DEPARTMENT 56 INC - 10-K

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (Fee Required) For the fiscal year ended December 28, 1996

OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (No Fee Required)
For the transition period from ____________ to ____________.

COMMISSION FILE NUMBER 1-11908

DEPARTMENT 56, INC.
(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	13-3684956 (I.R.S. Employer Identification No.)
ONE VILLAGE PLACE 6436 CITY WEST PARKWAY EDEN PRAIRIE, MN (Address of principal executive offices)	55344 (Zip Code)

(612) 944-5600
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, par value $.01 per share	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

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 ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this

Form 10-K /X/.

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $356,980,932 as of March 19, 1997 (based on the closing price of consolidated trading in the Common Stock on that date as published in THE WALL STREET JOURNAL). For purposes of this computation, shares held by affiliates and by directors and officers of the registrant have been excluded. Such exclusion of shares held by directors and officers is not intended, nor shall it be deemed, to be an admission that such persons are affiliates of the registrant.

Number of Shares of Common Stock, par value $.01 per share, outstanding as of March 19, 1997: 21,267,729

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Annual Report to Stockholders for the fiscal year ended December 28, 1996 (the "1996 Annual Report") are incorporated by reference in Parts II and IV. Portions of the Company's definitive Proxy Statement for the 1997 Annual Meeting of Stockholders filed with the Securities and Exchange Commission concurrently with this Form 10-K (the "1997 Proxy Statement") are incorporated by reference in Part III.

PART I

ITEM 1. BUSINESS

GENERAL

Department 56, Inc. (including its direct and indirect subsidiaries, "Department 56" or the "Company") is a leading designer, importer and distributor of fine quality collectibles and other giftware products sold through gift, home accessory and specialty retailers. The Company is best known for its Village Series of collectible, handcrafted, lit ceramic and porcelain houses, buildings and related accessories in the Original Snow Village Collection and The Heritage Village Collection as well as its extensive line of holiday and home decorative accessories, including its Snowbabies collectible porcelain and pewter handpainted figurines.

PRODUCTS

VILLAGE SERIES PRODUCTS. Department 56 is best known for its Village Series, several series of collectible, handcrafted, lit ceramic and porcelain houses, buildings and related accessories that depict nostalgic winter scenes. The Company introduces new lit pieces, limited edition pieces, figurines and other accessories each year to complement the collections. To allow for these new introductions and to keep each series appropriately balanced, the Company has traditionally retired a number of its existing pieces from production each year. Retirement decisions are based on management's judgment as to, among other things, expected consumer demand, whether a piece continues to fit the evolving design characteristics of a series and manufacturing considerations.

The Company's Village Series products are comprised of two broad collections: The Original Snow Village Collection and The Heritage Village Collection. The Original Snow Village Collection, introduced in 1976, consists of lit ceramic houses and accessories designed around a single "Main Street U.S.A." theme. The Heritage Village Collection, introduced in 1984 and expanded since that time, consists of lit porcelain houses and accessories designed around several different village themes. By using porcelain for The Heritage Village Collection products, the Company has been able to achieve a higher level of detail, in a smaller scale product, than would have been possible by using ceramic.

VILLAGE ACCESSORIES. Department 56 also produces a range of accessories for its villages, including figurines, vehicles, musical tapes, lighting and other decorative items. The sale of accessories for its Village Series is an important part of the Company's strategy to encourage the continued purchase of its products. Accessories allow collectors to refresh their collections by changing their displays and by creating personalized settings. Many of the accessories can be used interchangeably between the various villages, although certain accessories are designed uniquely for specific villages.

GENERAL GIFTWARE. The Company offers a wide range of other decorative giftware and home accessory items, including the Company's Snowbabies and Snowbunnies figurines, Christmas and Easter decorative items, tableware, decorative tins, acrylics and gift bags. Department 56 develops these decorative giftware and home accessories both to satisfy specific consumer demand and to introduce new product concepts that may develop into important product lines for the Company in the future. Snowbabies figurines, originally introduced in 1987 as part of the Company's general Christmas collection, rapidly became a popular product line and subsequently have achieved their own collectible status. General Giftware products are generally offered as a line of products developed around a central design theme. The Company updates its product offerings twice a year and currently maintains an aggregate of approximately 3,100 stock keeping units, of which approximately 2,500 are General Giftware products.

CUSTOMERS

The Company's principal customers (accounting for approximately 90% of its sales) are approximately 19,000 independent gift retailers across the United States. These retailers include approximately 1,500 independently owned Gold Key and Showcase Dealers, who receive special recognition and qualify for improved sales terms, and who must satisfy certain requirements, such as maintaining the Company's products on display in an attractive setting for at least six months. Occasionally, a particular product will be sold exclusively through certain dealers. Approximately 10% of the Company's sales are made to department stores and mail order houses. No single account represented more than 3% of the Company's sales in fiscal 1996. The Company provides volume discounts to its customers with respect to most of its products. The Company has generally had only limited sales outside the United States. International sales were approximately 1% of the Company's sales in fiscal 1996, and the Company does not expect to materially increase international sales in fiscal 1997.

As part of the Company's strategy of selective distribution, only approximately 6,000 retailers receive the Company's Village Series and Snowbabies products. Certain of the Company's lit Village Series products and porcelain Snowbabies figurines have been sold on allocation for each of the last nine years and six years, respectively. The Company periodically evaluates and adjusts its distribution network, and reviews its dealership policies with a view of optimizing both the Company's distribution strategy and the store-level operations of its independent dealers.

MARKETING AND ADVERTISING

Department 56 sells its products through 12 independently operated wholesale showrooms (including showrooms in New York, Dallas and Los Angeles) and three corporate showrooms which cover the major giftware market areas in the United States. The Company's headquarters in Eden Prairie, Minnesota has a 10,000 square-foot atrium showroom where all of its products, including retired Village Series lighted pieces and Snowbabies figurines, are displayed. The Company also has a corporate showroom of approximately 13,000 square feet at the Atlanta, Georgia gift mart and a corporate showroom of approximately 7,500 square feet at the Chicago, Illinois gift mart. In addition, the Company sells through giftware shows throughout the United States. Tests have been conducted of product sales through home television shopping and through corporate gift programs. The Company intends to maintain flexibility in its marketing and distribution strategies in order to take advantage of opportunities that may develop in the future.

The Company advertises its products to retailers principally through trade journals, giftware shows and brochures, and provides merchandising and product information to its collectible product dealers through a periodical newsletter. It advertises to consumers through brochures, point of sale information and seasonal advertisements in magazines and newspapers. The Company has also expanded its consumer advertising through use of cooperative advertising with its Gold Key Dealers using various media formats. In addition, the Company publishes and sells a quarterly newsletter, which contains product-related articles and description of its product lines, to subscriber groups and others, and maintains an interactive consumer information center on an Internet web site. Department 56 maintains a toll-free telephone line for collector questions and participates in collector conventions.

DESIGN AND PRODUCTION

The Company has an ongoing program of new product development. Each year, the Company introduces new products in its existing product lines and also develops entirely new design concepts. The Company endeavors to develop new products which, although not necessarily similar to the products currently marketed by the Company, fit the Company's quality and pricing criteria and can be distributed through the Company's existing marketing and distribution system.

Department 56 believes that its relationships with its manufacturers, and the quality of their craftsmanship, provide a competitive advantage and are a significant contributor to the Company's success. The Company imports most of its products from the Pacific Rim, primarily The People's Republic of China, Taiwan (Republic of China) and The Philippines. The Company also imports a small percentage of its products from sources in India, and occasionally from sources in Europe (primarily Italy, England and Germany). In fiscal 1996, the Company imported products from approximately 130 independent manufacturing sources. The Company's single largest manufacturing source represented approximately 9% of the Company's imports in fiscal 1996. The Company's emphasis on high quality craftsmanship at affordable prices limits the sources from which the Company chooses to obtain products. The Company has long-standing relationships with the majority of its manufacturers (several for ten years or more) and often purchases (typically on a year-to-year basis) a manufacturer's entire output for a year. As a result of these relationships, the Company has experienced a low turnover of its manufacturing sources.

The Company's wholly owned indirect subsidiary, Department 56 Trading Co., Ltd., the principal operations of which are based in Taiwan, sources many of the Company's products in the Pacific Rim, monitors and coordinates production and assists in the export of the Company's products to the United States. The Company believes that this overseas subsidiary provides the Company with greater product and quality control, at a lower cost, than would be available from a third party trading company. The Company also purchases products, to a limited extent, from selected independent trading companies operating in particular geographic regions.

The design and manufacture of the Company's Village Series products are complex processes. The path from final conception of the design idea to market introduction typically takes approximately 18 months. Products other than the Company's collectibles lines can generally be introduced within a few months after a decision is made to produce the product. The Company's Village Series products are principally composed of ceramic and porcelain clays and the Company's other products are designed in a variety of media, including paper, ceramic and porcelain.

DISTRIBUTION AND SYSTEMS

The products sold by the Company in the United States are generally shipped by ocean freight from abroad and then by rail to the Company's two automated warehouse and distribution centers, each located within 10 miles of the other in the southwest quadrant of the Minneapolis/St. Paul metropolitan area. The Bloomington facility is dedicated to the warehousing and distribution of Village Series lit pieces, while the Eden Prairie facility handles all other products. Shipments from the Company to its customers are handled by United Parcel Service or commercial trucking lines.

The Company utilizes computer systems to maintain efficient order processing from the time a product enters the Company's system through shipping and ultimate payment collection from its customers. The Company also uses handheld optical scanners and bar coded labels in accepting orders at wholesale showrooms throughout the United States. In addition, uniform computer and communication software systems allow on-line information access between the Company's headquarters and its showrooms, and those systems generally provide direct linkage with the Company's field salesforce. The Company believes its complex yet efficient software for the processing and shipment of orders from its central warehouse allows it to better serve its retail customer base.

BACKLOG AND SEASONALITY

The Company receives products, pays its suppliers and ships products throughout the year, although the majority of shipments occur in the second and third quarters of each year as retailers stock merchandise in anticipation of the winter holiday season. The Company continues to ship merchandise until mid-December each year. Accordingly, the Company's backlog typically is lowest at the beginning of January. As of December 28, 1996, Department 56 had unfilled wholesale orders of approximately $7.2 million, compared to $11.0 million at December 30, 1995. All of the backlog is scheduled to be shipped to customers during the current fiscal year. Approximately 5% to 7% of the Company's total annual customer orders have been cancelled in each of the last three years for a number of reasons, including customer credit considerations, inventory shortages or customer cancellation requests.

Department 56 experiences a significant seasonal pattern in its working capital requirements and operating results. During the first quarter of each of the last three years, the Company received orders ranging from approximately 71% to 76% of its annual orders for such year. The Company offers extended payment terms to many of its customers for seasonal merchandise. Accordingly, the Company collects a substantial portion of its accounts receivable in the fourth quarter. Due to the seasonal pattern of shipping and accounts receivable collection, the Company generally has had greater working capital needs in its second and third quarters and has experienced greater cash availability in its fourth quarter. The Company typically finances its operations through net cash and marketable securities balances, internally generated cash flow and short-term seasonal borrowings. As a result of the Company's sales pattern, the Company has historically recorded a substantial portion of its revenues in its second and third quarters. The Company expects this seasonal sales pattern to continue for the foreseeable future.

TRADEMARKS AND OTHER PROPRIETARY RIGHTS

The Company owns ten U.S. trademark registrations and has pending U.S. trademark applications with respect to certain of its logos and brandnames. In addition, the Company from time to time registers selected trademarks in certain foreign countries.

Department 56 regards its trademarks and other proprietary rights as valuable assets and intends to maintain and renew its trademarks and their registrations and vigorously defend against infringement. The U.S. registrations for the Company's trademarks are currently scheduled to expire or be cancelled at various times between 2002 and 2007, but can be maintained and renewed provided that the marks are still in use for the goods and services covered by such registrations.

COMPETITION

Department 56 competes generally for the disposable income of consumers and, in particular, with other producers of fine quality collectibles, specialty giftware and home decorative accessory products. The collectibles area, in particular, is affected by changing consumer tastes and interests. The giftware industry is highly competitive, with a large number of both large and small participants. The Company's competitors distribute their products through independent gift retailers, department stores, televised home shopping networks and mail order houses or through direct response marketing. The Company believes that the principal elements of competition in the specialty giftware industry are product design and quality, product and brand-name loyalty, product display and price. The Company believes that its competitive position is enhanced by a variety of factors, including the innovativeness, quality and enduring themes of the Company's products, its reputation among retailers and consumers, its in-house design expertise, its sourcing and marketing capabilities and the pricing of its products. Some of the Company's competitors, however, are part of large, diversified companies having greater financial resources and a wider range of products than the Company.

RESTRICTIONS ON IMPORTS

The Company does not own or operate any manufacturing facilities and imports most of its products from manufacturers in the Pacific Rim, primarily The People's Republic of China, Taiwan and The Philippines. The Company also imports a small percentage of its products from sources in India, and occasionally from sources in Europe (primarily Italy, England and Germany).

The Company's ability to import products and thereby satisfy customer orders is affected by the availability of, and demand for, quality production capacity abroad. The Company competes with other importers of specialty giftware products for the limited number of foreign manufacturing sources which can produce detailed, high-quality products at affordable prices. The Company is subject to the following risks inherent in foreign manufacturing: fluctuations in currency exchange rates; economic and political instability; cost fluctuations and delays in transportation; restrictive actions by foreign governments; nationalizations; the laws and policies of the U.S. affecting importation of goods (including duties, quotas and taxes); and foreign trade and tax laws. In particular, the Company's costs could be adversely affected if the currencies of other countries in which the Company sources product appreciate significantly relative to the U.S. dollar.

Substantially all of the Company's products are subject to customs duties and regulations pertaining to the importation of goods, including requirements for the marking of certain information regarding the country of origin on the Company's products. In the ordinary course of its business, from time to time, the Company is involved in disputes with the U.S. Customs Service regarding the amount of duty to be paid, the value of merchandise to be reported or other customs regulations with respect to certain of the Company's imports, which may result in the payment of additional duties and/or penalties, or which may result in the refund of duties to the Company.

