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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:
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SEC FILE NUMBER: 001-11908
FILM NUMBER: 98729088

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: October 3, 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 October 3, 1998, 18,076,896 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)

<TABLE>
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<S>	OCTOBER 3, 1998 <C>	JANUARY 3, 1998 <C>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,164	$ 37,361
Accounts receivable, net	114,405	23,004

Inventories	26,699	18,070
Other current assets	11,561	9,311
	--------	--------
Total current assets	154,829	87,746
PROPERTY AND EQUIPMENT, net	15,176	12,753
GOODWILL, TRADEMARKS AND OTHER, net	158,254	159,042
OTHER ASSETS	121	154
	--------	--------
	$328,380	$259,695
	--------	--------
	--------	--------

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Revolving line of credit	$ 75,500	$ -
Current portion of long-term debt	20,000	20,000
Accounts payable	10,161	9,973
Other current liabilities	23,007	16,916
	--------	--------
Total current liabilities	128,668	46,889
DEFERRED TAXES	6,151	6,151
LONG-TERM DEBT	20,000	20,000
STOCKHOLDERS' EQUITY	173,561	186,655
	--------	--------
	$328,380	$259,695
	--------	--------
	--------	--------

</TABLE>

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)

<TABLE>
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	QUARTER ENDED OCTOBER 3, 1998	QUARTER ENDED OCTOBER 4, 1997
	----	----
<S>	<C>	<C>
NET SALES	$71,512	$61,602
COST OF SALES	29,808	25,845
	-------	-------
Gross profit	41,704	35,757
OPERATING EXPENSES:		
Selling, general, and administrative	14,318	12,074
Amortization of goodwill, trademarks and other	1,258	1,144
	-------	-------
Total operating expenses	15,576	13,218
	-------	-------
INCOME FROM OPERATIONS	26,128	22,539
OTHER EXPENSE (INCOME)		
Interest expense	1,623	1,069
Other, net	(71)	(142)
	-------	-------
INCOME BEFORE INCOME TAXES	24,576	21,612

PROVISION FOR INCOME TAXES	9,585	8,537
NET INCOME	$14,991	$13,075
NET INCOME PER COMMON SHARE	$ 0.82	$ 0.63
NET INCOME PER COMMON SHARE ASSUMING DILUTION	$ 0.81	$ 0.63

</TABLE>

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)

<TABLE>
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<S>	<C> 39 WEEKS ENDED OCTOBER 3, 1998	<C> 40 WEEKS ENDED OCTOBER 4, 1997
NET SALES	$190,459	$165,895
COST OF SALES	79,112	69,660
Gross profit	111,347	96,235
OPERATING EXPENSES:		
Selling, general, and administrative	39,618	34,568
Amortization of goodwill, trademarks and other	3,668	3,432
Recovery of import duties	(65)	(370)
Total operating expenses	43,221	37,630
INCOME FROM OPERATIONS	68,126	58,605
OTHER EXPENSE (INCOME)		
Interest expense	3,364	3,240
Other, net	(490)	(1,159)
INCOME BEFORE INCOME TAXES	65,252	56,524
PROVISION FOR INCOME TAXES	25,651	22,327
NET INCOME	$ 39,601	$ 34,197
NET INCOME PER COMMON SHARE	$ 2.10	$ 1.63
NET INCOME PER COMMON SHARE ASSUMING DILUTION	$ 2.06	$ 1.62

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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>	39 WEEKS ENDED OCTOBER 3, 1998 <C>	40 WEEKS ENDED OCTOBER 4, 1997 <C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net cash used in operating activities	$(49,363)	$(22,996)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(3,248)	(1,202)
Acquisitions	(4,660)	-
Net cash used in investing activities	(7,908)	(1,202)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	2,648	1,059
Net borrowings under revolving credit facility	75,500	2,487
Stock repurchases	(56,074)	(23,039)
Net cash provided by (used in) financing activities	22,074	(19,493)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(35,197)	(43,691)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	37,361	46,405
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$2,164	$2,714
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest	$2,897	$3,004
Income taxes	$22,498	$20,024

</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 October 3, 1998 and the

39 weeks ended October 3, 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 October 3, 1998, the Company repurchased 608,000 shares at a cost of $20.6 million. During the 39 weeks ended October 3, 1998, the Company repurchased 1,614,000 shares at a cost of $56.1 million. As of October 3, 1998, the Company was authorized to repurchase 687,000 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 OCTOBER 3, 1998 TO THE QUARTER ENDED OCTOBER 4, 1997.

