

DEPARTMENT 56 INC  
Form DEF 14A  
March 25, 2003

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**SCHEDULE 14A INFORMATION**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant /X/

Filed by a Party other than the Registrant //

Check the appropriate box:

// Preliminary Proxy Statement

// **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

/X/ Definitive Proxy Statement

// Definitive Additional Materials

// Soliciting Material Pursuant to §240.14a-12

DEPARTMENT 56, INC.

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

/X/ No fee required.

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
WEDNESDAY, MAY 7, 2003  
11:00 A.M., LOCAL TIME**

**HILTON GARDEN INN  
6330 POINT CHASE  
EDEN PRAIRIE, MN 55344**

March 24, 2003

Dear fellow stockholder,

You are cordially invited to join us for our Annual Meeting of Stockholders to be held this year on Wednesday, May 7, 2003 at 11:00 a.m. (CST) at the Hilton Garden Inn, 6330 Point Chase, Eden Prairie, MN 55344.

The order of business at the Annual Meeting will be to:

Elect directors

Approve appointment of auditors for 2003

Act on other business properly brought before the Meeting.

In addition to the specific agenda items, we will also report on matters of current interest to our stockholders and there will be a question-and-answer session.

Attendance and voting is limited to stockholders of record at the close of business on March 21, 2003. At the Annual Meeting registration desk you may be asked to present valid picture identification, such as a driver's license or passport. Stockholders holding stock in brokerage accounts ("street name" holders) will need to bring a copy of a brokerage statement or letter evidencing stock ownership as of the record date.

**Your vote is important.** Whether you own a few or many shares of stock, it is important that your shares be represented. If you cannot personally attend, we encourage you to make certain that you are represented at the meeting by signing the accompanying proxy card and

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promptly returning it in the enclosed envelope or by voting through any telephone or Internet feature that you have received through the courtesy of your stockbroker.

We look forward to seeing you at the meeting.

Sincerely yours,

Susan E. Engel  
Chairwoman and Chief Executive Officer

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**DEPARTMENT 56, INC.**  
One Village Place, 6436 City West Parkway, Eden Prairie, Minnesota 55344

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**PROXY STATEMENT**

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This proxy statement is furnished to stockholders of Department 56, Inc., a Delaware corporation (the "Company"), in connection with the solicitation of proxies by the Board of Directors of the Company (the "Board" or "Board of Directors") for use at the Annual Meeting of Stockholders to be held at 11:00 a.m., local time, on Wednesday, May 7, 2003, at the Hilton Garden Inn, 6330 Point Chase, Eden Prairie, Minnesota, and any adjournments thereof.

Stockholders of record as of the close of business on March 21, 2003 will be entitled to vote at the meeting or any adjournments thereof. As of the record date, March 21, 2003, the Company had outstanding 13,079,209 shares of Common Stock, par value \$.01 per share ("Common Stock"), each entitled to one vote on all matters to be voted upon. This proxy statement, the accompanying form of proxy and the Company's annual report to stockholders for the fiscal year ended December 28, 2002 are being mailed on or about April 4, 2003 to each stockholder entitled to vote at the meeting.

**Stockholders as of the record date are cordially invited to attend the meeting. If you are a registered stockholder as of the record date and plan to attend, please mail in your proxy indicating with an "X" in the space provided that you plan to attend and bring the enclosed Admission Ticket to the meeting. If you are a stockholder as of the record date whose shares are not registered in your own name and you plan to attend, please request an Admission Ticket by writing to the Office of the Secretary, Department 56, Inc., One Village Place, 6436 City West Parkway, Eden Prairie, Minnesota 55344. Evidence of your stock ownership, which you can obtain from your stockbroker, bank or other financial institution, must accompany your letter.**

**VOTING AND REVOCATION OF PROXIES**

*Voting*

If the enclosed proxy is executed and returned in time and not revoked, all shares represented thereby will be voted; beneficial owners of shares held by or on behalf of brokerages, banks or financial institutions may also have facilities to vote by telephone and/or Internet means, as determined by the applicable financial institution. Each proxy will be voted in accordance with the stockholder's instructions. If no such instructions are specified, the proxies will be voted FOR the election of each person nominated for election as a director and FOR the ratification of the appointment by the Board of Directors of Deloitte & Touche LLP as auditors for the Company for the fiscal year ending January 3, 2004.

The holders of a majority of the shares of Common Stock entitled to vote at the meeting, present in person or by proxy, constitutes a quorum. Assuming a quorum is present, the affirmative vote by the holders of a plurality of the votes cast at the meeting will be required for the election of directors; and the affirmative vote of a majority of the shares present in person or by proxy at the meeting and entitled to vote thereon will be required to act on all other matters to come before the meeting, including the ratification of the appointment by the Board of Directors of Deloitte & Touche LLP as auditors for the Company. An automated system administered by the Company's transfer agent tabulates the votes. For purposes of determining the number of votes cast with respect to any voting matter, only those cast "for" or "against" are included; abstentions and broker non-votes are excluded. Accordingly, with respect to

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the election of directors, abstentions and broker non-votes will have no effect on the outcome. For purposes of determining whether the affirmative vote of a majority of the shares present at the meeting and entitled to vote has been obtained, abstentions will be included in, and broker non-votes will be excluded from, the number of shares present and entitled to vote. Accordingly, with respect to any matter other than the election of directors, abstentions will have the effect of a vote "against" the matter and broker non-votes will have the effect of reducing the number of affirmative votes required to achieve the majority vote.

*Revocation*

A stockholder giving a proxy may revoke it at any time before it is voted by delivery to the Company of a subsequently executed proxy or a written notice of revocation. In addition, returning your completed proxy will not prevent you from voting in person at the meeting should you be present and wish to do so.

**ITEM 1 ELECTION OF DIRECTORS**

The Board of Directors currently consists of eight individuals, each of whom holds office for a one-year term and until his or her successor has been duly elected and qualified. Each of the eight directors herein nominated will be elected for a term which begins on the date of the Annual Meeting of Stockholders at which such director is elected and ends on the date of the next succeeding Annual Meeting of Stockholders.

Unless otherwise directed, proxies in the accompanying form will be voted FOR the nominees listed below. It is the intention of the persons named in the enclosed proxy to vote, unless otherwise indicated, for the election as directors of the persons named as nominees below. If any one or more of the nominees is unable to serve for any reason or withdraws from nomination, proxies will be voted for the substitute nominee or nominees, if any, proposed by the Board of Directors. The Board has no knowledge that any nominee will or may be unable to serve or will or may withdraw from nomination. All of the following nominees are current directors of the Company whose terms end at the 2003 Annual Meeting. All of the current directors of the Company were elected to their present terms at the Company's May 8, 2002 Annual Meeting of Stockholders, except for Reatha Clark King who was appointed effective May 8, 2002 to fill a new directorship position created by the Board.

*Nominees for Terms Ending at the 2004 Annual Meeting of Stockholders*

The principal occupations and positions for the past five years, and in certain cases prior years, of each of the persons who is nominated for election are as follows:

**SUSAN E. ENGEL**, age 56, has been Chairwoman of the Board of the Company and of D 56, Inc. (the Company's principal operating subsidiary) since September 18, 1997 and a director of the Company since February 1996. Ms. Engel has been Chief Executive Officer of the Company and of D 56, Inc. since November 13, 1996, and was President and Chief Operating Officer from 1994 to 1996. Ms. Engel is also a public company director of Wells Fargo & Co. and SuperValu Inc.

