

**LENOX GROUP INC.  
("LGI")**

**BOARD GOVERNANCE PRINCIPLES**

**Adopted February 18, 2004  
(Rev. – Name Change – December 14, 2005)**

The following principles have been approved by the board of directors and, along with the charters and key practices of the board committees, provide the framework for the governance of LGI. The board recognizes that there is an on-going and energetic debate about corporate governance and, with the assistance of the Board Affairs Committee, it will review these principles and other aspects of LGI governance from time to time as conditions warrant. These Governance Principles will be posted on the LGI website accessible to investors, and will be mailed to shareholders on written request.

1. Role of Board and Management. LGI's business is conducted by its employees, managers and officers, under the direction of the chief executive officer (CEO) and the oversight of the board, to enhance the long-term value of the Corporation for its shareholders. The board of directors is elected by the shareholders to oversee management and to assure that the long-term interests of the shareholders are being served. Both the board of directors and management recognize that the long-term interests of shareholders are advanced by responsibly addressing the concerns of other stakeholders and interested parties including employees, customers, suppliers, LGI communities, and the public at large.

2. Functions of Board. The board of directors has 4 scheduled meetings a year at which it reviews and discusses reports by management on the performance of the Corporation, its plans and prospects, as well as immediate issues facing the Corporation. In addition to its general oversight of management, the board --- on its own authority or through delegation to its committees --- also performs a number of specific functions, including:

- a. reviewing, approving and monitoring fundamental financial and business strategies and major corporate actions;
- b. assessing major risks facing the Corporation and reviewing options for their mitigation;
- c. selecting, evaluating and compensating the CEO and overseeing CEO succession planning;
- d. providing counsel and oversight on the selection, evaluation, development and compensation of senior management; and
- e. ensuring processes are in place for maintaining the integrity of the Corporation --- the integrity of the financial statements, the integrity of compliance with law and ethics, and the integrity of relationships with customers, suppliers, and other stakeholders.

The Board shall elect a chair, who may be an employee of the Corporation, an independent director, or another non-employee director. The chair shall have the duties assigned by the Corporation's by-laws or, from time to time, by the board.

3. Qualifications. Directors should possess the highest personal and professional ethics, integrity and values, and be committed to representing the long-term interests of the shareholders. They must also have an inquisitive and objective perspective, practical wisdom, energy and mature judgment. We endeavor to have a board representing diverse experience at policy-making and policy-implementing levels in business, government, education and philanthropy, and in areas that are relevant to the Corporation's activities.

Directors must be willing to devote sufficient time to carrying out their duties and responsibilities effectively, and should be committed to serve on the board for an extended period of time. Directors should offer their resignation in the event of any significant change in their personal circumstances, including a change in their principal job responsibilities, although the board is under no obligation to accept a tendered resignation under these circumstances.

The board does not believe that its members should be prohibited from serving on the boards of other companies so long as those commitments do not create material actual or potential conflicts and do not interfere with the director's ability to fulfill his or her duties as a member of the LGI board. The Board Affairs Committee will take into account the nature and time involved in the director's service on other boards in assessing director nominees. A director who desires to serve on another public or private company board shall notify the CEO, the chair of the Board Affairs Committee and the General Counsel of LGI before accepting the appointment to that board and provide information requested by the General Counsel in order to enable the board to determine that the additional directorship does not impair the director's independence and any other information requested by the Board Affairs Committee.

The board does not believe that arbitrary term limits on directors' service are appropriate, nor does it believe that directors should expect to be renominated annually until they reach the mandatory retirement age. The board self-evaluation process described below will be an important determinant for board tenure. Normally, directors will not be nominated for election to the board after their 73rd birthday, although the full board may nominate candidates over 73 for special circumstances. Irrespective of an incumbent director's age, the Board Affairs Committee shall, in determining whether to recommend the re-election of a director, consider factors such as the director's continued productivity, the value to the Corporation of retaining an experienced director, and the disruption to board effectiveness that can result from membership changes that are too frequent or extensive.

4. Director Responsibilities. It is the responsibility of the directors to exercise their best business judgment when acting on behalf of the Corporation and its shareholders, being able to rely on the honesty and integrity of the Corporation's senior management and its outside advisors and auditors.

Directors are expected to attend all scheduled board meetings and committee meetings on which they serve in order to best fulfill their responsibilities. Meeting materials will be provided to the board and committee prior to a scheduled meeting. Directors are responsible for reviewing these materials in advance of the meetings.

The directors shall adhere to the Corporation's policy on trading in securities of the Corporation and to specific guidance provided by the General Counsel as to periods when directors should refrain from trading in the Corporation's securities.

5. Independence of Directors. A majority of the directors will be independent directors under the applicable New York Stock Exchange (NYSE) rules. Directors who do not meet the NYSE's independence standards can also make valuable contributions to the board and to the Corporation by reason of their experience and wisdom.

