

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

CHARLES C. FREENY III, BRYAN E.
FREENY, and JAMES P. FREENY,

Plaintiffs,

v.

FOSSIL GROUP, INC.,

Defendant.

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Case No. 2:18-CV-00049-JRG-RSP

REPORT AND RECOMMENDATION

Plaintiffs Charles Freeny, Bryan Freeny, and James Freeny accuse Fossil Group, LLC of infringing U.S. Patent No. 6,490,443, entitled “Communication and Proximity Authorization Systems.” Compl. [Dkt. No. 1], ¶ 19. Fossil moves to dismiss the Freenys’ infringement complaint, arguing that the ’443 patent fails to claim patentable subject-matter as required by 35 U.S.C. § 101 and precedent interpreting § 101’s patent eligibility requirement. *See* [Dkt. No. 20]. The Court is not persuaded by Fossil’s contentions, and thus recommends that Fossil’s motion to dismiss [Dkt. No. 20] be denied.

BACKGROUND

The ’443 patent discloses a system for activating services on “proximity service units,” whereby a portable “proximity authorization unit” transmits a “request authorization code” to the proximity service units over different wireless signals. The application claims priority to an application filed on September 2, 1999.

In their Amended Complaint, the Freenys allege that at the time of the invention in 1999, “wireless communication devices were severely limited in their ability to communicate securely

with other electronic devices operating in different networks and utilizing different communication signals and/or protocols.” [Dkt. No. 17], ¶ 15. The patent states that “prior to this invention, the systems [...] have not been able to operate with digital wireless devices that operate on different frequencies and have a communication capability other than to effect the proximity system activation function described herein.” ’443 patent, 15:45-50.

The inventor, the Freenys’ father, thus developed a solution. *See* [Dkt. No. 17], ¶ 15. The patent describes the invention as a “proximity service unit for providing at least one predetermined service for use with multiple types of wireless devices,” where the “proximity service unit includes a multiple channel wireless transceiver, a proximity unity validation assembly, and a legacy activation unit.” ’443 patent, abstract. The multiple channel wireless transceiver receives at least four signal types, “such as infrared region signals, 900 MHz region signals, 1.8 GHz region signals, and 2.4 GHz region signals.” *Id.* Thus, the patent states, the invention “allows the consumer to have a very inexpensive proximity authorization unit¹ to replace the 10 to 20 devices and cards now required and that also can serve as an inexpensive communication device without the wireless service provider costs attached.” *Id.* at 2:39-43.

The Freenys contend that Fossil infringes at least claims 90, 91, 94, 106, 107, 110, 122, 123, and 125 of the ’443 patent. [Dkt. No. 25], p. 2. Claim 90 is the only asserted independent claim.

Claim 90 recites:

A proximity authorization unit for use with proximity service units, some of the proximity service units being capable of receiving information via a first signal and some of the proximity service units being capable of receiving information via a second signal, the second signal being different from the first signal, and each of the proximity service units providing a predetermined service when

¹ The proximity authorization unit is also referred to as a master proximity signaling unit (“MPSU”) in the patent. *Id.* at 2:21-22.

activated in response to receiving a request authorization code, the proximity authorization unit comprising:

a portable housing;

a computer unit supported by the housing and having the request authorization code stored therein; and

communication unit supported by the housing, the computer unit retrieving the request authorization code and the communication unit outputting the request authorization code on the first signal for communication to the proximity service units capable of receiving the first signal, and the communication unit outputting the request authorization code via the second signal to the proximity service units capable of receiving the second signal.

'443 patent at 49:36-56. The asserted claims that depend from claim 90 recite additional structural and functional limitations, such as stating that the portable housing is in the form of a bracelet and is configured to be worn by an individual, as recited in claims 122 and 123. Fossil argues that the '443 patent claims unpatentable subject matter, and offers two arguments.

First, Fossil contends that claim 90 of the '443 patent recites an abstract idea, wherein the claim is directed “to nothing more than the recitation of the abstract problem identified by the patentee, rather than any inventive mechanism for achieving it.” [Dkt. No. 20], p. 7. Fossil argues that the claims of the patent-in-suit “recite generic, result-oriented functions with no limiting detail to confine the claims to any specific, inventive embodiment of these functions: no new translation between legacy interfaces, no inventive reception or transmission technology, and no innovative means of storing or retrieving authorization codes or using authorization codes with legacy proximity systems.” *Id.* at 9. Fossil further argues that the patent claims are not directed to a specific invention and instead preempt the entire field of multi-band communications. [Dkt. No. 27], p. 3.