**JAMES E. BLOOM**, age 60, has been a director of the Company since November 2001. Mr. Bloom has been a business consultant with Bloom Consulting, Inc. since July 2001. Prior to July 2001, he was Vice President Sales & Marketing with Charter Systems LLC, a software developer of business communications solutions for the telecommunications industry, from January 1995 to June 2001.

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**MICHAEL R. FRANCIS**, age 40, has been a director of the Company since July 2001. Mr. Francis has been the Executive Vice President Marketing of Target Corporation, an operator of large-store general merchandise formats, including discount stores, moderate-priced promotional and traditional department stores, as well as a direct mail and on-line business, since February 2003. Prior to February 2003, Mr. Francis was Senior Vice President Marketing of Target Corporation since January 2001 and Senior Vice President, Marketing and Visual Presentation of its department stores division since December 1994.

**STEWART M. KASEN**, age 63, has been a director of the Company since December 2000. Mr. Kasen has been President of S&K Famous Brands, Inc. since May 2002. He was President of Schwarzschild Jewelers, a retail jewelry chain, from September 2001 to May 2002. From October 1999 until September 2001, Mr. Kasen was a consultant to the retail industry and a private investor. He was Chairman, President and Chief Executive Officer of Factory Card Outlet Corp., a specialty retailer, from May 1998 until October 1999. Factory Card Outlet filed a petition for bankruptcy on March 23, 1999. Mr. Kasen is a public company director of K2, Inc., Markel Corp., and Singer Co.

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**REATHA CLARK KING**, age 64, has been a director of the Company since May 2002. Dr. King was President and Executive Director, General Mills Foundation from 1988 until May 2002, and has been Chairperson of the Foundation's Board of Trustees since May 2002. Prior to joining General Mills Foundation, Dr. King held a variety of scientific and educational positions. She is a public company director of Exxon Mobil Corporation, Minnesota Mutual Companies, Inc., Wells Fargo & Co. and, until April 15, 2003, H.B. Fuller Company.

**GARY S. MATTHEWS**, age 45, has been a director of the Company since September 1997. Mr. Matthews has been President of Bristol-Myers Squibb Worldwide Consumer Medicines, a major producer and distributor of medicines, since December 2001. From January 1999 to June 2001 he was President and Chief Executive Officer and a director of Derby Cycle Corporation, a leading bicycle designer, manufacturer and marketer. Prior to January 1999, Mr. Matthews was Division President of Guinness Great Britain, the U.K. beer and ale marketing subsidiary of Diageo PLC. From January 1996 to April 1998, he was President and Chief Executive Officer of Guinness Import Company, the U.S. subsidiary of Diageo PLC which imports beers and ales.

**STEVEN G. ROTHMEIER**, age 56, has been a director of the Company since December 1992. Mr. Rothmeier is Chairman and Chief Executive Officer of Great Northern Capital, a private investment management firm which he founded in March 1993. He is a public company director of GenCorp Inc., Precision Castparts Corp. and Waste Management, Inc.

**VIN WEBER**, age 50, has been a director of the Company since February 1993. Since 1994, Mr. Weber has been a Partner of Clark & Weinstock, Inc., strategic communications advisers, and he is also Vice Chairman of Empower America, a non-profit organization which he co-founded in January 1993. He is a public company director of ITT Educational Services, Inc. and OneLink, Inc.

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### FURTHER INFORMATION CONCERNING THE BOARD OF DIRECTORS AND COMMITTEES

The Board of Directors of the Company oversees the management of the business and affairs of the Company, as provided by Delaware law, and conducts its business through meetings of the Board and five standing committees: Executive, Audit, Compensation, Stock Incentive, and Nominating and Corporate Governance. In addition, from time to time, special committees may be established under the direction of the Board when necessary to address specific issues.

#### *Committees of the Board Board Meetings*

The Board of Directors of the Company held six meetings in 2002. Each director attended 75% or more of the aggregate of (i) meetings of the Board held during the period for which he or she served as a director, and (ii) meetings of all committees held during the period for which he or she served on those committees (except for Michael Francis, who attended 71% of all Audit Committee meetings). Average attendance at all such meetings of the Board and committees was approximately 92%.

The EXECUTIVE COMMITTEE of the Board has the authority to exercise all powers and authority of the Board in the management of the business and affairs of the Company that may be lawfully delegated to it under Delaware law. The Committee consists of Susan E. Engel (Chair), Stewart M. Kasen and Steven G. Rothmeier. The Executive Committee held no formal meetings in 2002.

The AUDIT COMMITTEE's principal functions and its activities during fiscal 2002 are described on page 5 under the heading Audit Committee Report. The Company's Chief Financial Officer, Principal Accounting Officer and General Counsel generally attend Audit Committee meetings and give reports to and answer inquiries from the Audit Committee. The Audit Committee reports its findings and recommendations to the Board. The Audit Committee is composed of three non-employee and independent directors under the rules of the New York Stock Exchange: Steven G. Rothmeier (Chair); Michael R. Francis and Gary S. Matthews. The Audit Committee held seven meetings in 2002.

The COMPENSATION COMMITTEE is authorized by the Board to oversee the Company's compensation policies, review officer salaries and cash bonuses, approve significant changes in salaried employee benefits, and recommend to the Board such other forms of remuneration as it deems appropriate. The Compensation Committee is composed of non-employee directors, each of whom is a "disinterested person" within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Compensation Committee consists of Stewart M. Kasen (Chair); James E. Bloom; Reatha Clark King and Vin Weber. The Compensation Committee held two meetings in 2002. Compensation matters were also discussed at Board meetings during the course of fiscal 2002.

The STOCK INCENTIVE COMMITTEE, is authorized by the Board to grant awards under, and otherwise to administer, the Department 56, Inc. 1992 Stock Option Plan and the Department 56, Inc. 1993, 1995 and 1997 Stock Incentive Plans. The Stock Incentive

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Committee consists of Vin Weber (Chair) and Steven G. Rothmeier, who are "Non-Employee Directors" within the meaning of Rule 16b-3 under the Exchange Act and "Outside Directors" within the meaning of Section 162(m) of the Internal Revenue Code. The Stock Incentive Committee held no formal meetings in 2002. Compensation matters were discussed at Board meetings during the course of fiscal 2002.

The NOMINATING AND CORPORATE GOVERNANCE COMMITTEE's principal functions are to identify, interview and recommend for Board approval candidates for directorships, including those recommended by stockholders, and to review and recommend enhancements to the corporate governance structures of the Company. Any stockholder wishing to recommend a candidate for directorship should submit a recommendation in writing to the Company's Corporate Secretary,

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indicating the nominee's qualifications and other relevant biographical information and providing confirmation of the nominee's consent to serve as a director. The Nominating and Governance Committee consists of Vin Weber (Chair), Reatha Clark King and Gary S. Matthews. The Nominating and Governance Committee held no formal meetings in 2002. Director nomination and governance matters were discussed at Board meetings during the course of fiscal 2002.

