

Delaware Court Reinforces Limits of Integration Clauses in *Cytotheryx*



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On October 16, 2024, in [Cytotheryx, Inc. v. Castle Creek Biosciences](#) (*Cytotheryx*), the Delaware Court of Chancery underscored the limitations of integration clauses in merger agreements in barring claims based on extra-contractual assurances and allowed fraud and promissory estoppel claims based on a buyer's oral assurances to survive a motion to dismiss. The holding in *Cytotheryx* aligns with the Chancery Court's ruling earlier this year in [Trifecta Multimedia Holdings, Inc., et al. v. WCG Clinical Services LLC](#) (*Trifecta*). In *Trifecta*, the Chancery Court reached a similar conclusion where a buyer's alleged promises to support the target's business post-closing induced a seller to enter into a purchase agreement. These recent decisions further the view that reliance on integration clauses alone will likely be inadequate in the face of alleged verbal assurances regarding post-closing actions, especially when the claims are not directly contradictory to the representations made in the purchase agreement.

The *Cytotheryx* litigation arose from the failure of Castle Creek Biosciences, a late-clinical stage cell and gene therapy company, to undertake a contractually required stock redemption following Castle Creek's 2021 acquisition of Novavita Thera, Inc., a then-subsiary of *Cytotheryx*. As consideration for the sale of Novavita, *Cytotheryx* received a combination of cash and redeemable preferred shares of Castle Creek. The preferred shares were subject to a put right which, if exercised, required Castle Creek to redeem the stock to the extent the redemption did not violate Castle Creek's governing documents or credit agreement. During merger negotiations, Castle Creek executives allegedly assured *Cytotheryx* that any obstacles to obtaining lender approval for the redemption had been removed. Following consummation of the merger, *Cytotheryx* exercised its put right on the preferred shares and, at that time, Castle Creek cited prohibitive language in its credit agreement and informed *Cytotheryx* that Castle Creek's lenders refused to consent to the redemption. *Cytotheryx* filed suit, alleging fraud and promissory estoppel due to Castle Creek's false representations, which *Cytotheryx* alleged were made with the intent to induce *Cytotheryx* to enter into the merger agreement and to accept preferred shares as consideration for the sale of Novavita. Castle Creek argued that the integration clause in the merger agreement encompassed the entirety of the parties' understanding and thereby precluded reliance by *Cytotheryx* on Castle Creek's alleged assurances.

The integration clause at issue in *Cytotheryx* provides in pertinent part:

This Agreement, together with the Exhibits and Annexes hereto, and the Disclosure Letters and the other Transaction Documents, contains the entire understanding of the parties hereto with respect to the subject matter contained herein and supersedes all prior agreements and understandings, oral and written, with respect hereto.

In its opposition to *Cytotheryx*'s claims, Castle Creek largely relied upon the Chancery Court's 2014 decision in [Black Horse Capital v. Xstelos Holdings](#) (*Black Horse*), which enforced a contractual integration clause to bar reliance on extra-contractual statements. Judge Vivian Medinilla (presiding over the *Cytotheryx* case by designation of the Chief Justice) distinguished the *Cytotheryx* case from *Black*

Horse, pointing out that while the alleged misrepresentations in *Black Horse* directly contradicted the contract and the integration clause, the alleged statements made by Castle Creek regarding lender approval did not. Furthermore, unlike in *Black Horse* where the alleged misrepresentations occurred only before the contract containing the integration clause was executed, in *Cytotheryx* the alleged statements at issue were made both prior to and more than a year after the closing, facts that Justice Medinilla noted implied an ongoing obligation.

The Chancery Court noted that while Delaware law allows parties to contractually limit reliance on extra-contractual statements through integration clauses, it also sets a high bar for excluding fraud claims. Absent a clear statement disclaiming reliance on a fraudulent statement, “Delaware law does not protect a defendant from liability” for fraud. In *Cytotheryx*, Judge Medinilla found that no such statement was made by Cytotheryx, and as such, even if the integration clause could supersede extra-contractual statements, it did not bar a fraud claim. Moreover, the merger agreement explicitly preserved Cytotheryx’s right to bring an action for fraud “relating to the representations, warranties, and covenants contained in” the agreement. Accordingly, the *Cytotheryx* court concluded that such an unambiguous preservation of fraud claims, combined with Castle Creek’s post-closing statements, warranted a rejection of Castle Creek’s motion to dismiss despite the integration clause. Because the promissory estoppel claim was “based on the same alleged material misrepresentations” as the fraud claim, and the promissory estoppel claim was equally conceivable, the Chancery Court found the plaintiff had alleged sufficient facts for both claims to survive the motion to dismiss.

The *Cytotheryx* ruling serves as a reminder for parties engaging in strategic transactions to carefully consider the implications of extra-contractual assurances and to exercise caution in relying solely on integration clauses to cleanse potential problematic discussions and to insulate against fraud and estoppel claims. The decision sheds light on the limitations of integration clauses and suggests that Delaware courts may allow extra-contractual claims to survive in the face of an integration clause in certain circumstances.