JS-6

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	CV 12-04229 RGK (FFMx)	Date	September 18, 2012
Title	VACATION EXCHANGE, LLC v. WYNDHAM EXCHANGE & RENTALS, INC.		

Present: The Honorable	R. GARY KLAUSNER, UNITED STATES DISTRICT JUDGE	
S. Williams (Not Present)	Not Reported	N/A
Deputy Clerk	Court Reporter / Recorder	Tape No.

Attorneys Present for Plaintiffs:	Attorneys Present for Defendants:
Not Present	Not Present

Proceedings: **(IN CHAMBERS) Order Re: Defendants' Motion to Dismiss Under Rule 12(b)(6) (DE 12)**

I.   INTRODUCTION

This is a patent infringement suit brought by Vacation Exchange, LLC ("Plaintiff") against Wyndham Exchange and Rentals, Inc. and RCI, LLC (collectively, "Defendants") for alleged infringement of U.S. Patent No. 5,926,793 (filed Sept. 10, 1996) ("the '793 Patent"). Because the Court finds that the '793 Patent does not cover patentable subject matter, it **GRANTS** Defendants' Motion to Dismiss under Rule 12(b)(6).

II.   FACTUAL BACKGROUND

The '793 Patent claims an invention for trading timeshare properties over a network. In particular, the '793 Patent discloses a method and a system for allowing a user to automatically and electronically trade timeshare properties by communicating with a central computer system that has access to a database.

Timesharing of vacation properties is not a new idea. In fact, the specification of the '793 Patent acknowledges that "in the 1970's the ideas and procedures [of timesharing] became well known." '793 Patent col.1 l.13-14. However, when the patent was filed, the major timeshare exchange companies still required members to use a telephone or write a letter to manually make trades. '793 Patent col.1 l.26-28. The '793 Patent addresses this problem.

The two independent claims of the '793 Patent are claims 1 and 5. Claim 1 discloses a "computer-implemented method and database for trading vacation timeshare property time interests," comprising the steps of: (1) a user establishing communication with a central

FANDANGO EXHIBIT 1064

the database; (3) the computer system crediting that user's account; (4) the user searching the database for timeshare interests by specifying desirability criteria; (5) the computer system retrieving from the database and remotely displaying timeshare interests meeting the user's criteria; (6) the user selecting a timeshare interest from those displayed; (7) the computer system debiting the user's account in response to the user's selection; and (8) the computer system notifying property management personnel of the user's selected timeshare interest.

Claim 5 essentially rewrites claim 1 as a system claim using means-plus-function language. It discloses a "computer system for trading vacation timeshare property time interests," comprising: (1) a database for storing accounts; (2) communication means for a user to communicate with a central computer; (3) storage means for storing timeshare interests in the database; (4) credit means for crediting an account for a timeshare interest; (5) search means for remotely searching the database according to user indicated search criteria; (6) selection means for selecting a timeshare interest; (7) debit means for debiting a timeshare interest from an account; and (8) notification means for notifying property management of a user's timeshare selection. Each of the system means in claim 5 mirrors an equivalent method step in claim 1.

Dependent claims 2-4 add steps to claim 1 while dependent claims 6-8 add functionality to claim 5 that mirrors those steps. For example, claim 3 discloses the step of "said user indicating a geographic region in which said user desires to vacation" while claim 7 discloses a "means for searching said database in response to said user indicating a geographic region in which said user desires to vacation."

III.   JUDICIAL STANDARD

A party may move to dismiss for failure to state a claim upon which relief can be granted under Federal Rule of Civil Procedure 12(b)(6). In deciding a Rule 12(b)(6) motion, the Court must assume that the plaintiff's allegations are true and construe the complaint in the light most favorable to the non-moving party. *Cahill v. Liberty Mut. Ins. Co.*, 80 F.3d 336, 337-38 (9th Cir. 1996). Dismissal is appropriate only where the complaint lacks a cognizable legal theory or sufficient facts to support a cognizable legal theory. *Mendiondo v. Centinela Hosp. Med. Ctr.*, 521 F.3d 1097, 1104 (9th Cir. 2008). "While a complaint attacked by a Rule 12(b)(6) motion to dismiss does not need detailed factual allegations, a plaintiff's obligation to provide the 'grounds' of his 'entitlement to relief' requires more than labels and conclusions, and a formulaic recitation of the elements of a cause of action will not do." *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, 555 (2007) (quoting *Papasan v. Allain*, 478 U.S. 265, 286 (1986)). The court need not accept as true unreasonable inferences, unwarranted deductions of fact, or conclusory legal allegations cast in the form of factual allegations. *W. Mining Council v. Watt*, 643 F.2d 618, 624 (9th Cir. 1981).