Under the applicable NYSE rules, the board must determine, on an individual - by - individual basis, whether or not a director is independent. The board has established the categorical standards annexed to these Governance Principles to assist it in determining director independence. Each director shall be recused from the board's determination vote concerning his or her independence.

The Corporation will not make any personal loans or extensions of credit to directors or executive officers.

6. Size of Board and Selection Process. The directors are elected each year by the shareholders at the annual meeting of shareholders. The Board Affairs Committee is responsible for recommending to the whole board nominees for election or re-election. The board proposes a slate of nominees to the shareholders for election to the board. Shareholders may propose nominees for consideration by the Board Affairs Committee by submitting the names and supporting information to: Corporate Secretary, Legal Department, Department 56, 6436 City West Parkway, Eden Prairie, MN 55344. Between annual shareholder meetings, the board may appoint directors to serve until the next annual meeting.

The board also determines the number of directors on the board provided that there are at least 3. The board believes that, given the size and breadth of LGI and the need for diversity of board views, the size of the board should be in the range of 7 - 9 directors.

7. Board Committees. The board has established the following committees to assist the board in discharging its responsibilities: (i) Audit; (ii) Compensation; (iii) Board Affairs; and (iv) Executive. Each committee has a written charter, the current versions of which will be posted on the LGI website accessible to investors and will be mailed to shareholders on written request. The committee chairs report the highlights or distribute the final minutes of their meetings to the full board after each committee meeting. The committees occasionally hold meetings in conjunction with the full board.

8. Independence of Committee Members. The Audit, Compensation and Board Affairs Committees shall be composed entirely of directors determined to be independent under section 5 above. Members of the Audit Committee must also satisfy an additional NYSE independence requirement that they may not directly or indirectly receive any compensation from the Corporation other than their directors' compensation, and a separate SEC requirement concerning independence. Furthermore, Audit Committee members may not sit on the audit committees of more than three public companies, unless the board determines that such service would not impair the ability of such member to effectively serve the Corporation's Audit Committee and the Corporation discloses such determination in its proxy statement.

9. Lead Director; Meetings of Non-Employee Directors. The board shall designate one of the non-employee directors to serve as Lead Director. The Lead Director will preside at

meetings of the non-employee directors, and will serve as the presiding director in performing such other functions as the board may direct, including communicating with the CEO on issues that concern the board and advising management of any board input on the agenda for future board meetings. Shareholders and other parties interested in communicating directly with the Lead Director or the non-employee directors as a group may do so by writing to the Lead Director % the Corporate Secretary.

The board will include in each of its four regularly scheduled meetings a session for the non-employee directors to meet without management present. The non-employee directors may meet without management present at such other times as determined by the Lead Director. The board may not take any formal action at the non-employee director sessions, although the participating directors may make recommendations for consideration by the full board.

10. Self-Evaluation. The board and each of the Audit, Compensation and Board Affairs committees will perform an annual self-evaluation. In this connection, the directors will be requested to provide their assessments of the effectiveness of the board and the committees on which they serve. The individual assessments will be organized and summarized by the Corporate Secretary for discussion with the board and the committees in sequence with the annual evaluation timetables.

11. Board Agenda. The board chair and CEO shall be responsible for the board's agenda. The CEO, or committee chair as appropriate, shall determine the nature and extent of information that shall be provided regularly to the directors before each scheduled board or committee meeting. Directors are invited to make suggestions for agenda items, or additional pre-meeting materials, to the CEO, the Lead Director, or appropriate committee chair at any time.

12. Ethics and Conflicts of Interest. The board expects LGI directors, as well as officers and employees, to act ethically at all times and to acknowledge their adherence to the LGI Code of Ethics and Business Conduct. Barring extraordinary circumstances, the board will not permit any waiver of any conflict of interest or ethics policy for any director or executive officer.

If an actual or potential conflict of interest arises for a director, the director shall promptly inform the CEO and the chair of the Board Affairs Committee. If a significant, ongoing conflict exists and cannot be resolved, the director should offer to resign, although the board is under no obligation to accept a resignation under these circumstances. A director will recuse herself/himself from any discussion or decision affecting their personal, business or professional interests if so requested by the full board or the Board Affairs Committee.

13. Compensation of Board. The Compensation Committee shall have the responsibility for recommending to the board compensation for non-employee directors. In discharging this duty, the committee shall be guided by three goals: compensation should fairly pay directors for work required in a company of LGI's size and scope; compensation should align directors' interests with the long-term interests of shareholders; and the structure of the compensation should be easy for shareholders to understand. The Committee shall provide for pro-rated compensation treatment for directors who are appointed to the board other than coincident with the Corporation's annual meeting of shareholders. At the end of every year, the Compensation Committee should review non-employee director compensation and benefits. The Compensation Committee may retain an outside consultant for these purposes.

