-----BEGIN PRIVACY-ENHANCED MESSAGE-----
Proc-Type: 2001,MIC-CLEAR
Originator-Name: webmaster@www.sec.gov
Originator-Key-Asymmetric:
 MFgwCgYEVQgBAQICAf8DSgAwRwJAW2sNKK9AVtBzYZmr6aGjlWyK3XmZv3dTINen
 TWSM7vrzLADbmYQaionwg5sDW3P6oaM5D3tdezXMm7z1T+B+twIDAQAB
MIC-Info: RSA-MD5,RSA,
 BRjFGzeq3a+ed2Jo6Hutbs2whWJruecARNJ6vLFzS8eHX9bONt2FuYD3IUauCi7T
 4lZIIf3DR5Xc1sayMRJ1Hg==

<SEC-DOCUMENT>0001047469-98-017360.txt : 19980504
<SEC-HEADER>0001047469-98-017360.hdr.sgml : 19980504
ACCESSION NUMBER: 0001047469-98-017360
CONFORMED SUBMISSION TYPE: 10-Q
PUBLIC DOCUMENT COUNT: 3
CONFORMED PERIOD OF REPORT: 19980404
FILED AS OF DATE: 19980430
SROS: NYSE

FILER:

COMPANY DATA:
COMPANY CONFORMED NAME: DEPARTMENT 56 INC
CENTRAL INDEX KEY: 0000902270
STANDARD INDUSTRIAL CLASSIFICATION: POTTERY & RELATED PRODUCTS [3260]
IRS NUMBER: 133684956
STATE OF INCORPORATION: DE
FISCAL YEAR END: 1231

FILING VALUES:
FORM TYPE: 10-Q
SEC ACT:
SEC FILE NUMBER: 001-11908
FILM NUMBER: 98606400

BUSINESS ADDRESS:
STREET 1: ONE VILLAGE PL
STREET 2: 6436 CITY W PKWY
CITY: EDEN PRAIRIE
STATE: MN
ZIP: 55344
BUSINESS PHONE: 6129445600

MAIL ADDRESS:
STREET 1: ONE VILLAGE PLACE
STREET 2: 6436 CITY WEST PKWY
CITY: EDEN PRAIRIE
STATE: MN
ZIP: 55344
</SEC-HEADER>
<DOCUMENT>
<TYPE>10-Q
<SEQUENCE>1
<DESCRIPTION>FORM 10-Q
<TEXT>

<PAGE>

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: April 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 April 4, 1998, 19,174,701 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)

ASSETS

<TABLE>
<CAPTION>

	APRIL 4, 1998	JANUARY 3, 1998
<S>	<C>	<C>

CURRENT ASSETS:		
Cash and cash equivalents	$ 15,337	$ 37,361
Accounts receivable, net	35,985	23,004
Inventories	23,672	18,070
Other current assets	9,194	9,311
Total current assets	84,188	87,746
PROPERTY AND EQUIPMENT, net	12,775	12,753
GOODWILL AND TRADEMARKS, net	158,771	159,042
OTHER ASSETS	146	154
	$255,880	$259,695

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Current portion of long-term debt	$ 20,000	$ 20,000
Accounts payable	9,212	9,973
Other current liabilities	17,975	16,916
Total current liabilities	47,187	46,889
DEFERRED TAXES	6,151	6,151
LONG-TERM DEBT	20,000	20,000
STOCKHOLDERS' EQUITY	182,542	186,655
	$255,880	$ 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>
<CAPTION>

<S>	<C> QUARTER ENDED APRIL 4, 1998	<C> QUARTER ENDED APRIL 5, 1997
NET SALES	$49,027	$45,729
COST OF SALES	20,594	19,112
Gross profit	28,433	26,617
OPERATING EXPENSES:		
Selling, general, and administrative	11,630	11,094
Amortization of goodwill and trademarks	1,152	1,144
Recovery of import duties	-	(370)

Total operating expenses	12,782	11,868
INCOME FROM OPERATIONS	15,651	14,749
OTHER EXPENSE (INCOME)		
Interest expense	770	1,075
Other, net	(392)	(744)
INCOME BEFORE INCOME TAXES	15,273	14,418
PROVISION FOR INCOME TAXES	6,033	5,695
NET INCOME	$ 9,240	$ 8,723
NET INCOME PER COMMON SHARE	$ 0.48	$ 0.41
NET INCOME PER COMMON SHARE ASSUMING DILUTION	$ 0.47	$ 0.40

</TABLE>

See notes to condensed consolidated financial statements.

