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        COMPANY DATA:
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                CENTRAL INDEX KEY:                      0000902270
                STANDARD INDUSTRIAL CLASSIFICATION:     POTTERY & RELATED PRODUCTS [3260]
                IRS NUMBER:                             133684956
                STATE OF INCORPORATION:                 DE
                FISCAL YEAR END:                        1231

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FORM 10-Q
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: July 4, 1998

Commission file number: 1-11908

Department 56, Inc.

(Exact name of registrant as specified in its charter)

Delaware	13-3684956
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Village Place, 6436 City West Parkway, Eden Prairie, MN 55344

(Address of principal executive offices)
(Zip Code)

(612) 944-5600

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

As of July 4, 1998, 18,668,535 shares of the registrant's common stock, par value $.01 per share, were outstanding.

<PAGE>

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DEPARTMENT 56, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(IN THOUSANDS)

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ASSETS

<S>	JULY 4, 1998 <C>	JANUARY 3, 1998 <C>
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,492	$ 37,361

Accounts receivable, net	83,493	23,004
Inventories	23,608	18,070
Other current assets	10,733	9,311
Total current assets	119,326	87,746
PROPERTY AND EQUIPMENT, net	13,836	12,753
GOODWILL, TRADEMARKS AND OTHER, net	159,512	159,042
OTHER ASSETS	135	154
	$ 292,809	$ 259,695
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Revolving line of credit	$ 37,000	$ -
Current portion of long-term debt	20,000	20,000
Accounts payable	9,747	9,973
Other current liabilities	20,971	16,916
Total current liabilities	87,718	46,889
DEFERRED TAXES	6,151	6,151
LONG-TERM DEBT	20,000	20,000
STOCKHOLDERS' EQUITY	178,940	186,655
	$ 292,809	$ 259,695

</TABLE>

See notes to condensed consolidated financial statements.

<PAGE>

DEPARTMENT 56, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>
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<S>	<C> QUARTER ENDED JULY 4, 1998	<C> QUARTER ENDED JULY 5, 1997
NET SALES	$ 69,920	$ 58,564
COST OF SALES	28,710	24,704
Gross profit	41,210	33,860
OPERATING EXPENSES:		
Selling, general, and administrative	13,670	11,400
Amortization of goodwill, trademarks and other	1,258	1,144
Recovery of import duties	(65)	-
Total operating expenses	14,863	12,544
INCOME FROM OPERATIONS	26,347	21,316

OTHER EXPENSE (INCOME)		
Interest expense	970	1,095
Other, net	(26)	(274)
INCOME BEFORE INCOME TAXES	25,403	20,495
PROVISION FOR INCOME TAXES	10,034	8,096
NET INCOME	$ 15,369	$ 12,399
NET INCOME PER COMMON SHARE	$ 0.81	$ 0.60
NET INCOME PER COMMON SHARE ASSUMING DILUTION	$ 0.80	$ 0.59

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See notes to condensed consolidated financial statements.

<PAGE>

DEPARTMENT 56, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

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<S>	<C> 26 WEEKS ENDED JULY 4, 1998	<C> 27 WEEKS ENDED JULY 5, 1997
NET SALES	$ 118,947	$ 104,293
COST OF SALES	49,304	43,816
Gross profit	69,643	60,477
OPERATING EXPENSES:		
Selling, general, and administrative	25,299	22,494
Amortization of goodwill, trademarks and other	2,410	2,288
Recovery of import duties	(65)	(370)
Total operating expenses	27,644	24,412
INCOME FROM OPERATIONS	41,999	36,065
OTHER EXPENSE (INCOME)		
Interest expense	1,741	2,170
Other, net	(418)	(1,018)
INCOME BEFORE INCOME TAXES	40,676	34,913
PROVISION FOR INCOME TAXES	16,067	13,791
NET INCOME	$ 24,609	$ 21,122

NET INCOME PER COMMON SHARE	$ 1.28	$ 1.00
NET INCOME PER COMMON SHARE ASSUMING DILUTION	$ 1.26	$ 0.99

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See notes to condensed consolidated financial statements.

