

Toy Story

FAO Schwarz returns from the dead.

By Daniel Gross

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Welcoming those with cash to burn

FAO Schwarz is back. The iconic New York toy retailer suffered a miserable 2003—two bankruptcies in 11 months and the threat of liquidation. But on Thanksgiving Day, the life-size toy soldiers who man the doors reassumed their posts in front of the flagship store, nine months after it had shut.

FAO first opened in New York in 1870, the creation of German immigrant Frederick August Otto Schwarz. Over the decades it grew into one of the city's retailing meccas. Ensclosed in the base of the General Motors Building, across from Central Park and the Plaza Hotel, it became a *de rigueur* stop for tourists. But in the 1990s, like Barney's, it evolved from one of those only-in-New-York places into one of those only-in-New-York-plus-a-bunch-of-malls places. By 2002, when it [was acquired](#) by kiddie-toy retailer Right Start, Inc., FAO had 20 outposts.

Things went rapidly downhill. The recession and post-9/11 tourism decline cut into sales. FAO, like other toy stores, was increasingly forced to compete with new players like Wal-Mart. Before it acquired FAO, Right Start had also bought Zany Brainy, a large toy-store chain, out of bankruptcy. In January 2003, the whole company, now renamed FAO, Inc., keeled over. It emerged from bankruptcy three months later, having shuttered dozens of stores and inked a deal to open FAO boutiques inside [Saks](#) department stores. But when this turnaround didn't take, the company filed for bankruptcy again in December 2003. It immediately sold off a bunch of Right Start stores, liquidated Zany Brainy, and began to liquidate FAO stores.

At this point a most unlikely savior entered the scene: [D.E. Shaw & Co.](#) The investment firm, secretive even by the standards of the hedge-fund world, was founded by [D.E. Shaw](#), a Stanford University Ph.D.-turned-quantitative trader and private equity investor. Shaw & Co. is known for recruiting mathematicians and computer scientists to figure out clever ways to make money. In January 2004, Shaw [agreed to pay](#) \$41 million in cash for FAO's Las Vegas and New York stores and to assume about \$10 million in debt.

Shaw's teams of physics and computer science nerds didn't spend hours developing algorithms of Barbie sales and running regression analysis on G.I. Joe demand. They did something far simpler. Toy stores essentially rent real estate for 12 months so they can make money during the five weeks every year when the bulk of toy sales are conducted. In order for a toy retailer to work, it must either be subsumed under a larger year-round retail umbrella with which it can share costs, or its stores must be unique destinations that attract a steady stream of well-heeled, impulsive customers year-round. And location matters. You need to find places that have plenty of residents with cash to burn and are magnets for out-of-towners who arrive with the express intent of being separated from their money—i.e., New York and Las Vegas. Shaw hired architect [David Rockwell](#) to give FAO a fresh look. [The Las Vegas store](#), located in the Forum Shops at Caesar's Place, reopened on Oct. 20. The New York store reopened on Thanksgiving Day.

Does the formula work? FAO in New York certainly seems like a much happier and fresher place than the last time I went: lighter and less claustrophobic. And there are some appealing additions, including a big bulk candy section on the first floor and an FAO Schweetz ice cream parlor (\$9 ice cream floats!). The downstairs rec

room—aka the testosterone section—has Vespas, air-hockey tables, *Texas Chainsaw Massacre* action figures, and comfy chairs in which men can sit and watch sports on a huge television while the womenfolk hunt for dolls upstairs.

But some things haven't changed. There are still plenty of the old-style soft-core consumer porn items meant to be looked at rather than bought: the mammoth keyboard on the second floor (\$150,000); the \$15,000 Hansa giant elephant, standing 12 feet tall and weighing 250 pounds; the nine-horsepower, \$30,000 kid-sized Hummer. CEO Jerry Welch [told](#) *Newsday*, "We are not selling items you find at Wal-Mart or big discounters." That's true, but only to a degree. This experienced shopper of toys for the 6-and-under set saw plenty of familiar stuff: a big Thomas the Train section, Barbies. Even the more exclusive products, like the [Madame Alexander](#) dolls, can be bought online.

The tourists are certainly here, armed with their suddenly strong euros and pounds sterling. (Not since the early 1780s have so many Brits run rampant in New York.) But overall, there seemed to be as much gawking as there was purchasing. There were crowds at the Baby Nursery, where uniformed nurses swaddle dolls for "adoption." But when it came to check out, the line was mercifully short.

The fun is plainly back. "It's going to be a big indoor playground," David Rockwell told the *New York Times Magazine*. "You don't even have to buy anything." Which is simultaneously FAO's appeal and its enduring challenge. The good news for nostalgists and people looking for shelter in the cold Manhattan winter is that FAO Schwarz is alive, solvent, and more pleasant than it used to be. With a deep-pocketed private owner, it doesn't have to turn a profit every year. It's a great toy emporium again. The question remains as to whether it can be a great toy store.

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