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THE WALL STREET JOURNAL.

WSJ BLOGS



• October 8, 2012, 3:33 AM

Why There May Be an iPhone 5 Shortage

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Apple's iPhone 5, drawing a crowd

There's no doubt initial demand for [Apple AAPL -1.86%](#)'s iPhone 5 has been strong. After all, Apple said it sold more than 5 million new iPhones in just three days after its Sept. 21 launch.

But developments at component suppliers in Asia indicate some Apple fans might have to wait a bit longer to get their hands on the latest smartphone from the Cupertino, Calif. company.

Labor disputes at Apple's major assembler in Asia, Hon Hai Precision Industry, escalated over the weekend. [The Wall Street Journal](#) reported that new disputes erupted among workers at the Chinese factory that makes the iPhone, but Hon Hai, which uses the trade name [Foxconn 2038.HK +3.40%](#), denied the disputes led to work stoppages. [China Labor Watch](#), a U.S.-based Chinese labor-rights organization, says that as many as 4,000 workers at a factory assembling the iPhone 5 went on strike, leading to a disruption in production for a full day. This isn't the first time the Apple assembler has had to deal with labor strife. Last month, a fight at a northern China factory campus owned by [Hon Hai](#) escalated into a riot leading to 40 injuries. These labor disputes threaten to undermine Hon Hai's production as it moves to meet demand from Apple ahead of the busy holiday season.

Some analysts are pointing to a potential shortage of a particular chip used to store data in iPhones called NAND flash memory. These chips store data in almost every consumer-electronic gadget, even when a device is switched off. According to Taiwan-based [online chip clearinghouse DRAMeXchange](#), NAND prices have been spiking over the past few weeks—by

as much as 11%—because of strong demand from consumer electronics makers. Apple relies on several manufacturers to secure memory chips, including rival [Samsung Electronics 005930.SE +0.07%](#) and [SK Hynix 000660.SE +0.21%](#), but if there were a severe shortage of the chips, Apple would have to scramble to find another supplier. Apple has already been [shifting some memory-chip orders for its iPhone 5](#) from Samsung to other Asian chip suppliers. Even though Samsung has about a 40% market share in NAND flash memory chips, the company is also trying to use the same components in its smartphones and tablets, so there is less to go around.

The iPhone 5 uses a new display technology called “in-cell” that enables the screen to be thinner than older versions. But suppliers of in-cell technology displays in Asia—mainly LG Display, Sharp and Japan Display—say these components are more difficult to manufacture than conventional ones. Japan’s Sharp, for one, only just started [shipping the screens for the iPhone 5 last month](#) after citing manufacturing difficulties for the delay. Samsung uses a different display technology called AMOLED, so there are fewer suppliers for in-cell displays.