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From Snowmobiles to Cellphones, a Scramble for Parts

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By DANA MATTIOLI

Companies are reconfiguring products and paying up to stockpile parts, as persistent supply shortages in the electronics industry continued to curb sales in the second quarter.

Shortages of key electronics components such as transistors, capacitors and integrated circuits became pronounced in the first quarter, and continued in the second. Manufacturers haven't been able to ramp up supply fast enough to meet rebounding demand.



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A chip shortage is forcing Polaris to shift production to vehicles such as the electric all-terrain vehicle above.

A wide range of companies have seen sales get hit. General Electric Co. said supply constraints for electronic components used in its healthcare equipment cost the company \$50 million in sales for the quarter.

Network-equipment vendor Telefon AB L.M. Ericsson said shortages cost the company \$400 million to \$550 million in sales and delayed shipments. Royal Philips Electronics NV said shortages constrained sales in its TV and lighting businesses.

Some firms, including GE, Whirlpool Corp. and industrial products company Dover

Corp., said the shortages are easing. But for some electronic parts, the gap between supply and demand is expected to last for the rest of the year.

Polaris Industries Inc., which makes snowmobiles and ATVs, has had to curb the number of vehicles with power steering it makes while its suppliers cope with a chip shortage. Chief Executive Scott Wine said in an interview the company began feeling the chip problem in February and has been working closely with chip manufacturer Texas Instruments Inc. to come up with a solution.

TI spokeswoman Kimberly Morgan said, "We are aware of the issue with Polaris and working very hard with them to address the issue, but demand is still high." Part of the problem, Mr. Wine said, is that both his industry and the auto business rebounded faster than expected, and both are competing for the same chips.

In the meantime, Mr. Wine said Polaris has shifted production to products without power steering while it

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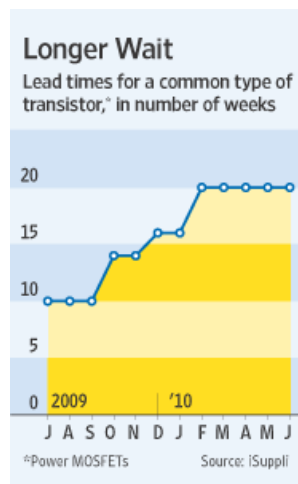
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| Motorola Inc.(MOT) | 7.50 | ▼-0.29 | 12:18a.m. |
| Telecom Italia S.p.A. ADS(TI) | 13.11 | ▼-0.43 | 12:19a.m. |
| Dover Corp.(DOV) | 46.23 | ▼-1.29 | 12:18a.m. |
| General Electric Co.(GE) | 15.11 | ▼-0.59 | 12:18a.m. |
| Sony Corp. ADS(SNE) | 29.71 | ▼-0.17 | 12:18a.m. |

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waits for chip availability to return to normal levels, expected in September or October.

Motorola Inc. co-CEO Sanjay Jha, said the communications giant is scrambling. "We're in a constrained environment," he said in an interview.

The cellphone maker used a different type of touch screen with its new Droid X smartphone, in part in anticipation of short supplies of an alternative technology.

Lead times have been building for the past 12 months for certain key components, according to research firm iSuppli Corp. Waits for four types of transistors, for instance, which direct the flow of electrical currents and are used in everything from cars to handsets to washer-dryers, ranged between six and ten weeks in July last year, iSuppli says. Now waits last 18 to 20 weeks—a level where they're expected to stay for the rest of the year.

One beneficiary of the shortages is Fusion Trade, an independent distributor of electronic parts and components. Sales are up 120% compared with last year, and are on track to exceed \$300 million for the year as more technology and manufacturing firms look to the Andover, Mass.-based distributor for components. Normally the firm has about 500 to 700 customers a month; now it's closer to 1,000, said its chief operating officer, Paul Romano.

Mr. Romano said capacitors and diodes are the most sought-after components. As a result of shortages, the prices he pays to procure those items have increased anywhere from 50% to 500%. Capacitors that cost 25 cents a year ago now go for up to \$1.50 or higher, he said.

Companies that use hard-to-find components are looking for their own fixes. Cellphone maker HTC Corp. in April began noticing supply constraints for active-matrix organic light-emitting diodes, or AMOLEDs, which it uses in the displays of many models.

In response, HTC found a comparable technology from Sony Corp. called Super LCD that it will use in HTC Desires and Nexus Ones sold later this year.

The Super LCDs will alleviate some of HTC's supply woes, said Martin Fichter, vice president of product management and planning. He said the differences between AMOLED and Super LCD were nominal. A spokesman declined to comment on price.

Hans Vestberg, chief executive of Ericsson, said in an interview he expects gradual improvement in the supply in the third quarter. He believes the networking-gear maker is handling the shortage issue well, but admitted that the company has been unable to deliver on commitments and prior delivery dates, creating a back-up in all its other products.

An Ericsson spokeswoman said the company is also starting to redesign certain network equipment to decrease its reliance on hard-to-find components. She wouldn't specify further.

Components makers are working to ramp up supply but some are benefiting from high demand for their products in the meantime. Samsung Electronics Co., one of the world's biggest manufacturers of LCD screens used in cellphones, saw second-quarter profit increase by 83% to about \$3.6 billion. The company's LCD screen division registered a 31% increase in sales.

Texas Instruments revenue increased 42% in the second quarter, driven by demand for communications gear and industrial equipment.

The firm added manufacturing capacity during the downturn, says a spokeswoman, helping it meet demand better than some of its competitors.

—Roger Cheng and Paul Glader contributed to this article.

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