Two other Board committees, the Director Option Grant Committee and the Non-Officer Grant Committee, are authorized to grant subject to certain limitations awards to non-employee directors and to non-officer employees, respectively. These committees consist of the Company's Chief Executive Officer as the sole committee member.

### *Lead Director*

In September 2002, the Board of Directors created a new position of non-executive Lead Director, whose primary responsibility is to preside over executive sessions of the Board of Directors in which members of management do not participate. The Lead Director is a standing member of the Executive Committee and may perform such other duties that the Board may from time to time delegate to assist the Board in the fulfillment of its responsibilities. The Board has designated Steven Rothmeier to serve in this position. Stockholders and other parties interested in communicating directly with the Lead Director or the non-management directors as a group may do so by writing to Lead Director c/o Corporate Secretary, Department 56, Inc., 6436 City West Parkway, Eden Prairie, MN 55344.

### *Director Compensation*

Non-employee directors receive an annual cash fee of \$15,000, paid ratably at each regular meeting of the Board of Directors, as well as a fee of \$1,000 (\$500 if telephone conference participation) for attendance at any Board meeting. Non-employee members of Board committees receive a fee of \$750 (\$500 if telephone conference participation) for attendance at any committee meeting, and any non-employee chair of a Board committee receives an additional annual fee of \$1,500. Non-employee directors may elect to receive shares of Common Stock in lieu of all or a portion of their cash fees, in which case shares of Common Stock are issued having a fair market value on the date of issuance of 110% of the cash fees which would otherwise then be payable. Directors are reimbursed for their out-of-pocket expenses arising from attendance at meetings of the Company's Board of Directors or committees thereof.

Typically, each non-employee director receives an annual grant of an option to purchase 5,000 shares of Common Stock at fair market value on the date of grant vesting over two years. In fiscal 2002, options were granted representing three years' acceleration of present year and future grants, equaling a grant to each non-employee director of an option to purchase 15,000 shares of Common Stock, with vesting in equal 33% annual installments over the three years following grant.

## **AUDIT COMMITTEE REPORT**

*The following Report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates this Report by reference therein.*

During fiscal 2000, the Audit Committee of the Board of Directors approved and adopted a charter for the Committee, which was approved by the full Board on May 11, 2000.

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The Audit Committee of the Board of Directors is responsible for assisting the Board in serving as an oversight to the Company's financial reporting, accounting and controls. Under the rules of the New York Stock Exchange all of the members of the Audit Committee are independent.

The Committee has implemented procedures to ensure that during the course of each fiscal year it devotes the attention that it deems necessary or appropriate to each of the matters assigned to it under the Committee's charter, including, whenever appropriate, meeting in executive sessions with the Company's independent auditors without the presence of the Company's management. To carry out its responsibilities, the Committee met seven times during fiscal 2002.

In overseeing the preparation of the Company's financial statements, the Committee met with both management and the Company's outside auditors to review and discuss all financial statements prior to their issuance and to discuss significant accounting issues. Management advised the Committee that all financial statements were prepared in accordance with generally accepted accounting principles, and the Committee discussed the statements with both management and the outside auditors. The Committee's review included discussion with the outside auditors of matters required to be discussed pursuant to *Statement on Auditing Standards No. 61 (Communication With Audit Committees)*.

With respect to the Company's outside auditors, the Committee, among other things, discussed with Deloitte & Touche LLP matters relating to its independence, including the disclosures made to the Committee as required by the *Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees)*.

On the basis of these reviews and discussions, the Committee recommended to the Board of Directors that the Board approve (and the Board has approved) the inclusion of the Company's audited financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2002, for filing with the Securities and Exchange Commission. The Committee and the Board have also approved, and submitted for shareholder ratification, the selection of the Company's independent auditors for the fiscal year ending January 3, 2004.

### **THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS OF DEPARTMENT 56, INC.**

Steven G. Rothmeier, Chair  
Michael R. Francis  
Gary S. Matthews

#### *Fees*

The Company incurred the following fees for services performed by Deloitte & Touche LLP in fiscal 2002.

#### Audit Fees

Fees for the fiscal year 2002 audit and the review of Forms 10Q are \$228,500.

#### Financial Information Systems Design and Implementation Fees

Other than in connection with the services referred to under the caption "Audit Fees" above, Deloitte & Touche LLP did not render any services related to financial information systems design and implementation for the fiscal year ended December 28, 2002.

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#### All Other Fees

Aggregate fees billed for all other services including tax related services and other consulting rendered by Deloitte & Touche LLP for the fiscal year ended December 28, 2002 are \$84,156.

All non-audit services were reviewed with the Audit Committee, which concluded that the provision of such services by Deloitte & Touche LLP was compatible with the maintenance of that firm's independence in the conduct of its auditing functions.

**BIOGRAPHICAL INFORMATION REGARDING EXECUTIVE OFFICERS**

Set forth below is biographical information for each of the Company's executive officers who is not a Director of the Company. Officers serve at the discretion of the Board of Directors.

<i>Name</i>	<i>Age</i>	<i>Position(s) with the Company</i>
David W. Dewey	45	Executive Vice President Product Development
Elise M. Linehan	41	Senior Vice President Retail Stores
Andrew E. Melville	42	Executive Vice President Sales
Robert S. Rose	48	Vice President Distribution and Operations
David H. Royer	42	Vice President Sales Planning and Development
Timothy J. Schugel	44	Executive Vice President and Chief Financial Officer
Gregory G. Sorensen	40	Vice President Technology
Alan L. Sussman	42	Senior Vice President and Chief Information Officer
Nasir F. Wajihuddin	42	Senior Vice President Marketing
David H. Weiser	43	Senior Vice President Legal/Human Resources, General Counsel and Secretary

David W. Dewey has been Executive Vice President Product Development of the Company and of D 56, Inc. since January 29, 2001. He was Executive Vice President Overseas Operations of the Company and of D 56, Inc. from January 1, 1997 until January 29, 2001.

Elise M. Linehan has been Senior Vice President Retail Stores of the Company and of D 56, Inc. since January 27, 2002. She was Vice President Marketing of the Company and of D 56, Inc. from June 28, 2001 to January 27, 2002. She was Managing Director of Product Marketing of the Company and of D 56, Inc. from September 10, 1999 to June 28, 2001. She was Director of Product Marketing of the Company and of D 56, Inc. from July 1, 1998 until September 10, 1999. She was Director of Marketing Services at Lifetouch, Inc. from 1996 until June 1998.

Andrew E. Melville has been Executive Vice President Sales of the Company and of D 56, Inc. since May 8, 2002. He was Senior Vice President Sales of the Company and of D 56, Inc. from October 11, 1999 until May 8, 2002. He was Vice President of Sales and Trade Marketing at Walt Disney Records from January 1998 to October 1999. Prior to then he held various sales positions at Polaroid Corporation from June 1990 to January 1998.

Robert S. Rose has been Vice President Distribution and Operations of the Company and of D 56, Inc. since April 22, 1993.

David H. Royer has been Vice President Sales Planning and Development since February 18, 2002. He was Vice President of Sales Development at Frito-Lay, Inc. from March 2001 to February 2002. Prior to then he was Director of Sales for the Midwest North Region of Frito-Lay, Inc. from March 1997 to March 2001.

