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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: 97586489

BUSINESS ADDRESS:
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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: April 5, 1997

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 11, 1997, 20,872,329 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

	APRIL 5, 1997	DECEMBER 28, 1996
CURRENT ASSETS:		
Cash and cash equivalents	$ 48,613	$ 46,405
Accounts receivable, net	34,740	35,603
Inventories	20,149	20,526
Other current assets	6,816	6,769

Total current assets	110,318	109,303
PROPERTY AND EQUIPMENT, net	12,120	12,318
GOODWILL AND TRADEMARKS, net	162,473	163,618
OTHER ASSETS	498	494
	$ 285,409	$ 285,733

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Current portion of long-term debt	$ 20,000	$ 20,000
Accounts payable	7,315	7,618
Other current liabilities	16,664	13,688
Total current liabilities	43,979	41,306
DEFERRED TAXES	7,670	7,670
LONG-TERM DEBT	40,000	40,000
STOCKHOLDERS' EQUITY	193,760	196,757
	$ 285,409	$ 285,733

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 APRIL 5, 1997	QUARTER ENDED MARCH 30, 1996
NET SALES	$ 45,729	$ 58,996
COST OF SALES	19,112	25,193
Gross profit	26,617	33,803
OPERATING EXPENSES:		
Selling, general, and administrative	11,094	11,500
Amortization of goodwill and trademarks	1,144	1,144
Recovery of import duties	(370)	(200)
Total operating expenses	11,868	12,444
INCOME FROM OPERATIONS	14,749	21,359
OTHER EXPENSE (INCOME)		
Interest expense	1,075	1,357
Other, net	(744)	(260)
INCOME BEFORE INCOME TAXES	14,418	20,262
PROVISION FOR INCOME TAXES	5,695	8,105

NET INCOME	$ 8,723	$ 12,157
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE	$0.40	$0.56
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING	21,570	21,748

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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CASH FLOWS FROM OPERATING ACTIVITIES-		
Net cash provided by operating activities	$ 14,216	$ 993
CASH FLOWS FROM INVESTING ACTIVITIES-		
Purchases of property and equipment	(286)	(225)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	22	90
Stock repurchases	(11,744)	-
Net cash provided by (used in) financing activities	(11,722)	90
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,208	858
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	46,405	7,805

CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 48,613	$ 8,663
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest	$ 1,100	$ 1,278
Income taxes	$ 630	$ 593

</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 December 28, 1996 was derived from the audited consolidated balance sheet 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 5, 1997 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 1996 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 SHARE

Net income and income before extraordinary item per common and common equivalent share are based on the weighted average number 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.

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings per Share". This Statement specifies the computation, presentation, and disclosure requirements for earnings per share. This Statement is effective for financial statements issued for periods ending after December 15, 1997, including interim periods, and adoption by the Company in 1997 is not expected to have a material impact on the earnings per share computation.

3. STOCKHOLDERS' EQUITY

On December 10, 1996, the Board of Directors of the Company authorized a stock repurchase program. The program allows the repurchase in the open market of up to 1.5 million shares through the end of June 1998. The timing, prices and number of shares repurchased will be determined at the discretion of the Company's Management based on its view of prevailing economic and market conditions. During the quarter ended April 5, 1997, the Company repurchased 631,758 shares at a cost of $11,743,629 in the open market.

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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 5, 1997 TO THE QUARTER ENDED MARCH 30, 1996.

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	Quarter Ended April 5, 1997		Quarter Ended March 30,1996	
	(Dollars in millions)			
	Dollars	% of Net Sales	Dollars	% of Net Sales
<S>	<C>	<C>	<C>	<C>
Net sales	$45.7	100%	$59.0	100%
Gross profit	26.6	58	33.8	57
Selling, general, and administrative expenses	11.1	24	11.5	19
Amortization of goodwill and trademarks	1.1	3	1.1	2
Recovery of import duties	(.4)	(1)	(.2)	--
Income from operations	14.7	32	21.4	36
Interest expense	1.1	2	1.4	2
Other income, net	(0.7)	(2)	(0.3)	--
Income before income taxes	14.4	32	20.3	34
Provision for income taxes	5.7	12	8.1	14
Net income	8.7	19	12.2	

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</TABLE>

<PAGE>

NET SALES. Net sales decreased $13.3 million, or 22%, from $59.0 million in the first quarter of 1996 to $45.7 million in the first quarter 1997. This decrease was principally due to a decrease in volume. Sales of the Company's Village Series products decreased $7.5 million, or 19%, while sales of General Giftware products decreased $5.8 million, or 29% between the two periods. Village Series and General Giftware products represented 68% and 32%, respectively, of the Company's net sales during the first quarter.

GROSS PROFIT. Gross profit decreased $7.2 million, or 21%, between the first quarter of 1996 and the first quarter of 1997. The decrease in gross profit was principally due to the decrease in sales volume. Gross profit as a percentage of net sales increased from 57% in the first quarter of 1996 to 58% in the first quarter of 1997, principally due to a reduction in the amount provided for slow-moving inventory and increased manufacturing efficiencies in the first quarter of 1997 as compared to the first quarter of 1996.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses decreased $.4 million, or 4%, between the first quarter of 1996 and the first quarter of 1997 principally due to a 28% decrease in commission expense offset by inflationary increases in administrative expenses. Selling, general and administrative expenses as a percentage of sales increased from approximately 19% in the first quarter of 1996 to 24% in the first quarter of 1997.

