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CONFORMED PERIOD OF REPORT: 19970705
FILED AS OF DATE: 19970724
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: 97644570

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

MAIL ADDRESS:
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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: JULY 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 July 18, 1997, 20,837,547 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>
<CAPTION>

ASSETS

| | JULY 5, 1997 | DECEMBER 28, 1996 |
|---|---|---|

| <S> | <C> | <C> |
| --- | --- | --- |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 17,895 | $ 46,405 |
| Accounts receivable, net | 73,174 | 35,603 |
| Inventories | 21,195 | 20,526 |
| Other current assets | 7,808 | 6,769 |
| Total current assets | 120,072 | 109,303 |
| PROPERTY AND EQUIPMENT, net | 12,061 | 12,318 |
| GOODWILL AND TRADEMARKS, net | 161,329 | 163,618 |
| OTHER ASSETS | 338 | 494 |
| | $ 293,800 | $ 285,733 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
| --- | --- | --- |
| CURRENT LIABILITIES: | | |
| Current portion of long-term debt | $ 20,000 | $ 20,000 |
| Accounts payable | 6,583 | 7,618 |
| Other current liabilities | 16,672 | 13,688 |
| Total current liabilities | 43,255 | 41,306 |
| DEFERRED TAXES | 7,670 | 7,670 |
| LONG-TERM DEBT | 40,000 | 40,000 |
| STOCKHOLDERS' EQUITY | 202,875 | 196,757 |
| | $ 293,800 | $ 285,733 |

</TABLE>

See notes to condensed consolidated financial statements.

<PAGE>

DEPARTMENT 56, INC. AND SUBSIDIARIES

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

<TABLE>
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| <S> | QUARTER ENDED JULY 5, 1997 <C> | QUARTER ENDED JUNE 29,1996 <C> |
| --- | --- | --- |
| NET SALES | $ 58,564 | $ 75,277 |
| COST OF SALES | 24,704 | 30,958 |
| Gross profit | 33,860 | 44,319 |

| | | |
|---|---|---|
| OPERATING EXPENSES: | | |
| Selling, general, and administrative | 11,400 | 13,006 |
| Amortization of goodwill and trademarks | 1,144 | 1,144 |
| Recovery of import duties | - | (36) |
| Total operating expenses | 12,544 | 14,114 |
| INCOME FROM OPERATIONS | 21,316 | 30,205 |
| OTHER EXPENSE (INCOME) | | |
| Interest expense | 1,095 | 1,489 |
| Other, net | (274) | (71) |
| INCOME BEFORE INCOME TAXES | 20,495 | 28,787 |
| PROVISION FOR INCOME TAXES | 8,096 | 11,515 |
| NET INCOME | $ 12,399 | $ 17,272 |
| NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE | $ 0.59 | $ 0.79 |
| WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING | 20,928 | 21,744 |

</TABLE>

See notes to condensed consolidated financial statements.

<PAGE>

DEPARTMENT 56, INC. AND SUBSIDIARIES

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

<TABLE>
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| <S> | 27 WEEKS ENDED JULY 5, 1997 <C> | 26 WEEKS ENDED JUNE 29, 1996 <C> |
|---|---|---|
| NET SALES | $ 104,293 | $ 134,273 |
| COST OF SALES | 43,816 | 56,151 |
| Gross profit | 60,477 | 78,122 |
| OPERATING EXPENSES: | | |
| Selling, general, and administrative | 22,494 | 24,506 |
| Amortization of goodwill and trademarks | 2,288 | 2,288 |
| Recovery of import duties | (370) | (235) |
| Total operating expenses | 24,412 | 26,559 |
| INCOME FROM OPERATIONS | 36,065 | 51,563 |
| OTHER EXPENSE (INCOME) | | |
| Interest expense | 2,170 | 2,846 |
| Other, net | (1,018) | (332) |

| | | |
|---|---|---|
| INCOME BEFORE INCOME TAX | 34,913 | 49,049 |
| PROVISION FOR INCOME TAXES | 13,791 | 19,620 |
| NET INCOME | $ 21,122 | $ 29,429 |
| NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE | $ .99 | $ 1.35 |
| WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING | 21,249 | 21,756 |

</TABLE>

See notes to condensed consolidated financial statements.

