

HEADLINERS

PlayStation 3 *continued from page 1*

result being an autumn launch in Japan and a late 2006 or early 2007 launch in the U.S.," said Merrill Lynch equity analyst Joe Osha. "Sony's design choices for the PS3 resulted in an expensive and difficult-to-manufacture product, and we think that we're seeing the consequences of those choices play out now."

The Merrill Lynch analysts estimated the cost of the PS3's Blu-ray drive at \$350, making it by far the most expensive single component in the game console.

Though other analysts have estimated the drive's price to be somewhat lower, the report highlighted the cost implications of Sony's decision to try to tie the PS3 and Blu-ray formats together into a single home entertainment platform.

Sony Computer Entertainment officials also hinted that delays in finalizing the Blu-ray technical specifications had put pressure on the PS3 timetable.

"We're waiting for them until the last possible minute, but the launch could be pushed back if they're not decided soon," an SCE spokeswoman told the *Reuters* news agency Feb. 20.

That same day, Taiwan's *DigiTimes* newspaper reported that Sony will postpone the spring PlayStation 3 launch due to "several issues with its production plans, especially concerning its inclusion of a Blu-ray Disc drive in the PS3."

The report cited Sony's "Taiwan-based contract manufacturers."

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that sandbox. There's still going to be revenue there."

Trans World is a veteran at turning around beleaguered stores, considering past Wherehouse and Florida-based Specs acquisitions.

"They'll weed out weaker stores, renegotiate [mall] leases, and hopefully this gives them additional bargaining power with the suppliers," Gomes said. "They have been good consolidators in the past. I like this deal."

The \$104 million Trans World bid could be worrisome for certain Musicland creditors, which include

major studio and indie suppliers. Sources say that Musicland owes multiples more. The top 30 unsecured creditors alone are owed nearly \$70 million.

"It's considerably less than what Musicland owes to just the secured creditors," said one studio executive. "It looks like [creditors] could wind up with a lot less than they are expecting."

Unsecured creditors, such as Ventura Distribution, Image Entertainment and Navarre Corp., can be paid only after debts are resolved with secured creditors.

By later in the week, SCE was insisting the launch would not be affected.

"This is just par for the course," an SCE spokeswoman said. "Whenever we introduce a new platform, there's always speculation about delays. You saw the same sort of thing with PSP, and it turned out to be unfounded."

Ironically, any delay in the rollout of PS3 could be a significant blow to Blu-ray, which is locked in a battle for high-definition supremacy with rival format HD DVD.

Blu-ray backers, and in particular Sony, have long touted the benefits of the format's association with the popular game platform, noting its potential to quickly drive millions of Blu-ray-equipped devices into homes.

The PS3 factor also was instrumental in persuading some studios to support the Blu-ray format.

In some cases, studios' Blu-ray release plans are tied specifically to the timing of the PS3 rollout, and a delay in the launch could lead to a change in those plans, studio sources have told VB.

Anticipating studio concerns, Sony Computer Entertainment America president Kaz Harai traveled to Anaheim, Calif., last week where the Blu-ray Disc Assn. was holding its regularly scheduled meetings.

Although Harai did not directly participate in the meetings, he huddled with senior officials from Disney, 20th Century Fox, Warner

Home Video and others to brief them on PS3 progress.

Studio sources said they were reassured by what they heard but declined to reveal what was said.

"We're not putting much stock in the Merrill Lynch report," one senior studio executive said.

To date, the only studio to announce specific Blu-ray release plans is Sony Pictures, which plans to issue its first slate of titles in May in conjunction with the introduction of Blu-ray players from Pioneer and Samsung.

Sony Pictures Home Entertainment officials said last week those plans remain on track but referred other questions to Sony Computer Entertainment.

Apart from any delays, Sony also is facing cost and pricing challenges in PS3's battle with Microsoft's Xbox 360, according to Merrill Lynch.

At \$800, PS3 component costs would be roughly \$300 per unit higher than for the Xbox 360.

The most popular configuration of the Xbox 360 is priced at \$399. Even at the higher price point, Microsoft is estimated to be losing \$130 to \$150 per unit.

Game hardware makers typically lose money on initial console sales as they try to build the market for the software.

If Merrill Lynch's estimates are correct, however, Sony could be facing a loss of as much as \$400 per unit, if it priced PS3 at \$399. If it priced PS3 higher, it could make the system uncompetitive with the Xbox 360. ■

It's unclear whether Trans World would keep the Suncoast and/or Sam Goody brands alive. There are dozens of free-standing Wherehouse outlets in the U.S. following Trans World's 2003 acquisition. But Suncoast and Sam Goody are more direct mall rivals of FYE.

"FYE. is coming off a very good year in terms of music, and Sam Goody did not," NPD president music and movies Russ Crupnick said. "Mall stores are facing increasing heat. But ultimately, it's about execution and the fact is that, at least recently, Sam Goody has struggled on execution, whereas FYE. has been improving." ■

SCENE & NOTED

SCENE: Paul Chesney has been promoted to worldwide senior VP sales and marketing at **Deluxe Media**. He was senior VP sales and marketing for Europe.

NOTED: **Movie Gallery** shares spiked briefly last week after rumors of a possible takeover or leveraged buyout that apparently were unfounded. Shares rose 52¢ in heavy trading Wednesday to close at \$3.56 but were around \$3.35 at the end of the week. Analysts said the spike was probably due to covering by short sellers and that there was no immediate buyout scenario. **Movie Gallery** didn't comment. In comparison, Blockbuster's stock price was around \$3.59 late last week. Both announce fourth-quarter earnings in March. ... **York Entertainment** has re-launched its Web site to better capture consumers. Visitors to www.yorkentertainment.com can sign up for **Movie Club**, which lets people earn monthly discounts on York releases when purchased directly from the site. Also, York is offering its content through digital download site **CinemaNow**. ... Cleveland-based digital media company **OverDrive** will begin offering free movie downloads through three public libraries next month. **OverDrive** has deals with **Image** for concert videos, documentaries and movies and with **Clearvue & SVE** for educational videos. **Overdrive** is in talks with studios to provide downloads of major films.

CORRECTION: *The Great War* is being distributed by **KochVision** (VB, 2-20).

