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CONFORMED PERIOD OF REPORT: 19960928
FILED AS OF DATE: 19961022
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: 1934 Act
SEC FILE NUMBER: 001-11908
FILM NUMBER: 96646126

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

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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: September 28, 1996

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 September 28, 1996, 21,571,187 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

	SEPTEMBER 28, 1996	DECEMBER 30, 1995
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,724	$ 7,805
Accounts receivable, net	127,971	34,271
Inventories	21,733	29,059

Other current assets	7,519	6,544
Total current assets	160,947	77,679
PROPERTY AND EQUIPMENT, net	12,195	12,445
GOODWILL AND TRADEMARKS, net	164,762	168,195
OTHER ASSETS	575	766
	$ 338,479	$ 259,085

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Revolving line of credit	$ 29,371	$ -
Current portion of long-term debt	20,000	20,000
Accounts payable	5,673	6,599
Other current liabilities	23,600	15,065
Total current liabilities	78,644	41,664
DEFERRED TAXES	7,453	7,135
LONG-TERM DEBT	60,000	60,000
STOCKHOLDERS' EQUITY	192,382	150,286
	$ 338,479	$ 259,085

See notes to condensed consolidated financial statements.

<PAGE>

DEPARTMENT 56, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	QUARTER ENDED SEPTEMBER 28, 1996	QUARTER ENDED SEPTEMBER 30, 1995
NET SALES	$ 60,210	$ 77,033
COST OF SALES	25,408	33,461
Gross profit	34,802	43,572
OPERATING EXPENSES:		
Selling, general, and administrative	11,679	11,842
Amortization of goodwill and trademarks	1,144	1,144
Recovery of import duties	(218)	(2,819)
Total operating expenses	12,605	10,167
INCOME FROM OPERATIONS	22,197	33,405
OTHER EXPENSE (INCOME)		
Interest expense	1,744	2,761
Other, net	(41)	(11)

INCOME BEFORE INCOME TAXES	20,494	30,655
PROVISION FOR INCOME TAXES	8,198	12,415
NET INCOME	$ 12,296	$ 18,240
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE	$ 0.57	$ 0.84
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING	21,748	21,783

See notes to condensed consolidated financial statements.

<PAGE>

DEPARTMENT 56, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	39 WEEKS ENDED SEPTEMBER 28, 1996	39 WEEKS ENDED SEPTEMBER 30, 1995
NET SALES	$ 194,483	$ 204,836
COST OF SALES	81,559	89,183
Gross profit	112,924	115,653
OPERATING EXPENSES:		
Selling, general, and administrative	36,184	33,979
Amortization of goodwill and trademarks	3,432	3,433
Recovery of import duties	(453)	(2,819)
Total operating expenses	39,163	34,593
INCOME FROM OPERATIONS	73,761	81,060
OTHER EXPENSE (INCOME)		
Interest expense	4,590	7,244
Other, net	(372)	(245)
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	69,543	74,061
PROVISION FOR INCOME TAXES	27,817	29,995
INCOME BEFORE EXTRAORDINARY ITEM	41,726	44,066
EXTRAORDINARY CHARGE DUE TO REFINANCING OF DEBT	-	1,312
NET INCOME	$ 41,726	$ 42,754

INCOME BEFORE EXTRAORDINARY ITEM

PER COMMON AND COMMON EQUIVALENT SHARE	$ 1.92	$ 2.03
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE	$ 1.92	$ 1.97
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING	21,757	21,736

See notes to condensed consolidated financial statements.

<PAGE>

DEPARTMENT 56, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(IN THOUSANDS)

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<S>	39 WEEKS ENDED SEPTEMBER 28, 1996 <C>	39 WEEKS ENDED SEPTEMBER 30, 1995 <C>
CASH FLOWS FROM OPERATING ACTIVITIES-		
Net cash used in operating activities	$ (32,736)	$ (47,028)
CASH FLOWS FROM INVESTING ACTIVITIES-		
Purchases of property and equipment	(962)	(1,443)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	247	833
Net borrowings under revolving credit facility	29,370	66,500
Proceeds from issuance of term loan	-	100,000
Principal payments on long-term debt	-	(115,500)
Net cash provided by financing activities	29,617	51,833
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,081)	3,362
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	7,805	2,180
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 3,724	$ 5,542
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for:		

Interest	$ 4,111	$ 7,086
Income taxes	$ 22,740	$ 23,788

</TABLE>

See notes to condensed consolidated financial statements.

