

A yellow triangle pointing downwards, located to the left of the text.

BLOGS
Bankruptcy

Discharge Injunction Does Not Prohibit Enforcement of Valid Non-Competition Clause

In *In re Quattrin*, 2011 Bankr. LEXIS 1941 (Bankr. N.D. Cal. May 26, 2011), the debtor was a franchisee in the Total Car Franchising Corporation (“Total Car”) system at the time he filed for bankruptcy. During the bankruptcy case, the franchise agreement was terminated. The debtor subsequently received his bankruptcy discharge, which gave rise to the discharge injunction against the collection of discharged debts. Total Car thereafter sought to enforce its post-termination remedies under the franchise agreement, including enforcement of the two year non-competition clause.

The debtor alleged that Total Car’s efforts to enforce the non-competition clause violated the discharge injunction, and sought declaratory relief that his obligations, including the non-competition clause under the franchise agreement, were discharged. The court noted that some bankruptcy courts had held that non-competition obligations could be discharged in bankruptcy. In the absence of any binding precedent in the Ninth Circuit, however, the court adopted the analysis of two circuit court decisions holding that non-competition obligations cannot be discharged in bankruptcy. Those decisions reasoned that a right to injunctive relief does not fall under the Bankruptcy Code’s broad definition of a “claim” or a “debt” and, therefore, that a right to injunctive relief against a debtor is not discharged in bankruptcy. Ultimately, the court held that, to the extent enforceable under state law, the non-competition clause in the Total Car franchise agreement was not discharged by the debtor’s bankruptcy discharge, and that Total Car had not violated the discharge injunction.