IV.   DISCUSSION

Defendants seek dismissal of Plaintiff's Complaint on the basis that Plaintiff's '793 Patent does not claim patentable subject matter. Specifically, Defendants contend that the '793 Patent is abstract because it merely claims a method for trading vacation timeshares using general computer components. This Court agrees.

A.   Claim Construction Is Not Necessary to Decide this Motion

As an initial matter, where claim construction is not required for a full understanding of

subject matter eligibility on a motion to dismiss. *See Bancorp Servs., L.L.C. v. Sun Life Assurance Co. of Canada*, 687 F.3d 1266, 1273-74 (Fed. Cir. 2012) (affirming that there is no "bright line rule requiring district courts to construe claims before determining subject matter eligibility"); *see also Ultramercial, LLC v. Hulu, LLC*, No. CV-09-06918 RGK (PLAx), 2010 WL 3360098, at *1 (C.D. Cal. Aug. 13, 2010) (granting motion to dismiss for unpatentable subject matter), *vacated on other grounds*, 657 F.3d 1323 (Fed. Cir. 2011), *vacated sub nom. Wildtangent, Inc. v. Ultramercial, LLC*, 132 S. Ct. 2431 (2012). Here, claim construction would not clarify the Court's understanding of the claimed subject matter. The relevant terms are clear, and Plaintiff failed to show any construction that would dictate a different analysis regarding patentable subject matter. Therefore, it is appropriate for the Court to hear this motion without first construing the claims.

B.   Claims 1-4 Are Not Patent Eligible

Section 101 of the Patent Act defines patentable subject matter as "any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof." 35 U.S.C. § 101. The Supreme Court has long held that Section 101 implicitly excludes "laws of nature, natural phenomena, and abstract ideas." *See Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1298 (2012); *Bilski v. Kappos*, 130 S. Ct. 3218, 3225 (2010).

Though abstract ideas are clearly unpatentable, courts have struggled to define a test for determining whether a subject matter is abstract. *See CLS Bank Intern. v. Alice Corp. Pty. Ltd.*, 685 F.3d 1341, 1348-49 (Fed. Cir. 2012) (noting that the test for abstract ideas has become "a serious problem, leading to great uncertainty"). In *Bilski*, the Supreme Court broadly defined an abstract idea as "a fundamental truth; an original cause; a motive; these cannot be patented, as no one can claim in either of them an exclusive right." *Bilski*, 130 S. Ct. at 3230. Using that definition, the Supreme Court held that a method claim directed to "the basic concept of hedging" was abstract and unpatentable because "[h]edging is a fundamental economic practice long prevalent in our system of commerce." *Id.* at 3231. Similarly, the Federal Circuit has explained that "abstract ideas constitute disembodied concepts or truths which are not 'useful' … until reduced to some practical application." *In re Alappat*, 33 F.3d 1526, 1542 n.18 (Fed. Cir. 1994).

Even under these obscure guidelines, it is clear that the mere idea of vacation timeshare trading, without more, is abstract. Just like the vague, unapplied concept of hedging in *Bilski*, the idea of timeshare trading is also basic, widely-known, and long prevalent in our system of commerce. Even the '793 Patent itself acknowledges that "in the 1970's the ideas and procedures [of timesharing] became well known" and that "over 3 million timeshares have been sold since 1980." '793 Patent col.1 l.13-16. The question, then, is whether there is more to claim 1 and its dependent claims (claims 2-4) than the bare idea of vacation timeshare trading.