<PAGE>

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

(IN THOUSANDS)

1. BASIS OF PRESENTATION

The accompanying condensed consolidated balance sheet as of December 30, 1995 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 September 28, 1996 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 1995 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. EXTRAORDINARY ITEM

In February 1995, the principal operating subsidiary of the Company, D 56, Inc., entered into a new credit agreement providing a $100,000 term loan and a $90,000 revolving line of credit. The Company used the proceeds of the term loan combined with $8,000 of the revolving line of credit to refinance its long-term debt. In connection therewith, the Company recorded an extraordinary charge of $1,312, net of a tax benefit of $893.

3. INCOME PER SHARE

Net income and income before extraordinary item per common and common equivalent share are based on the weighted average of common and common equivalent shares outstanding during the period. Common equivalent shares consist of the Company's common stock issuable upon exercise of common stock options, determined using the treasury stock method.

<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 SEPTEMBER 28, 1996 TO THE QUARTER ENDED SEPTEMBER 30, 1995.

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	Quarter Ended September 28, 1996		Quarter Ended September 30,1995	
	(Dollars in millions)			
	Dollars	% of Net Sales	Dollars	% of Net Sales
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Net sales	$60.2	100 %	$77.0	100 %
Gross profit	34.8	58	43.6	57
Selling, general, and administrative expenses	11.7	19	11.8	15
Amortization of goodwill and trademarks	1.1	2	1.1	1
Recovery of import duties	(.2)	-	(2.8)	(4)
Income from operations	22.2	37	33.4	43
Interest expense	1.7	3	2.8	4
Other income, net	-	-	-	-
Income before income taxes	20.5	34	30.7	40
Provision for income taxes	8.2	14	12.4	16
Net income	12.3	20	18.2	24

</TABLE>

NET SALES. Net sales decreased $16.8 million, or 22%, from $77.0 million in the third quarter of 1995 to $60.2 million in the third quarter of 1996 principally as a result of a decrease in volume. Sales of the Company's Village Series products decreased $16.4 million, or 30%, while sales of General Giftware products decreased $.4 million, or 2%, between the two periods. Village Series and General Giftware products represented 63% and 37%, respectively, of the Company's net sales during the third quarter.

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GROSS PROFIT. Gross profit decreased $8.8 million, or 20%, between the third quarter of 1995 and the third quarter of 1996. The decrease in gross profit was principally due to the decrease in sales volume. Gross profit as a percentage of sales increased from 57% in the third quarter of 1995 to 58% in the third quarter of 1996 principally due to increased manufacturing efficiencies and lower volume discounts as a percent of sales.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses decreased $.2 million, or 1%, between the third quarter of 1995 and the third quarter of 1996. Selling, general and administrative expenses as a percent of sales increased from 15% in the third quarter of 1995 to 19% in the third quarter of 1996 principally due to increased marketing expenses and certain other general and administrative expenses which, because of their fixed nature, did not decrease directly with sales.

INCOME FROM OPERATIONS. Income from operations decreased $11.2 million, or 34%, between the third quarter of 1995 and the third quarter of 1996. Income from operations decreased from 43% to 37% of net sales due to factors described above.

INTEREST EXPENSE. Interest expense decreased $1 million, or 37%, between the third quarter of 1995 and the third quarter of 1996 principally due to the payment of $33 million of debt during 1995.

PROVISION FOR INCOME TAXES. The effective tax rate was 40.5% during the third quarter of 1995 and 40.0% during the third quarter of 1996.

<PAGE>

RESULTS OF OPERATIONS

COMPARISON OF RESULTS OF OPERATIONS FOR THE 39 WEEKS ENDED SEPTEMBER 28, 1996 TO THE 39 WEEKS ENDED SEPTEMBER 30, 1995.

