

# *Supply Chain Brief*

A Discussion of Q1 2025 Cases and Legislation Impacting  
Supply Chains



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## ***Presenters***



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# *Agenda*

- General overview of Q1 cases and legislation impacting global supply chains
- Deeper dive into six Q1 cases touching on commercial contracts, ESG and sustainability, and securities
- Deeper dive into Q1 supply-chain-related legislation including tariffs
- Questions

## *Common Q1 Themes*

We continue to see certain common themes from 2024 spilling over into 2025 along with some new developments, namely:

- Potential liability for failure to address commercial contracts in a comprehensive, coordinated manner
- Potential liability for the failure to discuss supply chains responsibly when speaking publicly
- Supply chains as a target for competitors, class action lawyers, and regulators
- Ongoing disruptive forces such as geopolitical conflict, national disasters, and tariffs

## Select Q1 Contract Caselaw

- *Arrow Elecs., Inc. v. Quantum Corp.*, 2025 U.S. Dist. LEXIS 11067 (N.D. Cal. Jan. 21, 2025).
- *Bon Appetit Danish, Inc. v. Delta Sys. & Automation, LLC*, 2025 U.S. Dist. LEXIS 53233 (C.D. Cal. March 10, 2025) .
- *Lucent Trans Elecs., Ltd. v. Xentris Wireless, LLC*, 2025 U.S. Dist. LEXIS 50092 (N.D. Ill. March 19, 2025).

## *Arrow Elecs., Inc. v. Quantum Corp.*

- United States District Court for the Northern District of California partially granted the defendant's motion for summary judgment and denied plaintiff's cross-motion for summary judgment.
- Alleged breach of a supply contract where Arrow and Quantum entered into a Master Agreement on September 30, 2020, and an alleged Addendum on June 4, 2021, governing their supply relationship.
- Quantum provided forecasts to Arrow of its projected product needs. Arrow ordered and held inventory based on Quantum's forecasts. Quantum later reduced its forecasts and did not purchase the inventory Arrow had ordered from Arrow's supplier.
- Arrow claimed over \$4 million in damages relating to the unpurchased inventory. The court found several factual issues and held the case for trial.
- Companies should take care to be specific about what forecasts represent and should also take care to understand that trade usage, course of performance, and course of dealing can impact what the plain and unambiguous language of a contract means under the UCC. Ambiguity is not necessarily required for courts to admit this sort of evidence under the UCC, which is why it is important to train front-line procurement and sales professionals on contractual terms and company expectations.

## ***Bon Appétit Danish, Inc. v. Delta Sys. & Automation, LLC***

- United States District Court for the Central District of California granted defendant's motion for summary judgment as to fraudulent inducement but denied cross-motions for summary judgment as to breach of contract.
- The defendant had stated that its proposed timelines for delivery were achievable, despite ongoing supply chain delays related to the COVID-19 pandemic.
- At the same time, the defendant was also warning of potential delays, noting that "supply chain delays of certain components may increase the lead time of equipment orders." The court found that these inconsistencies did not amount to evidence of negligent or intentional misrepresentation.
- While breach of contract remained a question of fact for a jury, Bon Apetit had not produced sufficient evidence to create a question as to whether the defendant simply prioritized other contracts over plaintiff's or truly could not perform due to force majeure.
- Takeaways: companies must take care to ensure contracts contain clear force majeure provisions, that all communications around force majeure are consistent and truthful, and that conditions of force majeure are truly met.

## *Lucent Trans Elecs., Ltd. v. Xentris Wireless, LLC*

- United States District Court for the Northern District of Illinois granted summary judgment and found that Lucent successfully established breach of contract when Xentris ordered Lucent to stop production without proper notice and opportunity to cure
- Xentris claimed it could not honor its purchase orders with Lucent because Lucent's retail partner was experiencing a sales slowdown
- The court found that a lack of demand from a customer down the supply chain did not justify stopping production under the supply contract at issue
- Companies should dig deeper into the supply chain to harmonize supply agreements with customer contracts and suppliers' procurement contracts and train front-line supply chain employees on key contract terms including the bounds of their authority to alter any contract terms.