Second, Fossil contends that the claims of the '443 patent do not recite a specific technical solution. [Dkt. No. 20], p. 10. Fossil argues that the “specification is clear: the elements of the

asserted claims are generic or conventional computer components.” [Dkt. No. 27], p. 5. Fossil states that the major components of the invention – the computer unit and the communication unit – are generic and off-the-shelf. *Id.* Fossil further argues that there is no inventive concept in improving a legacy proximity authorization system that sends codes two ways. *See id.* at 7.

Based on these arguments, Fossil moves for dismissal of the Freenys’ patent infringement complaint for lack of patentable subject-matter.

LEGAL STANDARDS

I. Rule 12 Motion for Judgment on the Pleadings

Under Federal Rule of Civil Procedure 12(b)(6), the Court must dismiss a complaint that does not state a claim for relief that is “plausible on its face.” *Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009) (quoting *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 570 (2007)). To state a plausible claim, the Freenys must plead facts to allow a court to draw a reasonable inference that Fossil is liable for the alleged patent infringement. *See id.* (citing *Twombly*, 550 U.S. at 556).

At this stage, a court accepts all well-pleaded facts as true, and views those facts in the light most favorable to the plaintiff. *Bustos v. Martini Club, Inc.*, 599 F.3d 458, 461 (5th Cir. 2010). A court need not, however, accept as true legal conclusions couched as factual allegations. *Iqbal*, 556 U.S. at 678. To be legally sufficient, the complaint must contain enough factual allegations to raise a reasonable expectation that discovery will reveal evidence of each element of the plaintiff’s claim. *Lormand v. U.S. Unwired, Inc.*, 565 F.3d 228, 255-57 (5th Cir. 2009). If it is apparent from the face of the complaint that an insurmountable bar to relief exists, and the plaintiff is not entitled to relief, the court must dismiss the claim. *Jones v. Bock*, 549 U.S. 199, 215 (2007).

II. Section 101 Subject Matter Eligibility

In the patent suit context, a party may move for a Rule 12(b)(6) dismissal when there are no factual allegations that, taken as true, prevent a finding that a patent fails to meet the patentable subject-matter standard set forth in 35 U.S.C. § 101. *See Aatrix Software, Inc. v. Green Shades Software, Inc.*, 882 F.3d 1121, 1125 (Fed. Cir. 2018). Under § 101, a patent may be obtained for “any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof.” 35 U.S.C. § 101. The jurisprudence provides an important exception: “Laws of nature, natural phenomena, and abstract ideas are not patentable.” *Elec. Power Grp., LLC v. Alstom S.A.*, 830 F.3d 1350, 1352 (Fed. Cir. 2016) (quoting *Alice Corp. Pty. v. CLS Bank Int'l*, 573 U.S. 208, 216 (2014)).

The Supreme Court has set forth a two-step inquiry for analyzing the subject-matter eligibility of a patent: (1) “determine whether the claims at issue are directed to a patent-eligible concept,” and (2) if the claims are not directed to a patent-eligible concept, “consider the elements of each claim both individually and ‘as an ordered combination’ to determine whether the additional elements ‘transform the nature of the claim’ into a patent-eligible application.” *Alice*, 573 U.S. at 217 (quoting *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 566 U.S. 66, 78 (2012)).

Section 101 precedent establishes that “[t]he question of whether a claim element or combination of elements is well-understood, routine and conventional to a skilled artisan in the relevant field is a question of fact” that must be “proven by clear and convincing evidence.” *Berkheimer v. HP Inc.*, 881 F.3d 1360, 1368 (Fed. Cir. 2018); *Aatrix*, 882 F.3d 1121. Something is not well-understood, routine, and conventional merely because it is disclosed in a prior art reference. *Exergen Corp. v. KAZ USA, Inc.*, No. 2016-2315, 2018 WL 1193529 at *4 (Fed. Cir.

March 8, 2018). There are many obscure references that may qualify as prior art but are insufficient to establish something is “well-understood, routine, and conventional activity previously engaged in by scientists who work in the field.” *Mayo*, 566 U.S. at 79

Invalidity under § 101 can be declared at the pleading stage if patent eligibility can be determined on the basis of materials properly considered on a motion to dismiss, purely as a matter of law, when claim construction is unnecessary. *See Integrated Tech. Sys. v. First Internet Bank of Indiana*, Case No. 2:16-CV-00417-JRG-RSP, Dkt. No. 51 (E.D. Tex. Jan. 30, 2017).