<TABLE>
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	39 Weeks Ended September 28, 1996		39 Weeks Ended September 30,1995	
	(Dollars in millions)			
Sales	Dollars	% of Net Sales	Dollars	% of Net
<S>	<C>	<C>	<C>	<C>
Net sales	$194.5	100 %	$204.8	100 %
Gross profit	112.9	58	115.7	56
Selling, general, and administrative expenses	36.2	19	34.0	17
Amortization of goodwill and trademarks	3.4	2	3.4	2
Recovery of import duties	(.5)	-	(2.8)	(1)
Income from operations	73.8	38	81.1	40
Interest expense	4.6	2	7.2	4
Other income, net	(0.4)	-	(0.2)	-
Income before income taxes and extraordinary item	69.5	36	74.1	36
Provision for income taxes	27.8	14	30.0	15
Income before extraordinary item	41.7	21	44.1	22
Extraordinary charge	-	-	1.3	1
Net income	41.7	21	42.8	21

</TABLE>

NET SALES. Net sales decreased $10.4 million, or 5%, from $204.8 million in 1995 to $194.5 million in 1996 principally as a result of a decrease in volume. Sales of the Company's Village Series products decreased $14.8 million, or 10%, while sales of General Giftware products increased $4.5 million, or 7%, between the two periods. Village Series and General Giftware products represented 67% and 33%, respectively, of the Company's net sales in 1996.

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GROSS PROFIT. Gross profit decreased $2.7 million, or 2%, between 1995 and 1996. The decrease in gross profit was principally due to the decrease in sales volume. Gross profit as a percentage of sales increased from 56% in 1995 to 58% in 1996 principally due to increased manufacturing efficiencies, lower volume discounts as a percent of sales and lower import duties from the implementation of GATT.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased $2.2 million, or 6%, between 1995 and 1996. Selling, general and administrative expenses as a percent of sales increased from 17% in 1995 to 19% in 1996 principally due to increased marketing expenses and certain other general and administrative expenses which, because of their fixed nature, did not decrease directly with sales.

INCOME FROM OPERATIONS. Income from operations decreased $7.3 million, or 9%, between 1995 and 1996. Income from operations decreased from 40% to 38% of net sales due to the factors described above.

INTEREST EXPENSE. Interest expense decreased $2.7 million, or 37%, between 1995 and 1996 principally due to the payment of $33 million of debt during 1995 and a decrease in interest rates.

PROVISION FOR INCOME TAXES. The effective income tax rate was 40.5% and 40.0% during 1995 and 1996, respectively.

EXTRAORDINARY CHARGE. In February 1995, D 56, Inc. entered into a new credit agreement providing for a $100 million term loan and a $90 million revolving line of credit. The Company used the proceeds of the term loan combined with $8 million of the revolving line of credit to refinance its long-term debt. In connection therewith, the Company recorded an extraordinary charge of $1.3 million, net of a tax benefit of $0.9 million, or $0.06 per share.

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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 September 28, 1996, the Company had $29.4 million of outstanding loans and acceptances and $1.7 million of outstanding letters of credit under its revolving line of credit. The available revolving line of credit commitment was $58.8 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 which 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 $1.2 million from $126.8 million at September 30, 1995 to $128.0 million at September 28, 1996 principally due to a higher percentage of 1996 sales qualifying for extended terms.

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 a substantial majority of its products from manufacturers located in the Pacific Rim, primarily Taiwan (Republic of China), The People's Republic of China and The Philippines. The Company's purchases from manufacturers located in The People's Republic of China and The Philippines are denominated in United States dollars. The Company's costs could be adversely affected if the New Taiwan Dollar (or the currencies of other countries in which the Company conducts business) appreciates significantly relative to the United States dollar. 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.

At September 28, 1996 the Company had $6.4 million of foreign exchange contracts outstanding to hedge 1996 Taiwan dollar denominated inventory purchases. These contracts mature during October and November of 1996 at a rate of approximately 27.00 NT$/US$.

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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.

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)

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
1994	$181	$27	$20	$9	$237
1995	210	30	27	9	276
1996	178	35	28	-	-

(1) Customer orders entered are domestic 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 76% of its total annual customer orders during the first quarter of both 1995 and 1994. Cancellations were approximately 7% and 5% of total annual orders in 1995 and 1994, respectively.