## *Contract Takeaways*

- Take a **comprehensive, consistent, coordinated** approach to supply chain contracts – i.e., a **programmatic approach**
- Good documentation can only take you so far – **train front-line employees** on supply chain contracts and company expectations, e.g., how to perform due diligence up and down the chain as much as possible, how to respond to force majeure, how to behave responsibly and in line with contractual terms

## ***Select Q1 Non-Contract Case Law***

- *Ryan v. FIGS, Inc.*, 2025 U.S. Dist. LEXIS 5329 (C.D. Cal. Jan. 10, 2025).
- *Spence v. Am. Airlines, Inc.*, 2025 U.S. Dist. LEXIS 11725 (N.D. Tex. Jan. 10, 2025).
- *Gyani v. Lululemon Athletica Inc.*, 2025 U.S. Dist. LEXIS 29310 (S.D. Fla. Feb. 18, 2025).

## *Ryan v. FIGS, Inc.*

- United States District Court for the Central District of California partially dismissed a securities fraud complaint against FIGS, Inc with prejudice; however, the court also allowed amendment of certain claims and allowed others to progress to discovery
- Plaintiffs alleged FIGS, Inc. made misrepresentations to the public regarding its supply chain management capabilities - specifically, that defendants “engaged in a scheme to artificially inflate FIGS’ share prices by misrepresenting to the public that FIGS possessed and used advanced data analytics and ‘unique inventory and supply chain management capabilities.’ ... [which] were allegedly touted as ways FIGS could weather macroeconomic pressures and provide insight into possible market behavior”
- Takeaways: companies should take care to train executives and other employees on how to responsibly discuss supply chain management capabilities with investors and the public

## *Spence v. Am. Airlines, Inc.*

- United States District Court for the Northern District of Texas partially granted plaintiff's motion for summary judgment and found that American Airlines breached its fiduciary duty of loyalty under ERISA by allowing ESG concerns to unduly influence retirement plan investment and management
- The court found that pursuing socio-political outcomes rather than exclusively financial returns, i.e., ESG investing, violated ERISA
- Takeaways: companies should take care when deciding whether and to what degree it will incorporate ESG investing into its business practices, particularly where fiduciary duties to shareholders or others are involved

## *Gyani v. Lululemon Athletica Inc.*

- United States District Court for the Southern District of Florida granted defendant's motion to dismiss plaintiffs' unfair trade practices claims without prejudice.
- Plaintiffs alleged that Lululemon made several direct environmental claims about the company's products and actions that were false, deceptive, and/or misleading, e.g., "[o]ur lives are one with the health of the planet. Our products and actions avoid environmental harm and contribute to restoring a healthy planet," and "[b]y adopting and evolving practices and mindful solutions, we enhance the products we offer and contribute to restoring the environment."
- Plaintiffs asserted claims under Florida, California, and New York unfair trade practices statutes and under common law for unjust enrichment. The Court dismissed the Complaint for lack of standing finding no factual connection between the value of Lululemon's products and the alleged misrepresentations.
- The court explained that plaintiffs' subjective beliefs about paying a price premium due to the allegedly false statements were insufficient grounds for standing. The court also found plaintiffs' allegations of wanting to purchase products in the future only "if" certain conditions are met to be insufficient to establish a threat of imminent injury for injunctive relief.
- Takeaways: even though the court dismissed the Complaint due to lack of standing, companies should still take care to thoroughly vet the veracity of environmental and sustainability claims made in marketing and advertising materials.