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DEPARTMENT 56, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(IN THOUSANDS)

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<S>	26 WEEKS ENDED JULY 4, 1998 <C>	27 WEEKS ENDED JULY 5, 1997 <C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net cash used in operating activities	$(34,010)	$(12,511)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,299)	(710)
Acquisitions	(4,660)	-
Net cash used in investing activities	(5,959)	(710)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	2,530	272
Net borrowings under revolving credit facility	37,000	-
Stock repurchases	(35,430)	(15,561)
Net cash provided by (used in) financing activities	4,100	(15,289)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(35,869)	(28,510)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	37,361	46,405
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,492	$ 17,895
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest	$ 1,586	$ 2,171
Income taxes	$ 12,433	$ 12,204

</TABLE>

See notes to condensed consolidated financial statements.

<PAGE>

DEPARTMENT 56, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying condensed consolidated balance sheet as of January 3, 1998 was derived from the audited consolidated balances as of that date. The remaining accompanying condensed consolidated financial statements are unaudited and, in the opinion of management, include all adjustments necessary for a fair presentation. Such adjustments were of a normal recurring nature.

The results of operations for the quarter ended July 4, 1998 and the 26 weeks ended July 4, 1998 are not necessarily indicative of the results for the full fiscal year.

It is suggested that these financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the 1997 Annual Report to Stockholders and Annual Report on Form 10-K filed by Department 56, Inc. (the "Company") with the Securities and Exchange Commission.

2. INCOME PER COMMON SHARE

Net income per common share is calculated by dividing net income by the weighted average number of shares outstanding during the period. Net income per common share assuming dilution reflects per share amounts that would have resulted had the Company's outstanding stock options been converted to common stock.

3. STOCKHOLDERS' EQUITY

On April 29, 1998, the Board of Directors of the Company authorized a stock repurchase program providing for the repurchase in open market and privately negotiated transactions of up to an additional 1.5 million shares valid through the end of the Company's 1999 fiscal year. The timing, prices and number of shares repurchased under these programs will be determined at the discretion of the Company's management and subject to continued compliance with the Company's credit facilities. During the quarter ended July 4, 1998, the Company repurchased 571,000 shares at a cost of $20.8 million. During the 26 weeks ended July 4, 1998, the Company repurchased 1,006,000 shares at a cost of $35.4 million. As of July 4, 1998, the Company was authorized to repurchase 1,295,000 additional shares under these programs.

4. ACQUISITIONS

During January 1998, the Company acquired substantially all of the assets of the independent sales representative organization that represented the Company's products in California and several other western states. Also during January 1998, the Company acquired the inventory and certain other assets of its Canadian distributor. During May 1998, the Company acquired substantially all of the assets of the independent sales representative organization that represented the Company's products in New York and several other eastern states.

<PAGE>

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

COMPARISON OF RESULTS OF OPERATIONS FOR THE QUARTER ENDED JULY 4, 1998 TO THE

QUARTER ENDED JULY 5, 1997.

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	Quarter Ended July 4, 1998		Quarter Ended July 5, 1997	
	(Dollars in millions)			
	Dollars	% of Net Sales	Dollars	% of Net Sales
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Net sales	$69.9	100%	$58.6	100%
Gross profit	41.2	59	33.9	58
Selling, general, and administrative expenses	13.7	20	11.4	19
Amortization of goodwill, trademarks and other	1.3	2	1.1	2
Recovery of import duties	(0.1)	-	-	-
Income from operations	26.3	38	21.3	36
Interest expense	1.0	1	1.1	2
Other income, net	-	-	(0.3)	(1)
Income before income taxes	25.4	36	20.5	35
Provision for income taxes	10.0	14	8.1	14
Net income	15.4	22	12.4	21

</TABLE>

NET SALES. Net sales increased $11.3 million, or 19%, from $58.6 million in the second quarter of 1997 to $69.9 million in the second quarter of 1998. Sales of the Company's Village Series products increased $9.0 million, or 23%, while sales of General Giftware products increased $2.3 million, or 12% between the two periods. Village Series and General Giftware products represented 68% and 32%, respectively, of the Company's net sales during the second quarter of 1998.

