

**IN THE UNITED STATES DISTRICT COURT  
FOR THE EASTERN DISTRICT OF TEXAS  
MARSHALL DIVISION**

LOYALTY CONVERSION SYSTEMS  
CORPORATION,

Plaintiff,

v.

AMERICAN AIRLINES, INC., et al.,

Defendants.

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Case No. 2:13-CV-655

**MEMORANDUM OPINION AND ORDER**

Before the Court is the Defendants’ Motion for Judgment on the Pleadings (Dkt. No. 61). The Court GRANTS the motion and holds that the asserted claims of the two patents in suit are invalid on the ground that they are directed to unpatentable subject matter.

**I. BACKGROUND**

Plaintiff Loyalty Conversion Systems Corporation (“Loyalty”) owns the two patents at issue in this case, U.S. Patent Nos. 8,313,023 (“the ’023 patent”) and 8,511,550 (“the ’550 patent”). On August 20, 2013, Loyalty filed actions against each of the nine defendants. Those actions were later consolidated under the lead case, No. 2:13-cv-655. Loyalty asserted claims 31-34, 36-42, and 44-46 of the ’023 patent, and claims 1-3 and 5-7 of the ’550 patent against each of the nine defendants.

After the filing of answers and counterclaims, seven of the nine defendants jointly filed this motion for judgment on the pleadings under Fed. R. Civ. P. 12(c).<sup>1</sup> They sought an order holding the asserted claims of the '023 and '550 patents invalid under 35 U.S.C. § 101.

The '023 patent, entitled “Exchange of Non-Negotiable Credits of an Entity’s Rewards Program for Entity Independent Funds,” is directed to a system by which non-negotiable credits earned in an awards program (such as airline frequent flyer miles or hotel loyalty award points) can be converted into credits that can be used to purchase goods or services from a vendor other than the issuing entity. The '550 patent, entitled “Graphical User Interface for the Conversion of Loyalty Points Via a Loyalty Point Website,” is directed to a graphical user interface, such as a website, that includes a conversion option that, as in the '023 patent, allows the conversion of non-negotiable credits earned from one entity into a form that can be used to purchase goods and services from another vendor.

The common specification of the two patents explains that loyalty rewards issued to customers are typically redeemable with the granting entity or its affiliates, but not with other unaffiliated entities. That limitation reduces the attractiveness of the rewards to customers and leads to some customers having modest amounts of rewards from multiple providers, none of which have significant value to the customer. In addition, the specification cites delays in processing requests for redemption of awards and the expiration of awards as discouraging

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<sup>1</sup> The seven defendants that have joined in this motion are American Airlines, Inc.; Delta Air Lines, Inc.; Frontier Airlines, Inc.; Southwest Airlines Co.; Spirit Airlines, Inc.; United Airlines, Inc.; and U.S. Airways, Inc. Two of the defendants, JetBlue Airways Corporation and Hawaiian Airlines, Inc., have not joined in this motion. JetBlue has filed a motion to dismiss based on improper venue, and Hawaiian has filed a motion to dismiss for lack of personal jurisdiction. The Court has ruled on both of those motions today.

consumers from participating in awards programs. '023 patent, col. 1, line 18, through col. 2, line 11; '550 patent, col. 1, line 37, through col. 2, line 32.

Other aspects of the invention described in the common specification are (1) a software method for converting non-negotiable credits into negotiable funds, in which the conversion of non-negotiable credits into negotiable funds at an agreed-upon conversation rate is automatically determined and the conversion transaction automatically performed; and (2) a “Web-based credit to fund conversion system,” in which the negotiable funds obtained through conversion of non-negotiable credits can be used for e-commerce purchases from vendors that do not honor the non-negotiable credits. '023 patent, col. 2, line 66 through col. 3, line 24; '550 patent, col. 3, ll. 21-46.

### **1. The '023 Patent Claims**

The asserted claims of the '023 patent include independent claims 31 and 39, and dependent claims 32-38, 40-42, and 44-46. Claim 31 recites a method enabling a customer to convert loyalty award credits of one vendor into loyalty award credits of a second vendor so that the customer can use those converted credits to make purchases from the second vendor. Claim 39 recites a “computer program product” that performs the same function.

