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PUBLIC DOCUMENT COUNT: 3
CONFORMED PERIOD OF REPORT: 19971004
FILED AS OF DATE: 19971021
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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:
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SEC FILE NUMBER: 001-11908
FILM NUMBER: 97698802

BUSINESS ADDRESS:
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STREET 2: 6436 CITY W PKWY
CITY: EDEN PRAIRIE
STATE: MN
ZIP: 55344
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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: October 4, 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 October 4, 1997, 20,603,817 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

	OCTOBER 4, 1997	DECEMBER 28, 1996
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,714	$ 46,405
Accounts receivable, net	100,014	35,603

Inventories	23,833	20,526
Other current assets	8,694	6,769
Total current assets	135,255	109,303
PROPERTY AND EQUIPMENT, net	12,067	12,318
GOODWILL AND TRADEMARKS, net	160,185	163,618
OTHER ASSETS	311	494
	$ 307,818	$ 285,733

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Revolving line of credit	$ 2,487	$ -
Current portion of long-term debt	20,000	20,000
Accounts payable	7,958	7,618
Other current liabilities	20,093	13,688
Total current liabilities	50,538	41,306
DEFERRED TAXES	7,670	7,670
LONG-TERM DEBT	40,000	40,000
STOCKHOLDERS' EQUITY	209,610	196,757
	$ 307,818	$ 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 OCTOBER 4, 1997	QUARTER ENDED SEPTEMBER 28, 1996
NET SALES	$ 61,602	$ 60,210
COST OF SALES	25,845	25,408
Gross profit	35,757	34,802
OPERATING EXPENSES:		
Selling, general, and administrative	12,074	11,679
Amortization of goodwill and trademarks	1,144	1,144
Recovery of import duties	-	(218)
Total operating expenses	13,218	12,605
INCOME FROM OPERATIONS	22,539	22,197
OTHER EXPENSE (INCOME)		
Interest expense	1,069	1,744
Other, net	(142)	(41)

INCOME BEFORE INCOME TAXES	21,612	20,494
PROVISION FOR INCOME TAXES	8,537	8,198
NET INCOME	$ 13,075	$ 12,296
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE	$ 0.63	$ 0.57
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING	20,904	21,748

See notes to condensed consolidated financial statements.

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DEPARTMENT 56, INC. AND SUBSIDIARIES

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

	40 WEEKS ENDED OCTOBER 4, 1997	39 WEEKS ENDED SEPTEMBER 28, 1996
NET SALES	$ 165,895	$ 194,483
COST OF SALES	69,660	81,559
Gross profit	96,235	112,924
OPERATING EXPENSES:		
Selling, general, and administrative	34,568	36,184
Amortization of goodwill and trademarks	3,432	3,432
Recovery of import duties	(370)	(453)
Total operating expenses	37,630	39,163
INCOME FROM OPERATIONS	58,605	73,761
OTHER EXPENSE (INCOME)		
Interest expense	3,240	4,590
Other, net	(1,159)	(372)
INCOME BEFORE INCOME TAX	56,524	69,543
PROVISION FOR INCOME TAXES	22,327	27,817
NET INCOME	$ 34,197	$ 41,726
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE	$ 1.62	$ 1.92

WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING	21,117	21,757

See notes to condensed consolidated financial statements.

<PAGE>

DEPARTMENT 56, INC. AND SUBSIDIARIES

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

	40 WEEKS ENDED OCTOBER 4, 1997	39 WEEKS ENDED SEPTEMBER 28, 1996
CASH FLOWS FROM OPERATING ACTIVITIES-		
Net cash used in operating activities	$ (22,996)	$ (32,736)
CASH FLOWS FROM INVESTING ACTIVITIES-		
Purchases of property and equipment	(1,202)	(962)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	1,059	247
Net borrowings under revolving credit facility	2,487	29,370
Stock repurchases	(23,039)	-
Net cash provided by (used in) financing activities	(19,493)	29,617
NET DECREASE IN CASH AND CASH EQUIVALENTS	(43,691)	(4,081)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	46,405	7,805
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 2,714	$ 3,724
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest	$ 3,004	$ 4,111
Income taxes	$ 20,024	$ 22,740

See notes to condensed consolidated financial statements.