<PAGE>

DEPARTMENT 56, INC. AND SUBSIDIARIES

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

<TABLE>
<CAPTION>

| | 27 WEEKS ENDED JULY 5, 1997 | 26 WEEKS ENDED JUNE 29, 1996 |
|---|---|---|
| <S> | <C> | <C> |
| CASH FLOWS FROM OPERATING ACTIVITIES- | | |
| Net cash used in operating activities | $ (12,511) | $ (31,538) |
| CASH FLOWS FROM INVESTING ACTIVITIES- | | |
| Purchases of property and equipment | (710) | (479) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from exercise of stock options | 272 | 113 |
| Net borrowings under revolving credit facility | - | 26,909 |
| Stock repurchases | (15,561) | - |
| Net cash provided by (used in) financing activities | (15,289) | 27,022 |

-

| | | |
|---|---|---|
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (28,510) | (4,995) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 46,405 | 7,805 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $ 17,895 | $ 2,810 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid for: | | |
| Interest | $ 2,171 | $2,399 |
| Income taxes | $ 12,204 | $15,865 |

</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 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 July 5, 1997 and the twenty-seven weeks ended July 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 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 July 5, 1997, the Company repurchased 208,900 shares at a cost of $3.8 million. During the 27 weeks ended July 5, 1997, the Company repurchased 840,658 shares at a cost of $15.6 million.

<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 JULY 5, 1997 TO THE QUARTER ENDED JUNE 29, 1996.

<TABLE>
<CAPTION>

| | Quarter Ended July 5, 1997 | | Quarter Ended June 29, 1996 | |
|---|---|---|---|---|
| | (Dollars in millions) | | | |
| | Dollars | % of Net Sales | Dollars | % of Net Sales |
| <S> | <C> | <C> | <C> | <C> |
| Net sales | $58.6 | 100% | $75.3 | 100% |
| Gross profit | 33.9 | 58 | 44.3 | 59 |
| Selling, general, and administrative expenses | 11.4 | 19 | 13.0 | 17 |
| Amortization of goodwill and trademarks | 1.1 | 2 | 1.1 | 2 |
| Income from operations | 21.3 | 36 | 30.2 | 40 |

| | | | |
|---|---|---|---|
| Interest expense | 1.1 | 2 | 1.5 |
| 2 | | | |
| Other income, net | (0.3) | (1) | (0.1) |
| - | | | |
| Income before income taxes | 20.5 | 35 | 28.8 |
| 38 | | | |
| Provision for income taxes | 8.1 | 14 | 11.5 |
| 15 | | | |
| Net income | 12.4 | 21 | 17.3 |
| 23 | | | |

</TABLE>

NET SALES. Net sales decreased $16.7 million, or 22%, from $75.3 million in the second quarter of 1996 to $58.6 million in the second quarter of 1997. This decrease was principally due to a decrease in volume. Sales of the Company's Village Series products decreased $14.4 million, or 27%, while sales of General Giftware products decreased $2.3 million, or 10% between the two periods. Village Series and General Giftware products represented 66% and 34%, respectively, of the Company's net sales during the second quarter.

<PAGE>

GROSS PROFIT. Gross profit decreased $10.5 million, or 24%, between the second quarter of 1996 and the second 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 decreased from 59% in the second quarter of 1996 to 58% in the second quarter of 1997, principally due to a change in the mix of product shipped during the second quarter of 1997 as compared to the second quarter of 1996.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses decreased $1.6 million, or 12%, between the second quarter of 1996 and the second quarter of 1997 principally due to a 24% decrease in commission expense offset by inflationary increases in administrative expenses. Selling, general and administrative expenses as a percentage of sales increased from approximately 17% in the second quarter of 1996 to 19% in the second quarter of 1997.