The Company shipped and recorded as net sales approximately 91% and 92% of its annual customer orders in 1995 and 1994, respectively. Orders not shipped in a particular year, net of cancellations, returns, allowances and cash discounts, are carried into backlog for the following year and have historically been Easter orders. Domestic unfilled orders were $44.5 million as of September 28, 1996, as compared to $57.5 million as of September 30, 1995.

Through the third quarter of 1996, customer orders entered decreased 10% as compared to the same period for 1995. Customer orders entered for Village Series products and General Giftware products decreased 11% and 8%, respectively.

<PAGE>

FORWARD-LOOKING STATEMENT CONCERNING 1996 EPS

The Company forecasts that earnings per share (EPS) for the current fiscal year will approximate or be slightly lower than 1995 fiscal year EPS (excluding import duty recoveries and extraordinary refinancing charges). This forecast is a "forward-looking statement" within the meaning of The Private Securities Litigation Reform Act of 1995, and involves risks and uncertainties. Among others, this forecast is based on the following assumptions:

- - Order input for the 1996 fourth quarter will increase over 1995 fourth quarter order input for each product category at the same rate by which order input for the 1996 third quarter increased over 1995 third quarter order input.

- - Order cancellation rates for the 1996 fourth quarter will remain stable or improve relative to those rates for the current year through the end of the third quarter.

- - Product received from manufacturers will be of sufficient quantity, mix and promptness so as to satisfy new orders as well as the backlog of orders which are to be shipped in the current year.

- - The gross margin rate will be maintained at the level of the current year through the end of the third quarter.

- - Selling, general and administrative expenses (SG&A) for the 1996 fourth quarter will not exceed the amount of SG&A for the 1995 fourth quarter.

- - The regulatory and trade environment will remain stable.

Actual results may vary materially from this forecast and the assumptions upon which it is based. This forward-looking statement speaks as of the date of this report only, and the Company undertakes no obligation to publish or update any forward-looking statements in the future.

<PAGE>

PART II - OTHER INFORMATION

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

(a) 11.1 Computation of net income and income before extraordinary item per share.

(b) 27 Financial Data Schedule.

<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: October 22, 1996 /s/Susan Engel

Susan Engel
President and Chief Operating Officer

Date: October 22, 1996 /s/Timothy J. Schugel

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

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EXHIBIT INDEX

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11.1	Computation of net income and income before extraordinary item per share.	
27	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 September 28, 1996	Quarter Ended September 30, 1995
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PRIMARY:		
Net Income	$12,296	$18,240
Weighted average number of common shares outstanding	21,564	21,541
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	184	242
Weighted average number of common and common equivalent shares	21,748	21,783
Net Income per Common and Common Equivalent Share	$0.57	$0.84
FULLY DILUTED:		
Net Income	$12,296	$18,240
Weighted average number of common shares outstanding	21,564	

		21,541
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	203	266
Weighted average number of common and common equivalent shares	21,767	21,807
Fully Diluted Net Income per Common and Common Equivalent Share	$0.56	$0.84

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

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<S>	<C> 39 Weeks Ended September 28, 1996	<C> 39 Weeks Ended September 30, 1995
PRIMARY:		
Income Before Extraordinary Item	$41,726	$44,066
Net Income	$41,726	$42,754
Weighted average number of common shares outstanding	21,554	21,524
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	203	212
Weighted average number of common and common equivalent shares	21,757	21,736

Income Before Extraordinary Item per Common and Common Equivalent Share	$1.92	$2.03
Net Income per Common and Common Equivalent Share	$1.92	$1.97
FULLY DILUTED:		
Income Before Extraordinary Item	$41,726	$44,066
Net Income	$41,726	$42,754
Weighted average number of common shares outstanding	21,554	21,524
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	203	260
Weighted average number of common and common equivalent shares	21,757	21,784
Fully Diluted Income Before Extraordinary Item per Common and Common Equivalent Share	$1.92	$2.02
Fully Diluted Net Income per Common and Common Equivalent Share	$1.92	$1.96

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