Timothy J. Schugel has been Executive Vice President and Chief Financial Officer of the Company and of D 56, Inc. since April 1, 2002. He was Senior Vice President Sourcing Management and Production Control of the Company and of D 56, Inc. from January 29, 2001 until April 1, 2002. He was Vice President Sourcing Management and Production Control of the Company and of D 56, Inc. from May 5, 1999 until January 29, 2001. He was Vice President Finance and Sourcing Management of the Company and of D 56, Inc. from August 6, 1998 until May 5, 1999. Mr. Schugel was Vice President of the Company and of D 56, Inc. from April 10, 1995 until August 6, 1998.

Gregory G. Sorensen has been Vice President Technology of the Company and of D 56, Inc. since September 27, 1999. He was Vice President Management Information Systems of the Company and of D 56, Inc. from July 22, 1996 to September 27, 1999.

Alan L. Sussman has been Senior Vice President and Chief Information Officer of the Company and of D 56, Inc., since September 27, 1999. From February 1998 until July 1999 he owned and operated a local public access internet provider, Via Point, Inc. He was Vice President, Information Technology at Rollerblade from March 1996 to December 1998.



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Nasir F. Wajihuddin has been Senior Vice President Marketing of the Company and of D 56, Inc. since July 18, 2002. From November 2000 until September 2001 he was Chief Marketing Officer for Ask Jeeves, Inc. He was Vice President at Champion International from April 1999 to October 2000. He was Case Team Leader/Engagement Manager at Monitor Company from February 1996 to February 1999.

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.

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### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information known by the Company regarding the beneficial ownership of the Company's Common Stock, as of March 11, 2003, by each beneficial owner of more than five percent of the outstanding Common Stock, by each of the Company's directors and nominees for Board election, by each of the executives named in the Summary Compensation Table, and by all current directors and officers of the Company as a group.

Name	Number of Shares Beneficially Owned (1)	Percentage Of Class (1)
FMR Corp. (2)	1,293,100	9.9%
Barclays (3)	1,050,982	8.0%
Harris/Oakmark (4)	1,005,900	7.7%
Mellon (5)	718,332	5.5%
UBS Global (6)	693,215	5.3%
James Bloom (7)	7,500	*
David Dewey (8)	140,855	1.1%
Susan Engel (9)	303,043	2.3%
Michael Francis (10)	8,750	*
Stewart Kasen (11)	12,500	*
Reatha Clark King (12)	5,200	*
Gary Matthews (13)	40,915	*
Andrew Melville (14)	84,555	*
Steven Rothmeier (15)	63,000	*
Timothy Schugel (16)	73,025	*
Vin Weber (17)	38,651	*
David Weiser (18)	83,581	*
All directors and officers of the Company as a Group (18 persons) (19)	1,137,487	8.1%

\*

The percentage of shares of Common Stock beneficially owned does not exceed one percent of the outstanding shares of Common Stock.

(1)

For purposes of this table, a person or group of persons is deemed to have "beneficial ownership" of any shares of Common Stock which such person has the right to acquire within 60 days following March 11, 2003. For purposes of computing the percentage of outstanding shares of Common Stock held by each person or group of persons named above, any shares which such person or persons has or have the right to acquire within 60 days following March 11, 2003, is deemed to be outstanding, but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person. Unless otherwise noted, the Company believes that all persons named in the table above have sole voting and dispositive power with respect to all shares of Common Stock beneficially owned by them.

(2)

This information is obtained from a Schedule 13G, dated February 14, 2003, filed with the Securities and Exchange Commission by FMR Corp. ("FMR"). FMR beneficially owns 1,293,100 shares of Common Stock, of which it has sole voting power with respect to 0 shares, shared voting power with respect to 0 shares, sole dispositive power with respect to 1,293,100 shares, and shared dispositive power with respect to 0 shares. Fidelity Management & Research Company, a wholly owned subsidiary of FMR Corp., is an

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investment advisor to the Fidelity Low Priced Stock Fund (the "Fund") which owns all the abovementioned 1,293,100 shares, and therefore beneficial ownership of all such shares is attributed to Fidelity Management & Research Company and FMR Corp. Edward C. Johnson 3<sup>rd</sup> and Abigail P. Johnson, through their control and ownership of FMR

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Corp., can be attributed beneficial ownership of all such shares as well. The address of the principal business office of FMR is 82 Devonshire Street, Boston, Massachusetts 02109.

- (3) This information is obtained from a Schedule 13G, dated February 10, 2003, filed with the Securities and Exchange Commission by Barclays Global Investors, NA ("BGI") and Barclays Global Fund Advisors ("BGF", and together with BGI, "Barclays"). BGI beneficially owns 862,489 shares of Common Stock, of which it has sole voting power with respect to 862,489 shares, shared voting power with respect to 0 shares, sole dispositive power with respect to 862,489 shares, and shared dispositive power with respect to 0 shares. BGF beneficially owns 188,493 shares of Common Stock, of which it has sole voting power with respect to 188,493 shares, shared voting power with respect to 0 shares, sole dispositive power with respect to 188,493 shares, and shared dispositive power with respect to 0 shares. The address of the principal business office of BGI and BGF is 45 Fremont Street, San Francisco, CA 94105.
- (4) This information is obtained from Schedules 13G, dated February 6, 2003 and February 7, 2003, filed with the Securities and Exchange Commission by Harris Associates L.P. ("HA"), Harris Associates Inc. ("HI", and together with HA, "Harris") and Harris Associates Investment Trust, series designated The Oakmark Small Cap Fund ("Oakmark"). HA and HI (as general partner of HA) each beneficially owns 1,005,900 shares of Common Stock, of which it has sole voting power with respect to 0 shares, shared voting power with respect to 1,005,900 shares, sole dispositive power with respect to 245,900 shares, and shared dispositive power with respect to 760,000 shares. 760,000 of the shares beneficially owned by HA and HI are owned by Oakmark, whose Schedule 13G indicates that Oakmark beneficially owns a total of 760,000 shares of Common Stock, of which it has sole voting power with respect to 0 shares, shared voting power with respect to 760,000 shares, sole dispositive power with respect to 0 shares, and shared dispositive power with respect to 760,000 shares. The address of the principal business office of HA, HI and Oakmark is Two North LaSalle Street, Suite 500, Chicago, Illinois 60602.
- (5) This information is obtained from a Schedule 13G, dated January 14, 2003, filed with the Securities and Exchange Commission by Mellon Financial Corporation ("Mellon"). Mellon beneficially owns 718,332 shares of Common Stock, of which it has sole voting power with respect to 551,322 shares, shared voting power with respect to 0 shares, sole dispositive power with respect to 718,332 shares, and shared dispositive power with respect to 0 shares. The address of the principal business office of Mellon is One Mellon Center, Pittsburgh, Pennsylvania 15258.
- (6) This information is obtained from a Schedule 13G, dated February 14, 2003, filed with the Securities and Exchange Commission by UBS Global Asset Management (Americas) Inc. ("UBS"). UBS beneficially owns 693,215 shares of Common Stock, of which it has sole voting power with respect to 693,215 shares, shared voting power with respect to 0 shares, sole dispositive power with respect to 0 shares, and shared dispositive power with respect to 693,215 shares. UBS has disclaimed beneficial ownership of all such shares. The address of the principal business office of UBS is One North Wacker, Chicago, Illinois 60606.
- (7) Includes 7,500 shares subject to purchase options exercisable by Mr. Bloom currently or within 60 days of March 11, 2003.
- (8) Includes 125,699 shares subject to purchase options exercisable by Mr. Dewey currently or within 60 days of March 11, 2003.
- (9) Includes 256,792 shares subject to purchase options exercisable by Ms. Engel currently or within 60 days of March 11, 2003.
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- (10) Includes 8,750 shares subject to purchase options exercisable by Mr. Francis currently or within 60 days of March 11, 2003.

