credit losses are provided for in the financial statements and consistently have been within management's expectations.

Inventories Inventories are stated at the lower of cost (first in, first out method) or market, which approximates current replacement cost.

Property, Plant, and Equipment Land, buildings, and equipment are carried at cost. Depreciation is provided under accelerated methods using useful lives of 21 years for buildings, 7 to 9 years for equipment, and 7 years for furniture and fixtures. Tooling and computer software are depreciated using the straight-line method over 5 years and 3 years, respectively.

Intangible Assets Reorganization value in excess of amounts allocable to identifiable assets and trademarks are amortized using the straight-line method over 20 years. Patents are amortized using the straight-line method over their estimated useful lives, which average approximately 10 years. The distribution network is amortized using an accelerated method over 20 years. Licenses are amortized using an accelerated method over their estimated useful lives, which average approximately nine years. Other intangible assets consist principally of an agreement not to compete that is being amortized over the three-year term of the agreement and goodwill that is being amortized over 20 years. Accumulated amortization of these intangible assets was $39.9 million at January 3, 1998, and $34.3 million at December 28, 1996.

Revenue Recognition Sales and associated costs are recognized when products are shipped to customers.

Advertising Costs The Company expenses advertising costs as incurred which amounted to $2.8 million in 1997, $2.7 million in 1996, and $3.1 million in 1995.

Foreign Currency Translation The financial statements of foreign entities have been translated in accordance with Statement of Financial Accounting Standards No. 52 and, accordingly, unrealized foreign currency translation adjustments are reflected as a component of shareholders' equity.

Per-Share Data In February 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share" (SFAS 128). SFAS 128 simplifies the standards for computing earnings per share and is effective for financial statements for both interim and annual periods ending after December 15, 1997. The Company has adopted SFAS 128, and has restated all prior periods presented to conform with the requirements of SFAS 128.

Stock-Based Compensation The Company accounts for stock option grants to employees and directors in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25). The Company grants stock options for a fixed number of shares with an exercise price equal to the market price of the underlying stock at the date of grant and, accordingly, does not recognize compensation expense.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income" (SFAS 130). SFAS 130 establishes standards for reporting and display of comprehensive income and its components in the financial statements. SFAS 130 is effective for fiscal years beginning after December 15, 1997. The Company is in the process of evaluating the specific requirements of SFAS 130. However, it believes the adoption of SFAS 130 will have no impact on the Company's consolidated results of operations, financial position, or cash flows.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131). SFAS 131 establishes standards for the way in which public business enterprises report information about operating segments in annual financial statements and interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. SFAS 131 is effective for financial statements for fiscal years beginning after December 15, 1997. Management has evaluated the disclosure requirements of SFAS 131 and believes that its adoption will not have a significant impact on the Company's reported segments.

Reclassifications Certain amounts in the 1996 and 1995 financial statements have been reclassified to conform with the 1997 financial statement presentation.

2. Acquisition of Business

On May 30, 1997, the Company invested $5.3 million in exchange for a 97% interest in Samjoo Elec. Ind. Co. Ltd., a Korean fuse manufacturer, now doing business as Littelfuse Triad. This acquisition has been accounted for through the use of the purchase method of accounting. Accordingly, the accompanying financial statements include the results of its operations since the acquisition date. Goodwill arising from this acquisition of approximately $2.9 million is being amortized over twenty years. Pro forma results of operations, assuming this acquisition had occurred as of January 1, 1996, would not differ materially from reported results of operations.

3. Inventories

The components of inventories are as follows at January 3, 1998 and December 28, 1996 (in thousands):

	1997	1996
Raw materials	**$ 8,788**	$ 8,411
Work in process	**3,556**	3,263
Finished goods	**26,731**	19,912
	$39,075	$31,586

4. Long-Term Debt

The carrying amounts of long-term debt, which approximate fair value, are as follows at January 3, 1998 and December 28, 1996 (in thousands):

	1997	1996
Senior Notes	**$27,000**	$36,000
Revolver	**20,000**	16,500
Other	**3,557**	2,061
	50,557	54,561
Less: Current maturities	**10,172**	10,005
	$40,385	$44,556

The Company has an unsecured financing arrangement consisting of Senior Notes with insurance companies and a Credit Agreement with banks that provides a $65,000,000 revolving loan facility. The Senior Notes require a minimum principal payment of $9,000,000 annually. The first payment was made August 30, 1996. Additional principal payments will be made each year through 2000. No principal payments are required for borrowings against the revolving line of credit until the line matures on August 31, 2000. A commitment fee on the daily unborrowed portion of the revolving credit line is based on the Company's debt-to-capital ratio, and is payable quarterly. The Company can make additional prepayments under the Credit Agreement at any time without penalty.

Interest is payable semiannually on the Senior Notes at 6.31%. Interest is payable quarterly under the Credit Agreement borrowings at LIBOR plus a Eurodollar margin. The Eurodollar margin, which is based on the Company's debt to capital ratio, amounted to .5% at January 3, 1998. The Company's interest rate under the Credit Agreement was 6.41% at January 3, 1998.

The Credit Agreement provides for letters of credit of up to $3 million as part of the available credit under the revolving line of credit. At January 3, 1998, the Company had $1.9 million of outstanding letters of credit. The Company is required to pay a fee of .625% of the face amount of each letter of credit issued.