While the law has not precisely defined what constitutes "more" for purposes of patentability, the Supreme Court has endorsed the "machine-or-transformation test" as an "important and useful clue" to abstractness. The Court, however, clarified that it is not the only test. *Bilski*, 130 S. Ct. at 3225-27. Several decisions have additionally looked to the notion of preemption as another indication of patentability. *See Id.* at 3231; *CLS Bank*, 685 F.3d at 1349. Using both of these approaches, the Court finds that independent claim 1 of the '793 Patent is abstract and not patent eligible. Also, claim 1's dependent claims, claims 2-4, merely add minor steps that do not dictate a different result. Therefore, the Court finds that claims 1-4

1.   *Machine-or-Transformation Test*

The machine-or-transformation test indicates that a process is likely to be patentable if it (1) is tied to a particular machine or apparatus; or (2) transforms a particular article into a different state or thing. *Bilski*, 130 S. Ct. at 3225. Plaintiff contends that its claims satisfy the machine prong of the test because they require a computer and a database, using electronic data transmissions on a machine. The Court finds Plaintiff's arguments unavailing.

Not every patent that simply recites a method performed on a machine passes the test; the machine must "impose meaningful limits on the claim's scope" to impart patent eligibility. *Fort Props., Inc. v. Am. Master Lease LLC*, 671 F.3d 1317, 1323 (Fed. Cir. 2012) (holding that a requirement of "using a computer" does not suddenly render an abstract idea patentable). Recent Supreme Court decisions have similarly held that adding well-understood, routine, and conventional means—such as a general purpose computer or database—does not limit an idea in any meaningful way. *See Prometheus*, 132 S. Ct. at 1298 (2012) (concluding that a process for calibrating drug dosage fell outside Section 101 because its purported limitations were merely conventional steps that "add[ed] nothing of significance" to the application of a law of nature); *Bilski*, 130 S. Ct. at 3231 (rejecting an application because it did not "add" anything to the otherwise abstract idea of minimizing economic risk). Instead, "[t]o salvage an otherwise patent-ineligible process, a computer must be integral to the claimed invention, facilitating the process in a way that a person making calculations or computations could not." *Bancorp*, 687 F.3d at 1278 (quoting *SiRF Tech, Inc. v. Int'l Trade Comm'n*, 601 F.3d 1319, 1333 (Fed. Cir. 2010)). "In order for the addition of a machine to impose a meaningful limit on the scope of a claim, it must play a significant part in permitting the claimed method to be performed, rather than function solely as an obvious mechanism for permitting a solution to be achieved more quickly, i.e., through the utilization of a computer for performing calculations." *SiRF Tech*, 601 F.3d at 1333.

Here, the computer components in independent claim 1 do not play a significant part in permitting the method to be performed. A computer is required only for performing basic, high-level tasks like crediting and debiting accounts, and notifying property management. Likewise, the database is only used to search, store, and select timeshares. None of these steps are intrinsic to a computer. They are indistinguishable from the tasks that a human would perform manually, which was how the vacation timeshare industry functioned for nearly 30 years before the '793 Patent was filed. Like in *SiRF*, the computer and database here are used only to facilitate faster trades. A computer is not integral to the claimed invention.

In support of its position, Plaintiff relies on *CLS Bank*, a Federal Circuit case upholding a method for performing financial trading escrows on a computer. *CLS Bank* is inapposite. The claimed method in *CLS Bank* required special programming to implement a "data file in a data storage unit" called a "shadow record," a detailed computer-based implementation that cannot be performed by a human. *CLS Bank*, 685 F.3d at 1354. In contrast, nothing in claim 1 requires special computer programming that cannot be performed by a human. Adding the words "apply it to a computer" cannot transform an abstract idea into a patentable claim, yet Plaintiff's bare recitations of a computer and a database attempt to do just that. Therefore, claim 1 is not tied to a machine.

Finally, it is undisputed that claim 1 does not transform an article. Thus, this Court finds that the claim 1 does not satisfy either prong of the machine-or-transformation test.