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- (11) Includes 12,500 shares subject to purchase options exercisable by Mr. Kasen currently or within 60 days of March 11, 2003.
- (12) Includes 5,000 shares subject to purchase options exercisable by Dr. King currently or within 60 days of March 11, 2003.
- (13) Includes 28,750 shares subject to purchase options exercisable by Mr. Matthews currently or within 60 days of March 11, 2003. Includes 300 shares owned by Mr. Matthews' spouse, ownership of which shares is disclaimed by Mr. Matthews.
- (14) Includes 75,882 shares subject to purchase options exercisable by Mr. Melville currently or within 60 days of March 11, 2003.
- (15) Includes 30,000 shares subject to purchase options exercisable by Mr. Rothmeier currently or within 60 days of March 11, 2003.
- (16) Includes 66,057 shares subject to purchase options exercisable by Mr. Schugel currently or within 60 days of March 11, 2003.
- (17) Includes 30,000 shares subject to purchase options exercisable by Mr. Weber currently or within 60 days of March 11, 2003.
- (18) Includes 42,066 shares subject to purchase options exercisable by Mr. Weiser currently or within 60 days of March 11, 2003.
- (19) Includes 941,854 shares subject to purchase options exercisable currently or within 60 days of March 11, 2003.

### *Compliance with Section 16(a) of the Exchange Act*

Section 16(a) of the Exchange Act requires the Company's directors and executive officers and holders of more than 10% of the Company's Common Stock to file with the Securities and Exchange Commission reports of ownership and changes in ownership of Common Stock and other equity securities of the Company on Forms 3, 4, and 5. Based on written representations of reporting persons and a review of those reports, the Company believes that during the fiscal year ended December 28, 2002, all its officers and directors and holders of more than 10% of the Company's Common Stock complied with all applicable Section 16(a) filing requirements other than Mr. Melville, who reported on a Form 4 and amendment to Form 5 a single disposition which he represented was conducted inadvertently by his financial advisor.

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## COMPENSATION OF EXECUTIVE OFFICERS

### *Summary Compensation Table*

Department 56, Inc. is a holding company, all of the business activities of which are conducted by D 56, Inc. and other subsidiaries.

The Summary Compensation Table sets forth individual compensation information for the Chief Executive Officer, the four most highly compensated executive officers (other than the Chief Executive Officer) who were serving as executive officers at December 28, 2002. The following table sets forth compensation information for each of those individuals for the fiscal years ended December 28, 2002, December 29, 2001 and December 30, 2000 (collectively, the "Named Executive Officers").

### SUMMARY COMPENSATION TABLE

<i>Name and Principal Position</i>	<u><i>Annual Compensation(a)</i></u>	<u><i>Long Term Compensation Awards</i></u>		
		<i>Restricted Stock</i>	<i>Securities Underlying</i>	<i>All Other Compensation</i>

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	Year	Salary	Bonus	Long Term Compensation Awards		
				Awards \$(b)	Options(c)	
Susan Engel, Chairwoman of the Board and Chief Executive Officer	2002	\$ 605,000	\$ 605,000	\$ 185,042(d)	264,075	\$ 128,343(e)
	2001	605,000	272,250	221,354	52,000	84,859
	2000	550,000	137,500		133,325	90,392
David Dewey, Executive Vice President Product Development	2002	368,000	331,200	92,521(f)	121,085	64,633(e)
	2001	357,000	160,650	92,054	26,000	46,243
	2000	325,000	73,125		67,915	43,038
Andrew Melville Executive Vice President Sales	2002	253,000	227,700	67,288(g)	113,295	52,262(e)
	2001	230,000	103,500	41,433	11,000	33,622
	2000	200,000	40,000		30,705	30,664
Timothy Schugel Executive Vice President and Chief Financial Officer	2002	230,250	225,000	42,055(h)	85,945	48,966(e)
	2001	195,000	78,000	45,103	11,000	30,190
	2000	185,000	37,000		30,055	29,551
David Weiser, Senior Vice President Legal/Human Resources, General Counsel and Secretary	2002	248,000	298,400	42,055(i)	11,000	62,789(e)
	2001	243,000	97,200	43,451	11,000	35,857
	2000	208,000	41,600		31,045	32,082

- (a) With respect to each Named Executive Officer, the aggregate amount of perquisites and other personal benefits, securities or property was less than either \$50,000 or 10% of the total of annual salary and bonus reported for such Named Executive Officer in each of 2002, 2001 and 2000.
- (b) Vesting amounts and schedules are set forth in a footnote below for each Named Executive Officer. Accelerated vesting may occur, and additional shares may therefore vest, in the event certain performance standards are achieved or a "change in control" occurs. Any dividends that may be declared and paid by the Company on its common stock shall be also be declared on restricted shares but deferred in payment until the restricted shares vest, and an individual's forfeiture of unvested restricted shares will also result in a corresponding forfeiture of deferred dividends.
- (c) Reflects the number of shares of Common Stock underlying options granted.
- (d) The aggregate value of Ms. Engel's restricted stock holdings at the end of fiscal 2002 (at \$12.85 per share) was \$470,143 (36,587 shares). Of the total 36,587 shares: 9,531 vested on December 31, 2002; 8,425 will vest on December 31, 2003; 5,720 will vest on December 31, 2004; 5,720 will vest on December 31, 2005; and 2,860 will vest on December 31, 2006.
- (e) Reflects term life insurance premiums in the amounts of \$5,986, \$1,235, \$547, \$540 and \$535, respectively, disability insurance premiums and tax reimbursement in the amounts of \$23,650, \$867, \$7,127, \$9,430 and \$8,495, respectively, matching contributions by D 56, Inc. under the D 56, Inc. 401(k) Retirement Savings Plan in the amounts of \$8,000, \$8,000, \$8,000, \$7,395 and \$7,785, respectively, and retirement contribution in the amounts of \$90,708, \$54,531, \$36,588, \$31,601 and \$45,974, respectively, for Ms. Engel, Mr. Dewey, Mr. Melville, Mr. Schugel and Mr. Weiser.
- (f) The aggregate value of Mr. Dewey's restricted stock holdings at the end of fiscal 2002 (at \$12.85 per share) was \$213,310 (16,600 shares). Of the total 16,600 shares: 4,125 vested on December 31, 2002; 3,574 will vest on December 31, 2003; 2,860 will vest on December 31, 2004; 2,860 will vest on December 31, 2005; and 1,430 will vest on December 31, 2006.