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	Quarter Ended October 3, 1998 (Dollars in millions)		Quarter Ended October 4, 1997	
	Dollars	% of Net Sales	Dollars	% of Net Sales
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Net sales	$71.5	100%	$61.6	100%

Gross profit	41.7	58	35.8	58
Selling, general, and administrative expenses	14.3	20	12.1	20
Amortization of goodwill, trademarks and other	1.3	2	1.1	2
Income from operations	26.1	37	22.5	37
Interest expense	1.6	2	1.1	2
Other income, net	(0.1)	-	(0.1)	-
Income before income taxes	24.6	34	21.6	35
Provision for income taxes	9.6	13	8.5	14
Net income	15.0	21	13.1	21

</TABLE>

NET SALES. Net sales increased $9.9 million, or 16%, from $61.6 million in the third quarter of 1997 to $71.5 million in the third quarter of 1998. Sales of the Company's Village Series products increased $7.3 million, or 19%, while sales of General Giftware products increased $2.6 million, or 11% between the two periods. Village Series and General Giftware products represented 64% and 36%, respectively, of the Company's net sales during the third quarter of 1998.

GROSS PROFIT. Gross profit increased $5.9 million, or 17%, between the third quarter of 1997 and the third 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 third quarter of both 1997 and 1998.

<PAGE>

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased $2.2 million, or 19%, between the third quarter of 1997 and the third quarter of 1998 principally due to a 93% 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 was 20% during the third quarter of both 1997 and 1998.

INCOME FROM OPERATIONS. Income from operations increased $3.6 million, or 16%, between the third quarter of 1997 and the third quarter of 1998 due to the factors described above. Income from operations was 37% of net sales during the third quarter of both 1997 and 1998.

INTEREST EXPENSE. Interest expense increased $0.6 million, or 52%, between the third quarter of 1997 and the third quarter of 1998 principally due to increased borrowings under the revolving line of credit in 1998 offset by the payment of $20 million of long term debt during 1997.

PROVISION FOR INCOME TAXES. The effective tax rate was 39.5% and 39.0% during the third quarter of 1997 and 1998, respectively.

<PAGE>

RESULTS OF OPERATIONS

COMPARISON OF RESULTS OF OPERATIONS FOR THE 39 WEEKS ENDED OCTOBER 3, 1998 TO THE 40 WEEKS ENDED OCTOBER 4, 1997.

<TABLE>
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	39 Weeks Ended October 3, 1998		40 Weeks Ended October 4, 1997	
	(Dollars in millions)			
	Dollars	% of Net Sales	Dollars	% of Net Sales
<S>	<C>	<C>	<C>	<C>
Net sales	$190.5	100%	$165.9	100%
Gross profit	111.3	58	96.2	58
Selling, general, and administrative expenses	39.6	21	34.6	21
Amortization of goodwill, trademarks and other	3.7	2	3.4	2
Recovery of import duties	(0.1)	-	(0.4)	-
Income from operations	68.1	36	58.6	35
Interest expense	3.4	2	3.2	2
Other income, net	(0.5)	-	(1.2)	(1)
Income before income taxes	65.3	34	56.5	34
Provision for income taxes	25.7	13	22.3	14
Net income	39.6	21	34.2	21

</TABLE>

NET SALES. Net sales increased $24.6 million, or 15%, from $165.9 million in 1997 to $190.5 million in 1998. Sales of the Company's Village Series products increased $17.5 million, or 16%, while sales of General Giftware products increased $7.1 million, or 12% between the two periods. Village Series and General Giftware products represented 66% and 34%, respectively, of the Company's net sales in 1998.

GROSS PROFIT. Gross profit increased $15.1 million, or 16%, 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 was 58% during both 1997 and 1998.

<PAGE>

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased $5.0 million, or 15%, between 1997 and 1998 principally due to a 90% 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 was 21% in both 1997 and 1998.

INCOME FROM OPERATIONS. Income from operations increased $9.5 million, or 16%, between 1997 and 1998 due to the factors described above. Income from operations as a percentage of sales increased from 35% in 1997 to 36% in 1998.

INTEREST EXPENSE. Interest expense increased $0.1 million, or 4%, between 1997 and 1998 principally due to increased borrowings under the revolving line of credit in 1998 offset by the payment of $20 million of long term debt during 1997.

