The PS3 has been officially hacked allowing for backed up games to be played off internal or external hard drive. The original hack was released a few weeks ago as a USB dongle that mod chip suppliers were selling for $170 US. Hackers have now found a way to program their own USB dongle with the Blackcat programmable USB kit. This sells for $30-$40 depending on where you buy it.

Sony has been very proactive in patching security holes in the PS3 firmware; even going so far as to remove the *install other OS* feature which allowed users to install linux. [1]

It is unclear whether a firmware patch will fix the hole exploited by the dongle.

Sony has filed several lawsuits already against modchip sellers in Australia [2] and the US in an attempt to curb the spread of the dongle and its exploit. The lawsuit also requires the modchip sellers give all their dongle stock to Sony, presumably so they can reverse engineer the technology to patch the holes in the firmware.

Since modchips enable more than just piracy - such as homebrew applications - they remain in a legal gray area in many countries.

One of the original videos created by ozmodchips showing the dongle working. Published on Aug 18 it has already accrued 1.28 million views as of Sept. 03:

http://www.youtube.com/watch?v=4jOEbZEkp9A

1. http://games.on.net/article/10096/PS3_Other_OS_Case_Closes_-_End_Result_Predictable

2. http://www.escapistmagazine.com/news/view/103217-PS3-Mod-Chip-Banned-in-Australia