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Competition among private bankers heats up
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Exec stepping into Tommy Tune's old pad after \$6M purchase
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BUSINESS LIVES

RETURN TO THE NEST
 Young professionals find it hard to stick out on their own

AT DEADLINE

DOROUGH PRESIDENT HELEN MARSHALL will issue a report Tuesday calling for the construction of two hospitals in Queens, even as the Berger commission on hospital closures is preparing to issue a report on Nov. 28. She cites PricewaterhouseCoopers findings that 34% of Queens residents hospitalized in 2004 had to go to facilities in Manhattan or Nassau County because local services weren't available.

THE CITY'S FOREIGN STUDENT POPULATION climbed 2.2% to 50,542 in the 2005-2006 academic year, according to figures set to be released today by the Institute of International Education. Columbia University topped the chart

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NEW YORK BUSINESS

REPORT
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TO DO ASAP

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- Find billions for schools
- Bring political reform to Albany
- Fix campaign finance practices

ELECTION 2006

Spitzer's 'Day One' will take a while

Runaway victory sets reform bar high; deadlines loom

BY ANNE MICHAUD

THE ONLY THING BIGGER than the public appetite for change that swept Eliot Spitzer into the governor's office last week is the expectation that he will now deliver on what he has promised.

Among the governor-elect's most likely priorities: take action on hospital-closing recommendations, prepare a budget that addresses the state's massive debt burden, resolve school funding inequities and champion good-government reforms.

See SPITZER on Page 8

Merrill mulls downtown exit; big HQ in play

Bank hires broker as lease expiration nears, setting off tristate scramble

BY JULIE SATOW

MERRILL LYNCH & CO. may decide within six months whether to remain in lower Manhattan—where it has been based since its founding in 1914—or relocate to midtown or even to the suburbs.

The giant securities firm has hired a broker, and Chief Executive E. Stanley O'Neal has met with New Jersey Gov. Jon Corzine, who is expected to make a strong effort to lure the company to his state.

"We are in the midst of evaluating our options, given that we have impending lease expirations," says a Merrill spokesman.

At stake is the headquarters of a firm with \$48 billion in revenues and with more than 9,000 highly paid staffers downtown, who are spread out across 3 million square feet of space. Merrill's lease at the World Financial Center, where it occupies all of Tower 4 and a portion of Tower 2, will expire in 2013. Merrill also owns its former headquarters building at 222 Broadway, on the other side of Ground Zero, where it occupies 660,000 square feet.

Remaining at the World Financial Center is a possibility, but a problematic one. Merrill has occupied the bulk of that space for nearly 20 years, and while there have been updates to the company's cavernous trading floor—key

See MERRILL on Page 8

FAO turnaround hardly child's play

CEO has cut clutter, added new toys; plans to open two more NYC stores

BY ELISABETH BUTLER

IF FAO SCHWARZ's new chief executive gets his way, New Yorkers won't have to fight the crowds to do their Christmas shopping at FAO Schwarz next year. Edward Schmalz wants the 144-year-old retailer to open two smaller shops

in the city, perhaps in hot neighborhoods like Union Square or Park Slope, Brooklyn.

"We want to be New York's toy store," says Mr. Schmalz, who joined FAO last year to help put the once-bankrupt retailer back in the black.

The additional locations are just part of his strategy. Mr. Schmalz has also ditched underperforming products, pushed a low-risk, commission-style selling model and added more baby products and toys that appeal to boys. He believes that a well-rounded mix of exclusives and select mass-market merchandise, both in-store and online, will return the brand to its legendary status.

FAO must work hard to win back New Yorkers. Only half of the 2.5 million people who visit the Fifth Avenue flagship every year live in the city. Some don't realize that the store has reopened, and others think

See TURNAROUND on Page 8



IN THE BALL CEO Edward Schmalz is using his marketing and Web expertise to revitalize FAO Schwarz.

Turnaround at FAO

Continued from Page 1

When Carla Waage, a Manhattan resident who works in a doctor's office, needed a birthday present for her 11-year-old godson last week, she went straight to Toys "R" Us at Times Square. "I didn't even think of going to FAO, and it's closer to where I live," Ms. Waage says. "I walk past it every day."

Investment firm D.E. Shaw, which bought FAO out of bankruptcy in 2003, brought in Mr. Schmalz to help entice shoppers like Ms.

Waage. The retailer lost millions of dollars while it was operating 13 stores nationwide. It now runs just two, including one in Las Vegas.

Adding and subtracting
 Two seasons chief operating officer of online retailer Red Envelope named here from San Francisco last fall with his wife and toddler daughter. Mr. Schmalz's mission at FAO includes offering one-stop toy shopping while maintaining the company's distinctiveness and strengthening its Internet business. To that end, he's cut down on

clutter at the flagship. He shrank about 2,000 items from the shelves, including Groovy Girls dolls, which are featured at Target. He intends to do another 2,000 after the holidays.

At the same time, FAO has added Lego products, the classic but still wildly popular mass-market toys, and offers several European-style sets exclusive to FAO in the United States. Carried in the store since the summer, the Lego line is expected to ring up sales of \$1 million by year's end.

"I don't want this to be built as an assessment park," Mr. Schmalz says. "I want to sell more toys."

The Web site is another work in progress. The site offers about 2,000 items, compared with just 900 last

year, and, along with the catalog, will generate about 40% of the company's revenue this year. Mr. Schmalz plans to use his Internet savvy to help the direct-to-consumer division contribute half of FAO's sales.

Industry insiders say the changes at FAO show innovation. But some are skeptical of the plan to open more stores in New York.

"Look at Toys 'R' Us—they bombed in Union Square," says industry consultant Christopher Byron. FAO's Fifth Avenue store is all about the big-show experience, and "if you take that away, you're just an expensive toy store," he says.

Growing sales
 Mr. Schmalz insists that he won't launch dozens of stores, just enough to woo New York residents who overlook the flagship. His other changes have already made a difference. Sales are on track to grow 35% this year, and the average sale is a respectable \$50, though Mr. Schmalz would not disclose specific financial figures.

The sharp investors at D.E. Shaw are watching closely for continued progress. "People in the turnaround business know that the turn

TOYING WITH TIME

1882	1898	2002	2003	2004	2005	2007
FAO Schwarz founded by Frederick August Schwarz in Baltimore	Moves into its current New York flagship at 767 Fifth Ave., at East 58th Street	Goes public on the New York Stock Exchange	Files for bankruptcy	Sold to D.E. Shaw & Co., which acquires two stores in New York and Las Vegas	Hires Edward Schmalz as CEO	Plans opening of two new New York stores

Nothing matches, but anything goes!