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Lottery entitled to immunity defense

High court splits 4-3 in upholding decision finding Georgia Lottery was created to serve government function

By Kathleen Baydala Joyner, Staff Reporter

A divided state Supreme Court on Monday ruled that the Georgia Lottery Corp. is entitled to sovereign immunity from tort claims as a government institution.

The 4-3 opinion, written on behalf of the majority by Justice Harold D. Melton, was a narrow win for state government and upheld a June 2010 Court of Appeals decision that found the Georgia Lottery Corp. was created by the Legislature to serve a government function and thus was protected from a 2008 trademark infringement suit.

"Because sovereign immunity applies to state instrumentalities, [the lottery corporation] is entitled to assert sovereign immunity as a defense in this case," wrote Melton, who was joined by Chief Justice Carol W. Hunstein and Justices P. Harris Hines and David E. Nahmias.

Melton said the court ruling stemmed from two previous cases on sovereign immunity—Miller v. Georgia Ports Authority, No. 266 Ga. 586, from 1996, and Youngblood v. Gwinnett Rockdale Newton Community Service Board, 273 Ga. 715, from 2001. They asserted, respectively, that the Ports Authority and community service boards were state agencies and entitled to sovereign immunity.

Melton also referred to a 1991 state constitutional amendment that extended sovereign immunity to state institutionalities, as well as agencies.

A dissent by Justice Hugh P. Thompson disagreed with the majority's analysis of the 1991 constitutional amendment and the Miller and Youngblood cases. Instead, Thompson—joined by Presiding Justice George H. Carley and Justice Robert Benham—wrote that the court should have looked to Thomas v. Hospital Authority of Clarke County, No. 264 Ga. 40 (1994) as more analogous to the lottery case.

"There we looked at the functions that the hospital authority carried out to determine whether, as an instrumentality of the state, it was entitled to sovereign immunity. … We concluded that those functions 'are simply not the functions which the doctrine of sovereign immunity was designed to protect,' nor would application of the doctrine be necessary to protect the public purse. The same applies here," Thompson wrote.

The high court review stems from a 2008 trademark infringement suit filed by two men, George Kyle and Frank Mankovitch, against the Georgia Lottery Corp. and Scientific Games International, the company that printed tickets for the lottery corporation.

In 1995, Kyle created a game called "MONEYBAG$" that consisted of a velvet bag and numbered wooden tiles and then registered a trademark for it. However, Kyle was unsuccessful at marketing his game and sold fewer than 50 from 1995 to 2005, according to the majority decision.

The Georgia Lottery Corporation had run a "MONEY BAGS" game from 1994 to 1996 and decided to renew it in 1999.

Before Scientific Games printed the tickets, it searched for registered trademarks and found Kyle's. In 2000, Scientific Games obtained Kyle's consent for the one-time use of the "MONEYBAG$" trademark to print up to 14 million tickets. In 2002, Scientific Games again obtained consent from Kyle to print another 20 million tickets using the trademarked name.

But in 2005 and 2007, the Georgia Lottery Corp. again ran "MONEYBAG$" scratch-off games. But Scientific Games did not obtain consent from Kyle, who had sold exclusive marketing and distribution rights to Mankovitch in 2006, according to the majority opinion.

Kyle and Mankovitch sued the Georgia Lottery Corp. and Scientific Games in 2008 in Fulton County Superior Court for trademark infringement, deceptive trade practices and breach of contract. They sought to recover about $5 million—the amount of profit from the 2005 and 2007 lottery games.

But the court dismissed their suit for lack of subject matter jurisdiction based on the Georgia Lottery Corp.'s sovereign immunity defense. Alternatively, the judge granted summary judgment to the lottery and Scientific Games on the trademark claims.

Two years later, the Court of Appeals upheld the trial court decision. On Jan. 18 of this year, the state high court granted the writ of certiorari.

The attorney for Kyle and Mankovitch, A. Todd Merolla of Merolla & Gold, said Monday that his clients are strongly considering filing a motion for reconsideration, given the three dissenting judges' beliefs that the Georgia Lottery Corp. was established as an entrepreneurial enterprise and not as a state agency. The filing deadline for reconsideration is Dec. 1.

"The Georgia Lottery Corporation's main goal is to go out there and make money," Merolla said. "It's allowed to pay itself a percentage of what it brings in as administrative expenses."

But attorneys for the Georgia Lottery Corp. and Scientific Games have contended that, by definition, state institutionalities can do things that state agencies cannot, such as enter into multiyear contracts, borrow money and carry debt.

While institutionalities and agencies have different abilities, the 1991 amendment to the Georgia Constitution includes state institutionalities among entities granted sovereign immunity unless the state General Assembly specifically waives their sovereign immunity and that exemption is stated in the state code, the appellees' attorneys argued.

Lead attorney Mark S. VanderBroek of Troutman Sanders and assistant attorneys general laid out in a Feb. 28 brief several reasons the Georgia Lottery Corp. is considered governmental in nature: Its primary purpose is to support state education programs; its board of directors is appointed by the governor; it is required to transfer all net proceeds to the state treasury; it is accountable to the General Assembly and the public through regular audits; it may not incur debt without the State Financing and Investment Commission's approval.

The case was one of first impression regarding Georgia's trademark law. While the requirement of a bona fide use of a trademark before claiming infringement is not new, it is not expressly in the state law.

"The requirement, as the Court of Appeals correctly observed, is contained in the federal statutory trademark scheme," Melton wrote in the majority opinion. "Nonetheless, the Court of Appeals went on to 'adopt federal precedent.' … We do not view the 'bona fide use' of a trademark as interpreted by the Court of Appeals to be improper judicial construction. … Interpreting OCGA §10-1-440(b) to contain a bona fide use requirement is neither inconsistent with the statutory definition nor does it improperly expand the application of the statute."

VanderBroek said the reason for the requirement is to prevent trademark squatting.

"You don't want people to be able to go out there and reserve a trademark without going into the marketplace and using it," he said. "We don't believe [Kyle and Mankovitch] had evil intent; they hoped to be able to sell their product, but they were really unsuccessful in ever being able to do that."

VanderBroek also said the high court's decision should "put to rest" the question about good faith use.

The case is Kyle v. Georgia Lottery Corp., S10G1808.