The United States and the countries in which the Company's products are manufactured may, from time to time, impose new quotas, duties, tariffs or other charges or restrictions, or adjust presently prevailing quotas, duty or tariff levels, which could adversely affect the Company's financial condition or results of operations or its ability to continue to import products at current or increased levels. In particular, the Company's costs may be increased, or the mix of countries from which it sources its products may be changed, in the future if countries which are currently accorded "Most Favored Nation" status by the United States cease to have such status or the United States imposes retaliatory duties against imports from such countries. The Company cannot predict what regulatory changes may occur or the type or amount of any financial impact on the Company which such changes may have in the future.

In fiscal 1996, approximately 50% (as compared to approximately 40% in fiscal 1995) of the Company's imports were manufactured in The People's Republic of China, which is currently accorded "Most Favored Nation" status and generally is not subject to U.S. retaliatory duties. The Company expects that the proportion of its products manufactured in The People's Republic of China will increase in the future. Various commercial and legal practices widespread in The People's Republic of China, including the handling of intellectual properties, as well as certain political and military actions taken or suggested by The People's Republic of China in relation to Taiwan and residents of Hong Kong, are under review by the United States government and, accordingly, the duty treatment of goods imported from The People's Republic of China is subject to political uncertainties. To the extent The People's Republic of China may cease to have "Most Favored Nation" status or its exports may be subject to political retaliation, the cost of importing products from such country would increase significantly, and the Company believes that there could be a short-term adverse effect on the Company until alternative manufacturing arrangements were obtained.

EMPLOYEES

As of December 28, 1996, the Company had 195 full-time employees in the United States and 8 full-time employees in Taiwan. All of the Company's 72 U.S.-based warehouse, shipping and receiving personnel employed as of that date are represented by Local Union No. 638 of the Teamsters under a contract that expires on December 31, 1997. The Company will begin the process of negotiating a new contract in fiscal 1997. The Company believes that its labor relations are good and has never experienced a work stoppage.

ENVIRONMENTAL MATTERS

The Company is subject to various Federal, state and local laws and regulations governing the use, discharge and disposal of hazardous materials. Compliance with current laws and regulations has not had and is not expected to have a material adverse effect on the Company's financial condition. It is possible, however, that environmental issues may arise in the future which the Company cannot now predict.

ITEM 2. PROPERTIES

The Company owns a 67,000 square-foot facility in Eden Prairie, Minnesota, which includes 57,000 square feet of office space. Its executive offices, creative center and primary corporate showroom are located in this facility, which is known as "One Village Place." The Company currently occupies approximately 64,800 square feet of the facility and leases the remaining 2,200 square feet to others.

The Company leases a warehouse and distribution facility in Eden Prairie of approximately 150,000 square feet. The current lease for this facility expires on March 31, 2001 and is extendible at the Company's option for an additional five years. The Company also leases a warehouse and distribution facility in Bloomington, Minnesota of approximately 159,000 square feet, the lease for which expires on February 28, 1999 and is extendible at the Company's option for an additional three years. Nearby the Bloomington distribution facility is additional bulk storage warehouse space of approximately 52,000 square feet, the Company's lease for which expires on February 28, 1999 and is extendible at the Company's option for an additional three years. The Company believes that its current facilities are adequate to support its needs. However, the Company continuously evaluates its need for additional facilities. The Company also leases a corporate showroom of approximately 13,000 square feet in the Atlanta, Georgia gift mart and a corporate showroom of approximately 7,500 square feet in the Chicago, Illinois gift mart. These leases expire on December 31, 2006 and November 30, 1999, respectively.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in various legal proceedings, claims and governmental audits in the ordinary course of its business. In the opinion of the Company's management, the ultimate disposition of these proceedings, claims and audits will not have a material adverse effect on the financial position or results of operations of the Company.

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

No matters were submitted to a vote of the Company's security holders during the last quarter of the year ended December 28, 1996.

ADDITIONAL ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below are the executive officers of the Company as of the date hereof. Unless otherwise indicated each executive officer of D 56, Inc., the Company's principal operating subsidiary, holds identical positions with the Company as he or she does with D 56, Inc. Officers serve at the discretion of the Board of Directors.

NAME	AGE	POSITION(S) WITH THE COMPANY
Edward R. Bazinet	53	Chairman of the Board
Susan E. Engel	50	President and Chief Executive Officer
Mark R. Kennedy	39	Senior Vice President and Chief Financial Officer
David H. Weiser	37	Senior Vice President -- Legal/Human Resources, General Counsel and Secretary
David W. Dewey	39	Senior Vice President -- Overseas Operations
William E. Kirchner	49	Senior Vice President -- Product Development
Robert S. Rose	42	Vice President -- Distribution and Operations
Timothy J. Schugel	38	Vice President -- Finance and Principal Accounting Officer
Joan M. Serena	43	Vice President -- Consumer & Dealer Marketing
Gregory G. Sorensen	34	Vice President -- Management Information Systems

The principal occupations and positions for the past five years, and in certain cases prior years, of each of the executive officers of the Company are as follows:

Edward R. Bazinet has been Chairman of the Board of the Company and of D 56, Inc. since April 22, 1993. He was Chief Executive Officer of the Company and of D 56, Inc. from April 22, 1993 until November 13, 1996. Mr. Bazinet was the founder of D 56, Inc. and was President of D 56, Inc. from 1984 until April 22, 1993.

Susan E. Engel has been Chief Executive Officer of the Company and of D 56, Inc. since November 13, 1996, and President of the Company and of D 56, Inc. since September 19, 1994. She was Chief Operating Officer of the Company and of D 56, Inc. from September 19, 1994 until November 13, 1996. Ms. Engel was a consultant to retail and consumer goods companies from September 1993 until September

1994, and Chief Executive Officer and President of Champion Products, Inc. (a manufacturer of athletic and active sports apparel) from October 1991 to September 1993.

Mark R. Kennedy has been Senior Vice President of the Company and of D 56, Inc. since January 1, 1997 and Chief Financial Officer of the Company and of D 56, Inc. since April 25, 1995. He was Vice President -- Administration of the Company and of D 56, Inc. from April 25, 1995 until January 1, 1997. From January 1995 until April 25, 1995, Mr. Kennedy was a private investor. Mr. Kennedy was Senior Executive Vice President of Shopko Stores, Inc. (a "mass market" department store chain) from June 1993 to January 1995, and its Senior Vice President and Chief Financial Officer from February 1992 to June 1993.

David H. Weiser has been Senior Vice President -- Legal/Human Resources of the Company and of D 56, Inc. since January 1, 1997. He has also been General Counsel of the Company since April 22, 1993, General Counsel of D 56, Inc. since March 15, 1993, and Secretary of the Company and of D 56, Inc. since February 1993. Mr. Weiser was Vice President of the Company from April 22, 1993 until January 1, 1997 and Vice President of D 56, Inc. from March 15, 1993 until January 1, 1997. He was an associate in the law firm of Fried, Frank, Harris, Shriver & Jacobson from 1986 until March 15, 1993.

David W. Dewey has been Senior Vice President -- Overseas Operations of the Company and of D 56, Inc. since January 1, 1997. He was Vice President -- Overseas Operations of the Company and of D 56, Inc. from April 22, 1993 until January 1, 1997. Mr. Dewey was Vice President of Marketing of D 56, Inc. from March 1990 until April 22, 1993.

William E. Kirchner has been Senior Vice President -- Product Development of the Company and of D 56, Inc. since January 1, 1997. He was Vice President -- Product Development and Advertising of the Company and of D 56, Inc. from April 22, 1993 until January 1, 1997. Mr. Kirchner was Director of Advertising and New Product Development of D 56, Inc. from May 1984 until April 22, 1993.

Robert S. Rose has been Vice President -- Distribution and Operations of the Company and of D 56, Inc. since April 22, 1993. Mr. Rose was Vice President of Operations of D 56, Inc. from September 1988 until April 22, 1993.

Timothy J. Schugel has been Vice President -- Finance of the Company and of D56, Inc. since April 10, 1995, and was Controller of the Company and of D 56, Inc. from April 26, 1993 until April 10, 1995. He was a Senior Manager/Manager with the public accounting firm of Deloitte & Touche LLP from 1986 until April 24, 1993.

Joan M. Serena has been Vice President -- Consumer & Dealer Marketing of the Company and of D 56, Inc. since January 1, 1997. She was Vice President -- Consumer & Retail Marketing of the Company and of D 56, Inc. from October 20, 1995 until January 1, 1997. She was Vice President -- Consumer Services of the Company and of D 56, Inc. from April 22, 1993 until October 20, 1995. Ms. Serena was Vice President, Sales Services of D 56, Inc. from June 1992 until April 22, 1993. Ms. Serena was Divisional Product Merchandising Manager of the Home Furnishing Division of Associated Merchandising Corporation (a product-sourcing firm servicing department stores) from August 1988 through May 1992.

Gregory G. Sorensen has been Vice President -- Management Information Systems of the Company and of D 56, Inc. since July 22, 1996. He was Vice President of Information Systems of Tsumura International, Inc. (a distributor of consumer soaps and toiletries) from October 1991 until July 12, 1996, and a consultant to D 56, Inc. from July 12, 1996 until July 22, 1996.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Information required by this Item is included in Corporate and Stockholder Information on page 29 of the 1996 Annual Report and Note 7 to Five Year Summary on page 11 of the 1996 Annual Report, and such information is incorporated herein by reference.

As of March 19, 1997, the number of holders of record of the Company's Common Stock was 1,073.

ITEM 6. SELECTED FINANCIAL DATA

Information required by this Item is included in Five Year Summary on page 11 of the 1996 Annual Report, and such information is incorporated herein by reference. See also the notes to the consolidated financial statements and Management's Discussion and Analysis on pages 22 to 27 and 12 to 17, respectively, of the 1996 Annual Report, and such information is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information required by this Item is included in Management's Discussion and Analysis on pages 12 to 17 of the 1996 Annual Report, incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information required by this Item is included in the consolidated financial statements of the Company for the years ended December 28, 1996, December 30, 1995 and December 31, 1994, the notes to the consolidated financial statements, and the report of independent auditors thereon on pages 18 to 28 of the 1996 Annual Report, and in the Company's unaudited quarterly financial data for the years ended December 28, 1996 and December 30, 1995 on page 14 of the 1996 Annual Report, incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None in 1996.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by this Item concerning directors of the Company who are nominated by the Company for re-election at the 1997 annual meeting of the Company's stockholders is included in the 1997 Proxy Statement in the section captioned "Item 1 -- Election of Directors," and such information is incorporated herein by reference. Information required by this Item concerning the executive officers of the Company is included in Part I, pages 7 and 8 of this Annual Report on Form 10-K as permitted by General Instruction G(3) to Form 10-K. Information required by this Item concerning compliance with Section 16(a) of the Securities Exchange Act of 1934 is included in the 1997 Proxy Statement in the last paragraph of the section captioned "Security Ownership of Certain Beneficial Owners and Management," and such information is incorporated herein by reference.

The principal occupations and positions for the past five years, and in certain cases prior years, of each of the current directors of the Company who are not nominated for re-election at the 1997 annual meeting of stockholders are as follows:

Nicholas C. Forstmann, age 50, has been a director of the Company since October 1992. Mr. Forstmann has been a General Partner of FLC Partnership, L.P., the general partner of Forstmann Little & Co. (a private investment firm), since he co-founded Forstmann Little & Co. in 1978. He is a director of General Instrument Corporation ("General Instrument"), a maker of broadcast transmission, distribution and access control technologies and power rectifying components.

Stephen Fraidin, age 57, has been a director of the Company since December 14, 1992. Mr. Fraidin has been a partner in the law firm of Fried, Frank, Harris, Shriver & Jacobson (a partnership including professional corporations) since 1971 and has been a Visiting Lecturer at Yale Law School since 1988.

Richard S. Friedland, age 46, has been a director of the Company since December 14, 1992. Mr. Friedland has been President and Chief Operating Officer and a director of General Instrument since October 1993, Chief Executive Officer of General Instrument since August 1995 and Chairman of the Board of Directors of General Instrument since December 1995. He was Chief Financial Officer of General Instrument from March 1992 to January 1994 and Vice President, Finance of General Instrument from May 1991 to October 1993. He was also Vice President -- Finance and Assistant Secretary of GI Corporation of Delaware, the principal operating subsidiary of General Instrument ("GICD"), from October 1990 to October 1993 and Vice President and Controller of GICD from November 1988 to January 1994.

Arthur T. Shorin, age 61, has been a director of the Company since December 14, 1992. Mr. Shorin has been Chairman of the Board of Directors and Chief Executive Officer of The Topps Company, Inc. (formerly Topps Chewing Gum, Incorporated -- a distributor of celebrity trading cards, publications, novelties and confections) since 1980 and of its predecessor, Topps Holding Co., Inc., since 1984.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item is included in the 1997 Proxy Statement in the section captioned "Further Information Concerning the Board of the Directors and Committees -- Compensation Committee Interlocks and Insider Participation" and "-- Director Compensation" and in the section captioned "Compensation of Executive Officers" (other than the subsection thereof captioned "Compensation Committee Report on Executive Compensation" and "Performance Graph"), and such information (other than the subsections thereof captioned "Compensation Committee Report on Executive Compensation" and "Performance Graph") is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by this Item is included in the 1997 Proxy Statement in the section captioned "Security Ownership of Certain Beneficial Owners and Management", and such information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this Item is included in the 1997 Proxy Statement in the section captioned "Certain Related Party Transactions," and such information is incorporated herein by reference. See also, Note 9 to the consolidated financial statements on page 26 of the 1996 Annual Report.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

All other schedules have been omitted because they are not applicable, not required or the information required is included in the consolidated financial statements or notes thereto.

3. EXHIBITS

The exhibits are listed in the accompanying Index to Exhibits on pages 19 and 20.