## *Key Non-Contract Takeaways*

- Companies must not misrepresent their supply chains to constituents, e.g., customers, investors, regulators, etc
- Companies should train executives and other front-facing employees about how to discuss supply chains responsibly
- Companies should thoroughly vet all packaging, marketing, advertising, and investment materials for accuracy
- Companies should take care to understand how much it can rely on ESG when making decisions governed by fiduciary duties

# Select Q1 Legislation

- **UNITED STATES TARIFFS**

- **Key Tariff Measures:**

- **Universal 10% Tariff:** On April 2, 2025, Trump declared a national emergency and announced a 10% tariff on nearly all imports, effective April 5. This move aimed to address the U.S. trade deficit and was described as a step toward economic independence.
    - **Escalated Tariffs on China:** The administration increased tariffs on Chinese goods to 145%, prompting China to retaliate with 125% tariffs on U.S. products and restrictions on rare-earth exports, essential for high-tech industries.
    - **Sector-Specific Tariffs:** Additional 25% tariffs were imposed on steel, aluminum, and automobiles, with stricter rules on domestic sourcing to attain duty-free status. (More on that on the next slide)
    - **Trade Tensions with Canada and Mexico:** In early 2025, tariffs of 25% were placed on most goods from Canada and Mexico, excluding energy exports. These measures were justified under national security concerns related to drug trafficking and immigration.
    - **Reciprocal Tariffs:** On April 2, 2025, the administration announced reciprocal tariffs on several countries intended to remedy trade deficits with those countries. On April 9, 2025, the administration announced that the imposition of those tariffs would be delayed for 90 days until July 2025 to allow countries to take measures to address the issue and to engage with the administration to try to make a deal.

# Select Q1 Legislation

- **UNITED STATES TARIFFS**

- **Key Tariff Measures:**

- **Automotive Tariff Rollback:** On April 29, 2025, President Trump issued an executive order resulting in a partial reversal of automotive sector tariffs. The 25% tariff on imported cars will continue, and a new 25% tariff on auto parts will go into effect this weekend, as previously announced. But there's some new fine print.
      - The new actions Trump signed allow reimbursements for domestic car producers importing car parts, which will be subject to 25% tariffs starting May 3. The maximum reimbursement will be 3.75% of the value of domestically produced cars. The cap will decrease to 2.5% for the second year and be phased out entirely thereafter.
      - In this latest partial reversal of tariff policies, the President agreed to give carmakers two years to boost the percentage of domestic components in vehicles assembled domestically.
      - It will allow them to offset tariffs for imported auto parts used in U.S.-assembled vehicles equal to 3.75% of the total value of the Manufacturer's Suggested Retail Price of vehicles they build in the U.S. through April 2026, and 2.5% of U.S. production through April 30, 2027.