<PAGE>

GROSS PROFIT. Gross profit increased $7.3 million, or 22%, between the second quarter of 1997 and the second quarter of 1998. The increase in gross profit was principally due to the increase in sales volume. Gross profit as a percentage of net sales increased from 58% in the second quarter of 1997 to 59% in the second quarter of 1998, principally due to a change in the mix of product shipped during the second quarter of 1998 as compared to the second quarter of 1997 and the benefit derived from selling directly to the Canadian market.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased $2.3 million, or 20%, between the second quarter of 1997 and the second quarter of 1998 principally due to a 124% increase in marketing expenses and a 36% increase in distribution expenses. Marketing expenses increased principally due to costs incurred in connection with the new Snowbabies Friendship Club and a shift in the timing of certain other marketing expenditures. Selling, general and administrative expenses as a percentage of sales increased from approximately 19% in the second quarter of 1997 to 20% in the second quarter of 1998.

INCOME FROM OPERATIONS. Income from operations increased $5.0 million, or 24%, between the second quarter of 1997 and the second quarter of 1998 due to the factors described above. Income from operations increased from 36% to 38% of net sales principally due to the increase in gross profit as a percentage of sales.

INTEREST EXPENSE. Interest expense decreased $.1 million, or 11%, between the second quarter of 1997 and the second quarter of 1998 principally due to the payment of $20 million of long term debt during 1997 offset by increased borrowings under the revolving line of credit in 1998.

PROVISION FOR INCOME TAXES. The effective tax rate was 39.5% during the second quarter of both 1997 and 1998.

<PAGE>

RESULTS OF OPERATIONS

COMPARISON OF RESULTS OF OPERATIONS FOR THE 26 WEEKS ENDED JULY 4, 1998 TO THE 27 WEEKS ENDED JULY 5, 1997.

<TABLE>
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	26 Weeks Ended July 4, 1998		27 Weeks Ended July 5, 1997	
	(Dollars in millions)			
	Dollars	% of Net Sales	Dollars	% of Net Sales
<S>	<C>	<C>	<C>	<C>
Net sales	$118.9	100%	$104.3	100%
Gross profit	69.6	59	60.5	

				58
Selling, general, and administrative expenses	25.3	21	22.5	22
Amortization of goodwill, trademarks and other	2.4	2	2.3	2
Recovery of import duties	(0.1)	-	(0.4)	-
Income from operations	42.0	35	36.1	35
Interest expense	1.7	1	2.2	2
Other income, net	(0.4)	-	(1.0)	(1)
Income before income taxes	40.7	34	34.9	33
Provision for income taxes	16.1	14	13.8	13
Net income	24.6	21	21.1	20

</TABLE>

NET SALES. Net sales increased $14.6 million, or 14%, from $104.3 million in 1997 to $118.9 million in 1998. Sales of the Company's Village Series products increased $10.2 million, or 15%, while sales of General Giftware products increased $4.4 million, or 13% between the two periods. Village Series and General Giftware products represented 67% and 33%, respectively, of the Company's net sales in 1998.

GROSS PROFIT. Gross profit increased $9.2 million, or 15%, between 1997 and 1998. The increase in gross profit was principally due to the increase in sales volume. Gross profit as a percentage of net sales increased from 58% in 1997 to 59% in 1998 principally due to a change in the mix of product shipped during 1998 as compared to 1997 and the benefit derived from selling directly to the Canadian market.

<PAGE>

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased $2.8 million, or 12%, between 1997 and 1998 principally due to a 89% increase in marketing expenses and a 23% increase in distribution expenses. Marketing expenses increased principally due to costs incurred in connection with the new Snowbabies Friendship Club and a shift in the timing of certain other marketing expenditures. Selling, general and administrative expenses as a percentage of sales decreased from approximately 22% in 1997 to 21% in 1998.