Independent claim 31 of the '023 patent provides as follows:

**31.** A method comprising:

a commerce partner agreeing to accept transfers or conversions of quantities of non-negotiable credits to entity independent funds in accordance with a credits-to-funds ratio, wherein the non-negotiable credits have been earned as part of a rewards program of an entity, wherein the commerce partner accepts the entity independent funds for goods or services that the commerce partner provides, wherein in [the] absence of the non-negotiable credits being converted or transferred into the entity independent funds the commerce partner does not accept the non-negotiable credits for the goods or services that the commerce

partner provides, wherein the entity-independent funds are loyalty points of a loyalty program of the commerce partner;

at least one of one or more computers detecting a communication over a network to grant a consumer a quantity of the entity independent funds, wherein the quantity of entity independent funds results from a conversion or transfer of at least a subset of the non-negotiable credits into the quantity of entity independent funds in accordance with the credit-to-funds ratio, wherein the subset of the non-negotiable credits are expended as part of the conversion or transfer, and wherein the commerce partner is compensated for providing the entity independent funds to the consumer;

responsive to the communication, at least one of one or more computers granting the consumer the quantity of the entity independent funds; and

the at least one of the one or more computers accepting at least a portion of the quantity of entity independent funds in exchange for the goods or services that the commerce partner provides, wherein the one or more computers do not accept the non-negotiable credits of the entity's rewards program for the goods or services in absence of the conversion or transfer.

Independent claim 39 of the '023 patent provides as follows:

**39.** A computer program product comprising:

one or more non-transitory computer-readable mediums;

program instructions, stored on at least one of the one or more non-transitory computer-readable mediums, to detect a communication over a network to grant a consumer a quantity of entity independent funds, wherein the quantity of entity independent funds results from a conversion or transfer of at least a subset of non-negotiable credits into the quantity of entity independent funds in accordance with a credit-to-funds ratio, wherein the subset of the non-negotiable credits are expended as part of the conversion or transfer, and wherein the commerce partner is compensated for providing the entity independent funds to the consumer, wherein the commerce partner agrees to accept transfers or conversions of quantities of the non-negotiable credits to entity independent funds in accordance with the credits-to-funds ratio, wherein the non-negotiable credits have been earned as part of a rewards program of the entity, wherein the commerce partner accepts the entity independent funds for goods or services that the commerce partner provides, wherein in [the] absence of the non-negotiable credits being converted or transferred into the entity independent funds the commerce partner does not accept the non-negotiable credits for the goods or services that the commerce partner provides, wherein the entity-independent funds are loyalty points of a loyalty program of the commerce partner;

one or more non-transitory computer-readable mediums;

program instructions, stored on at least one of the one or more non-transitory computer-readable mediums, to, responsive to the communication, grant the consumer the quantity of the entity independent funds; and

program instructions, stored on at least one of the one or more non-transitory computer-readable mediums, to accept at least a portion of the quantity of entity independent funds in exchange for the goods or services that the commerce partner provides, wherein, per the program instructions, the non-negotiable credits are not accepted for the goods or services in absence of the conversion or transfer.

The claims that depend from each of the independent claims add minor functions such as calculating and transferring the converted loyalty points and completing the sale of goods and services by the second vendor.

## **2. The '550 Patent Claims**

The only asserted independent claim in the '550 patent is claim 1. Also asserted are dependent claims 2-3 and 5-7. Claim 1 recites a method in which a computer provides one or more Web pages that can be used by clients to convert non-negotiable loyalty award points of one vendor into loyalty award points of a second vendor so that the customer can use those converted points to make purchases from the second vendor. The claim also recites an agreement between the first vendor and the second vendor that permits consumers to convert the non-negotiable loyalty award points of the first vendor into loyalty award points of the second vendor in accordance with a fixed conversion rate. When that occurs, the first vendor compensates the second vendor in an agreed-upon amount for allowing the conversion, based on the quantity of points converted. The computer that responds to a message indicating the selection of the conversion option processes the selection, and the computer serving the Web pages updates the graphical user interface with the changes in the user's loyalty award point accounts.

Independent claim 1 of the '550 patent provides as follows:

1. A method comprising:

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