



TECHIE NEWS



Xbox 360 Repairs Will Cost Microsoft \$1B

[The Associated Press]

[By Jessica Mintz]

Jul. 06, 2007 | SEATTLE

(AP) - In another setback for Microsoft Corp.'s unprofitable entertainment and devices division, the company says it is planning to spend at least \$1 billion to repair serious problems with its Xbox 360 video game console.

Microsoft declined to detail the problems that have caused an onslaught of "general hardware failures" in recent months but said Thursday it will extend the warranty on the consoles to three years.

The glitches, and the bad publicity, could weigh the company down as it claws for market share in the highly competitive console market. In May, the Xbox 360 ranked No. 2 in unit sales behind Nintendo's Wii, but still beat out Sony's Playstation 3, according to data from NPD Group.

"We don't think we've been getting the job done," said Robbie Bach, president of Microsoft's entertainment and devices division, which also makes the Zune digital music player, a distant competitor to Apple Inc.'s powerhouse iPod. "In the past few months, we have been having to make Xbox 360 console repairs at a rate too high for our liking."

Bach said the company made some manufacturing and production changes that he expects will reduce Xbox 360 hardware lockups, but he declined to identify the problems or say which others might remain. Microsoft said it will record a charge of up

to \$1.15 billion for its fourth fiscal quarter, which ended June 30, to cover the additional costs associated with the warranty extension.

The news comes just days before the video game industry descends on Santa Monica, Calif., for its annual E3 conference, and it could overshadow Microsoft's plans to build buzz for holiday season video game releases and "Halo 3," a much-anticipated shoot-'em-up for the Xbox 360 set to launch in September.

The software maker also said Thursday that sales of the game console fell short of expectations for the fiscal year that just ended.

Matt Rosoff, an analyst at the independent research group Directions on Microsoft, estimates that Microsoft's entertainment and devices division has lost more than \$6 billion since 2002.

Microsoft has written down larger amounts in the past more than \$10 billion in the late 1990s related to investments in telecommunications companies, and more than \$5 billion related to antitrust issues but a \$1 billion write-down for one division in

one quarter is significant.

"It suggests the problem is pretty widespread," Rosoff said.

Microsoft will pay for shipping and repairs for three years, worldwide, for consoles that experience hardware failure, which is usually indicated by three flashing red lights on the front of the console, something gamers sometimes refer to as "the red ring of death."

This isn't the first time Microsoft has made changes to the Xbox 360 repair plan. Last December, the company extended the warranty from 90 days to one year for U.S. customers. In Europe, the warranty previously expired after two years.

Microsoft also will reimburse the "small number" of Xbox 360 owners who have paid for shipping and repairs on out-of-warranty consoles, Bach said.

In June, bloggers speculated that the Xbox 360 return problem was getting so severe that the company was running out of "coffins," or special return-shipping boxes Microsoft provides to gamers with dead



TECHIE NEWS

consoles. "We'll make sure we have plenty of boxes to go back and forth," Bach said in an interview.

Chris Liddell, Microsoft's chief financial officer, said in a conference call that the company sold 11.6 million Xbox 360 consoles since the product's November 2005 launch, missing a target for 12 million units by the end of the fiscal year.

Xbox 360 prices range from \$299 to \$479, depending on their configuration.

Microsoft's entertainment and devices division reported an operating loss of \$315 million on \$929 million in sales for the three-month period that ended in March. Microsoft has said it expects the division to post a profit in fiscal 2008.

Microsoft announced the warranty extension after markets closed Thursday. Microsoft shares fell 11 cents to \$29.88 in extended trading after falling 3 cents to \$29.99 in the regular session.

Copyright 2005 Associated Press. All rights reserved. This material may not be published, broadcast, rewritten, or distributed.

EmploymentCrossing is the largest collection of active jobs in the world.

We continuously monitor the hiring needs of more than 250,000 employers, including virtually every corporation and organization in the United States. We do not charge employers to post their jobs and we aggressively contact and investigate thousands of employers each day to learn of new positions. No one works harder than EmploymentCrossing.

Let EmploymentCrossing go to work for you.