DISCUSSION

Here, Fossil moves to dismiss the Freenys’ complaint in its entirety pursuant to Rule 12(b)(6), alleging that the patent-in-suit is an abstract idea that lacks patentability under § 101. Fossil’s arguments are largely focused on claim 90, which Fossil contends is representative of the ’443 patent, *see* [Dkt. No. 20], p. 7, and Fossil contends that the other independent claims are largely analogous to claim 90, *see id.* at 13. The Freenys defend the patent eligibility of claim 90 but also show that the asserted dependent claims add a variety of structural limitations that are inconsistent with the arguments of Fossil and are not addressed in Fossil’s § 101 analysis. The Freenys also rely heavily on the factual allegations of their complaint, which must be taken as true on this Rule 12(b)(6) motion.

Having reviewed the ’443 patent claims and the Freenys’ amended complaint, the Court does not agree with Fossil’s subject matter eligibility arguments at this time. Fossil’s 12(b)(6) motion should thus be denied for two principal reasons: (1) Fossil has failed to show that the ’443 patent is not directed to improvements rooted in technology, and (2) even assuming the patent is drawn to an abstract idea, Fossil has not shown that the ordered combination of elements is conventional.

I. *Alice* Step One

The first step of the *Alice* inquiry requires the Court to determine whether the claims at issue are “directed to” a patent-ineligible concept. *See Enfish, LLC v. Microsoft Corp.*, 822 F.3d 1327, 1335 (Fed. Cir. 2016). Existing precedent has not established a definitive rule to determine what constitutes an “abstract idea” sufficient to satisfy the first step of the *Alice* inquiry. *Id.* at 1334. However, the “directed-to” inquiry should not be reduced to a question of whether the claims involve a patent-ineligible concept, as “all inventions at some level embody, use, reflect, rest upon, or apply laws of nature, natural phenomena, or abstract ideas.” *Mayo*, 566 U.S. at 71. Rather, the claims are “considered in their entirety to ascertain whether their character as a whole is directed to excluded subject matter.” *Internet Patents Corp. v. Active Network, Inc.*, 790 F.3d 1343, 1346 (Fed. Cir. 2015).

“[W]hen the claims are not directed to a specific invention and instead improperly monopolize ‘the basic tools of scientific and technological work[,]’” preemption concerns arise. *McRO, Inc. v. Bandai Namco Games Am. Inc.*, 837 F.3d 1299, 1314 (Fed. Cir. 2016) (quoting *Alice*, 573 U.S. at 216). “The abstract idea exception has been applied to prevent patenting of claims that abstractly cover results where ‘it matters not by what process or machinery the result is accomplished.’” *McRO*, 837 F.3d at 1314 (quoting *O’Reilly v. Morse*, 56 U.S. (15 How.) 62, 113 (1854)). “‘A patent is not good for an effect, or the result of a certain process’ because such patents ‘would prohibit all other persons from making the same thing by any means whatsoever.’” *McRO*, 837 F.3d at 1314 (quoting *Le Roy v. Tatham*, 55 U.S. (14 How.) 156, 175 (1853)). Thus, the Court must determine whether the ’443 patent claims focus on a specific means or method that

improves the relevant technology or are instead directed to a result that is an abstract idea for which the technology is merely a tool. *See Enfish*, 822 F.3d at 1336.

Fossil argues that the '443 patent specification “is clear: the elements of the asserted claims are generic or conventional computer components.” [Dkt. No. 27], p. 5. Fossil points out that '443 patent simply claims a device comprising two generic components: a computer unit and a communication unit. [Dkt. No. 27], p. 3. In utilizing these generic components, Fossil argues that the claims of the '443 patent utilize “do nothing more than identify the problem and then ‘solve it’ by claiming exactly the desired result.” *Id.* at 4. Fossil sums up its arguments with the following chart:

Claim Language	Plain Language
90. A proximity authorization unit for use with proximity service units, some of the proximity service units being capable of receiving information via a first signal and some of the proximity service units being capable of receiving information via a second signal, the second signal being different from the first signal, and each of the proximity service units providing a predetermined service when activated in response to receiving a request authorization code, the proximity authorization unit comprising:	A device that can work with more than one conventional proximity system (like garage doors, toll tags...), comprising:
a portable housing;	a small box
a computer unit supported by the housing and having the request authorization code stored therein; and	with a computer

<p>a communication unit supported by the housing, the computer unit retrieving the request authorization code and the communication unit outputting the request authorization code on the first signal for communication to the proximity service units capable of receiving the first signal, and the communication unit outputting the request authorization code via the second signal to the proximity service units capable of receiving the second signal.</p>	<p>that transmits legacy authorization codes to more than one conventional proximity system (like garage doors, toll tags...)</p>
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[Dkt. No. 20], p. 8. In analyzing the claim elements, Fossil argues that the abstract result claimed is “an authorization device that could operate securely to activate services on other devices in different wireless environments utilizing different wireless protocols.” [Dkt. No. 27], p. 4. Fossil thus argues that such a claim preempts the entire field of multi-band communications, as any device communicating on different communication bands would necessarily include a processor and two different transceivers. *Id.* at 3-4.