2.   *Preemption*

Under the notion of "preemption," a claim likely covers an abstract idea if it would foreclose every future innovation in the art. *See Bilski*, 130 S. Ct. at 3231 (invalidating an abstract method for hedging because it "would pre-empt use of this approach in all fields"); *Gottschalk v. Benson*, 409 U.S. 63, 72 (1972) (invalidating a process because the "practical effect would be a patent on the algorithm itself"). A claim drawn to a *specific way* of doing something with a computer likely does not "preempt much in the way of innovation" because it leaves "broad room for other methods." *CLS Bank*, 685 F.3d at 1355-56; *Alappat*, 33 F.3d at 1544-45 (holding that claims directed to a specially-programmed computer were patent eligible subject matter). But a claim to nothing more than performing an abstract idea on a computer could preempt innovation by precluding all uses of the inventive idea and, therefore, is not patent eligible. *See CLS Bank*, 685 F.3d at 1351 ("a claim to *nothing more than the idea* of doing that thing on a computer may not [be patent eligible]"); *see also* Mark A. Lemley et al., *Life After Bilski*, 63 Stan. L. Rev. 1315, 1345 (2011). Moreover, the Supreme Court has emphasized that limiting an abstract idea to one field of use or adding token "postsolution" activity—conventional steps, specified at a high level of generality—is not sufficient to avoid preemption. *Bilski*, 130 S. Ct. at 3231; *Flook*, 437 U.S. at 590.

Plaintiff argues, to no avail, that claim 1 does not preempt innovation because it is tied to a specific way of timesharing trading using a computer and database. However, the fact that claim 1 is limited to the field of timeshare trading does not help it avoid preemption, nor does its incorporation of token "postsolution" components, such as a computer or database. In *CLS Bank*, the method claim was limited to a specific way of performing escrows on a computer using "shadow records." *CLS Bank*, 685 F.3d at 1355. In contrast, claim 1 is not limited to a specific way of trading timeshares, as *any* electronic timeshare exchange would likely use a computer and a database and, therefore, be precluded by claim 1. Claim 1 simply does not "leave broad room for other methods of [performing the idea], whether with the aid of a computer or otherwise." *Id*.

The Court heeds the Federal Circuit's warning to evaluate claims with all limitations intact, rather than "hunting for abstractions by ignoring the concrete, palpable, tangible, and otherwise not abstract invention the patentee actually claims." *CLS Bank*, 685 F.3d at 1351. Still, this Court finds that the broad and general limitations in claim 1 are more similar to the "using a computer" limitations in *Fort Properties* than to the limitations in *CLS Bank*, which required specific implementation on a computer. Therefore, claim 1 is invalid under Section 101.

Similarly, claim 1's dependent claims, claims 2-4, simply add conventional steps, specified at a high level of generality, to the abstract method in claim 1. Claim 2 adds a step for checking account balances, while claims 3 and 4 add steps for specifying search criteria. Therefore, claims 2-4 are also not patent eligible.

B.   For Patentable Subject Matter Purposes, Claims 5-8 is a Method Claim that is not Patent Elgible

While the parties agree that claim 1 and its dependent claims are method claims, Plaintiff argues that claim 5 and its dependent claims (hereinafter referred to generally as "claim 5") are system claims. Because a system claim literally invokes a machine, a category enumerated in Section 101, claim 5 appears on its face to be directed to patentable subject matter. *See Alappat*, 33 F.3d at 1542. But when "the claim is really to the method or series of

DOCKET ALARM

Explore Litigation Insights

Docket Alarm provides insights to develop a more informed litigation strategy and the peace of mind of knowing you're on top of things.

Real-Time Litigation Alerts

Keep your litigation team up-to-date with **real-time alerts** and advanced team management tools built for the enterprise, all while greatly reducing PACER spend.

Our comprehensive service means we can handle Federal, State, and Administrative courts across the country.

Advanced Docket Research

With over 230 million records, Docket Alarm's cloud-native docket research platform finds what other services can't. Coverage includes Federal, State, plus PTAB, TTAB, ITC and NLRB decisions, all in one place.

Identify arguments that have been successful in the past with full text, pinpoint searching. Link to case law cited within any court document via Fastcase.

Analytics At Your Fingertips

Learn what happened the last time a particular judge, opposing counsel or company faced cases similar to yours.

Advanced out-of-the-box PTAB and TTAB analytics are always at your fingertips.

API

Docket Alarm offers a powerful API (application programming interface) to developers that want to integrate case filings into their apps.

LAW FIRMS
Build custom dashboards for your attorneys and clients with live data direct from the court.

Automate many repetitive legal tasks like conflict checks, document management, and marketing.

FINANCIAL INSTITUTIONS
Litigation and bankruptcy checks for companies and debtors.

E-DISCOVERY AND LEGAL VENDORS
Sync your system to PACER to automate legal marketing.

fastcase
Smarter legal research.