(b) Reports on Form 8-K

A Current Report on Form 8-K, dated November 14, 1996, was filed reporting in Items 5 and 7 thereof and containing no financial statements. A Current Report on Form 8-K, dated December 11, 1996, was filed reporting in Items 5 and 7 thereof and containing no financial statements.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Department 56, Inc.:

We have audited the consolidated balance sheets of Department 56, Inc. and subsidiaries (the "Company") as of December 28, 1996 and December 30, 1995 and the related consolidated statements of income, cash flows and stockholders' equity for the years ended December 28, 1996, December 30, 1995 and December 31, 1994, and have issued our report thereon dated February 14, 1997 (included in the Company's Annual Report to Stockholders for the year ended December 28, 1996 and incorporated herein by reference). Our audits also included the financial statement schedules for the aforementioned periods listed in Item 14 of Form 10-K. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement schedules based on our audits. In our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

Deloitte & Touche LLP
Minneapolis, Minnesota
February 14, 1997

DEPARTMENT 56, INC.
(PARENT COMPANY ONLY)
SCHEDULE I -- CONDENSED FINANCIAL INFORMATION
BALANCE SHEETS
(IN THOUSANDS)

	DECEMBER 28, 1996	DECEMBER 30, 1995
ASSETS		
INVESTMENT IN SUBSIDIARY	$ 195,439	$ 148,993
RECEIVABLE FROM SUBSIDIARY	1,543	1,563
	$ 196,982	$ 150,556
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accrued stock issuance costs	$ 225	$ 270
LONG-TERM DEBT, NET OF CURRENT PORTION	--	--
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value; authorized 20,000 shares; no shares issued	--	--
Common Stock, $.01 par value; authorized 100,000 shares; issued and outstanding 21,584 and 21,546 shares, respectively	216	215
Additional paid-in capital	42,315	41,803
Unearned compensation on common stock options	--	(14)
Retained earnings	154,226	108,282
Total stockholders' equity	196,757	150,286
	$ 196,982	$ 150,556

Note: Investment in subsidiary is accounted for under the equity method of accounting.

See notes to consolidated financial statements included in the 1996 Annual Report, incorporated by reference.

DEPARTMENT 56, INC.
(PARENT COMPANY ONLY)

SCHEDULE I -- CONDENSED FINANCIAL INFORMATION (CONTINUED)
STATEMENTS OF INCOME
(IN THOUSANDS)

	YEAR ENDED DECEMBER 28, 1996	YEAR ENDED DECEMBER 30, 1995	YEAR ENDED DECEMBER 31, 1994
Equity in earnings of subsidiary	$ 46,263	$ 49,435	$ 46,740
Interest expense	--	(955)	(10,376)
General and administrative expenses	(319)	(227)	(265)
Income before income taxes	45,944	48,253	36,099
Income taxes	--	--	--
Net income	$ 45,944	$ 48,253	$ 36,099

See notes to consolidated financial statements included in the 1996 Annual Report, incorporated by reference.

DEPARTMENT 56, INC.
(PARENT COMPANY ONLY)

SCHEDULE I -- CONDENSED FINANCIAL INFORMATION (CONTINUED)
STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 28, 1996	YEAR ENDED DECEMBER 30, 1995	YEAR ENDED DECEMBER 31, 1994
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 45,944	$ 48,253	$ 36,099
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Dividends received from subsidiaries	--	109,596	51,455
Equity in earnings of subsidiaries	(46,263)	(49,435)	(46,740)
Decrease in accrued interest payable	--	(644)	(226)
Decrease in payable to subsidiaries	--	--	(862)
(Increase) decrease in receivable from subsidiaries	28	(51)	(15)
Payment of stock issuance costs	(45)	(584)	(752)
Net cash provided by (used in) operating activities	(336)	107,135	38,959
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from the exercise of stock options	336	865	1,041
Principal payments on long-term debt	--	(108,000)	(40,000)
Net cash provided by (used in) financing activities	336	(107,135)	(38,959)
NET CHANGE IN CASH AND CASH EQUIVALENTS	--	--	--
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	--	--	--
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ --	$ --	$ --

See notes to consolidated financial statements included in the 1996 Annual Report, incorporated by reference.

DEPARTMENT 56, INC.
SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS
(IN THOUSANDS)

COLUMN A DESCRIPTION	COLUMN B BALANCE AT BEGINNING OF PERIOD	COLUMN C -- ADDITIONS (1)CHARGED TO COSTS AND EXPENSES	(2)CHARGED TO OTHER ACCOUNTS	COLUMN D DEDUCTIONS	COLUMN E BALANCE AT END OF PERIOD
Year ended December 28, 1996:					
Allowance for doubtful accounts receivable.....	$ 4,329	$ 2,014	--	$ 1,329(a)	$ 5,014
Allowance for obsolete and overstock inventory....................................	3,604	867	--	1,529	2,942
Allowance for sales returns and credits........	2,555	11,585	--	8,891	5,249
	$ 10,488	$ 14,466	--	$ 11,749	$ 13,205
Year ended December 30, 1995:					
Allowance for doubtful accounts receivable.....	$ 3,592	$ 2,293	--	$ 1,556(a)	$ 4,329
Allowance for obsolete and overstock inventory....................................	2,660	1,866	--	922	3,604
Allowance for sales returns and credits........	1,641	6,529	--	5,615	2,555
	$ 7,893	$ 10,688	--	$ 8,093	$ 10,488
Year ended December 31, 1994:					
Allowance for doubtful accounts receivable.....	$ 3,314	$ 1,107	--	$ 829(a)	$ 3,592
Allowance for obsolete and overstock inventory....................................	2,413	539	--	292	2,660
Allowance for sales returns and credits........	1,470	4,593	--	4,422	1,641
	$ 7,197	$ 6,239	--	$ 5,543	$ 7,893

(a) Accounts determined to be uncollectible and charged against allowance account, net of collections on accounts previously charged against allowance account.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ SUSAN E. ENGEL

Susan E. Engel
PRESIDENT
AND CHIEF EXECUTIVE OFFICER

Date: March 27, 1997

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	CAPACITY IN WHICH SIGNED	DATE
/s/ SUSAN E. ENGEL Susan E. Engel	President, Chief Executive Officer and Director (Principal Executive Officer)	March 27, 1997
/s/ MARK R. KENNEDY Mark R. Kennedy	Chief Financial Officer and Senior Vice President (Principal Financial Officer)	March 27, 1997
/s/ TIMOTHY J. SCHUGEL Timothy J. Schugel	Vice President -- Finance and Principal Accounting Officer (Principal Accounting Officer)	March 27, 1997
/s/ TODD L. BACHMAN Todd L. Bachman	Director	March 27, 1997
/s/ EDWARD R. BAZINET Edward R. Bazinet	Chairman of the Board and Director	March 27, 1997
/s/ NICHOLAS C. FORSTMANN Nicholas C. Forstmann	Director	March 27, 1997
/s/ STEPHEN FRAIDIN Stephen Fraidin	Director	March 27, 1997
/s/ RICHARD S. FRIEDLAND Richard S. Friedland	Director	March 27, 1997
/s/ SANDRA J. HORBACH Sandra J. Horbach	Director	March 27, 1997

SIGNATURE	CAPACITY IN WHICH SIGNED	DATE
/s/ WM. BRIAN LITTLE Wm. Brian Little	Director	March 27, 1997
/s/ STEVEN G. ROTHMEIER Steven G. Rothmeier	Director	March 27, 1997
/s/ ARTHUR T. SHORIN Arthur T. Shorin	Director	March 27, 1997
/s/ VIN WEBER Vin Weber	Director	March 27, 1997

DEPARTMENT 56, INC.
INDEX TO EXHIBITS

EXHIBIT	DESCRIPTION
3.1	Restated Certificate of Incorporation of the Company. (Incorporated herein by reference to Exhibit 3.1 of Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 1993. SEC File no. 1-11908)
3.2	Restated By-Laws of the Company. (Incorporated herein by reference to Exhibit 3.2 of Registrant's Registration Statement on Form S-1, No. 33-61514 and to Exhibits 1 and 2 of Registrant's Current Report on Form 8-K dated February 15, 1996. SEC File no. 1-11908)
4.1	Specimen form of Company's Common Stock certificate. (Incorporated herein by reference to Exhibit 4.1 of Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1994. SEC File no. 1-11908)
10.1	Department 56, Inc. 1992 Stock Option Plan. (Incorporated herein by reference to Exhibit 10.1 of Registrant's Registration Statement on Form S-1, No. 33-61514.)+
10.2	Form of Stock Option Agreement in connection with the 1992 Stock Option Plan. (Incorporated herein by reference to Exhibit 10.2 of Registrant's Registration Statement on Form S-1, No. 33-61514.)+
10.3	Form of Outside Directors Stock Option Agreement. (Incorporated herein by reference to Exhibit 10.4 of Registrant's Annual Report on Form 10-K for the fiscal year ended January 1, 1994. SEC File no. 1-11908)+
10.4	Lease, dated April 1, 1989, as amended, between Hoyt Properties, Inc. and the Company for the Eden Prairie warehouse. (Incorporated herein by reference to Exhibit 10.7 of Registrant's Registration Statement on Form S-1, No. 33-61514.)
10.5	Lease, dated December 8, 1993 as amended August 25, 1994, between Grantor Retained Income Trust of Robert L. Johnson and the Company for the Bloomington warehouse. (Incorporated herein by reference to Exhibit 10.5 of Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1994. SEC File no. 1-11908)
10.6	Amended and Restated Credit Agreement, dated as of February 17, 1995, among D 56, Inc., the Banks parties thereto, and Chemical Bank as agent, issuing bank and accepting bank. (Incorporated herein by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K dated February 17, 1995. SEC File no. 1-11908)
10.7	Pledge Agreement, dated as of February 17, 1995, by the Company in favor of Chemical Bank. (Incorporated herein by reference to Exhibit 10.2 of Registrant's Current Report on Form 8-K dated February 17, 1995. SEC File no. 1-11908)
10.8	Guarantee, dated as of February 17, 1995, by the Company in favor of Chemical Bank. (Incorporated herein by reference to Exhibit 10.3 of Registrant's Current Report on Form 8-K dated February 17, 1995. SEC File no. 1-11908)
10.9	Pledge Agreement, dated as of February 17, 1995, by D 56, Inc. in favor of Chemical Bank. (Incorporated herein by reference to Exhibit 10.8 of Registrant's Current Report on Form 8-K dated February 17, 1995. SEC File no. 1-11908)
10.10	Pledge Agreement, dated as of February 17, 1995, by FL 56 Intermediate Corp. in favor of Chemical Bank. (Incorporated herein by reference to Exhibit 10.4 of Registrant's Current Report on Form 8-K dated February 17, 1995. SEC File no. 1-11908)
10.11	Guarantee, dated as of February 17, 1995, by FL 56 Intermediate Corp. in favor of Chemical Bank. (Incorporated herein by reference to Exhibit 10.5 of Registrant's Current Report on Form 8-K dated February 17, 1995. SEC File no. 1-11908)
10.12	Pledge Agreement, dated as of February 17, 1995, by ed bazinet international, inc. in favor of Chemical Bank. (Incorporated herein by reference to Exhibit 10.6 of Registrant's Current Report on Form 8-K dated February 17, 1995. SEC File no. 1-11908)

EXHIBIT	DESCRIPTION
10.13	Guarantee, dated as of February 17, 1995, by ed bazinet international, inc. in favor of Chemical Bank. (Incorporated herein by reference to Exhibit 10.7 of Registrant's Current Report on Form 8-K dated February 17, 1995. SEC File no. 1-11908)
10.14	Guarantee, dated as of February 17, 1995, by Department 56 Trading Co., Ltd. in favor of Chemical Bank. (Incorporated herein by reference to Exhibit 10.9 of Registrant's Current Report on Form 8-K dated February 17, 1995. SEC File no. 1-11908)
10.15	Registration Rights Agreement between the Company, Department 56 Partners, L.P. and Forstmann Little & Co. Subordinated Debt and Equity Management Buyout Partnership-IV. (Incorporated herein by reference to Exhibit 10.23 of Registrant's Registration Statement on Form S-1, No. 33-61514.)
10.16	Form of Indemnification Agreement between the Company and its directors and executive officers. (Incorporated herein by reference to Exhibit 10.24 of Registrant's Registration Statement on Form S-1, No. 33-61514.)
10.17	Department 56, Inc. 1993 Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.25 of Registrant's Registration Statement on Form S-1, No. 33-61514.)+
10.18	Department 56, Inc. 1995 Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.18 of Registrant's Annual Report on Form 10-K for the fiscal year ended December 30, 1995. SEC File no. 1-11908)+
10.19	Form of Stock Option Agreement in connection with Department 56, Inc. 1993 Stock Incentive Plan and Department 56, Inc. 1995 Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.1 of Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 1993. SEC File no. 1-11908)+
10.20	Aircraft Lease, dated as of April 15, 1994, between Fleet Credit Corporation, as Lessor, and D 56, Inc., as Lessee. (Incorporated herein by reference to Exhibit 10.27 of Registrant's Registration Statement on Form S-1, No. 33-77278.)
10.21	Aircraft Management Agreement, dated February 10, 1994, between Department 56 Trading Co., Ltd. (subsequently assigned to D 56, Inc.) and Lear Siegler Management Corp. (Incorporated herein by reference to Exhibit 10.25 of Registrant's Annual Report on Form 10-K for the fiscal year ended January 1, 1994. SEC File no. 1-11908)
10.22	Time Sharing Agreement, dated February 10, 1994, between Department 56 Trading Co., Ltd. (subsequently assigned to D 56, Inc.) and Edward R. Bazinet. (Incorporated herein by reference to Exhibit 10.26 of Registrant's Annual Report on Form 10-K for the fiscal year ended January 1, 1994. SEC File no. 1-11908)
10.23	Department 56, Inc. Annual Cash Incentive Program +*
11.1	Computation of Earnings Per Share.*
13.1	Excerpts from Annual Report to Stockholders for fiscal year ended December 28, 1996.*
21.1	Subsidiaries of the Company.*
23.1	Consent of Deloitte & Touche LLP*
27.1	Financial Data Schedule (accompanies EDGAR electronic format only)*

+ Management contract or compensatory plan

* Filed herewith

DEPARTMENT 56, INC.
ANNUAL CASH INCENTIVE PROGRAM

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1. PURPOSE

The purpose of the Annual Cash Incentive Program is to enhance Department 56, Inc.'s ability to attract, motivate, reward and retain employees, to strengthen their commitment to the success of the Company and to align their interests with those of the Company's stockholders by providing additional compensation to designated employees of the Company based on the achievement of performance objectives. To this end, the Annual Cash Incentive Program provides a means of annually rewarding participants largely based on the performance of the Company and, to a much lesser degree, based on exceptional instances of personal performance.