- (g) The aggregate value of Mr. Melville's restricted stock holdings at the end of fiscal 2002 (at \$12.85 per share) was \$121,510 (9,465 shares). Of the total 9,465 shares: 2,236 vested on December 31, 2002; 2,024 will vest on December 31, 2003; 1,690 will vest on December 31, 2004; 1,690 will vest on December 31, 2005; and 1,040 will vest on December 31, 2006.
- (h) The aggregate value of Mr. Schugel's restricted stock holdings at the end of fiscal 2002 (at \$12.85 per share) was \$100,744 (7,840 shares). Of the total 7,840 shares: 1,977 vested on December 31, 2002; 1,752 will vest on December 31, 2003; 1,300 will vest on December 31, 2004; 1,300 will vest on December 31, 2005; and 650 will vest on December 31, 2006.
- (i) The aggregate value of Mr. Weiser's restricted stock holdings at the end of fiscal 2002 (at \$12.85 per share) was \$98,829 (7,691 shares). Of the total 7,691 shares: 1,930 vested on December 31, 2002; 1,681 will vest on December 31, 2003; 1,300 will vest on December 31, 2004; 1,300 will vest on December 31, 2005; and 650 will vest on December 31, 2006.

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#### Stock Options Granted in Last Fiscal Year

The following table sets forth information concerning individual grants of stock options made by the Company during the fiscal year ended December 28, 2002 to each of the Named Executive Officers.

#### OPTION GRANTS IN THE FISCAL YEAR ENDED DECEMBER 28, 2002

<i>Name</i>	<i>Number of Securities Underlying Options Granted(1)</i>	<i>Percent of Total Options Granted to Employees in Fiscal Year(2)</i>	<i>Exercise Price (per share)</i>	<i>Expiration Date(3)</i>	<i>Hypothetical Value at Grant Date(4)</i>
Susan Engel	264,075	29.2%	\$ 12.80	3/15/12	\$ 1,845,884
David Dewey	121,085	13.4%	12.80	3/15/12	846,384
Andrew Melville	113,295	12.5%	12.80	3/15/12	791,932
Timothy Schugel	45,945	5.1%	12.80	3/15/12	321,156
	40,000	4.4%	14.00	4/1/12	299,600
David Weiser	11,000	1.2%	12.80	3/15/12	76,890

- (1) One-third of the total number of options granted will be cumulatively exercisable on December 31 of the calendar year of the grant and the first and second calendar years thereafter. Vesting may be accelerated in certain circumstances, including in the case of a "change in control" of the Company.
- (2) The Company granted to employees options to purchase a total of 905,900 shares of Company common stock in the fiscal year ended December 28, 2002.
- (3)

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The options generally expire on the earliest of (a) the tenth anniversary of the date of grant, (b) 12 months following termination of the optionee's employment or (c) the exercise in full of the option.

(4)

The hypothetical value of the options as of their date of grant calculated using the Black-Scholes option pricing model is permitted by SEC rules. It should be noted that this model is only one method of valuing options, and the Company's use of the model should not be interpreted as an endorsement of its accuracy. The actual value of the options may be significantly different, and the value actually realized, if any, will depend upon the excess of the market value of the common stock over the option exercise price at the time of the exercise.

The estimated present value at grant date of options granted during fiscal year 2002 has been calculated using the Black-Scholes option pricing model, based upon the following assumptions: estimated time until exercise of six years; a risk-free interest rate of 4.90%, representing the interest rate on a U.S. Government zero-coupon bond on the date of grant with a maturity corresponding to the estimated time until exercise; a volatility rate of 50.0% and a dividend yield of 0.0%. The approach used in developing the assumptions upon which the Black-Scholes valuations were calculated is consistent with the requirements of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation."

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### Aggregated Option Exercises

The following table sets forth information (on an aggregated basis) concerning exercises of options during the fiscal year ended December 28, 2002 by each of the Named Executive Officers and the fiscal year-end value of unexercised options.

#### AGGREGATED OPTION EXERCISES IN THE FISCAL YEAR ENDED DECEMBER 28, 2002 AND FISCAL YEAR-END OPTION VALUES

<i>Name</i>	<i>Shares Acquired on Exercise</i>	<i>Value Realized(2)</i>	<i>Number of Securities Underlying Unexercised Options at Fiscal Year-End</i>		<i>Value of Unexercised "In-the-Money" Options at Fiscal Year-End(1)</i>	
			<i>Exercisable</i>	<i>Unexercisable</i>	<i>Exercisable</i>	<i>Unexercisable</i>
Susan Engel			116,592	333,408	\$ 193,605	\$ 218,125
David Dewey			59,240	155,760	100,421	106,582
Andrew Melville			27,035	127,965	50,057	59,368
Timothy Schugel			26,385	100,615	47,561	43,877
David Weiser	33,000	\$ 286,275	27,385	25,670	51,401	35,840

(1)

Options are "in-the-money" at the fiscal year-end if the fair market value of the underlying securities on such date exceeds the exercise or base price of the option. The amounts set forth represent the difference between the fair market value of the securities underlying the options on December 28, 2002 (\$13.03) and the exercise price of the options, multiplied by the applicable number of options.

(2)

For these purposes, "value realized" represents the difference between option exercise price and fair market value of the underlying shares on the date of exercise. Mr. Weiser did not dispose of any of the shares acquired by him from option exercises in fiscal 2002, and continues to hold all such shares.

### Change in Control Arrangements

The Compensation Committee and the Board of Directors have adopted a program providing for the payment to certain employees of cash incentives based upon the Company's attainment of a defined financial performance goal. The program provides that, upon the occurrence of any events specified as a "change of control" of the Company, the defined financial measure is deemed to have been fully (100%) achieved and the employee participants in the program vest in a specified cash incentive (prorated over the fiscal year in which the change of control occurs from

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the first day of the fiscal year through the date of the change of control).

The Company's 1992 Stock Option Plan, its 1993, 1995 and 1997 Stock Incentive Plans, and related stock option and performance share agreements, contain vesting acceleration provisions that are triggered upon a change-in-control of the Company.

The Company is party to change-in-control arrangements with each of the Named Executive Officers, as well as certain other executives of the Company. If, within 24 months following the occurrence of any event specified as a "change-in-control" (for executives other than Ms. Engel, the change-in-control must not have been approved by the Company's Board of Directors in force prior to the change-in-control), the employment of a covered executive is involuntarily or voluntarily terminated for any reason (other than death, disability or retirement) the agreements provide for payment to the executive of a cash lump sum equal to (i) the executive's target pro rata bonus for the year of termination, plus (ii) 2.99 times (for Ms. Engel), or up to 2 times (for other executives), his/her base salary on the date of termination and her/his highest cash bonus during the past 3 years (for Ms. Engel, her maximum

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bonus opportunity in the year of termination). In addition, each covered executive's unvested stock options, restricted or deferred stock awards and non-qualified retirement benefits shall vest and all restrictions relating to any restricted or deferred stock shall lapse. The covered executive shall also have the right to continued participation in all of the Company's welfare benefit plans for the shorter of 36 months (for Ms. Engel), or 24 months (for other covered executives) or until substantially equivalent benefits are received from a subsequent employer. A covered executive also has the right to receive such payments and benefits if (1) her or his employment is involuntarily terminated without "cause" (x) within four weeks prior to a public announcement by the Company of an agreement with a third party to effect a "change in control" which agreement is approved by the Company's Board of Directors in force immediately prior to such announcement or (y) at any time from the time of such announcement through the closing of such agreement (or through the consummation of a "change in control" with or by a party competing with such third party to effectuate a Board-approved "change in control"). Moreover, the covered executives (other than Ms. Engel) also have the right to receive such payments and benefits if their employment is terminated without "cause" or the covered executive resigns for "good reason" within 12 months following any "change in control" that is approved by the Company's Board of Directors in force prior to the change-in-control. Except for the welfare benefits, the change-in-control payments are not subject to mitigation or offset. In the event that, after the imposition of any excise tax, a covered executive were to retain less than 100% (for Ms. Engel) or 80% (for other executives) of the total payments due her or him under the change-in-control agreements, the Company shall be obligated to pay a "gross up" amount to the executive.

