

Carter Ledyard Client California Franchise Tax Board Successfully Defends Against Claim of Contempt and Thwarts Injunction

September 10, 2015

On September 8, 2015, the New York Supreme Court, Westchester County, ruled in favor of Carter Ledyard client, the California Franchise Tax Board ("FTB"), denying a petition and motion for contempt and for permanent injunctive relief in its entirety, in connection with a \$55 million income tax dispute in California. The underlying dispute dates back over twenty years, when FTB's tax audit determined that Gilbert Hyatt ("Hyatt") owed millions in state taxes, penalties, and interest relating to the tax years 1991 and 1992. In connection with Hyatt's appeal to the California State Board of Equalization, FTB sought and obtained documents via subpoena from New York resident Philips Corporation relating to, among other things, revenue Hyatt earned pursuant to patent license agreements with Philips. FTB obtained documents from Philips despite Hyatt commencing proceedings in New York to prevent the discovery, including a motion to quash the subpoenas, an appeal to the Second Department, and a motion to suppress certain documents.

In the instant proceeding, Hyatt claimed that FTB was in contempt for using Philips documents in the California tax appeal proceeding in alleged violation of prior orders of the New York courts. Hyatt also sought permanent injunctive relief requiring FTB to withdraw its recent evidentiary submission in the California tax appeal. In denying Hyatt's petition and motion entirely, the Court agreed with Carter Ledyard and found that Hyatt failed to show the requisite prejudice or irreparable harm warranting an order of contempt or injunctive relief. Carter Ledyard attorneys Judith Lockhart, Matthew Dunn, and Leonardo Trivigno represented FTB, with Ms. Lockhart and Mr. Dunn arguing the case, and Mr. Trivigno assisting with the briefs.

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