2. DEFINITIONS

(a) "Award" shall mean the cash incentive award earned by a Participant under the Program for any Performance Period.

(b) "Base Salary" shall mean the Participant's annual base salary, based on the Company's latest Form CTN in effect for the Participant during the Performance Period to which such Form CTN relates. Annual base salary (1) does not include (i) Awards under the Program, (ii) profit sharing, 401(k) "match", or other long-term incentive awards, (iii) imputed or actual income from stock option exercises or such programs as life insurance or (iv) nonrecurring earnings such as moving expenses, and (2) is based on salary earnings before reductions for such items as contributions under Section 401(k) of the Internal Revenue Code of 1986, as amended, and Company-sponsored deferred compensation arrangements.

(c) "Board" shall mean the Board of Directors of the Company.

(d) "Business Program", for any Performance Period, shall mean the Company's final financial plan for such Performance Period, submitted to and approved by the Board before the earlier of (1) the ninety-first day of such Performance Period or (2) the end of the first quarter of such Performance Period.

(e) "Change of Control" shall mean the occurrence during the term of the Program of:

(i) An acquisition (other than directly from the Company) of any voting securities of the Company (the "Voting Securities") by any 'Person' (as the term person is used for purposes of Section 13(d) or 14(d) of the Exchange Act), immediately after which such Person has 'Beneficial Ownership' (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of fifty-one percent (51%) or more of the combined voting power of the Company's then outstanding Voting Securities; provided, however, in determining whether a Change of Control has occurred, Voting Securities which are acquired in a 'Non-Control Acquisition' (as hereinafter defined) shall not constitute an acquisition which would cause a Change of Control. A 'Non-Control Acquisition' shall mean an acquisition by (i) an employee benefit plan (or a trust forming a part thereof) maintained by (A) the Company or (B) any corporation or other Person of which a majority of its voting power or its voting equity securities or equity interest is owned, directly or indirectly, by the Company (for purposes of this definition, a 'Subsidiary'), (ii) the Company or its Subsidiaries, or (iii) any Person in connection with a 'Non-Control Transaction' (as hereinafter defined);

(ii) The individuals who, as of May 16, 1997, are members of the Board (the "Incumbent Board"), cease for any reason to constitute at least two-thirds of the members of the Board; provided, however, that if the election, or nomination for election by the Company's common stockholders, of any new director was approved by a vote of at least two-thirds of the Incumbent Board, such new director shall, for purposes of this Program, be considered as a member of the Incumbent Board; provided further, however, that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened 'Election Contest' (as described in Rule 14a-11 promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board (a "Proxy Contest") including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest; or

(iii) Approval by stockholders of the Company of:

(1) A merger, consolidation or reorganization with or into the Company or in which securities of the Company are issued, unless such merger, consolidation or reorganization is a "Non-Control Transaction." A "Non-Control Transaction" is a merger, consolidation or reorganization with or into the Company or in which securities of the Company are issued where

(A) the stockholders of the Company, immediately before such merger, consolidation or reorganization, own, directly or indirectly immediately following such merger, consolidation or reorganization, at least sixty percent (60%) of the combined voting power of the outstanding voting securities of the corporation resulting from such merger or consolidation or reorganization (the "Surviving Corporation") in substantially the same proportion as their ownership of the Voting Securities immediately before such merger, consolidation or reorganization,

(B) the individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for such merger, consolidation or reorganization constitute at least two-thirds of the members of the board of directors of the Surviving Corporation, or a corporation beneficially owning a majority of the Voting Securities of the Surviving Corporation,

(C) no Person other than (1) the Company, (2) any Subsidiary, (3) any employee benefit plan (or any trust forming a part thereof) maintained immediately prior to such merger, consolidation or reorganization by the Company or any Subsidiary, or (4) any Person who, immediately prior to such merger, consolidation or reorganization had Beneficial Ownership of fifty-one percent (51%) or more of the then outstanding Voting Securities owns, directly or indirectly fifty-one percent (51%) or more of the combined voting power of the Surviving Corporation's then outstanding voting securities;

(2) A complete liquidation or dissolution of the Company; or

(3) The sale or other disposition of all or substantially all of the assets of the Company to any Person (other than a transfer to a Subsidiary).

Notwithstanding the foregoing, a Change of Control shall not be deemed to occur solely because any Person (the "Subject Person") acquired Beneficial Ownership of more than the permitted amount of the outstanding Voting Securities as a result of the acquisition of Voting Securities by the Company which, by reducing the number of Voting Securities outstanding, increases the proportional number of shares Beneficially Owned by the Subject Persons, provided that if a Change of Control would occur (but for the operation of this sentence) as a result of the acquisition of Voting Securities by the Company, and after such share acquisition by the Company, the Subject Person becomes the Beneficial Owner of any additional Voting Securities which increases the percentage of the then outstanding Voting Securities Beneficially Owned by the Subject Person, then a Change of Control shall occur.

(f) "Company" shall mean Department 56, Inc., its successors and assigns.

(g) "Compensation Committee" shall mean the Compensation Committee of the Board.

(h) "Consolidated EBIT", for any fiscal year or Performance Period, shall mean the Consolidated Net Income ((i) including earnings and losses from discontinued operations, except to the extent that any such losses represent reserves for losses attributable to the planned disposition of material assets, (ii) excluding extraordinary gains or losses, and gains and losses arising from the sale of material assets, and (iii) including other non-recurring gains or losses) of the Company and its Subsidiaries for such fiscal year or Performance Period, PLUS to the extent reflected as a charge in the statement of Consolidated Net Income for such fiscal year or Performance Period, the sum of (a) net interest expense, amortization of debt discount and debt issuance costs (including the write-off of such costs in connection with prepayments of debt) and commissions, discounts and other fees and charges associated with letters of credit, (b) taxes measured by income accrued as an expense during such fiscal year or Performance Period, and (c) non-cash compensation expense resulting from the accounting treatment applied, in accordance with GAAP, to management's equity interest.

(i) "Consolidated Net Income": for any period, the net income or net loss of the Company and its Subsidiaries for such period determined in accordance with GAAP on a consolidated basis.

(j) "Current Year EBIT Target", for any Performance Period, shall mean the Consolidated EBIT goal for such Performance Period, (i) as reflected as EBIT (or Income From Operations in lieu thereof) in the Business Program or (ii) if such Performance Period is not a fiscal year, as established by the Compensation Committee.

(k) "Current Year Financial Target Earned", for any Performance Period, shall mean the percentage based on the achievement of Current Year EBIT Target as determined by the Compensation Committee.

(l) "Disability" shall mean permanent disability, as provided in the Company's long-term disability plan.

(m) "Effective Date" shall mean the date that the Program is adopted by the Board.

(n) "Employee" shall mean any person (including an officer) employed by the Company or any of its Subsidiaries on a full-time basis except for any (i) commissioned sales representative, (ii) non-exempt employee or seasonal or temporary worker, (iii) employee represented in his or her employment relationship by a collective bargaining unit or other labor union, guild or association, or (iv) employee principally in a non-managerial position in any operation of the Company or any Subsidiary located outside the United States of America.

(o) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(p) "GAAP" shall mean generally accepted accounting principles in the United States of America in effect from time to time.

(q) "Key Employee" shall mean any Employee so designated by the Management HR Committee.

(r) "Management HR Committee" shall mean a committee composed of four Company officers, being the Chief Executive Officer and the Company's senior human resources officer (both of whom shall be standing members of the Management HR

Committee), and, on an annual rotating basis, two officers (Vice President level or higher) of the Company selected by the standing members of the Management HR Committee.

(s) "Participant", for any Performance Period, shall mean an Employee who is eligible to participate in the Program for such Performance Period as provided in Section 3 of the Program.

(t) "Performance Period" shall mean the fiscal year of the Company or any other period designated by the Compensation Committee with respect to which an Award is earned.

(u) "Program" shall mean this Department 56, Inc. Annual Cash Incentive Program, as from time to time amended and in effect.

(v) "Retirement" shall mean retirement at or after age 65 or early retirement with the prior written approval of the Company.

(w) "Subsidiary" shall mean a corporation as defined in Section 424(f) of the Internal Revenue Code of 1986, as amended, with the Company being treated as the employer corporation for purposes of this definition.

(x) "Target Award Percentage" for any Participant with respect to any Performance Period, shall mean the percentage of the Participant's Base Salary that the Participant would earn as an Award for that Performance Period if each of the Current Year Financial Target Earned and Trend Financial Target Earned for that Performance Period is 100%, and shall be as set forth on a schedule adopted by the Compensation Committee with respect to officers who are Participants and as set forth on a schedule adopted by the Management HR Committee with respect to all other Participants, based on the Participant's responsibility level or the position or positions held during the Performance Period; PROVIDED, HOWEVER, that if any Participant held more than one position during the Performance Period, then the Compensation Committee or Management HR Committee, as applicable, may designate different Target Award Percentages with respect to each position and the Award will be pro-rated to reflect the number of days during which such Participant had each Target Award Percentage.

(y) "Trend EBIT Performance", for any fiscal year Performance Period, shall mean the three-year rolling average annual change in Consolidated EBIT. Trend EBIT Performance shall be calculated as a fraction (and expressed as a percentage), the numerator of which is the sum of Trend EBIT Snapshot for such fiscal year and Trend EBIT Snapshot for each of the two immediately preceding fiscal years, and the denominator of which is three; PROVIDED, HOWEVER, that Trend EBIT Performance for the 1997 fiscal year Performance Period shall equal Trend EBIT Snapshot solely for the Company's 1997 fiscal year; and FURTHER PROVIDED, that Trend EBIT Performance for the 1998 fiscal year

Performance Period shall equal a fraction (expressed as a percentage), the numerator of which is the sum of Trend EBIT Snapshot for each of the Company's 1997 and 1998 fiscal years, and the denominator of which is two.

(z) "Trend EBIT Snapshot", for any Company fiscal year shall mean the percentage change in Consolidated EBIT for such fiscal year in relation to Consolidated EBIT for the immediately preceding fiscal year.

(aa) "Trend Financial Target Earned", for any fiscal year Performance Period, shall mean the percentage based on the achievement of Trend EBIT Target as determined by the Compensation Committee.

(bb) "Trend EBIT Target", for any fiscal year Performance Period, shall mean the Trend EBIT Performance goal for such year as established by the Compensation Committee.

3. ELIGIBILITY

Participation in the Program for a Performance Period shall be limited to those Employees who are eligible to participate as provided in this Section 3. To be eligible to participate in the Program in any Performance Period, an Employee shall have had a least three months active tenure during such Performance Period and be actively employed by the Company on the Award payment date. The Compensation Committee or Management HR Committee may approve, in accordance with Sections 7 and 8 of this Program, exceptions for special circumstances.

Employees shall participate in only one annual cash or sales incentive program for any specific period in time. For example, an individual may not participate in both the Program and the Company's sales commission or sales incentive program at the same time. An individual may participate in two programs sequentially during any Performance Period because of promotion or reassignment, provided that participation in each such program is pro-rated based on the number of days he or she participated in each program.

If an Employee becomes a Participant during a Performance Period, such Participant's Award will be pro-rated based on the number of days that he or she is a Participant.

4. ADMINISTRATION

The administration of the Program shall be consistent with the purpose and the terms of the Program. The Program shall be administered by the Compensation Committee with respect to officers and by the Management HR Committee with respect to all other Participants. Each member of the Compensation Committee shall be an "outside director" within the meaning of Treasury Regulations under Section 162(m) of the Internal Revenue Code of 1986, as amended. The Compensation Committee and the Management HR Committee, as the case may be, shall have full authority to establish the rules and regulations relating to the Program, to interpret the Program and those rules and regulations, to decide the facts in any case arising under the Program, to reduce or eliminate any Participant's Award that would otherwise be payable pursuant to the terms of the Program in the event the Participant has demonstrated job performance below Company expectations or otherwise in such committee's discretion, and to make all other determinations and to take all other actions necessary or appropriate for the proper administration of the Program, including the delegation of such authority or power, where appropriate; PROVIDED, HOWEVER, that only the Compensation Committee shall have authority to amend or terminate the Program. In addition, the Management HR Committee shall have, with respect to non-officer Employees, full authority to select such Participants in the Program and to determine each such Participant's Target Award Percentage. Moreover, with respect to Participants who are not officers or Key Employees, the Management HR Committee shall have full authority to grant Awards in such amounts as it may determine in any event that (i) no Awards to such Participants would otherwise be payable pursuant to Section 5 of this Program or (ii) Awards to such Participants of lesser amounts would otherwise be payable pursuant to Section 5 of this Program. The Compensation Committee's and the Management HR Committee's administration of the Program, including all such rules and regulations, interpretations, selections, determinations, approvals, decisions, delegations, amendments, terminations and other actions, shall be final and binding on the Company, the Subsidiaries, their respective stockholders and all employees of the Company and the Subsidiaries, including the Participants and their respective beneficiaries. No member of the Compensation Committee or the Management HR Committee shall be liable for any action, failure to act, determination or interpretation made in good faith with respect to the Program or any transaction hereunder, except for liability arising from his or her own willful misfeasance, gross negligence or reckless disregard of his or her own willful misfeasance, gross negligence or reckless disregard of his or her duties. The Company hereby agrees to indemnify each member of the Compensation Committee and each member of the Management HR Committee for all costs and expenses and, to the extent permitted by applicable law, any liability incurred in connection with defending against, responding to, negotiating for the settlement of or otherwise dealing with any claim, cause of action or dispute of any kind arising in connection with any actions in administering the Program or in authorizing or denying authorization to any transaction hereunder.