INCOME FROM OPERATIONS. Income from operations decreased $8.9 million, or 29%, between the second quarter of 1996 and the second quarter of 1997 due to the factors described above. Income from operations decreased from 40% to 36% of net sales principally due to the increase in selling, general and administrative expense as a percentage of sales.

INTEREST EXPENSE. Interest expense decreased $.4 million, or 27%, between the second quarter of 1996 and the second quarter of 1997 principally due to the payment of $20 million of long term debt during 1996.

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

<PAGE>

RESULTS OF OPERATIONS

COMPARISON OF RESULTS OF OPERATIONS FOR THE 27 WEEKS ENDED JULY 5, 1997 TO THE 26 WEEKS ENDED JUNE 29, 1996.

| | 27 Weeks Ended July 5, 1997 | | 26 Weeks Ended June 29,1996 | |
|---|---|---|---|---|
| | (Dollars in millions) | | | |
| | Dollars | % of Net Sales | Dollars | % of Net Sales |
| Net sales | $104.3 | 100% | $134.3 | 100% |
| Gross profit | 60.5 | 58 | 78.1 | 58 |
| Selling, general, and administrative expenses | 22.5 | 22 | 24.5 | 18 |
| Amortization of goodwill and trademarks | 2.3 | 2 | 2.3 | 2 |
| Recovery of import duties | (.4) | - | (.2) | - |
| Income from operations | 36.1 | 35 | 51.6 | 38 |
| Interest expense | 2.2 | 2 | 2.8 | 2 |
| Other income, net | (1.0) | (1) | (0.3) | - |
| Income before income taxes | 34.9 | 33 | 49.0 | 37 |
| Provision for income taxes | 13.8 | 13 | 19.6 | 15 |
| Net income | 21.1 | 20 | 29.4 | 22 |

NET SALES. Net sales decreased $30.0 million, or 22%, from $134.3 million in 1996 to $104.3 million in 1997. This decrease was principally due to a decrease in volume. Sales of the Company's Village Series products decreased $21.9 million, or 24%, while sales of General Giftware products decreased $8.1 million, or 19% between the two periods. Village Series and General Giftware products represented 67% and 33%, respectively, of the Company's net sales in 1997.

<PAGE>

GROSS PROFIT. Gross profit decreased $17.6 million, or 23%, 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 $2.0 million, or 8%, between 1996 and 1997 principally due to a 25% decrease in commission expense offset by inflationary increases in administrative expenses. Selling, general and administrative expenses as a percentage of sales increased from approximately 18% in 1996 to 22% in 1997.

INCOME FROM OPERATIONS. Income from operations decreased $15.5 million, or 30%, 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 $.7 million, or 24%, between 1996 and 1997 principally due to the payment of $20 million of long term debt during 1996.

PROVISION FOR INCOME TAXES. The effective tax rate was 40.0% and 39.5% in 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 July 5, 1997, the Company had no outstanding loans and acceptances and $6.0 million of outstanding letters of credit under its revolving line of credit. The available revolving line of credit commitment was $54.7 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 $34.0 million from $107.2 million at June 29, 1996 to $73.2 million at July 5, 1997 principally due to the decrease in sales in 1997 as compared to 1996.

Inventory decreased $4.2 million from $25.4 million at June 29, 1996 to $21.2 million at July 5, 1997 principally due to the decrease in sales volume in 1997 as compared to 1996.

<PAGE>

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 July 18, 1997, the Company had repurchased 840,658 shares at a cost of $15.6 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 July 5, 1997 the Company had $7.5 million of foreign exchange contracts outstanding to hedge 1997 New Taiwan dollar denominated inventory purchases. These contracts mature from July 1997 through December 1997 at a rate of approximately 27.50 NT$/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.