RECOVERY OF IMPORT DUTIES. The Company received net refunds of $.4 million and $.2 million in custom duties and related interest in the first quarter of 1997 and the first quarter of 1996, respectively. The duties pertained to certain merchandise imported into the United States prior to 1996.

INCOME FROM OPERATIONS. Income from operations decreased $6.6 million, or 31%, between the first quarter of 1996 and the first quarter of 1997 due to the factors described above. Income from operations decreased from 36% to 32% of net sales principally due to the increase in selling, general and administrative expense as a percentage of sales.

INTEREST EXPENSE. Interest expense decreased $.3 million, or 21%, between the first quarter of 1996 and the first quarter of 1997 principally due to the payment of $20 million of debt during 1996.

PROVISION FOR INCOME TAXES. The effective tax rate was 40.0% and 39.5% in the first quarter of 1996 and 1997, respectively.

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.

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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 5, 1997, the Company had $5.8 million of outstanding letters of credit under its revolving line of credit. The available revolving line of credit commitment was $27.5 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 decreased $20.5 million from $55.3 million at March 30, 1996 to $34.7 million at April 5, 1997 principally due to the decrease in sales in the first quarter of 1997 as compared to the first quarter of 1996.

Inventory decreased $5.6 million from $25.7 million at March 30,1996 to $20.1 million at April 5, 1997 principally due to the decrease in sales volume in the first quarter of 1997 as compared to the first quarter of 1996 and taking a more cautious approach to inventory purchases.

On December 10, 1996, the Board of Directors of the Company authorized a stock repurchase program. The program allows the repurchase in the open market of up to 1.5 million shares through the end of June 1998. The timing, prices and number of shares repurchased will be determined at the discretion of the Company's management based on its view of prevailing economic and market conditions. As of April 11, 1997, the Company had repurchased 713,158 shares at a cost of $13,167,625 in the open market.

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 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 in the currencies of the countries in which the manufacturers operate appreciate significantly relative to the U.S. dollar.

At April 5, 1997 the Company had $11.3 million of foreign exchange contracts outstanding to hedge 1997 New Taiwan dollar denominated inventory purchases. These contracts mature from April 1997 through December 1997 at a rate of aproximately 27.50 NT$/US$.

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 been low and has not had a material impact on the Company's results of operations.

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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 growth 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
1995	$210	$30	$27	$9	$276
1996	178	35	28	8	249
1997	161	--	--	--	--

(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 71% and 76% of its total annual customer orders during the first quarter of 1996 and 1995, respectively. Cancellations were approximately 6% and 7% of total annual orders in 1996 and 1995, respectively.

The Company shipped and recorded as net sales approximately 92% and 91% of its annual customer orders in 1996 and 1995, 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 $117 million as of April 5, 1997 as compared to $125 million as of March 30, 1996.

Through the first quarter of 1997, customer orders entered decreased 10% as compared to the same period of 1996. Customer orders entered for Village Series products have decreased 14% throught the first quarter of 1997 as compared to the first quarter of 1996 while customer orders entered for General Giftware Products have increased 3%.

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PART II - OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES

The Company has adopted a shareholder rights plan. Under the rights plan, each shareholder will receive a dividend of one right for each outstanding share of the Company's stock. Upon the occurrence of certain events involving a buyer acquiring a 20% or greater position in the Company, all rights holders except the buyer will be entitled to purchase the Company's stock at a discount. If the Company is acquired in a merger after such an acquisition, all rights holders except the buyer will also be entitled to purchase stock in the buyer at a discount.

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

(a) Exhibits

Exhibit 4.2/(1)/	Rights Agreement, dated as of April 23, 1997, between the Registrant and Chase Mellon Shareholder Services, LLC, which includes Exhibit B thereto the Form of Right Certificate.
Exhibit 11.1	Computation of net income per share.

(b) A Current Report on Form 8-K, dated February 24, 1997, was filed reporting in Items 5 and 7 thereof and containing unaudited condensed statements of income and unaudited condensed balance sheets.

/(1)/ Incorporated herein by reference to Exhibit 1 to the Company's Registration Statement and Form 8-A, filed as of April 24, 1997.

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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 23, 1997

/s/Susan Engel

Susan Engel
President and Chief Executive Officer

Date: April 23, 1997

/s/Timothy J. Schugel

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

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EXHIBIT INDEX

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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 April 5, 1997	Quarter Ended March 30, 1996
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Net Income	$ 8,723	$12,157
Weighted average number of common shares outstanding	21,426	21,549
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	144	199
Weighted average number of common and common equivalent shares	21,570	21,748
Net Income per Common and Common Equivalent Share	$0.40	$0.56
FULLY DILUTED:		
Net Income	$ 8,723	$12,157
Weighted average number of common shares outstanding	21,426	21,549
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	144	199
Weighted average number of common and common equivalent shares	21,570	21,748
Fully Diluted Net Income per Common and Common Equivalent Share	$0.40	$0.56

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