5. DETERMINATION OF DEFINED AWARDS

Prior to, or as soon as practicable following, the commencement of each Performance Period, the Management HR Committee with respect to all non-officer Participants shall then determine each such Participant's Target Award Percentage. The Company shall then prepare schedules, which will be treated as part of the Program for that Performance Period, setting forth (x) the Participants during that Performance Period, (y) each Participant's Target Award Percentage for that Performance Period and (z) the

Current Year EBIT Target and the Trend EBIT Target for that Performance Period. The Company shall notify each Participant of his or her Target Award Percentage and the Current Year EBIT Target and the Trend EBIT Target for the Performance Period. In addition to, and without limiting the generality of the foregoing, the Company's officers shall also participate in the Program for every Performance Period in accordance with Section 3 hereof, and the Target Award Percentage of each officer shall be as set forth on a schedule adopted by the Compensation Committee.

Generally, a Participant earns an Award for a Performance Period based on (i) the Company's achievement of the Current Year EBIT Target and the Trend EBIT Target, and (ii) as further described in Section 6 below, his or her achievement of extraordinary personal quality performance. The portion of Awards based on "COMPONENT A" set forth below will only be earned if the Company achieves 90% or higher of the Current Year EBIT Target for such Performance Period. The portion of Awards based on "COMPONENT B" set forth below will only be earned if the Company achieves one-half or more of the Trend EBIT Target.

Awards shall be earned by Participants in accordance with the following formula:

"COMPONENT A"

Target Award Percentage	x	Base Salary	x	Current Year Financial Target Earned

PLUS

"COMPONENT B"

Target Award Percentage	x	Base Salary	x	Trend Financial Target Earned

6. DETERMINATION OF DISCRETIONARY AWARDS

There shall be a pool (not exceeding one hundred thousand dollars) created each fiscal year Performance Period from which Awards may be granted to any Participant solely in respect of such Participant's personal job performance and without regard to the determination of defined Awards or achievement of financial targets contemplated by Section 5 above; PROVIDED, HOWEVER, that no such pool shall be created for a Performance Period unless the Business Program for such Performance Period assumes and reflects the expense effect of full utilization of the pool.

The Compensation Committee (with respect to any Participant) and the

Management HR Committee (with respect to any non-officer Participant) shall each have the authority to grant and pay Awards from any pool described in the preceding paragraph at such times and in such amounts as such committee, in its sole discretion, shall determine. Notwithstanding the proviso contained in the preceding paragraph, there shall be no obligation of either the Compensation Committee or the Management HR Committee to grant any Awards (or to continue or repeat the granting of any Awards) to any Participant or Participants pursuant to this Section 6.

Discretionary bonus pool amounts not utilized in a Performance Period shall not be carried over or accumulated with any discretionary bonus pool amounts permitted in any subsequent Performance Periods.

7. CHANGES TO TARGET AWARD PERCENTAGES

The Compensation Committee, with respect to officers who are Participants, and the Management HR Committee, with respect to all other Participants, may at any time prior to the final determination of Awards change the Target Award Percentage of any Participant or assign a different Target Award Percentage to a Participant to reflect any change in the Participant's responsibility level or position during the course of the Performance Period.

The Compensation Committee, with respect to officers who are Participants, and the Management HR Committee, with respect to all other Participants, may at any time prior to the final determination of Awards change the Current Year EBIT Target to reflect extraordinary events, accounting changes or a corporate transaction, such as a merger, consolidation, separation, reorganization or partial or complete liquidation.

8. PAYMENT OF DEFINED AWARDS

As soon as practicable after the close of a Performance Period (but not before the Compensation has approved the corresponding audited financial statements if such Performance Period is a fiscal year), the Compensation Committee, with respect to officers who are Participants, and the Management HR Committee, with respect to all other Participants, shall confirm the calculation of each Participant's Award pursuant to Section 5. Subject to the provisions of Section 9 of the Program, each Award to the extent earned pursuant to Section 5 shall be paid in a single lump sum cash payment, as soon as practicable after the close of the Performance Period, but no later than 120 days after the close of the Performance Period.

If a Change of Control occurs, the Company shall, within 60 days thereafter, pay to each Participant in the Program immediately prior to the Change of Control (regardless of whether the Participant remains employed after the Change of Control) an Award under Section 5 which is calculated assuming that Current Year EBIT Target and Trend EBIT Target for such Performance Period are fully (100%) achieved, and such Award shall be prorated to the date of the Change of Control based on the number of days that have elapsed during the Performance Period through the date of the Change of Control.

9. LIMITATIONS ON RIGHTS TO PAYMENT OF AWARDS

No Participant shall have any right to receive payment of an Award under Section 5 or Section 6 of the Program for a Performance Period unless the Participant remains in the employ of the Company through the payment date of the Award for such Performance Period, except as provided in the last paragraph of Section 8 of the Program. However, if the Participant has active service with the Company or the Subsidiary for at least three months during any Performance Period, but, prior to payment of the Award for such Performance Period, a Participant's employment with the Company terminates due to the Participant's death, Disability or Retirement, the Participant (or, in the event of the Participant's death, the Participant's estate, beneficiary or beneficiaries as determined under Section 10 of the Program) shall remain eligible to receive any earned Award, which in the case of any Award under Section 5 shall be prorated to a portion based on the number of days that the Participant was actively employed by the Company or a Subsidiary and performed services for it during such Performance Period.

10. DESIGNATION OF BENEFICIARY

A Participant may designate a beneficiary or beneficiaries who, in the event of the Participant's death prior to full payment of any Award hereunder, shall receive payment of any Award due under the Program. Such designation shall be made by the Participant on a form prescribed by the Management HR Committee. The Participant may, at any time, change or revoke such designation. A beneficiary designation, or revocation of a prior beneficiary designation, will be effective only if it is made in writing on a form provided by the Company, signed by the Participant and received by the Secretary of the Company. If the Participant does not designate a beneficiary or the beneficiary dies prior to receiving any payment of an Awards, Awards payable under the Program shall be paid to the Participant's estate.

11. AMENDMENTS

The Compensation Committee may at any time amend (in whole or in part) this Program. No such amendment which adversely affects any Participant's rights to or interest in an Award earned prior to the date of the amendment shall be effective unless the Participant shall have agreed thereto.

12. TERMINATION

The Compensation Committee may terminate this Program (in whole or in part) at any time. In the case of such termination of the Program, the following provisions of this Section 12 shall apply notwithstanding any other provisions of the Program to the contrary:

(i) The Compensation Committee shall promulgate administrative rules applicable to Program termination, pursuant to which each affected Participant shall receive, with respect to each Performance Period which has commenced on or prior to the effective date of the Program termination (the "Termination Date") and for which the Award under Section 5 has not yet been paid, the amount equal to the amount his or her Award under Section 5 would have been had the Program not been terminated (prorated for the Performance Period in which the Termination Date occurred), subject to reduction in the discretion of the Compensation Committee.

(ii) Each Award payable under this Section 12 shall be paid as soon as practicable, but in no event later than 120 days after the end of the fiscal year in which the Termination Date occurs.

13. MISCELLANEOUS PROVISIONS

(a) This Program is not a contract between the Company and the Employees or the Participants. Neither the establishment of this Program, nor any action taken hereunder, shall be construed as giving any Employee or any Participant any right to be retained in the employ of the Company. The Company is under no obligation to continue the Program.

(b) A Participant's right and interest under the Program may not be assigned or transferred, except as provided in Section 10 of the Program, and any attempted assignment or transfer shall be null and void and shall extinguish, in the Company's sole discretion, the Company's obligation under the Program to pay Awards with respect to the Participant.

(c) The Program shall be unfunded. The Company shall not be required to establish any special or separate fund, or to make any other segregation of assets, to assure payment of Awards.

(d) The Company shall have the right to deduct from Awards paid any interest thereon, any taxes or other amounts required by law to be withheld.

(e) Nothing contained in the Program shall limit or affect in any manner or degree the normal and usual powers of management, exercised by the officers and the Board or committees thereof, to change the duties or the character of employment of any employee of the Company or to remove the individual from the employment of the Company at any time, all of which rights and powers are expressly reserved.

Exhibit 11.1

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

	Year Ended December 31, 1996	Year Ended December 31, 1995	Year Ended December 28,1994
PRIMARY:			
Income Before Extraordinary Item	$45,944	$49,565	$36,099
Net Income	$45,944	$48,253	$36,099
Weighted average number of common shares outstanding	21,560	21,519	21,419
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	199	228	230
Weighted average number of common and common equivalent shares	21,759	21,747	21,649
Income Before Extraordinary Item per Common and Common Equivalent Share	$2.11	$2.28	$1.67
Net Income per Common and Common Equivalent Share	$2.11	$2.22	$1.67
FULLY DILUTED:			
Income Before Extraordinary Item	$45,944	$49,565	$36,099
Net Income	$45,944	$48,253	$36,099
Weighted average number of common shares outstanding	21,560	21,519	21,419
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	199	228	245
Weighted average number of common and common equivalent shares	21,759	21,747	21,664
Fully Diluted Income Before Extraordinary Item per Common and Common Equivalent Share	$2.11	$2.28	$1.67

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Fully Diluted Net Income per Common and Common Equivalent Share	$2.11	$2.22	$1.67
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FIVE-YEAR SUMMARY

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	Company						Predecessor Company
	YEAR ENDED DEC. 28, 1996 (1)	YEAR ENDED DEC. 30, 1995 (1)	YEAR ENDED DEC. 31, 1994 (1)	YEAR ENDED JAN. 1, 1994 (1)	YEAR ENDED JAN. 2, 1993 (1,2)	OCT. 4, 1992- JAN. 2, 1993	DEC. 29, 1991- OCT.3, 1992
STATEMENTS OF OPERATIONS					(PRO FORMA FOR THE ACQUISITION)		
Net sales	$228,775	$252,047	$217,865	$184,359	$150,754	$ 24,600	$125,713
Cost of sales	95,190	110,008	98,480	87,331	74,958	12,967	62,485
Gross profit	133,585	142,039	119,385	97,028	75,796	11,633	63,228
Operating expenses:							
Selling, general and administrative	48,306	47,889	41,831	34,670	29,151	7,537	20,678
Performance bonuses(3)	--	--	--	--	450	--	6,658
Amortization of goodwill and trademarks	4,577	4,577	4,577	4,575	4,568	1,150	--
Nonrecurring charges(4)	--	--	--	--	--	--	28,350
Recovery of import duties(5)	(453)	(2,872)	--	--	--	--	--
Total operating expenses	52,430	49,594	46,408	39,245	34,169	8,687	55,686
Income from operations	81,155	92,445	72,977	57,783	41,627	2,946	7,542
Other expense (income):							
Interest expense	6,063	9,582	12,629	16,143	16,339	4,341	790
Other, net	(648)	(439)	(837)	(1,030)	(1,044)	(304)	(503)
Income (loss) before income taxes and extraordinary item	75,740	83,302	61,185	42,670	26,332	(1,091)	7,255
Provision (benefit) for income taxes	29,796	33,737	25,086	17,673	11,168	(24)	6,887
Income (loss) before extraordinary item	45,944	49,565	36,099	24,997	15,164	(1,067)	368
Extraordinary charge due to refinancing of debt(6)	--	1,312	--	--	--	--	--
Net income (loss)	$ 45,944	$ 48,253	$ 36,099	$ 24,997	$ 15,164	$ (1,067)	$ 368
Income (loss) before extra--ordinary item per share	$ 2.11	$ 2.28	$ 1.67	$ 1.16	$ .70	$ (.05)	--
Net income (loss) per share	$ 2.11	$ 2.22	$ 1.67	$ 1.16	$ .70	$ (.05)	--

	DEC. 28, 1996	DEC. 30, 1995	DEC. 31, 1994	JAN. 1, 1994	JAN. 2, 1993
BALANCE SHEET DATA					
Working capital	$ 61,697	$ 67,997	$ 36,015	$ 13,362	$ 26,392
Total assets	285,733	259,085	239,680	234,893	275,370
Long-term debt, including current maturities	60,000	80,000	113,000	148,000	213,000
Total stockholders' equity(7)	196,757	150,286	100,305	61,731	37,158

(1) THE YEARS ENDED JANUARY 1, 1994, DECEMBER 31, 1994, DECEMBER 30, 1995 AND DECEMBER 28, 1996 WERE 52-WEEK PERIODS AND THE YEAR ENDED JANUARY 2, 1993 WAS A 53-WEEK PERIOD.

(2) IN OCTOBER 1992, D 56, INC. (THE PREDECESSOR COMPANY) WAS ACQUIRED BY CORPORATIONS FORMED BY AFFILIATES OF FORSTMANN LITTLE & CO. (THE ACQUISITION).THE PRO FORMA STATEMENT OF OPERATIONS FOR THE YEAR ENDED JANUARY 2, 1993 IS BASED ON THE ASSUMPTION THAT THE ACQUISITION HAD OCCURRED ON DECEMBER 29, 1991. THE PRO FORMA DATA INCLUDES THE EFFECTS OF ADJUSTMENTS TO HISTORICAL ASSET VALUES AS REQUIRED BY THE PURCHASE ACCOUNTING METHOD, ADJUSTMENTS TO INTEREST EXPENSE TO REFLECT FINANCING COSTS OF THE ACQUISITION, AMORTIZATION OF INTANGIBLES RELATED TO THE ACQUISITION, ADJUSTMENTS TO ELIMINATE PERFORMANCE BONUS PAYMENTS RELATED TO PREDECESSOR COMPANY EMPLOYMENT CONTRACTS THAT WERE TERMINATED IN CONNECTION WITH THE ACQUISITION, ADJUSTMENTS FOR NONRECURRING COSTS INCURRED BY THE PREDECESSOR COMPANY AND THE RELATED INCOME TAX EFFECT OF THE PRECEDING ITEMS.

(3) REFLECTS PERFORMANCE BONUSES THAT THE PREDECESSOR COMPANY PAID IN CONNECTION WITH EMPLOYMENT AGREEMENTS IT HAD WITH CERTAIN OFFICERS, WHICH AGREEMENTS WERE TERMINATED IN CONNECTION WITH THE ACQUISITION.