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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 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 October 4, 1997 and the 40 weeks ended October 4, 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 per common and common equivalent share is 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.

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 open market and privately negotiated transactions of up to 1.5 million shares through the end of June 1998. Board authorization of a similar repurchase program of up to an additional 1.5 million shares valid through December 31, 1999 became effective on October 15, 1997. 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. During the quarter ended October 4, 1997, the Company repurchased 284,600 shares at a cost of $7.4 million. During the 40 weeks ended October 4, 1997, the Company repurchased 1,125,258 shares at a cost of $23.0 million.

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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 OCTOBER 4, 1997 TO THE QUARTER ENDED SEPTEMBER 28, 1996.

<TABLE>
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	Quarter Ended October 4, 1997		Quarter Ended September 28, 1996	
	(Dollars in millions)			
	Dollars	% of Net Sales	Dollars	% of Net Sales
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Net sales	$61.6	100%	$60.2	100%
Gross profit	35.8	58	34.8	58
Selling, general, and administrative expenses	12.1	20	11.7	19
Amortization of goodwill and trademarks	1.1	2	1.1	2
Recovery of import duties	-	-	(0.2)	-
Income from operations	22.5	37	22.2	37
Interest expense	1.1	2	1.7	3
Other income, net	(0.1)	-	-	-
Income before income taxes	21.6	35	20.5	34
Provision for income taxes	8.5	14	8.2	14
Net income	13.1	21	12.3	20

</TABLE>

NET SALES. Net sales increased $1.4 million, or 2%, from $60.2 million in the third quarter of 1996 to $61.6 million in the third quarter of 1997. Sales of the Company's Village Series products increased $.5 million, or 1%, while sales of General Giftware products increased $.9 million, or 4% between the two periods. Village Series and General Giftware products represented 62% and 38%, respectively, of the Company's net sales during the third quarter of 1997.

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GROSS PROFIT. Gross profit increased $1.0 million, or 3%, between the third quarter of 1996 and the third quarter of 1997. 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 third quarter of both 1996 and 1997.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased $.4 million, or 3%, between the third quarter of 1996 and the third quarter of 1997 principally due to inflationary increases in administrative expenses. Selling, general and administrative expenses as a percentage of sales increased from approximately 19% in the third quarter of 1996 to 20% in the third quarter of 1997.

INCOME FROM OPERATIONS. Income from operations increased $.3 million, or 2%, between the third quarter of 1996 and the third quarter of 1997 due to the factors described above. Income from operations was 37% of net sales during the third quarter of both 1996 and 1997.

INTEREST EXPENSE. Interest expense decreased $.7 million, or 39%, between the third quarter of 1996 and the third quarter of 1997 principally due to the payment of $20 million of long term debt during 1996 and lower borrowings under the revolving line of credit in 1997.

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

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RESULTS OF OPERATIONS

COMPARISON OF RESULTS OF OPERATIONS FOR THE 40 WEEKS ENDED OCTOBER 4, 1997 TO THE 39 WEEKS ENDED SEPTEMBER 28, 1996.

<TABLE>
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(Dollars in millions)

	40 Weeks Ended October 4, 1997 Dollars	40 Weeks Ended October 4, 1997 % of Net Sales	39 Weeks Ended September 28,1996 Dollars	39 Weeks Ended September 28,1996 % of Net Sales
Net sales	$165.9	100%	$194.5	100%
Gross profit	96.2	58	112.9	58
Selling, general, and administrative expenses	34.6	21	36.2	19
Amortization of goodwill and trademarks	3.4	2	3.4	2

Recovery of import duties	(0.4)	-	(0.5)	-
Income from operations	58.6	35	73.8	38
Interest expense	3.2	2	4.6	2
Other income, net	(1.2)	(1)	(0.4)	-
Income before income taxes	56.5	34	69.5	36
Provision for income taxes	22.3	14	27.8	14
Net income	34.2	21	41.7	21

</TABLE>

NET SALES. Net sales decreased $28.6 million, or 15%, from $194.5 million in 1996 to $165.9 million in 1997. This decrease was principally due to a decrease in volume. Sales of the Company's Village Series products decreased $21.4 million, or 17%, while sales of General Giftware products decreased $7.2 million, or 11% between the two periods. Village Series and General Giftware products represented 65% and 35%, respectively, of the Company's net sales in 1997.