PROVISION FOR INCOME TAXES. The effective tax rate was 39.5% and 39.3% during 1997 and 1998, 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 3, 1998, the Company had $75.5 million of outstanding loans and acceptances and $1.6 million of outstanding letters of credit under its revolving line of credit. The available revolving line of credit commitment was $12.9 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 $14.4 million from $100.0 million at October 4, 1997 to $114.4 million at October 3, 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 October 3, 1998, the Company repurchased 608,000 shares at a cost of $20.6 million. During the 39 weeks ended October 3, 1998, the Company repurchased 1,614,000 shares at a cost of $56.1 million. As of October 3, 1998, the Company was authorized to repurchase 687,000 additional shares under these programs.

<PAGE>

YEAR 2000

In 1997, the Company began a project to replace its primary operating and financial computing systems with a new integrated computer system. The Company plans to have the new integrated system, which is designed to improve access to business information, operational at the end of first quarter 1999. The vendor of the core software program for the new integrated system has indicated that this system will substantially address Year 2000 requirements, and the Company does not anticipate that it will experience any material disruption to its transaction processing operations or financial or accounting functions as a result of the failure of any of its systems to be Year 2000 compliant. The Company has established the target date of new system implementation at the end of first quarter 1999 so that, in the event substantial compliance with Year 2000 needs is not achieved by that time, the remainder of 1999 can be utilized to achieve necessary functionality.

Total expenditures (aside of internal labor costs) for implementation of the new system up to the point of substantial operational reliance and integration with existing business processes is expected to be approximately $4.5 million. Hardware, software, and certain project costs will be capitalized and amortized over their useful lives. All other costs will be expensed as incurred.

The Company believes that substantial completion of the integrated system implementation by the end of first quarter 1999 will allow it to be substantially Year 2000 compliant. There can be no assurance, however, that the systems of third parties on which the Company relies will be Year 2000 compliant in a timely manner. An interruption of the Company's ability to conduct its business due to a Year 2000 problem with a third party could have a material adverse effect on the Company. The Company's product vendor and customer bases are fragmented, and generally are not dependent on computer control or systematization of their business operations. Management, therefore, believes that the greatest risks presented by potential Year 2000 failures of third parties are those which would affect the general economy or certain industries, such as may occur if there were insufficient electric power or other utilities needed for the Company's operations or manufacture of its products or insufficient reliable means of transporting the Company's products. The statements concerning future matters are "forward-looking statements" and actual results may vary.

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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	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
1996	$178	$35	$28	$8	$249
1997	161	44	34	6	245
1998	174	50	37	-	-

</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 $61.2 million as of October 3, 1998, as compared to $64.5 million as of October 4, 1997.

Through the third 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 third quarter of 1998 while customer orders entered for General Giftware products have increased 7%.

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 April 30, 1998, was filed reporting in Item 5 thereof and containing no financial statements. A Current Report on Form 8-K, dated July 31, 1998, was filed reporting in Item 5 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: October 22, 1998 /s/Susan E. Engel

Susan E. Engel
Chairwoman, Chief Executive Officer and Director

Date: October 22, 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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Exhibit 11.1

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

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	Quarter Ended October 3, 1998	Quarter Ended October 4, 1997
BASIC:		
Net Income	$14,991	$13,075
Weighted average number of common shares outstanding	18,295	20,714
Net Income per Common Share	$ 0.82	$ 0.63
ASSUMING DILUTION:		
Net Income	$14,991	$13,075

Weighted average number of common shares outstanding	18,295	20,714
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	262	190
Weighted average number of common and common equivalent shares	18,557	20,904
Net Income per Common Share Assuming Dilution	$ 0.81	$ 0.63

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

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<S>	<C> 39 Weeks Ended October 3, 1998	<C> 40 Weeks Ended October 4, 1997
BASIC:		
Net Income	$39,601	$34,197
Weighted average number of common shares outstanding	18,890	20,989
Net Income per Common Share	$ 2.10	$ 1.63
ASSUMING DILUTION:		
Net Income	$39,601	$34,197
Weighted average number of common shares outstanding	18,890	20,989
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	294	128
Weighted average number of common and common equivalent shares	19,184	21,117
Net Income per Common Share Assuming Dilution	$ 2.06	$ 1.62

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