(4) NONRECURRING CHARGES INCLUDE PAYMENTS TO TERMINATE EMPLOYMENT CONTRACTS, SPECIAL BONUSES AND COSTS INCURRED BY THE PREDECESSOR COMPANY IN CONNECTION WITH THE ACQUISITION.

(5) REFLECTS REFUNDS OF CUSTOM DUTIES AND INTEREST THAT THE COMPANY RECEIVED RELATED TO CERTAIN MERCHANDISE IMPORTED INTO THE UNITED STATES FROM 1989 TO 1994.(SEE NOTE 8 TO THE CONSOLIDATED FINANCIAL STATEMENTS.)

(6) REFLECTS AN EXTRAORDINARY CHARGE THE COMPANY INCURRED IN CONNECTION WITH ITS REFINANCING OF DEBT. (SEE NOTE 4 TO THE CONSOLIDATED FINANCIAL STATEMENTS.)

(7) SINCE THE ACQUISITION, THE COMPANY HAS NOT DECLARED OR PAID DIVIDENDS ON ITS COMMON STOCK. THE COMPANY DOES NOT ANTICIPATE PAYING DIVIDENDS IN THE FORESEEABLE FUTURE. AS A HOLDING COMPANY, THE ABILITY OF THE COMPANY TO PAY CASH DIVIDENDS WILL DEPEND UPON THE RECEIPT OF DIVIDENDS OR OTHER PAYMENTS FROM ITS SUBSIDIARIES. THE REVOLVING CREDIT AGREEMENT OF D 56, INC. PERMITS IT TO DECLARE AND PAY CASH DIVIDENDS (SUBJECT TO CERTAIN LIMITATIONS) TO THE COMPANY WHICH MAY THEN BE DECLARED AND PAID TO HOLDERS OF COMMON STOCK.

RESULTS OF OPERATIONS

COMPARISON OF RESULTS OF OPERATIONS 1996 TO 1995

NET SALES Net sales decreased $23.3 million, or 9%, from $252.0 million in 1995 to $228.8 million in 1996. This decrease was due principally to a decrease in volume. Sales of Village Series products decreased 12% from 1995 to 1996, while General Giftware product sales decreased 3% during the same period. Village Series products continued to account for the most significant portion of the Company's sales, 67% in 1996 versus 69% in 1995.

GROSS PROFIT Gross Profit decreased $8.5 million, or 6%, between 1995 and 1996. Gross profit as a percentage of sales increased from approximately 56% in 1995 to approximately 58% in 1996, principally due to increased manufacturing efficiencies and lower volume discounts as a percent of sales.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES Selling, general and administrative expenses increased $.4 million, or 1%, between 1995 and 1996 principally due to an 18% increase in marketing expense and inflationary increases in administrative expenses, offset by a 7% decrease in commission expense. Selling, general and administrative expenses as a percentage of sales increased from approximately 19% in 1995 to approximately 21% in 1996.

RECOVERY OF IMPORT DUTIES, NET The Company received net refunds of $.5 million and $2.9 million in custom duties and related interest during 1996 and 1995, respectively. The duties pertained to certain merchandise imported into the United States from 1989 to 1994.

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	1996 DOLLARS	1996 PERCENT OF NET SALES	1995 DOLLARS	1995 PERCENT OF NET SALES	1994 DOLLARS	1994 PERCENT OF NET SALES
Net sales	$228.8	100%	$252.0	100%	$217.9	100%
Gross profit	133.6	58	142.0	56	119.4	55
Selling, general and administrative expenses	48.3	21	47.9	19	41.8	19
Amortization of goodwill and trademarks	4.6	2	4.6	2	4.6	2
Recovery of import duties	(.5)	--	(2.9)	(1)	--	--
Income from operations	81.2	35	92.4	37	73.0	33
Interest expense	6.1	3	9.6	4	12.6	6
Other, net	(.6)	--	(.4)	--	(.8)	--
Income before income taxes and extraordinary item	75.7	33	83.3	33	61.2	28
Provision for income taxes	29.8	13	33.7	13	25.1	12
Income before extraordinary item	45.9	20	49.6	20	36.1	17
Extraordinary charge due to refinancing of debt	--	--	1.3	1	--	--
Net income	45.9	20	48.3	19	36.1	17
Income before extraordinary item per share	2.11		2.28		1.67	
Net income per share	2.11		2.22		1.67	
Operating cash flow(1)	88.1		99.1		79.7	

(1) EARNINGS BEFORE INTEREST, INCOME TAX, DEPRECIATION AND AMORTIZATION EXPENSES.

INCOME FROM OPERATIONS Income from operations decreased $11.3 million, or 12%, from 1995 to 1996 due to the factors described above. Operating margins decreased from 37% of net sales in 1995 to 35% of net sales in 1996.

INTEREST EXPENSE Interest expense decreased $3.5 million, or 37%, between 1995 and 1996 principally due to the prepayment of $33 million of debt during 1995, decreased interest rates in 1996 and reduced borrowings under the revolving line of credit in 1996.

PROVISION FOR INCOME TAXES The effective income tax rate was 40.5% and 39.3% during 1995 and 1996, respectively.

COMPARISON OF RESULTS
OF OPERATIONS 1995 TO 1994

NET SALES Net sales increased $34.2 million, or 16%, from $217.9 million in 1994 to $252.0 million in 1995. This increase was due principally to an increase in volume. Sales of Village Series products increased 17% from 1994 to 1995, while General Giftware product sales increased 12% during the same period. Village Series products accounted for 69% of the Company's sales in both 1995 and 1994.

The increase in the sales volume of Village Series products during 1995 resulted from continued strong customer demand which was supported by the introduction of new lighted pieces.

In General Giftware products, sales increased at a lower rate than the Company's overall sales due principally to a reduction in the growth rate of the Company's Christmas Trim products.

GROSS PROFIT Gross Profit increased $22.7 million, or 19%, between 1994 and 1995. Gross profit as a percentage of sales increased from approximately 55% in 1994 to approximately 56% in 1995, principally as a result of reduced import duties resulting from the United States' implementation of GATT, effective January 1, 1995 and certain manufacturing efficiencies.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES Selling, general and administrative expenses increased $6.1 million, or 14%, between 1994 and 1995, and remained relatively constant at 19% of sales in both periods. The increase in expenses was primarily due to higher sales and marketing expenses, including commissions, on the Company's higher sales volume. These expenses typically vary in proportion to the Company's sales.

RECOVERY OF IMPORT DUTIES, NET The Company received a net refund of $2.9 million in custom duties and related interest during 1995. The duties pertained to certain merchandise imported into the United States from 1989 to 1994.

INCOME FROM OPERATIONS Income from operations increased $19.5 million, or 27%, from 1994 to 1995 due to the factors described above. Operating margins increased from 33% of net sales in 1994 to 37% of net sales in 1995.

INTEREST EXPENSE Interest expense decreased $3.0 million, or 24%, between 1994 and 1995 due to the prepayment of $40 million of long-term debt on December 31, 1994.

PROVISION FOR INCOME TAXES The effective income tax rate was 41.0% and 40.5% during 1994 and 1995, respectively.

EXTRAORDINARY CHARGE DUE TO REFINANCING OF DEBT The Company refinanced its long-term debt in February, 1995. In connection therewith, the Company recorded an extraordinary charge of $1.3 million, net of a tax benefit of $0.9 million, or $0.06 per share.

SEASONALITY

Historically, principally due to the timing of wholesale trade shows early in the calendar year and the limited supply of the Company's products, the Company has received the majority of its total annual customer orders during the first quarter of each year. The Company entered 71% and 76% of its total annual customer orders for 1996 and 1995, respectively, during the first quarter of each of those years. Cancellations of total annual customer orders were approximately 6% and 7% in 1996 and 1995, respectively. The Company's backlog was $7.2 million and $11.0 million at December 28, 1996 and December 30, 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 ship-ped in a particular year, net of cancellations, returns, allowances and cash discounts, are carried into backlog for the following year and have historically been orders for Spring and Easter products.

The Company receives products, pays its suppliers and ships products throughout the year, although historically the majority of shipments occur in the second and third quarters as retailers stock merchandise in anticipation of the holiday season. As a result of this seasonal pattern, the Company generally records its highest sales during the second and third quarters of each year. The Company expects this seasonal pattern to continue for the foreseeable future. The Company can experience fluctuations in quarterly sales growth and related net income compared with the prior year due to the timing of receipt of product from suppliers and subsequent shipment of product from the Company to customers, as well as the timing of orders placed by customers. The Company is not managed to maximize quarter-to-quarter results, but rather to achieve broader, long-term annual growth objectives which are consistent with the Company's business strategy.

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	1996					1995				
	1ST QTR.	2ND QTR.	3RD QTR.	4TH QTR.	TOTAL	1ST QTR.	2ND QTR.	3RD QTR.	4TH QTR.	TOTAL
Customer orders entered1	$177.5	$35.3	$28.3	$7.7	$248.8	$209.9	$30.0	$27.3	$8.6	$275.8
Net sales	59.0	75.3	60.2	34.3	228.8	53.0	74.8	77.0	47.2	252.0
Gross profit	33.8	44.3	34.8	20.7	133.6	29.7	42.4	43.6	26.3	142.0
Selling, general and administrative expenses	11.5	13.0	11.7	12.1	48.3	10.0	12.2	11.8	13.9	47.9
Amortization of goodwill and trademarks	1.1	1.1	1.2	1.2	4.6	1.1	1.1	1.2	1.2	4.6
Recovery of import duties, net	(.2)	--	(.3)	--	(.5)	--	--	(2.8)	(.1)	(2.9)
Income from operations	21.4	30.2	22.2	7.4	81.2	18.5	29.1	33.4	11.4	92.4
Income before extraordinary item	12.2	17.3	12.3	4.1	45.9	9.9	15.9	18.2	5.6	49.6
Net income	12.2	17.3	12.3	4.1	45.9	8.6	15.9	18.2	5.6	48.3
Income before extraordinary item per share	0.56	0.79	0.57	0.19	2.11	0.46	0.73	0.84	0.25	2.28
Net income per share	0.56	0.79	0.57	0.19	2.11	0.40	0.73	0.84	0.25	2.22

(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.

LIQUIDITY AND CAPITAL RESOURCES

In February 1995, the Company entered into a new credit agreement providing a $100 million term loan and a revolving line of credit. In connection therewith, the Company recorded an extraordinary charge of $1,312,000, net of tax, to write off deferred financing costs during the first quarter of 1995. The Company used the proceeds of the term loan combined with $8 million of the revolving line of credit to refinance its subordinated debt. The term loan is due and payable in installments of $20 million, payable in December of each year. At December 28, 1996, the term loan outstanding was $60 million.

The Company believes that its internally generated cash flow and seasonal borrowings under the revolving line of credit will be adequate to fund operations, capital expenditures, and required principal payments on its term loan for the next twelve months.

The revolving line of credit provides for borrowings of up to $90 million including letters of credit. The letters of credit are issued primarily in connection with inventory purchases. The credit agreement contains numerous financial and operating covenants, including restrictions on incurring indebtedness and liens, entering into any transaction to acquire or merge with any entity or making certain other fundamental changes, selling property, incurring capital expenditures and paying dividends. In addition, D 56, Inc., the Company's principal operating subsidiary, is required to satisfy consolidated net worth, interest coverage ratio and current ratio tests, in each case at the end of each fiscal quarter. The available borrowings under the revolving line of credit were $87,615,000 at December 28, 1996.

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 available cash, internally generated cash flow and seasonal borrowings. The Company's bad debt experience relating to these accounts receivable has not been material.

The Company's cash and cash equivalents balances peak in December, following the collection in November and December of accounts receivable with extended payment terms. Cash and cash equivalents balances increased from $7.8 million at December 30, 1995 to $46.4 million at December 28, 1996 principally due to the increase in net cash provided by operating activities and a decrease in net principal payments on long-term debt in 1996 as compared to 1995.

Accounts receivable increased from $34.3 million at December 30, 1995 to $35.6 million at December 28, 1996 principally due to a higher percentage of 1996 sales qualifying for extended terms.

During 1996, the Company reduced its inventory levels as a result of the decrease in sales volume in 1996 as compared to 1995 and took a more cautious approach to inventory purchases. Inventories decre-ased from $29.1 million at December 30, 1995 to $20.5 million at December 28, 1996.

Capital expenditures were $1.5 million, $1.6 million and $2.6 million for 1996, 1995 and 1994, respectively.

Operating cash flow, defined as earnings before interest, income tax, depreciation and amortization expenses, decreased $11.0 million, or 11%, from $99.1 million in 1995 to $88.1 million in 1996. The decrease was principally due to the decrease in income from operations.

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.

FOREIGN EXCHANGE

The dollar value of the Company's assets abroad is not significant. The Company's sales are denom-inated in U.S. dollars and, as a result, are not subject to changes in exchange rates.

The Company imports its product from manufacturers located in the Pacific Rim, primarily 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 foreign 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.

Subsequent to December 28, 1996, the Company entered into $15.0 million of foreign exchange contracts to hedge 1997 New Taiwan dollar denominated inventory purchases. These contracts mature from January 1997 through December 1997 at a rate of approximately 27.50 NT$/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 been low and has not had a material impact on the Company's results of operations.

RECENT DEVELOPMENTS

On February 20, 1997, the Company issued a press release stating, in relevant part: " `During {1996} we took some tough, but necessary steps to strengthen and protect our unique collectible brands by responding to excess retail inventory levels. Although substantial efforts were taken in 1996 to reduce inventory at retail, 1997 will continue to be a year of transition, as retailers work to further reduce their inventory,'
{said Susan Engel, President and CEO of Department 56}.

As a result, dealer orders through February 15, 1997, are down 11% against the comparable period last year. While orders for new product introductions continue to be strong, first quarter reorders of existing products are down as dealer inventory levels are sufficient for many items. Also, the company purposely introduced fewer new Village pieces in January in order to balance the emphasis at retail between new and existing pieces with the goal of advancing the inventory reduction process. `We attribute the decline in orders to date primarily to a necessary and healthy correction in retail inventory levels,' Engel commented.