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GROSS PROFIT. Gross profit decreased $16.7 million, or 15%, between 1996 and 1997. The decrease in gross profit was principally due to the decrease in sales volume. Gross profit as a percentage of net sales was 58% in both 1996 and 1997.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses decreased $1.6 million, or 4%, between 1996 and 1997 principally due to a 19% 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 1996 to 21% in 1997.

INCOME FROM OPERATIONS. Income from operations decreased $15.2 million, or 21%, between 1996 and 1997 due to the factors described above. Income from operations decreased from 38% to 35% of net sales principally due to the increase in selling, general and administrative expense as a percentage of sales.

INTEREST EXPENSE. Interest expense decreased $1.4 million, or 29%, between 1996 and 1997 principally due to the payment of $20 million of long term debt during 1996 and lower borrowings under the revolving line of credit in 1997.

PROVISION FOR INCOME TAXES. The effective tax rate was 40.0% and 39.5% during 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.

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 October 4, 1997, the Company had $2.5 million of outstanding loans and acceptances and $2.7 million of outstanding letters of credit under its revolving line of credit. The available revolving line of credit commitment was $83.3 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 decreased $28.0 million from $128.0 million at September 28, 1996 to $100.0 million at October 4, 1997 principally due to the decrease in sales in 1997 as compared to 1996.

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On December 10, 1996, the Board of Directors of the Company authorized a stock repurchase program. The program allows the repurchase in open market and privately negotiated transactions of up to 1.5 million shares through the end of June 1998. Board authorization of a similar repurchase program of up to an additional 1.5 million shares valid through December 31, 1999 became effective on October 15, 1997. 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. As of October 4, 1997, the Company had repurchased 1,125,258 shares at a cost of $23.0 million 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 if the currencies of the countries in which the manufacturers operate appreciate significantly relative to the U.S. dollar.

At October 4, 1997 the Company had $3.8 million of foreign exchange contracts outstanding to hedge 1997 New Taiwan dollar denominated inventory purchases. These contracts mature from October 1997 through December 1997 at a rate of approximately 27.50 NT$/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 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 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	44	34	-	-

(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 71% and 76% of its total annual customer orders during the first quarter of both 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 period, net of cancellations, returns, allowances and cash discounts, are carried into backlog. The backlog was $64.5 million as of October 4, 1997, as compared to $44.5 million as of September 28, 1996. The backlog as of October 4, 1997, was predominately made up of orders requested to be shipped during 1997.

Through the third quarter of 1997, customer orders entered decreased 1% as compared to the same period for 1996. Customer orders entered for Village Series products have decreased 7% through the third quarter of 1997 while customer orders entered for General Giftware products have increased 12%.

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.

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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: October 21, 1997

/s/Susan Engel

Susan Engel
Chairman, President and Chief Executive Officer

Date: October 21, 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)

	Quarter Ended October 4, 1997	Quarter Ended September 28, 1996
PRIMARY:		
Net Income	$13,075	$12,296

Weighted average number of common shares outstanding	20,714	21,564
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	190	184
Weighted average number of common and common equivalent shares	20,904	21,748
Net Income per Common and Common Equivalent Share	$ 0.63	$ 0.57
FULLY DILUTED:		
Net Income	$13,075	$12,296
Weighted average number of common shares outstanding	20,714	21,564
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	246	203
Weighted average number of common and common equivalent shares	20,960	21,767
Fully Diluted Net Income per Common and Common Equivalent Share	$ 0.62	$ 0.56

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

	40 Weeks Ended October 4, 1997	39 Weeks Ended September 28, 1996
PRIMARY:		
Net Income	$34,197	$41,726

Weighted average number of common shares outstanding	20,989	21,554
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	128	203
Weighted average number of common and common equivalent shares	21,117	21,757
Net Income per Common and Common Equivalent Share	$ 1.62	$ 1.92
FULLY DILUTED:		
Net Income	$34,197	$41,726
Weighted average number of common shares outstanding	20,989	21,554
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	218	203
Weighted average number of common and common equivalent shares	21,207	21,757
Fully Diluted Net Income per Common and Common Equivalent Share	$ 1.61	$ 1.92

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