

Integration Clause Without Anti-Reliance Provision Precludes Fraud Claims Where Extra-Contractual Misrepresentation Directly Conflicts With Express Contract Term

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In *Park7 Student Housing, LLC v. PR III/Park7 SH Holdings, LLC*, the Delaware Court of Chancery held that a purchase agreement's integration clause, which lacked anti-reliance language, barred the buyer's fraudulent inducement claim based upon extra-contractual statements — that is, statements other than those in the purchase agreement itself — where the purchase agreement contained a term that contradicted the allegedly fraudulent extra-contractual statements.

Facts

The parties were members of a joint venture, whereby the plaintiffs (buyer) entered into a membership interest purchase agreement with the defendants (seller) to buy out the interests of another member. Under the joint venture agreement, the buyer had a right of first refusal (ROFR) to purchase properties held by the joint venture. The terms of the purchase agreement, however, waived the buyer's pre-existing ROFR and instead required the buyer to obtain consents from certain mortgage lenders for the properties by a specified outside consent date. Recognizing that the consents could take time to obtain, the purchase agreement provided the buyer a "one-time right to extend" the outside consent date. The purchase agreement included an integration clause stating that "[t]his [purchase] [a]greement supersedes all prior agreements between the Parties with respect to the subject hereof and all discussions, understandings, offers, and negotiations with respect thereto, whether oral or written." The purchase agreement did not include an anti-reliance provision.

As anticipated, obtaining the required lenders' consents took time, prompting the buyer to exercise its option to extend the outside consent date. The parties subsequently agreed to five more extensions, but when the buyer sought a sixth, the seller terminated the purchase agreement and executed a letter of intent to sell the properties to a third party. The buyer filed suit and claimed in its amended complaint that it was fraudulently induced to enter into the purchase agreement and waive its pre-existing ROFR based on the seller's pre-contractual representation that, if the buyer diligently pursued the required consents, the seller would grant as many extensions of the outside consent date as needed for the buyer to secure approval.

The seller moved to dismiss the buyer's fraudulent inducement claim, arguing that any extra-contractual representation that the seller would provide unlimited extensions was barred because it directly conflicted with the express "one-time right to extend" the outside consent date in the purchase agreement.

Holding and Takeaways

The court granted the seller's motion to dismiss, finding the buyer could not satisfy one element of the fraudulent inducement claim, justifiable reliance. Generally, to preclude a fraudulent inducement claim based on the defendant's pre-contractual statements, Delaware law requires specific and unambiguous anti-reliance language. Usually, an integration provision without anti-reliance language fails to obviate a fraud claim. However, where the extra-contractual misrepresentation directly conflicted with an express term in the contract, the court found that an integration clause functions to preclude a fraud claim. The court reasoned that the result comes from the parol evidence rule, where evidence of a prior contradictory agreement cannot be considered to modify the terms of the integrated contract, with the integrated contract superseding the terms of any prior agreement covering the same subject matter. Thus, the buyer could not plead justifiable reliance on those conflicting and superseded pre-contract extra-contractual statements.

This decision is important to corporate attorneys and parties to purchase agreements, as it clarifies Delaware's law on the drafting requirements to bar fraud claims based on extra-contractual statements. Parties should ensure that any critical pre-contract assurances are memorialized in the final agreement, as prior promises inconsistent with an express term in the contract will not be enforceable. An anti-reliance clause is required to bar all fraud claims based on extra-contractual representations, but an integration clause alone suffices when the alleged misrepresentation directly contradicts the contract.

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