<PAGE>

DEPARTMENT 56, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

<TABLE>
<CAPTION>

<S>	QUARTER ENDED APRIL 4, 1998 <C>	QUARTER ENDED APRIL 5, 1997 <C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net cash provided by (used in) operating activities	$ (5,918)	$ 14,216
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(258)	(286)
Acquisitions	(2,310)	-
Net cash used in investing activities	(2,568)	(286)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	1,109	22
Stock repurchases	(14,647)	(11,744)
Net cash used in financing activities	(13,538)	(11,722)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(22,024)	2,208
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	37,361	46,405
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 15,337	$ 48,613
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest	$ 778	$ 1,100
Income taxes	$ 1,265	$ 630

</TABLE>

See notes to condensed consolidated financial statments.

<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 April 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

During the quarter ended April 4, 1998, the Company repurchased 435,000 shares at a cost of $14.6 million under its existing stock repurchase program. As of April 4, 1998, the company was authorized to repurchase 366,000 additional shares under this program.

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 both programs will be determined at the discretion of the Company's management and subject to continued compliance with the Company's credit facilities.

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.

<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 APRIL 4, 1998 TO THE QUARTER ENDED APRIL 5, 1997.

<TABLE>
<CAPTION>

	Quarter Ended April 4, 1998		Quarter Ended April 5, 1997	
	(Dollars in millions)			
	Dollars	% of Net Sales	Dollars	% of Net Sales
<S>	<C>	<C>	<C>	<C>
Net sales	$49.0	100%	$45.7	100%
Gross profit	28.4	58	26.6	58
Selling, general, and administrative expenses	11.6	24	11.1	24
Amortization of goodwill and trademarks	1.2	2	1.1	3
Recovery of import duties	-	-	(0.4)	(1)
Income from operations	15.7	32	14.7	32
Interest expense	0.8	2	1.1	2
Other income, net	(0.4)	(1)	(0.7)	(2)
Income before income taxes	15.3	31	14.4	32
Provision for income taxes	6.0	12	5.7	

12

Net income	9.2	19	8.7	19

</TABLE>

NET SALES. Net sales increased $3.3 million, or 7%, from $45.7 million in the first quarter of 1997 to $49.0 million in the first quarter of 1998. Sales of the Company's Village Series products increased $1.2 million, or 4%, while sales of General Giftware products increased $2.1 million, or 15% between the two periods. Village Series and General Giftware products represented 66% and 34%, respectively, of the Company's net sales during the first quarter of 1998.

<PAGE>

GROSS PROFIT. Gross profit increased $1.8 million, or 7%, between the first quarter of 1997 and the first 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 was 58% during the first quarter of both 1997 and 1998.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased $.5 million, or 5%, between the first quarter of 1997 and the first quarter of 1998 principally due to an increase in marketing expenses. Selling, general and administrative expenses as a percentage of sales was 24% during the first quarter of both 1997 and 1998.

INCOME FROM OPERATIONS. Income from operations increased $1.0 million, or 6%, between the first quarter of 1997 and the first quarter of 1998 due to the factors described above. Income from operations was 32% of net sales during the first quarter of both 1997 and 1998.

INTEREST EXPENSE. Interest expense decreased $.3 million, or 28%, between the first quarter of 1997 and the first quarter of 1998 principally due to the payment of $20 million of long term debt during 1997.

PROVISION FOR INCOME TAXES. The effective tax rate was 39.5% during the first quarter of 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 April 4, 1998, the Company had $5.4 million of outstanding letters of credit under its revolving line of credit. The available revolving line of credit commitment was $24.6 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 $1.3 million from $34.7 million at April 5, 1997 to $36.0 million at April 4, 1998 principally due to the increase in sales in 1998 as compared to 1997.