In addition, Engel said, `independent research suggests continuing growth in underlying consumer demand, as well as progress already made toward retail inventory reduction, supporting our confidence in the future.' Engel cited five findings:

- Retail sales of Department 56 collectible lines grew in 1996;
- Dealers expect continued retail sales growth in 1997;
- Dealers cite new collectors as an important reason for their growth;
- Existing collectors continue to show enthusiasm for Department 56 collectible lines;
- Dealers experienced a reduction in their retail inventory levels of current product."

The Private Securities Litigation Reform Act of 1995 (the "Act") provides "safe harbor" status to certain statements that go beyond historical information and which may provide an indication of future results. The press release further stated: "The statements in this press release relating to matters that are not historical facts are `forward-looking statements' that involve risks and uncertainties. Among other assumptions, the forward-looking statements regarding retail inventory levels and consumer demand are based on market research conducted for the Company and assume that consumer demand and retail inventory levels will follow the findings of, and dealer statements made in, this research. Moreover, these forward-looking statements are also based on retail inventory reports from certain dealers of the Company's products and assume that such reports were correct when made and are reflective of the market as a whole. General and giftware industry economic conditions are also assumed to remain stable.

Actual results may vary from these forward-looking statements and the assumptions on which they are based. The forward-looking statements in this press release speak as of this date only. The Company undertakes no obligation to update such forward-looking statements or publish any forward-looking statements in the future."

Consolidated Balance Sheets

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	DECEMBER 28, 1996	DECEMBER 30, 1995
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 46,405	$7,805
Accounts receivable, net of allowances of $10,264 and $6,884, respectively	35,603	34,271
Inventories	20,526	29,059
Deferred taxes	5,048	4,476
Other current assets	1,721	2,068
Total current assets	109,303	77,679
Property and equipment, net	12,318	12,445
Goodwill, net of accumulated amortization of $17,554 and $13,425, respectively	147,620	151,749
Trademarks, net of accumulated amortization of $1,902 and $1,454, respectively	15,998	16,446
Other assets	494	766
	$285,733	$259,085
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 20,000	$ 20,000
Accounts payable	7,618	6,599
Commissions payable	4,683	4,471
Other current liabilities	9,005	10,594
Total current liabilities	41,306	41,664
Deferred taxes	7,670	7,135
Long-term debt	40,000	60,000
Commitments (Note 6)		
Stockholders' Equity:		
Preferred stock, $.01 par value; authorized 20,000 shares; no shares issued	--	--
Common stock, $.01 par value; authorized 100,000 shares; issued and outstanding 21,584 and 21,546 shares, respectively	216	215
Additional paid-in capital	42,315	41,803
Unearned compensation on common stock options	--	(14)
Retained earnings	154,226	108,282
Total stockholders' equity	196,757	150,286
	$285,733	$259,085

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

Consolidated Statements of Income

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	YEAR ENDED DECEMBER 28, 1996	YEAR ENDED DECEMBER 30, 1995	YEAR ENDED DECEMBER 31, 1994
Net sales	$228,775	$252,047	$217,865
Cost of sales	95,190	110,008	98,480
Gross profit	133,585	142,039	119,385
Operating expenses:			
Selling, general and administrative	48,306	47,889	41,831
Amortization of goodwill and trademarks	4,577	4,577	4,577
Recovery of import duties	(453)	(2,872)	--
Total operating expenses	52,430	49,594	46,408
Income from operations	81,155	92,445	72,977
Other expense (income):			
Interest expense	6,063	9,582	12,629
Other, net	(648)	(439)	(837)
Income before income taxes and extraordinary item	75,740	83,302	61,185
Provision for income taxes	29,796	33,737	25,086
Income before extraordinary item	45,944	49,565	36,099
Extraordinary charge due to refinancing of debt	--	1,312	--
Net income	$ 45,944	$ 48,253	$ 36,099
Income before extraordinary item per share	$ 2.11	$ 2.28	$ 1.67
Net income per share	$ 2.11	$ 2.22	$ 1.67
Weighted average common and common equivalent shares outstanding	21,759	21,747	21,649

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

Consolidated Statements of Cash Flows

(IN THOUSANDS)	YEAR ENDED DECEMBER 28, 1996	YEAR ENDED DECEMBER 30, 1995	YEAR ENDED DECEMBER 31, 1994
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 45,944	$ 48,253	$ 36,099
Adjustments to reconcile net income to net cash provided by operating activities:			
Extraordinary charge	--	1,312	--
Depreciation	1,721	1,609	1,296
Amortization of goodwill, trademarks and other assets	4,577	4,577	5,254
Provision for uncollectible accounts receivable	2,014	2,293	1,107
Compensation expense - common stock options	14	169	498
Deferred taxes	(37)	(1,528)	203
Changes in assets and liabilities:			
Accounts receivable	(3,349)	(12,605)	(11,511)
Inventories	8,533	(8,693)	(2,971)
Other assets	502	520	(361)
Accounts payable	1,019	1,442	11
Commissions payable	212	262	590
Other current liabilities	(1,379)	1,766	1,179
Net cash provided by operating activities	59,771	39,377	31,394
NET CASH USED IN INVESTING ACTIVITIES:			
Purchases of property and equipment	(1,507)	(1,617)	(2,621)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from the exercise of common stock options	336	865	1,041
Borrowings on revolving credit agreement	34,338	36,500	97,577
Principal payments on revolving credit agreement	(34,338)	(41,500)	(92,577)
Proceeds from issuance of long-term debt	--	100,000	--
Principal payments on long-term debt	(20,000)	(128,000)	(40,000)
Net cash used in financing activities	(19,664)	(32,135)	(33,959)
Net increase (decrease) in cash and cash equivalents	38,600	5,625	(5,186)
Cash and cash equivalents at beginning of period	7,805	2,180	7,366
Cash and cash equivalents at end of period	$ 46,405	$ 7,805	$ 2,180

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

(IN THOUSANDS)	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	UNEARNED COMPENSATION ON COMMON STOCK OPTIONS	RETAINED EARNINGS	TOTAL STOCKHOLDERS' EQUITY
Balance as of January 1, 1994	21,343	$213	$38,269	$(681)	$ 23,930	$ 61,731
Net income	--	--	--	--	36,099	36,099
Shares issued upon the exercise of common stock options	132	2	1,975	--	--	1,977
Common stock options vested	--	--	--	498	--	498
Balance as of December 31, 1994	21,475	215	40,244	(183)	60,029	100,305
Net income	--	--	--	--	48,253	48,253
Shares issued upon the exercise of common stock options	71	--	1,559	--	--	1,559
Common stock options vested	--	--	--	169	--	169
Balance as of December 30, 1995	21,546	215	41,803	(14)	108,282	150,286
Net income	--	--	--	--	45,944	45,944
Shares issued upon the exercise of common stock options	38	1	512	--	--	513
Common stock options vested	--	--	--	14	--	14
Balance as of December 28, 1996	21,584	$216	$42,315	$ --	$154,226	$196,757

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS The Company is engaged in the original design, importation, and wholesale distribution of specialty giftware products. The majority of the Company's products are developed and designed by the Company's in-house creative team and are manufactured for the Company by independently owned foreign manufacturers located primarily in the Pacific Rim. The Company's customer base and accounts receivable are primarily comprised of, and are due from, retail stores of various sizes located throughout the United States.

PRINCIPLES OF CONSOLIDATION The accompanying consolidated financial statements of the Company include the accounts of the Company and its subsidiaries, which include D 56, Inc., Browndale Tanley Limited and Department 56 Trading Co., Ltd., all of which are wholly owned. All significant intercompany accounts and transactions have been eliminated in consolidation.

FISCAL YEAR END The Company's policy is to end its fiscal year on the Saturday closest to December 31. The years ended December 31, 1994, December 30, 1995 and December 28, 1996 include 52 weeks.

CASH AND CASH EQUIVALENTS All highly liquid debt instruments with original maturities of three months or less are considered to be cash equivalents and are reported as cash and cash equivalents on the consolidated balance sheets.

INVENTORIES Inventories consist of finished goods and are stated at the lower of average cost, which approximates first-in, first-out cost, or market value. The Company records inventory at the date of taking title, which at certain times during the year results in significant in-transit quantities, as inventory is sourced primarily from China, Taiwan and other Pacific Rim countries. Each period the Company provides for identified, unsaleable and slow-moving inventory.

PROPERTY AND EQUIPMENT Property and equipment are stated at cost. Depreciation is computed on a straight-line method over the estimated useful lives of the assets, ranging from two to forty-five years.

Major improvements and replacements of property are capitalized. Maintenance, repairs and minor improvements are expensed. Upon retirement or other disposition of property, applicable cost and accumulated depreciation are removed from the accounts. Any gains or losses are included in income.

GOODWILL Goodwill represents the excess of cost over the fair value of acquired net assets of the Company at the acquisition date and is being amortized on a straight-line basis over 40 years. The Company periodically evaluates the recoverability of goodwill based on an analysis of estimated future undiscounted cash flows.

TRADEMARKS Trademarks acquired are being amortized on a straight-line basis over 40 years. The Company periodically evaluates the recoverability of trademarks based on an analysis of estimated future undiscounted cash flows.

REVENUE RECOGNITION Revenues are recognized when products are shipped, net of an allowance for returns.

INCOME TAXES Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income.

FOREIGN CURRENCY TRANSLATION The Company uses the United States dollar as the functional currency of its foreign operations. Accordingly, translation gains and losses resulting from the remeasurement of foreign operations' financial statements are reflected in the accompanying statements of income.

(In thousands, except share and per share amounts)

FOREIGN EXCHANGE CONTRACTS The Company imports certain product from Taiwan. To hedge its foreign exchange exposure, the Company may enter into foreign exchange contracts. The foreign exchange contracts reduce the Company's overall exposure to exchange rate movements, since the gains and losses on these contracts offset gains and losses on the transaction being hedged. Subsequent to December 28, 1996, the Company entered into nondeliverable Taiwan currency forward contracts with a notional amount of $15,000 which mature from January 1997 to December 1997. Gains or losses on these contracts will be recognized and included in cost of sales at the time the related inventory is sold. The Company is exposed to credit risk to the extent of nonperformance by a counterparty to the foreign currency contracts. However, the Company believes it uses a strong financial counterparty in these transactions and that the resulting credit risk under these hedging strategies is not significant.

FAIR VALUE OF FINANCIAL INSTRUMENTS The carrying amount of cash and cash equivalents, accounts receivable, accounts payable, and commissions payable approximates fair value because of the short-term nature of these instruments. Based on the borrowing rates currently available to the Company for bank loans with similar terms and maturities, the Company also believes the carrying amount of long-term debt approximates fair value. The fair value of the Company's forward currency contracts is determined using the current spot rate. The fair value and carrying amount of such contracts were $(77) and $0 at December 30, 1995. There were no forward currency contracts outstanding at December 28, 1996.

NET INCOME PER SHARE Net income per share is 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.

MANAGEMENT ESTIMATES The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2 PROPERTY AND EQUIPMENT

PROPERTY AND EQUIPMENT IS COMPRISED OF THE FOLLOWING:

	DEC. 28, 1996	DEC. 30, 1995
Leasehold improvements	$ 2,156	$ 2,020
Furniture and fixtures	4,025	2,983
Equipment	4,756	4,518
Building	5,882	5,882
Land	906	906
	17,725	16,309
Less accumulated depreciation	5,407	3,864
Property and equipment, net	$12,318	$12,445

3 OTHER CURRENT LIABILITIES

OTHER CURRENT LIABILITIES ARE COMPRISED OF THE FOLLOWING:

	DEC. 28, 1996	DEC. 30, 1995
Accrued compensation and benefits	$1,281	$ 1,370
Income taxes payable	5,893	6,917
Accrued royalty fees	593	1,245
Other	1,238	1,062
	$9,005	$10,594

(In thousands, except share and per share amounts)

4 CREDIT AGREEMENT

LONG-TERM DEBT IS COMPRISED OF THE FOLLOWING:

	DEC. 28, 1996	DEC. 30, 1995
Term loan	$60,000	$80,000
Less current portion	20,000	20,000
	$40,000	$60,000

During February 1995, the principal operating subsidiary of the Company, D 56, Inc., entered into a credit agreement providing a $100,000 term loan and a revolving line of credit. In connection therewith, the Company recorded an extraordinary charge of $1,312, net of tax, to write off deferred financing costs during the first quarter of 1995. The term loan is due and payable in annual installments of $20,000, payable in December of each year.

The revolving line of credit provides for borrowings of up to $90,000, which may be in the form of letters of credit, banker's acceptances, and revolving credit loans. The sum of the Company's revolving credit loans and bankers acceptances may not exceed an aggregate of $20,000 during any one 30-consecutive-day period each calendar year. Borrowings under the credit agreement are subject to certain borrowing base limitations (as defined). The revolving line of credit provides for commitment fees of 1/4% to 3/8% per annum on the daily average of the unused commitment. The available borrowings under the revolving line of credit were $87,615 at December 28, 1996.

The credit agreement allows the Company to choose between two interest rate options in connection with its term loan and revolving credit loans. The interest rate options are the Alternate Base Rate (as defined) or the Eurodollar Rate (as defined) plus an applicable margin. The applicable margin ranges from 1/2% to 11/4% for Eurodollar loans. The credit agreement expires December 31, 1999.

The credit agreement includes restrictions as to, among other things, the amount of additional indebtedness, liens, contingent obligations, investments, capital expenditures and dividends. The credit agreement also requires maintenance of minimum levels of interest coverage, net worth and liquidity.

None of these restrictions are expected to have a material adverse effect on the Company's ability to operate in the future. The Company has pledged the common stock of its subsidiaries, direct and indirect, as collateral under the credit agreement and the Company and its subsidiaries, direct and indirect, have guaranteed repayment of amounts borrowed under the credit agreement.

The Company paid interest of $6,129, $10,086 and $12,182 during the years ended December 28, 1996, December 30, 1995 and December 31, 1994, respectively.