### *Performance Graph*

The following graph compares the cumulative total return on \$100 invested on January 3, 1998, in each of the Common Stock of the Company, Standard & Poor's SmallCap 600 Index and a peer line-of-business index.

The peer line-of-business index is composed of all issuers who, during the preparation of the Company's proxy statement for its 2002 annual meeting, were within the Standard & Poor's Consumer Goods (Jewelry, Novelties & Gifts) Industry Sector and also were included in the Standard & Poor's SmallCap 600 Index. Such issuers currently are Action Performance Companies, Inc.; A. T. Cross Co., Inc.; Department 56, Inc.; Enesco Group, Inc.; Fossil Inc.; Franklin Covey Co.; Mayors Jewelers, Inc.; and Russ Berrie & Co. Standard & Poor's no longer publishes or maintains its Consumer Goods (Jewelry, Novelties & Gifts) Industry Sector.

In calculation of the peer index, each of the issuers is weighted to recognize its stock market capitalization. The returns of the Standard & Poor's index and the peer line-of-business index are calculated assuming reinvestment of dividends. The Company has not paid any dividends. The graph specifies data values for the preceding trading day nearest to each of the Company's fiscal year-ends during such period.

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The stock price performance shown on the graph below is not necessarily indicative of future price performance. Data points below provided by Research Data Group, Inc., a licensee of Standard & Poor's.

### **COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN AMONG DEPARTMENT 56, INC., THE S&P SMALLCAP 600 INDEX AND PEER GROUP**

**COMPENSATION COMMITTEE AND STOCK INCENTIVE COMMITTEE REPORT  
ON EXECUTIVE COMPENSATION**

*Overview*

The Compensation Committee of the Board of Directors is responsible for establishing the compensation policy and specific individual compensation for the Company's executive officers. The Stock Incentive Committee awards grants under the Company's stock option and incentive plans and administers those plans, seeking the advice and reviewing recommendations of the Compensation Committee and management as the Stock Incentive Committee believes appropriate. The Committees engage independent compensation consultants from time to time to assist in their work. Each of the Compensation Committee and the Stock Incentive Committee is comprised entirely of non-employee directors.

The Committees recognize the \$1 million deduction limitation on individual executive compensation under Section 162(m) of the Internal Revenue Code. While the Company does not have a policy on qualifying officer compensation for deductibility under that Section and the Board and the Committees reserve the authority to award non-deductible compensation as they deem appropriate, the Committees do consider cost to the Company (including tax deductibility) in making overall compensation decisions.



*Compensation Philosophy*

The approach taken to compensation for executive officers is designed to:

Emphasize company performance and place a substantial portion of officer compensation at risk

Align interests of management with those of stockholders and bring focus on long-term value creation by providing a significant portion of compensation in Company equity

Attract, motivate and retain executives of high caliber and ability

The principal compensation elements used in this approach during fiscal 2002 consisted of base salary, annual cash incentive bonus, and long-term equity incentives in the form of stock options and restricted shares. One-time awards based on project or other unique value-adding achievements are also considered on a discretionary basis.

In setting total compensation by individual, the Compensation Committee considers each current executive's responsibilities, accomplishments and experience in her or his specific area or a subjective evaluation of the appropriate overall compensation to induce an individual to join the Company as an officer and to remain in its employ. Compensation data in relevant executive labor markets, where available, has also been considered in determining executive salaries and opportunities for incentive compensation. No specific weights are assigned to these factors (although job position, accomplishments and subjective evaluation of appropriate overall compensation to attract or retain the executive are considered most important).

*Base Salary*

Consistent with the Company's entire philosophy, the executive team's most robust opportunities for additional compensation are to be found in corporate growth and performance-based incentives. The Compensation Committee therefore takes a market-based approach in its annual review of officer

base salaries, primarily considering level and changes of responsibility and general executive salary market trends. Owing to the difficult economic and retail environment in fiscal 2003, none of the Company's officers (except one who is not a Named Executive Officer) has received an increase in her or his base salary for the current fiscal year.

*Annual Cash Bonus*

Executive officers are eligible for annual cash incentives under a pay-for-performance program which is targeted to a specified level of earnings per share. Maximum targeted performance was achieved, and accordingly, officer bonuses were paid at individual maximum bonus opportunity for fiscal 2002. In addition, one Named Executive Officer received a discretionary bonus for completion of a complex project which contributed substantial value to the Company's 2002 financial results.

*Stock Options*

The Company's historical practice has been to grant stock options to executive officers based on pre-established grant guidelines. In order to leverage their impact, fiscal 2002 option grants to certain officers were sized to represent three or more years' acceleration of annual grant or to recognize a promotion of responsibilities. All grants are made at 100% of fair market value. To encourage executives to remain in the employ of the Company, the annual option grants vest over a three calendar-year period, with the first installment vesting at the close of the grant year.

*Restricted Shares*

Beginning in fiscal 2001, the Company granted restricted shares to executive officers based on established annual grant guidelines. Each restricted share awarded on this annual grant basis vests in equal installments over a five calendar year period, with the first installment vesting at the close of the grant year, and provides for partial acceleration in vesting upon achievement of specified diluted earnings per common share

(EPS) for any year of the standard vesting cycle. Coupled with stock options, the Compensation Committee believes that restricted share grants are an appropriate incentive by building management's equity stake and advancing the goal of executive retention.

*Compensation of Chief Executive Officer*

The CEO's compensation is comprised of the same elements used to compensate other executive officers. Ms. Engel's base salary rate effective during 2002 was \$605,000, held flat to her 2001 salary as she declined to be considered for any increase for the 2002 fiscal year. Her bonus and equity incentive awards for 2002 were determined as described above for other executive officers, and the actual amounts are shown in the Summary Compensation Table preceding this Report.

*Conclusion*

Consistent with their compensation philosophy, the Committees believe their approach to executive officer compensation provides incentive to attain strong financial performance while also enhancing executive retention, and is tightly aligned to stockholder interests. The Committees believe

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that this approach focuses the efforts of the Company's executive officers toward achieving fundamental growth and share price appreciation for the long-term benefit of stockholders.

**THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS  
OF DEPARTMENT 56, INC.**

Stewart M. Kasen, Chair  
James E. Bloom  
Reatha Clark King  
Vin Weber

**THE STOCK INCENTIVE COMMITTEE OF THE BOARD OF DIRECTORS  
OF DEPARTMENT 56, INC.**

Vin Weber, Chair  
Steven G. Rothmeier

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**ITEM 2 APPOINTMENT OF AUDITORS**

Upon recommendation of the Audit Committee, the Board of Directors has appointed Deloitte & Touche LLP, independent public accountants, to audit and report on the consolidated financial statements of the Company for the fiscal year ending January 3, 2004 and to perform such other services as may be required of them. Deloitte & Touche LLP has served as auditors for the Company since October 1992. The Board of Directors has directed that management submit the appointment of auditors for ratification by the stockholders at the Annual Meeting. Representatives of Deloitte & Touche LLP are expected to be present at the meeting, will have the opportunity to make a statement if they desire to do so and will be available to respond to appropriate stockholder questions.

**Proxies will be voted FOR ratification of the appointment of Deloitte & Touche LLP as auditors for the Company for the fiscal year ending January 3, 2004. The Board of Directors recommends a vote FOR ratification of the appointment of Deloitte & Touche LLP as auditors.**

**EXPENSES OF SOLICITATION**

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The cost of soliciting proxies will be borne by the Company. In addition to the solicitation of proxies by use of the mails, some of the officers, directors, and regular employees of the Company and its subsidiaries, none of whom will receive additional compensation therefor, may solicit proxies in person or by telephone, telegraph or other means. Solicitation will also be made by employees of InvestorCom, Inc., which firm will be paid a fee estimated not to exceed \$3,000, plus expenses. As is customary, the Company will, upon request, reimburse brokerage firms, banks, trustees, nominees and other persons for their out-of-pocket expenses in forwarding proxy materials to their principals.

**STOCKHOLDER PROPOSALS FOR THE 2004 ANNUAL MEETING OF STOCKHOLDERS**

Shareholder proposals for consideration at the Company's 2004 Annual Meeting must follow the procedures set forth in Rule 14a-8 under the Securities Exchange Act of 1934 and the Company's Restated By-Laws. To be timely under Rule 14a-8, shareholder proposals must be received by the Secretary of the Company by November 25, 2003 in order to be considered for inclusion in the Company's Proxy Statement. Under the Company's Restated By-Laws, if a shareholder plans to bring an item of business before a meeting of shareholders, the shareholder must notify the Company generally not less than 60 days nor more than 90 days prior to the meeting, provided, however, that if less than 70 days notice of the meeting date is given, notice by the shareholder to be timely must be received not later than the close of business on the 10th day following the earlier of the day on which notice of the meeting date is mailed or public disclosure of such date was made. If the Company does not receive notice of a shareholder proposal within the time requirements set forth in the Restated By-Laws, then the Company will not be required to present such proposal at the 2004 Annual Meeting of Shareholders. The proposals must also comply with all applicable statutes and regulations.

**OTHER MATTERS**

The Company knows of no other matter to be brought before the 2003 Annual Meeting. If any other matter requiring a vote of the stockholders should come before the meeting, it is the intention of the persons named in the proxy to vote in accordance with their best judgment.

The Company's 2002 Annual Stockholders Report, including financial statements and Annual Report on Form 10-K for the fiscal year ended December 28, 2002, is being sent to stockholders of record as of March 21, 2003, together with this Proxy Statement. Copies of any exhibits to the Form 10-K will be furnished upon the payment of a reasonable duplicating charge. Requests in writing for copies of any such materials should be directed to Mr. David H. Weiser, Secretary, Department 56, Inc., One Village Place, 6436 City West Parkway, Eden Prairie, Minnesota 55344.

By order of the Board of Directors,

DAVID H. WEISER  
Secretary

Eden Prairie, Minnesota  
March 24, 2003

The Board of Directors recommends a vote FOR Items 1 and 2.

Please  
Mark Here  
for Address  
Change or  
Comments  
SEE REVERSE  
SIDE

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	FOR ALL NOMINEES	WITHHELD FROM ALL NOMINEES		FOR	AGAINST	ABSTAIN
Item 1. ELECTION OF DIRECTORS	<input type="radio"/>	<input type="radio"/>	Item 2. APPROVAL OF AUDITORS	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

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**FOR ALL**                    **WITHHELD**  
**FROM ALL**  
**NOMINEES**                **NOMINEES**

**FOR**    **AGAINST**    **ABSTAIN**

Nominees:  
01 Susan E. Engel  
02 James E. Bloom  
03 Michael R. Francis

04 Stewart M. Kasen  
05 Reatha Clark King  
06 Gary S. Matthews  
07 Steven G. Rothmeier  
08 Vin Weber

I PLAN TO ATTEND MEETING                    **0**

**WITHHELD FOR:** To withhold authority for any individual nominee(s), write the nominee(s) name(s) on the line provided below:

\_\_\_\_\_

Receipt is hereby acknowledged of the  
Department 56, Inc.  
Notice of Meeting and Proxy Statement.

PLEASE SIGN, DATE AND RETURN  
PROMPTLY IN  
THE ENCLOSED ENVELOPE.

Signature \_\_\_\_\_ Signature \_\_\_\_\_ Date \_\_\_\_\_

Note: Please sign exactly as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. Corporate and partnership proxies should be signed by an authorized person indicating the person's title.

/\*\ FOLD AND DETACH HERE /\*\

**Department 56, Inc.**

**2003 Annual Meeting**  
**Admission Ticket Non-Transferable**  
**Hilton Garden Inn**  
**6330 Point Chase Eden**  
**Prairie, MN 55344**  
**May 7, 2003**  
**11:00 a.m.**

Detach and retain this portion, sign and present for admittance to meeting.

\_\_\_\_\_  
SIGNATURE OF SHAREHOLDER(S)

\_\_\_\_\_  
SIGNATURE OF SHAREHOLDER(S)

/\*\ FOLD AND DETACH HERE /\*\

For more information about  
Department 56 products or a retailer  
near you, contact 1-800-LIT-TOWN or  
[www.department56.com](http://www.department56.com)

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**PROXY FOR ANNUAL MEETING OF STOCKHOLDERS**

**May 7, 2003**

**This Proxy is Solicited on Behalf of Department 56, Inc.'s Board of Directors.**

The undersigned hereby appoints Gregg A. Peters and David H. Weiser, and each of them, Proxies for the undersigned, with full power of substitution, to represent and to vote all shares of Department 56, Inc. Common Stock which the undersigned may be entitled to vote at the Annual Meeting of Stockholders of Department 56, Inc. to be held in Eden Prairie, Minnesota, on Wednesday, May 7, 2003 at 11:00 a.m., or at any adjournment thereof, upon the matters set forth on the reverse side and described in the accompanying Proxy Statement and upon such other business as may properly come before the meeting or any adjournment thereof.

**Please mark this proxy as indicated on the reverse side to vote on any item. If you wish to vote in accordance with the Board of Directors' recommendations, please sign the reverse side; no boxes need to be checked. IF NO SPECIFICATION IS MADE, THE PROXY SHALL BE VOTED FOR ITEMS 1 AND 2. In their discretion, the appointed Proxies are authorized to vote upon such other business as may properly come before the meeting.**

**(Continued and to be signed and dated on other side)**

Address Change/Comments (Mark the corresponding box on the reverse side)

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/\*\ FOLD AND DETACH HERE /\*\

*Holidays. Special Days. Every Day.*

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/\*\ FOLD AND DETACH HERE /\*\

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