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BREAKFAST WITH THE FOOL

Time to Put Away Your eToys

By Rick Aristotle Munarriz (TMF Edible)

It's not how you play the game; it's whether you win or lose. Online toy retailer eToys (Nasdaq: ETYS) has filed for bankruptcy. The Chapter 11 filing means the company will be liquidated in the coming weeks. Its site will close down for good on March 8, which will give the company enough time to fulfill final orders before it burns its last dollar by the end of the month.

The move does not come as a surprise. Once the company announced that its holiday sales would come in at little more than half of its original projections, it was nothing more than a waiting game. Securing financing was hard enough when a dot-com had it all together. Imagine the poor sales pitch that eToys had to make to justify missing the quarter by a country mile.

When the company went public in 1999 it became a cause celebre when its market cap went on to top leading bricks-and-mortar retailer Toys "R" Us (NYSE: TOY).

But eToys believed its own hype. The company filed suit against ETOY.com -- even though ETOY had established its domain and trademark long before eToys. eToys lost, naturally, and like a bothered bee, ETOY went on to countersue the company.

Times have clearly changed. Toys "R" Us teamed up with Amazon.com (Nasdaq: AMZN) in a well-received partnership that won over cybershoppers with free shipping and perpetual marketing through the 2000 shopping season.

Now, eToys has no choice but to give itself away. Its "Final Clearance Closeout" is well underway. While the long-term effects favor the Amazon and Toys "R" Us alliance given one less force to reckon with, that may not be the case in the near term. Just as holiday shoppers flocked to Amazon for the shipping deals, they might very well defect to eToys for their plaything needs over the next 10 closeout days.

After that, the 30% of the company's staff that wasn't let go in last month's aftermath will walk away too. "Game over" the sign might read. The company's once seemingly invincible store (until Amazon expanded to provide toy coverage) and its content sites BabyCenter.com and ParentCenter.com will be no more. It's a sad yet important case study of a company that captured the imagination and pocketbooks of investors -- but ultimately couldn't make it past its terrible twos as a public company.
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