5 INCOME TAXES

THE PROVISION FOR INCOME TAXES, EXCLUDING THE $893 TAX BENEFIT FROM THE EXTRAORDINARY CHARGE DUE TO THE REFINANCING OF DEBT IN 1995, CONSISTED OF THE FOLLOWING:

	YEAR ENDED DEC. 28, 1996	YEAR ENDED DEC. 30, 1995	YEAR ENDED DEC. 31, 1994
Current:			
Federal	$27,376	$30,560	$22,339
State	2,347	2,619	2,298
Foreign	110	272	246
Deferred	(37)	286	203
	$29,796	$33,737	$25,086

THE RECONCILIATION BETWEEN INCOME TAX EXPENSE BASED ON STATUTORY INCOME TAX RATES AND THE PROVISION FOR INCOME TAXES PER THE CONSOLIDATED STATEMENTS OF INCOME IS AS FOLLOWS:

	YEAR ENDED DEC. 28, 1996	YEAR ENDED DEC. 30, 1995	YEAR ENDED DEC. 31, 1994
Income taxes at federal statutory rate	$26,509	$29,156	$21,414
State income taxes, net of federal income tax	1,893	2,566	1,929
Amortization of goodwill	1,448	1,448	1,448
Other	(54)	567	295
Provision for income taxes	$29,796	$33,737	$25,086

(In thousands, except share and per share amounts)

THE COMPONENTS OF THE NET DEFERRED TAX LIABILITY WERE AS FOLLOWS:

	DEC. 28, 1996	DEC. 30, 1995
Deferred tax assets:		
Accounts receivable valuation allowances	$3,516	$2,704
Inventory valuation allowances	1,118	1,369
Compensation expense - common stock options	331	366
Accrued liabilities	354	620
Other	263	310
Total deferred tax assets	5,582	5,369
Deferred tax liabilities:		
Trademarks	(6,079)	(6,249)
Property and equipment	(1,986)	(1,626)
Other	(139)	(153)
Total deferred tax liabilities	(8,204)	(8,028)
	$(2,622)	$(2,659)

The $2,622 net deferred tax liability at December 28, 1996 is presented as a net deferred current asset of $5,048 and a net deferred noncurrent liability of $7,670. The $2,659 net deferred tax liability at December 30, 1995 is presented as a net deferred current asset of $4,476 and a net deferred noncurrent liability of $7,135.

The Company paid income taxes of $28,943, $31,855 and $23,677 during the years ended December 28, 1996, December 30, 1995 and December 31, 1994, respectively.

6 COMMITMENTS

OPERATING LEASES   The Company leases an aircraft, warehouse and office space, equipment, and showroom display facilities under renewable operating leases ranging from three to twelve years in duration. In addition to the base rent, the Company pays its proportionate share of taxes and special assessments and operating expenses of the warehouse and showroom display facilities.

THE FOLLOWING IS A SCHEDULE OF FUTURE ANNUAL MINIMUM LEASE PAYMENTS FOR NONCANCELABLE OPERATING LEASES AS OF DECEMBER 28, 1996:

1997	$2,704
1998	2,623
1999	2,119
2000	2,469
2001	2,719
Thereafter	2,107
	$14,741

The Company's rental expense was $3,238, $2,875 and $2,359 for the years ended December 28, 1996, December 30, 1995 and December 31, 1994, respectively.

LETTERS OF CREDIT   The Company had outstanding standby and commercial letters of credit amounting to $2,385 at December 28, 1996 relating primarily to purchase commitments issued to foreign suppliers and vendors.

LEGAL PROCEEDINGS   The Company is involved in various legal proceedings, claims and governmental audits in the ordinary course of its business. In the opinion of the Company's management, the ultimate disposition of these proceedings, claims and audits will not have a material adverse effect on the financial position or results of operations of the Company.

7 RETIREMENT PLAN

The Company has a profit sharing plan covering substantially all employees. Contributions to this plan are at the discretion of the Board of Directors, subject to certain limitations. The Company's total profit sharing contributions were $750, $975 and $819 for the years ended December 28, 1996, December 30, 1995 and December 31, 1994, respectively.

8 RECOVERY OF IMPORT DUTIES

During the years ended December 28, 1996 and December 30, 1995, the Company received net refunds of custom duties and related interest of $453 and $2,872, respectively. The refunds pertained to certain merchandise imported into the United States from 1989 to 1994.

(In thousands, except share and per share amounts)

9 RELATED-PARTY TRANSACTIONS

In the ordinary course of business, the Company sells product to a floral and nursery wholesaler and retailer, of which a director of the Company is an officer, director and stockholder. The Company had sales to this floral and nursery business during the years ended December 28, 1996, December 30, 1995 and December 31, 1994 of $1,305, $1,893 and $1,494, respectively.

During the years ended December 28, 1996, December 30, 1995 and December 31, 1994, the Company paid Forstmann Little & Co. (FL & Co.), a shareholder, and its affiliates $2,116, $2,537 and $1,549, respectively, for aircraft management, transportation and other expenses.

In February, 1994 the Company entered into an agreement with an affiliate of FL & Co. to purchase a corporate aircraft for $6,650. The Company assigned the purchase agreement to an unaffiliated third party and entered into an operating lease of the aircraft from such third party following the assignment.

10 STOCK-BASED COMPENSATION PLANS

At December 28, 1996, the Company had three stock-based compensation plans.Under the 1992, 1993 and 1995 stock option plans, the Company may grant options to its directors, officers, employees, consultants and advisors of the Company for up to 292,500, 1,000,000 and 600,000 shares of common stock, respectively. All options granted after the initial public offering have an exercise price equal to the market value of the common stock at the date of grant, generally have a term of 10 years, and generally are exercisable in equal installments on each of the first, second and third anniversaries of the date of the grant.

A summary of the status of the Company's three stock option plans as of December 28, 1996, December 30, 1995 and December 31, 1994, and changes during the years ended on those dates is presented below:

	1996		1995		1994	
STOCK OPTIONS	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding at beginning of year	1,072,773	$31.73	702,755	$26.32	404,556	$10.30
Granted	433,350	20.48	448,660	37.13	424,700	36.28
Exercised	(33,500)	9.36	(70,742)	12.23	(122,401)	8.23
Forfeited	(180,715)	39.09	(7,900)	31.26	(4,100)	18.00
Outstanding at end of year	1,291,908	27.51	1,072,773	31.73	702,755	26.32
Options exercisable at end of year	536,583		224,271		32,955	
Weighted average fair value of options granted during the year	$10.75		$16.07			

The Company applies Accounting Principle's Board Opinion No. 25 "Accounting for Stock Issued to Employees" and related interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized for options granted since the initial public offering. Had compensation cost been determined based on the fair value of the 1995 and 1996 stock option grants consistent with the method of Statement of Finan-cial Accounting Standards No. 123 Accounting for Stock-Based Compensation (SFAS 123), the Company's income before extraordinary item, net income, income before extraordinary item per share and net income per share would have been reduced to the pro forma amounts indicated below:

(In thousands, except share and per share amounts)

	YEAR ENDED DEC. 28, 1996	YEAR ENDED DEC. 30, 1995
INCOME BEFORE EXTRAORDINARY ITEM		
As reported	$45,944	$49,565
Pro forma	$43,410	$48,885
NET INCOME		
As reported	$45,944	$48,253
Pro forma	$43,410	$47,573
INCOME BEFORE EXTRAORDINARY ITEM PER SHARE		
As reported	$2.11	$2.28
Pro forma	$2.00	$2.25
NET INCOME PER SHARE		
As reported	$2.11	$2.22
Pro forma	$2.00	$2.19

In determining the preceding pro forma amounts under SFAS 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1996 and 1995, respectively: expected volatility of 46% and 32%, risk-free interest rates of 5.8% and 6.0%, expected option lives of 6 years and no expected dividends. The effects of applying SFAS 123 in this pro forma disclosure are not indicative of future amounts. SFAS 123 does not apply to awards prior to 1995, and additional awards are anticipated.

The following table summarizes information about the CompanyOs stock option plans at December 28, 1996:

RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT DEC. 28, 1996	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT DEC. 28, 1996	WEIGHTED-AVERAGE EXERCISE PRICE
$ 3.33	81,013	6.1 years	$ 3.33	81,013	$ 3.33
18.00-20.50	517,815	8.7	20.05	90,500	18.00
34.63-37.75	693,080	8.1	35.91	365,070	36.08
	1,291,908			536,583	

In addition to stock options granted under the Company's stock option plans, the Company granted options to purchase 30,000 shares of Common Stock to each of four members of the Company's Board of Directors in December 1992. During February 1993, the Company granted options to purchase 30,000 shares of Common Stock to one member of the Board of Directors. These options are not subject to a stock option plan. Such options are exercisable, have a term of ten years, and have an exercise price of $3.33 per share. Shares purchased under these options are subject to director stockholder agreements which limit the transferability of the shares. At December 28, 1996, directors' options to purchase 135,000 shares of Common Stock were exercisable at $3.33 per share.

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS
AND STOCKHOLDERS OF
DEPARTMENT 56, INC.:

We have audited the consolidated balance sheets of Department 56, Inc. and subsidiaries (the "Company") as of December 28, 1996 and December 30, 1995 and the related consolidated statements of income, cash flows and stockholders' equity for the years ended December 28, 1996, December 30, 1995 and December 31, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 28, 1996 and December 30, 1995 and the results of its operations and its cash flows for the years ended December 28, 1996, December 30, 1995 and December 31, 1994 in conformity with generally accepted accounting principles.

/s/ Deloitte & Touche LLP
Minneapolis, Minnesota
February 14, 1997

CORPORATE AND STOCKHOLDER INFORMATION

BOARD OF DIRECTORS

Edward R. Bazinet 1
CHAIRMAN OF THE BOARD
Department 56, Inc.

Todd L. Bachman 2
CHAIRMAN OF THE BOARD
AND CHIEF EXECUTIVE OFFICER
Bachman's, Inc.

Susan E. Engel
PRESIDENT AND
CHIEF EXECUTIVE OFFICER
Department 56, Inc.

Nicholas C. Forstmann 1, 3
GENERAL PARTNER
Forstmann Little & Co.

Stephen Fraidin
PARTNER
Fried, Frank, Harris,
Shriver & Jacobson

Richard S. Friedland 2
CHAIRMAN OF THE BOARD
AND CHIEF EXECUTIVE OFFICER
General Instrument
Corporation

Sandra J. Horbach 1, 3
GENERAL PARTNER
Forstmann Little & Co.

Wm. Brian Little 1
PRIVATE INVESTOR

Steven G. Rothmeier 2
CHAIRMAN OF THE BOARD
AND CHIEF EXECUTIVE OFFICER
Great Northern Capital

Arthur T. Shorin 3
CHAIRMAN OF THE BOARD
AND CHIEF EXECUTIVE OFFICER
The Topps Co., Inc.

Vin Weber
PARTNER
Clark & Weinstock, Inc.

1 MEMBER OF EXECUTIVE COMMITTEE
2 MEMBER OF AUDIT COMMITTEE
3 MEMBER OF COMPENSATION COMMITTEE

OFFICERS

Edward R. Bazinet
CHAIRMAN OF THE BOARD

Susan E. Engel
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

David W. Dewey
SENIOR VICE PRESIDENT -
OVERSEAS OPERATIONS

Mark R. Kennedy
SENIOR VICE PRESIDENT
AND CHIEF FINANCIAL OFFICER

William E. Kirchner
SENIOR VICE PRESIDENT -
PRODUCT DEVELOPMENT

Robert S. Rose
VICE PRESIDENT - DISTRIBUTION
AND OPERATIONS

Timothy J. Schugel
VICE PRESIDENT - FINANCE

Joan M. Serena
VICE PRESIDENT - CONSUMER
& DEALER MARKETING

Gregory G. Sorensen
VICE PRESIDENT - MANAGEMENT
INFORMATION SYSTEMS

David H. Weiser
SENIOR VICE PRESIDENT -
LEGAL/HUMAN RESOURCES
AND SECRETARY

STOCKHOLDER INFORMATION

CORPORATE OFFICES
One Village Place
6436 City West Parkway
Eden Prairie, MN 55344

TRANSFER AGENT
Chase Mellon
Shareholder Services
450 West 33rd Street
New York, NY 10001

INDEPENDENT AUDITORS
Deloitte & Touche LLP

STOCK LISTING
New York Stock Exchange
Symbol "DFS"

ANNUAL MEETING
1:00 p.m.
May 15, 1997
Chase Manhattan Bank
270 Park Avenue
New York, NY

Department 56, Inc. Market Price (PER SHARE)

1996	High	Low
First Quarter	$41 7/8	$20
Second Quarter	$26 1/8	$20
Third Quarter	$25 3/8	$19 1/2
Fourth Quarter	$25 3/4	$21 3/8

1995	High	Low
First Quarter	$40 5/8	$33 3/4
Second Quarter	$42	$35 5/8
Third Quarter	$47 1/4	$37 5/8
Fourth Quarter	$48	$32 5/8

Copies of Department 56's annual report to the Securities and Exchange Commission on Form 10-K may be obtained without charge by contacting Investor Relations, Department 56, Inc., (612) 944-5600.

As of February 18, 1997, there were 1,067 record holders of the Company's common stock.

CONSUMER INFORMATION

The dealer nearest you can be identified by calling our consumer information line at 1-800-LIT-TOWN (1-800-548-8696) or by accessing our Web site at www.D56.com. Our Web site also includes other consumer information.

SUBSIDIARIES OF THE COMPANY

Name of Subsidiary	Jurisdiction
FL56 Intermediate Corp.	Delaware
ed bazinet international, inc.	Minnesota
D 56, Inc.	Minnesota
Department 56 Trading Co., Ltd.	Delaware
Browndale Tanley Limited	Hong Kong

INDEPENDENT AUDITOR'S CONSENT

We consent to the incorporation by reference in Registration Statements No. 33-95704 and No. 33-79960 of Department 56, Inc. on Form S-8 of our reports dated February 14, 1997, included in and incorporated by reference in this Annual Report of Department 56, Inc. on Form 10-K for the year ended December 28, 1996.

Deloitte & Touche, LLP
Minneapolis, Minnesota
March 25, 1997

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