INCOME FROM OPERATIONS. Income from operations increased $5.9 million, or 16%, between 1997 and 1998 due to the factors described above. Income from operations was 35% of net sales in both 1997 and 1998.

INTEREST EXPENSE. Interest expense decreased $.4 million, or 20%, between 1997 and 1998 principally due to the payment of $20 million of long term debt during 1997 offset by increased borrowings under the revolving line of credit in

1998.

PROVISION FOR INCOME TAXES. The effective tax rate was 39.5% in both 1997 and 1998.

LIQUIDITY AND CAPITAL RESOURCES

The principal sources of the Company's liquidity are its available cash balances, internally generated cash flow and a revolving credit agreement which provides letters of credit, bankers' acceptances and, if required, short-term seasonal borrowings. The Company believes that these sources of liquidity will be more than adequate to fund operations, capital expenditures and required principal payments on its term loan for the next 12 months.

The Company maintains a revolving credit agreement providing for borrowings of up to $90 million (subject to certain limitations) including letters of credit and bankers' acceptances. At July 4, 1998, the Company had $37.0 million of outstanding loans and acceptances and $5.3 million of outstanding letters of credit under its revolving line of credit. The available revolving line of credit commitment was $26.0 million.

Consistent with customary practice in the giftware industry, the Company offers extended accounts receivable terms to many of its customers. This practice has typically created significant working capital requirements in the second and third quarters that the Company has generally financed with net cash balances, internally generated cash flow and seasonal borrowings. The Company's net cash balances peak in December, following the collection of accounts receivable with extended payment terms. Accounts receivable increased $10.3 million from $73.2 million at July 5, 1997 to $83.5 million at July 4, 1998 principally due to the increase in sales in 1998 as compared to 1997.

On April 29, 1998, the Board of Directors of the Company authorized a stock repurchase program providing for the repurchase in open market and privately negotiated transactions of up to an additional 1.5 million shares valid through the end of the Company's 1999 fiscal year. The timing, prices and number of shares repurchased under these programs will be determined at the discretion of the Company's management and subject to continued compliance with the Company's credit facilities. During the quarter ended July 4, 1998, the Company repurchased 571,000 shares at a cost of $20.8 million. During the 26 weeks ended July 4, 1998, the Company repurchased 1,006,000 shares at a cost of $35.4 million. As of July 4, 1998, the Company was authorized to repurchase 1,295,000 additional shares under these programs.

<PAGE>

FOREIGN EXCHANGE

The dollar value of the Company's assets abroad is not significant. The Company's sales are denominated in United States dollars and, as a result, are not subject to changes in exchange rates.

The Company imports most of its products from manufacturers located in the Pacific Rim, primarily The People's Republic of China, Taiwan (Republic of China) and The Philippines. These transactions are principally denominated in U.S. dollars, except for imports from Taiwan which are principally denominated in New Taiwan dollars. The Company, from time to time, will enter into foreign exchange contracts or build currency deposits as a partial hedge against currency fluctuations. The Company intends to manage foreign exchange risks to the extent possible and take appropriate action where warranted. The Company's costs could be adversely affected if the currencies of the countries in which the manufacturers operate appreciate significantly relative to the U.S. dollar.

EFFECT OF INFLATION

The Company continually attempts to minimize any effect of inflation on earnings by controlling its operating costs and selling prices. During the past few years, the rate of inflation has not had a material impact on the Company's results of operations.

<PAGE>

SEASONALITY AND CUSTOMER ORDERS

The Company generally records its highest level of sales during the second and third quarters as retailers stock merchandise in anticipation of the holiday season. The Company can also experience fluctuations in quarterly sales and related net income compared with the prior year due to timing of receipt of product from suppliers and subsequent shipment of product from the Company to customers.

CUSTOMER ORDERS ENTERED (1)
(IN MILLIONS)

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1996	$178	$35	$28	$8	$249
1997	161	44	34	6	245
1998	174	50	-	-	-

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(1) Customer orders entered are orders received and approved by the Company, subject to cancellation for various reasons, including credit considerations, inventory shortages and customer requests.