<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)

| | 1st Qtr | 2nd Qtr | 3rd Qtr | 4th Qtr | Total |
|---|---|---|---|---|---|
| 1995 | $210 | $30 | $27 | $9 | $276 |
| 1996 | 178 | 35 | 28 | 8 | 249 |
| 1997 | 161 | 44 | - | - | - |

(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 year, net of cancellations, returns, allowances and cash discounts, are carried into backlog for the following year and have historically been Easter orders. Unfilled orders were $99 million as of July 5, 1997, as compared to $81 million as of June 29, 1996.

Through the second quarter of 1997, customer orders entered decreased 4% as compared to the same period for 1996. Customer orders entered for Village

Series products have decreased 9% through the second quarter of 1997 while customer orders entered for General Giftware products have increased 9%.

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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

At the Company's Annual Meeting of Stockholders held on May 15, 1997 (the "Annual Meeting"), all of the persons named in the Company's proxy materials as management nominees for the Board of Directors were elected. All the nominees were incumbent directors and their election at the Annual Meeting was uncontested. Also at the Annual Meeting, stockholders approved the Company's 1997 Stock Incentive Plan as follows: 11,723,696 voting for approval; 4,114,706 voting against; 198,451 abstentions; 5,230,876 not voting. In addition, the Company's stockholders at the Annual Meeting ratified the appointment by the Board of Directors of Deloitte & Touche LLP, independent public accountants, as auditors for the Company for the fiscal year ending January 3, 1998 as follows: 19,005,771 voting for ratification; 31,558 voting against; 27,135 abstentions; 2,203,265 not voting.

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

(a) 11.1 Computation of net income per share.

<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: July 24, 1997

/S/SUSAN ENGEL
-----------------------
Susan Engel
President and Chief Executive Officer

Date: July 24, 1997

/S/TIMOTHY J. SCHUGEL
-----------------------
Timothy J. Schugel
Vice President - Finance and Principal Accounting Officer

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EXHIBIT INDEX

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

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Exhibit 11.1

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

| | Quarter Ended July 5, 1997 | Quarter Ended June 29, 1996 |
|---|---|---|
| PRIMARY: | | |
| Net Income | $12,399 | $17,272 |
| Weighted average number of common shares outstanding | 20,814 | 21,547 |
| 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 | 114 | 197 |
| Weighted average number of common and common equivalent shares | 20,928 | 21,744 |
| Net Income per Common and Common Equivalent Share | $0.59 | $0.79 |
| FULLY DILUTED: | | |
| Net Income | $12,399 | $17,272 |
| Weighted average number of common shares outstanding | 20,814 | 21,547 |
| 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 | 135 | 197 |
| Weighted average number of common and common equivalent shares | 20,949 | 21,744 |
| Fully Diluted Net Income per Common and Common Equivalent Share | $0.59 | $0.79 |

<PAGE>

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

| | 27 Weeks Ended July 5, 1997 | 26 Weeks Ended June 29, 1996 |
|---|---|---|
| PRIMARY: | | |
| Net Income | $21,122 | $29,429 |
| Weighted average number of common shares outstanding | 21,120 | 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 | 129 | 207 |
| Weighted average number of common and common equivalent shares | 21,249 | 21,756 |
| Net Income per Common and Common Equivalent Share | $0.99 | $1.35 |
| FULLY DILUTED: | | |
| Net Income | $21,122 | $29,429 |
| Weighted average number of common shares outstanding | 21,120 | 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 | 147 | 207 |

| | | |
|---|---|---|
| Weighted average number of common and common equivalent shares | 21,267 | 21,756 |
| Fully Diluted Net Income per Common and Common Equivalent Share | $0.99 | $1.35 |

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| <INCOME-TAX> | 13,791 |
| <INCOME-CONTINUING> | 21,122 |
| <DISCONTINUED> | 0 |
| <EXTRAORDINARY> | 0 |
| <CHANGES> | 0 |
| <NET-INCOME> | 21,122 |
| <EPS-PRIMARY> | .99 |
| <EPS-DILUTED> | .99 |

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-----END PRIVACY-ENHANCED MESSAGE-----