<PAGE>

During the quarter ended April 4, 1998, the Company repurchased 435,000 shares at a cost of $14.6 million under its existing stock repurchase program. As of April 4, 1998, the company was authorized to repurchase 366,000 additional shares under this program.

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 both programs will be determined at the discretion of the Company's management and subject to continued compliance with the Company's credit facilities.

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)

<TABLE>
<CAPTION>

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total

<S> <C> <C> <C> <C> <C>

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

</TABLE>

(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 $126.1 million as of April 4, 1998, as compared to $117.2 million as of April 5, 1997.

Through the first quarter of 1998, customer orders entered increased 8% as compared to the same period for 1997. Customer orders entered for Village Series products have increased 10% through the first quarter of 1998 while customer orders entered for General Giftware products have increased 5%.

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 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) 11.1 Computation of net income per share.

(b) A Current Report on Form 8-K, dated February 24, 1998, was filed reporting in Items 5 and 7 thereof and containing unaudited condensed statements of income and unaudited condensed balance sheets. A Current Report on Form 8-K, dated March 13, 1998, was filed reporting in Items 5 and 7 thereof and containing no financial statements.

<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: April 30, 1998 /s/Susan E. Engel

Susan E. Engel
Chairwoman, Chief Executive Officer
and Director

Date: April 30, 1998

/s/Timothy J. Schugel

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

<PAGE>

EXHIBIT INDEX

<TABLE>
<CAPTION>

EXHIBIT NUMBER	EXHIBIT NAME	PAGE NUMBER
11.1	Computation of net income per share.	

</TABLE>

</TEXT>
</DOCUMENT>
<DOCUMENT>
<TYPE>EX-11.1
<SEQUENCE>2
<DESCRIPTION>EXHIBIT 11-1
<TEXT>

<PAGE>

Exhibit 11.1

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

<TABLE>
<CAPTION>

	Quarter Ended April 4, 1998	Quarter Ended April 5, 1997
BASIC:		
Net Income	$ 9,240	$ 8,723
Weighted average number of common shares outstanding	19,411	21,426
Net Income per Common Share	$ 0.48	$ 0.41

ASSUMING DILUTION:

Net Income	$ 9,240	$ 8,723
Weighted average number of common shares outstanding	19,411	21,426
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 greater of average market price during the period or period-end market price	288	144
Weighted average number of common and common equivalent shares	19,699	21,570
Net Income per Common Share Assuming Dilution	$ 0.47	$ 0.40

</TABLE>

</TEXT>
</DOCUMENT>
<DOCUMENT>
<TYPE>EX-27
<SEQUENCE>3
<DESCRIPTION>EXHIBIT 27
<TEXT>

<TABLE> <S> <C>

<PAGE>
<ARTICLE> 5
<MULTIPLIER> 1,000

<S>	<C>	
<PERIOD-TYPE>	3-MOS	
<FISCAL-YEAR-END>		JAN-02-1999
<PERIOD-END>		APR-04-1998
<CASH>		15,337
<SECURITIES>		0
<RECEIVABLES>		35,985
<ALLOWANCES>		0
<INVENTORY>		23,672
<CURRENT-ASSETS>		9,194
<PP&E>		12,775
<DEPRECIATION>		0
<TOTAL-ASSETS>		255,880
<CURRENT-LIABILITIES>		47,187
<BONDS>		20,000
<PREFERRED-MANDATORY>		0
<PREFERRED>		0
<COMMON>		0
<OTHER-SE>		0
<TOTAL-LIABILITY-AND-EQUITY>		255,880
<SALES>		49,027
<TOTAL-REVENUES>		49,027
<CGS>		20,594
<TOTAL-COSTS>		20,594
<OTHER-EXPENSES>		12,782
<LOSS-PROVISION>		0
<INTEREST-EXPENSE>		770

<INCOME-PRETAX> 15,273
<INCOME-TAX> 6,033
<INCOME-CONTINUING> 9,240
<DISCONTINUED> 0
<EXTRAORDINARY> 0
<CHANGES> 0
<NET-INCOME> 9,240
<EPS-PRIMARY> .48
<EPS-DILUTED> .47

</TABLE>
</TEXT>
</DOCUMENT>
</SEC-DOCUMENT>
-----END PRIVACY-ENHANCED MESSAGE-----