# Select Q1 Legislation

- **UNITED STATES TARIFFS**

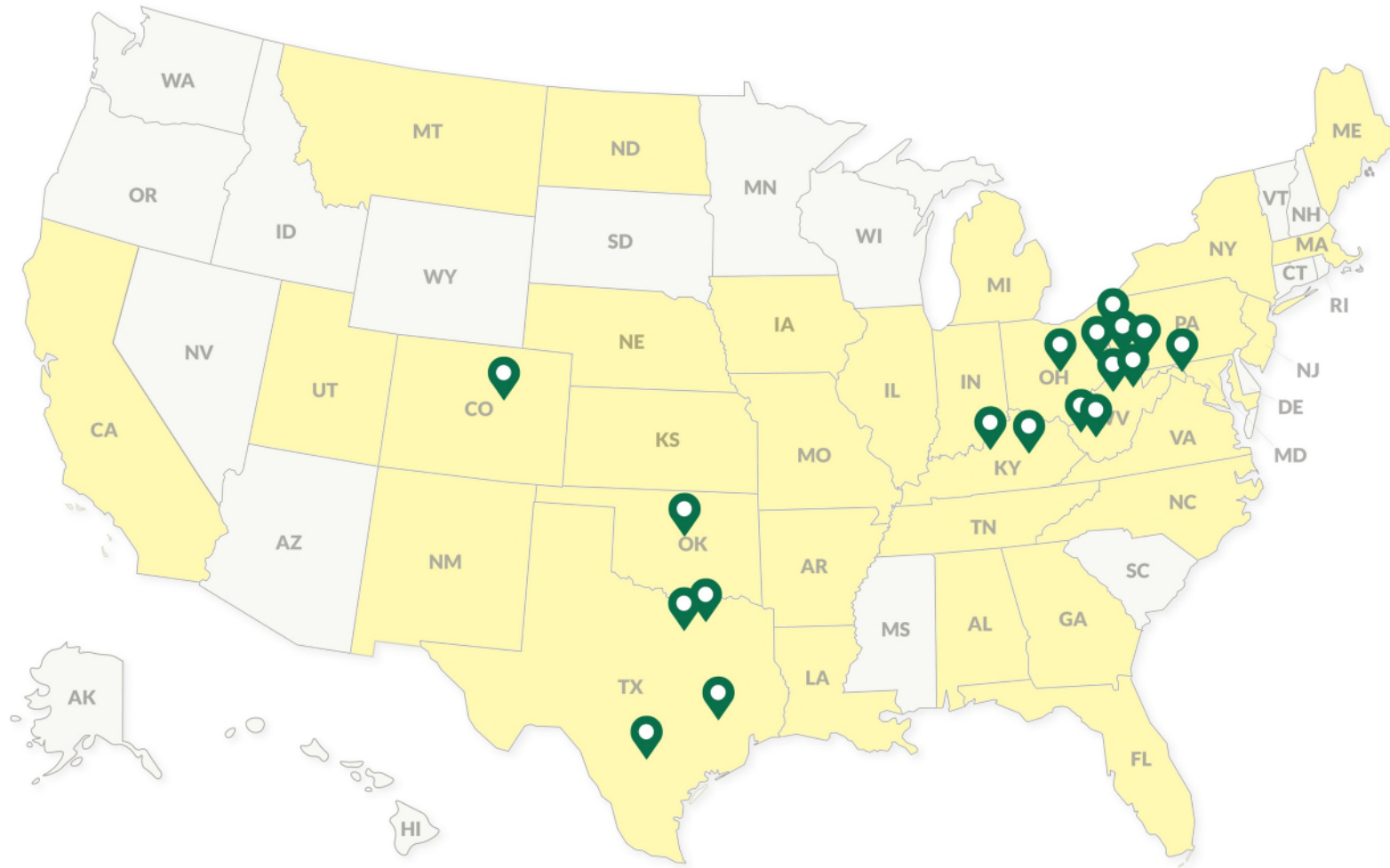
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      - The changes would also shield auto manufacturers from facing multiple auto-related tariffs. Instead, they will only be subject to the highest tariff associated on whatever they're importing. That means, for instance, they could end up paying a 25% tariff on a car part and not additional 25% tariffs on the steel and aluminum used in them.
      - Cars containing a combined 85% of parts that comply with the United States-Mexico-Canada Agreement and produced domestically effectively won't face any tariffs.
      - However, Trump stressed that the executive order provides only a temporary break to auto companies, allowing them more time to re-shore their manufacturing capabilities.

## *Select Q1 Legislation*

- **Supply Chain Effects:** While it is impossible to know just how the current tariff measures will unfold or exactly how they will affect global supply chains, one can make certain predictions based on what happened following the tariffs implemented during Trump's first administration.
  - **Possible Supply Chain Reconfiguration**
    - Diversification away from China
    - Nearshoring and reshoring
  - **Almost Certainly Increased Costs**
    - Higher input prices
    - Complex logistics
  - **Potential Retaliation and Uncertainty**
    - Trade wars
    - Business uncertainty
  - **Inventory and stockpiling**
    - Stockpiling ahead of tariffs
    - Shift in inventory strategies
  - **Strategic Supply Chain Shifts**
    - Focus on resilience
    - Digitalization and transparency

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- The Woodlands, TX
- Wheeling, WV

## Attorney Licensure

*Questions?*



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