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For Immediate Release:

FAO, Inc. Sells FAO Schwarz Assets to D. E. Shaw Affiliate

King of Prussia, PA, January 26, 2004 – FAO, Inc., announced today that Judge Joel B. Rosenthal of the U.S. Bankruptcy Court, District of Delaware, has approved the sale of certain assets of its FAO Schwarz business, including its flagship store on Fifth Avenue in Manhattan, a second store in Las Vegas, and its catalog and Internet businesses, to a member of the D. E. Shaw group of companies in a transaction valued at approximately \$41 million. The sale had the support of the Company’s Official Creditors Committee as well as its lender group.

The acquirer is a wholly owned subsidiary of D. E. Shaw Laminar Portfolios, L.L.C., whose activities include the deployment of capital in connection with the restructuring of companies with valuable assets that may currently be experiencing financial distress. D. E. Shaw Laminar Portfolios is in turn a member of the D. E. Shaw group, a New York–based investment and technology development firm with approximately \$7 billion in aggregate capital.

“We are very pleased that D. E. Shaw will be the new owner of FAO Schwarz,” said Jerry R. Welch, President of FAO, Inc. “With the strategic guidance and support of the team at D. E. Shaw, we hope to reestablish the pre-eminent position of FAO Schwarz within the world of toys and create a truly extraordinary shopping experience for parents and their children.”

“FAO Schwarz is more than just a toy store,” said Dr. David E. Shaw, chairman of D. E. Shaw & Co., Inc. “It’s a cultural treasure with a great deal of meaning to millions of children and former children. We’re hoping to work closely with FAO’s management and with the Schwarz family to ensure that the remarkable institution founded some 141 years ago by Frederick August Otto Schwarz will be preserved for this and future generations of children in a form that’s faithful to its founder’s vision, and to its distinguished role in the history of toys.”

Frederick A.O. Schwarz, Jr., great grandson of the founder of the store, who now heads the F.A.O. Schwarz Family charitable foundation, said, “I am very impressed by the commitment of David Shaw and Max Holmes to restoring the unique and joyful experience of a store that is filled with distinctive, unusual and high quality toys. As a life-long New Yorker, I also believe that the aspirations of the new owners combined with the creative plan of the Macklowes should lead to a real benefit to the citizens of this city, to millions of tourists and to children, and grandchildren, everywhere. I hope to see a restoration of the image that my great grandfather, my grandfather and my father created for the store.”

Max Holmes, a managing director of D. E. Shaw & Co., L.P. and head of the firm’s distressed securities group, indicated that the acquisition was motivated in part by a belief that the value of FAO Schwarz would be maximized by a return to its earlier focus on distinctive, high-end specialty toys offered in a limited number of stores, each so captivating as to serve as a destination in its own right. “We believe this to be a case in which preserving something of historical value also represents a compelling business proposition,” commented Mr. Holmes.

“On behalf of my firm and the committee I can say that we are very pleased with the outcome of Thursday’s auction,” said Paul Traub of Traub, Bonaquist & Fox, L.L.C., counsel for the Official Committee of Unsecured Creditors. “After some very sophisticated and high-spirited bidding we ended the day with a substantial increase over the stalking horse bid, and ensured the survival of the FAO Schwarz business and the Fifth Avenue flagship store, which is near and dear to all of our hearts.”

Mr. Welch indicated that the New York and Las Vegas stores are expected to reopen after much-needed renovations, which are expected to require at least four to six months. William S. Macklowe, president of Macklowe Properties, the owner of the prominent General Motors building where the flagship FAO Schwarz store is located, said, “We look forward to the continued presence of this legendary retail institution in this icon of New York office towers.”

The Company noted that the acquisition did not change its earlier-stated position that it does not expect any recovery would be available to its common stockholders in connection with its bankruptcy.

This press release may contain certain forward-looking statements with respect to the implementation and anticipated results of FAO, Inc.’s business strategy, and the financial condition, results of operations and business of FAO, Inc., that are subject to certain risks and uncertainties that could cause actual results to differ materially from

those set forth in such statements. FAO, Inc. does not expect that any recovery will be available to its common stockholders from its bankruptcy.

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