14. Succession Plan. The board shall approve and maintain a succession plan for the CEO and senior executives, based upon recommendations from the Compensation Committee. The CEO and the board shall from time to time discuss and agree upon alternatives for interim/emergency and permanent successors to the CEO.
15. Annual Compensation Review of Senior Management. The Compensation Committee shall annually approve the goals and objectives for compensating the CEO. That committee shall evaluate the CEO's performance in light of these goals before setting the CEO's salary, bonus and other incentive and equity compensation. The committee shall also annually approve the compensation structure and individual salary, bonus and other incentive and equity compensation for the Corporation's officers.
16. Access to Senior Management. Non-employee directors who wish to contact senior managers of the Corporation on material issues without the CEO present shall first advise the chair of the Board Affairs Committee, who will determine whether the CEO is notified in advance of the contact. Board members will use their judgment to assure that any contacts will not disrupt the daily business operation of the Corporation.
17. Access to Independent Advisors. The board and its committees shall have the right and funding at any time to retain independent outside financial, legal or other advisors.
18. Director Orientation and Education. Each new director shall be presented with orientation and reference materials to familiarize them with the Corporation and, within six months of election to the board, attend at corporate headquarters a personal briefing by senior management on the Corporation's strategic plans, its financial statements, and its key policies and practices. The board shall from time to time during the year receive updates regarding new material developments and the Corporation's products and markets, including strategy, competitors and commercial relationships. Under the coordination of the Board Affairs Committee, the board will also from time to time review corporate governance, disclosure principles and director responsibilities, and consider programs for further director development and education.

## ANNEX

Pursuant to Rule 303A.02(a) of the NYSE Listed Company Manual, the Board has established the following categorical standards to assist it in determining director independence in accordance with that Rule. An "Independent Director" shall mean a Director who --

- (a) satisfies all the independence standards required by Rule 303A.02(b) of the NYSE Listed Company Manual, being as follows:

303A.02(b) (i) -- a Director who is an employee, or whose Immediate Family Member is an executive officer, of the Corporation is not an Independent Director until three years after the end of such employment relationship

303A.02(b) (ii) -- a Director who receives, or whose Immediate Family Member receives, more than \$100,000 per year in direct compensation from the Corporation, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), is not an Independent Director until three years after he or she ceases to receive more than \$100,000 per year in such compensation

303A.02(b) (iii) -- a Director who is affiliated with or employed by, or whose Immediate Family Member is affiliated with or employed in a professional capacity by, a present or former internal or external auditor of the Corporation is not an Independent Director until three years after the end of the affiliation or the employment or auditing relationship

303A.02(b) (iv) -- a Director who is employed, or whose Immediate Family Members is employed, as an executive officer of another company where any of the Corporation's present executives serve on that company's compensation committee is not an Independent Director until three years after the end of such service or the employment relationship

303A.02(b) (v) -- a Director who is an executive officer or an employee, or whose Immediate Family Member is an executive officer, of a company that makes payments to, or receives payments from, the Corporation for property or services in an amount which, in any single fiscal year, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues, is not an Independent Director until three years after falling below such threshold;

- (b) is not an executive officer, and has no Immediate Family Member who is an executive officer, of a charitable organization which, in any single fiscal year of the three completed fiscal years immediately preceding the date of the Board's determination, received contributions from the Corporation exceeding the greater of \$1 million or 2% of such charitable organization's consolidated gross revenues for that fiscal year;
- (c) is not an executive officer, and has no Immediate Family Member is an executive officer, of another company which is indebted to the Corporation, or to which the Corporation is indebted, and the total amount of either company's indebtedness to the other during any of the previous three years exceeds the greater of \$1 million or

2% of the total consolidated assets of the company he or she serves as an executive officer; and

(d) is free from any material relationship that, in the opinion of the Board, would interfere with that person's exercise of independent judgment as a Director.

If the quantitative financial or recency thresholds of any commercial, charitable or familial relationship covered by the standards in (a), (b) or (c) above are not reached or broken by the actual facts surrounding such a relationship with a Director or her/his Immediate Family Member, then such relationship shall be deemed to be an immaterial one and to not impair the Director's independence.

In interpreting the standard of Rule 303A.02 (b) (ii) of the NYSE Listed Company Manual or the standard set forth in (d) above, compensation received by an Immediate Family Member for service as an employee of any paid provider of professional services to the Corporation (so long as s/he is not the sole or predominant owner of such services firm) or for service as a non-executive employee of the Corporation need not be considered in determining independence under these standards.

It shall be the responsibility of each Director and prospective Director to disclose to the board any relationship that could impair his or her independence or any conflict of interest with the Corporation. Each Director shall complete an annual questionnaire providing information necessary for the Corporation to assist the Board in assessing his or her independence and making any required disclosures in the Corporation's proxy statement.

For these purposes, the following phrases shall have the meaning given to them:

"Corporation" shall mean Department 56, Inc. and its subsidiaries, which includes any corporation a majority of the voting stock of which is owned, directly or indirectly through one or more other subsidiaries, by Department 56, Inc.

An "Immediate Family Member" includes a Director's spouse, parents, children, siblings, mothers and fathers-in-laws, sons and daughters-in-laws, brothers and sisters-in-laws, and anyone (other than domestic employees) who shares such person's home.