Historically, principally due to the timing of trade shows early in the calendar year and the limited supply of the Company's products, the Company has received the majority of its orders in the first quarter of each year. The Company entered 66% and 71% of its total annual customer orders during the first quarter of both 1997 and 1996, respectively. Cancellations were approximately 8% and 6% of total annual orders in 1997 and 1996, respectively.

The Company shipped and recorded as net sales approximately 90% and 92% of its annual customer orders in 1997 and 1996, respectively. Orders not shipped in a particular period, net of cancellations, returns, allowances and cash discounts, are carried into backlog. The backlog was $101.3 million as of July 4, 1998, as compared to $99.1 million as of July 5, 1997.

Through the second quarter of 1998, customer orders entered increased 9% as compared to the same period for 1997. Customer orders entered for Village Series products have increased 10% through the second quarter of 1998 while customer orders entered for General Giftware products have increased 9%.

Certain General Giftware products have lower gross profit rates than the Company's average gross profit rate. In addition, from time to time, the Company liquidates product at lower than average gross profit rates. As a result, gross profit may vary depending on the mix of product shipped.

<PAGE>

PART II - OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

At the Company's Annual Meeting of Stockholders held on May 14, 1998 (the "Annual Meeting"), all of the persons named in the Company's proxy materials as management nominees for the Board of Directors were elected. All but one of the nominees were incumbent directors and the election of all nominees at the Annual Meeting was uncontested. Also at the Annual Meeting, the Company's stockholders ratified the appointment by the Board of Directors of Deloitte & Touche LLP, independent public accountants, as auditors for the Company for the fiscal year ending January 2, 1999 as follows: 16,989,611 voting for ratification; 6,949 voting against; 9,461 abstentions; 2,143,139 not voting.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) 11.1 Computation of net income per share.

<PAGE>

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DEPARTMENT 56, INC.

Date: July 30, 1998 /s/Susan E. Engel

Susan E. Engel
Chairwoman, Chief Executive Officer and Director

Date: July 30, 1998 /s/Timothy J. Schugel

Timothy J. Schugel
Vice President - Finance and Principal Accounting Officer

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EXHIBIT INDEX

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27.1	Financial Data Schedule	

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Exhibit 11.1

DEPARTMENT 56, INC.
COMPUTATION OF NET INCOME PER SHARE
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

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	Quarter Ended July 4, 1998	Quarter Ended July 5, 1997
<S>	<C>	<C>
BASIC:		
Net Income	$15,369	$12,399
Weighted average number of common shares outstanding	18,962	20,814
Net Income per Common Share	$ 0.81	$ 0.60
ASSUMING DILUTION:		
Net Income	$15,369	$12,399
Weighted average number of common shares outstanding	18,962	20,814
The number of shares resulting from the assumed exercise of stock options reduced by the number of shares which could have been purchased with the proceeds from such exercise, using the average market price during the period	336	114
Weighted average number of common and common equivalent shares	19,298	20,928
Net Income per Common Share Assuming Dilution	$ 0.80	$ 0.59

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DEPARTMENT 56, INC.
COMPUTATION OF NET INCOME PER SHARE
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>
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	26 Weeks Ended July 4, 1998	27 Weeks Ended July 5, 1997
<S>	<C>	<C>
BASIC:		
Net Income	$24,609	$21,122
Weighted average number of common shares outstanding	19,186	21,120
Net Income per Common Share	$ 1.28	$ 1.00
ASSUMING DILUTION:		
Net Income	$24,609	$21,122
Weighted average number of common shares outstanding	19,186	21,120
The number of shares resulting from the assumed exercise of stock options reduced by the number of shares which could have been purchased with the proceeds from such exercise, using the average market price during the period	311	129
Weighted average number of common and common equivalent shares	19,497	21,249
Net Income per Common Share Assuming Dilution	$ 1.26	$ 0.99

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