The Senior Notes and Credit Agreement contain covenants that, among other matters, impose limitations on the incurrence of additional indebtedness, future mergers, sales of assets, payment of dividends, and changes in control, as defined. In addition, the Company is required to satisfy certain financial covenants and tests relating to, among other matters, interest coverage, working capital, leverage, and net worth.

Aggregate maturities of long-term debt at January 3, 1998, are as follows (in thousands):

1998	**$10,172**
1999	**10,002**
2000	**29,372**
2001	**244**
2002 and thereafter	**767**
	$50,557

Interest paid on long-term debt approximated $4.0 million in 1997, 1996, and 1995.

5. Benefit Plans

The Company has a defined-benefit pension plan (the Plan) covering substantially all of its North American employees. The amount of the retirement benefit is based on years of service and final average monthly pay. The Plan also provides postretirement medical benefits to retirees and their spouses if the retiree has reached age 62 and has provided at least ten years of service prior to retirement. Such benefits generally cease once the retiree attains age 65. The Company's contributions are made in amounts sufficient to satisfy ERISA funding requirements.

The components of pension cost are as follows (in thousands):

	1997	1996	1995
Service cost – Benefits earned during the period	**$ 1,657**	$ 1,669	$ 1,056
Interest cost on projected benefit obligation	**2,654**	2,558	2,055
Actual return on plan assets	**(6,365)**	(3,810)	(6,512)
Net amortization and deferral	**3,832**	1,705	4,933
Total pension cost	**$ 1,778**	$ 2,122	$ 1,532

Substantially all Plan assets are invested in listed stocks and bonds. The funded status and amounts recognized in the consolidated statements of financial condition at January 3, 1998 and December 28, 1996, are as follows (in thousands):

	1997	1996
Actuarial present value of benefit obligations:		
Vested benefit obligation	**$ 29,754**	$ 26,267
Accumulated benefit obligation	**$ 32,426**	$ 29,366
Projected benefit obligation	**$(41,649)**	$(37,385)
Plan assets at fair value	**39,703**	34,381
Unrecognized net experience loss	**4,094**	5,866
Unrecognized prior service cost	**311**	377
Pension asset recognized in the consolidated statements of financial condition	**$ 2,459**	$ 3,239

The following significant assumptions were used in determining pension cost for the years ended January 3, 1998, December 28, 1996, and December 31, 1995:

	1997	1996	1995
Discount rate	**7.0%**	7.5%	7.0%
Rate of increase in compensation levels	**4.5**	4.5	4.5
Expected long-term rate of return on assets	**9.0**	9.0	9.0

The Company provides additional retirement benefits for certain key executives through its unfunded Supplemental Executive Retirement Plan. The charge to expense for this plan approximated $832,000, $747,000 and $640,000 in 1997, 1996, and 1995, respectively.

The Company also maintains a 401(k) savings plan covering substantially all U.S. employees. The Company matches 50% of the employee's annual contributions for the first 4% of the employee's gross wages. Employees vest in the Company contributions after two years of service. Company matching contributions amounted to $523,000, $457,000 and $472,000 in 1997, 1996 and 1995, respectively.

6. Shareholders' Equity

Stock Split On April 29, 1997, the Company's Board of Directors approved a two-for-one stock split to stockholders of record on May 20, 1997, payable June 10, 1997, in the form of a stock dividend. All prior year number of share and per share amounts have been restated to reflect the stock split.

Stock Purchase Warrants Warrants to purchase 3,815,582 shares of common stock at $4.18 per share are outstanding at January 3, 1998. The warrants are exercisable at the option of the holder at any time prior to December 27, 2001, and are not callable by the Company.

Stock Options The Company has stock option plans authorizing the granting of both incentive and nonqualified options and other stock of up to 2,200,000 shares to employees and directors. The stock options vest over a five-year period and are exercisable over a ten-year period commencing from the date of vesting. A summary of stock option information follows:

	1997		1996		1995	
	Options	**Weighted-Average Exercise Price**	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	**1,257,380**	**$10.95**	1,236,800	$ 8.76	1,207,000	$ 6.54
Granted	**274,300**	**25.29**	251,400	18.40	237,600	16.35
Exercised	**(156,170)**	**6.70**	(174,900)	5.81	(197,200)	4.30
Forfeited	**(14,200)**	**15.69**	(55,920)	10.43	(10,600)	9.59
Outstanding at end of year	**1,361,310**	**$14.28**	1,257,380	$10.95	1,236,800	$ 8.76
Exercisable at end of year	**671,126**		461,820		332,100	
Available for future grant	**50,900**		311,000		594,000	
Weighted-average value of options granted		**$11.16**		$ 9.31		$ 8.04

As of January 3, 1998, the Company had the following outstanding options:

Exercise Price	Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Life	Options Exercisable
$ 3.688 to $ 5.532	306,400	$ 3.86	4.2	303,600
$ 7.50 to $11.25	228,200	10.18	5.9	157,440
$11.625 to $12.625	121,350	11.94	6.3	82,330
$16.125 to $23.00	597,060	19.01	6.8	127,756
$28.875 to $34.125	108,300	28.95	9.6	–

Disclosure of pro forma information regarding net income and net income per share is required by Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, and has been determined as if the Company had accounted for its stock options granted in 1997, 1996, and 1995 under the fair value method using the Black-Scholes option pricing model. The following assumptions were utilized in the valuation:

	1997	1996	1995
Risk-free interest rate	**6.63%**	6.76%	6.67%
Expected dividend yield	**0%**	0%	0%
Expected stock price volatility	**.195%**	.265%	.273%
Expected life of options	**8 years**	8 years	8 years