Taken as a whole, the Court finds that Fossil’s *Alice* Step One arguments oversimplify the claims “by looking at them generally and failing to account for the specific requirements of the claims.” *McRO*, 837 F.3d at 1313 (citing *In re TLI Commc'ns LLC Patent Litig.*, 823 F.3d 607, 611 (Fed. Cir. 2016)).

Contrary to Fossil’s position, claim 90 is narrower than “any device communicating on different communication bands.” Claim 90 restricts its applicability to a “proximity authorization unit” with a “portable housing unit,” a “computer unit,” and a “communication unit.” Claim 90 does not cover any “authorization device that could operate securely to activate services on other devices in different wireless environments utilizing different wireless protocols.”

Applying the first step of the *Alice* framework to the asserted claims, claim 90 is not directed to an abstract idea, but rather is drawn to a physical device that improves the prior art. It

is important to remember that the patent claims priority to 1999 and there are disputes between the parties as to what was conventional and well understood in the art at that time. The '443 patent states that the existing prior art was not able to operate with digital wireless devices that operate on different frequencies and have a communication capability other than to effect the proximity system activation described in the patent. *See* '443 patent, 15:45-50. As the specification states, the claimed improvement here is the ability to handle many types of wireless devices both in terms of device signaling frequencies and in terms of device protocol. *See id.* at 7:47-51. The invention improves the prior art by incorporating multiple low power type signaling capability into a single unit, and the unit delivers information “in a much simpler and more convenient manner than done with existing devices and at less cost.” *See id.* at 2:27-36. Whereas consumers had to use multiple devices to utilize different wireless protocols, the '443 patent claims are drawn to a single device that transmits an authorization code remotely over different wireless protocols. While the claims employ computer technology, such claims do not automatically take the '443 patent out of the realm of patentability at this time. Indeed, “the claim solution is necessarily rooted in computer technology in order to overcome a problem specifically arising in the realm of computer networks.” *DDR Holdings, LLC v. Hotels.com, L.P.*, 773 F.3d 1245, 1257 (Fed. Cir. 2014).

This is not a situation where general purpose computer components are used to perform a generic task. Rather, the components are used to perform a specific improvement over existing prior art. Without clear and convincing evidence that claim 90 of the '443 patent is directed to an abstract concept under *Alice* Step One, Fossil's motion cannot prevail.

II. *Alice* Step Two

Even if the patent recites an abstract idea, Fossil's motion and reply only addresses the conventionality of each claim limitation in isolation and fails to adequately address the added

limitations in the dependent claims. Fossil fails to meet its burden by not showing that the specific combination of elements in the claims are conventional. The Federal Circuit has held that the “inventive concept inquiry requires more than recognizing that each claim element, by itself, was known in the art ... an inventive concept can be found in the non-conventional and non-generic arrangement of known, conventional pieces.” *Bascom Global Internet Services, Inc. v. At&T Mobility LLC*, 827 F.3d 1341, 1350 (Fed. Cir. 2016). Thus, even if the Court were to find that the patent recites abstract ideas, Fossil has failed to show that there are no genuine disputes of material facts that the claims fail *Alice* Step Two. *See Aatrix*, 882 F.3d at 1128 (“Whether the claim elements or the claimed combination are well-understood, routine, [and] conventional is a question of fact.”). In the absence of evidence that the ordered combination of elements is conventional, the court must resolve all inferences in favor of the Freenys, warranting denial of Fossil’s motion.

CONCLUSION

Drawing all reasonable inferences in favor of the Freenys, the Court finds that, under *Alice* Step One, claim 90 of the ’443 patent is directed to a specific improvement over the prior art. Therefore, the Court **RECOMMENDS** that Fossil’s motion to dismiss [Dkt. No. 20] be **DENIED**.²

SIGNED this 12th day of February, 2019.


ROY S. PAYNE
UNITED STATES MAGISTRATE JUDGE

² A party’s failure to file written objections to the findings, conclusions, and recommendations contained in this report within fourteen days after being served with a copy shall bar that party from de novo review by the district judge of those findings, conclusions, and recommendations and, except on grounds of plain error, from appellate review of unobjected-to factual findings, and legal conclusions accepted and adopted by the district court. Fed. R. Civ. P. 72(b)(2); *see Douglass v. United Servs. Auto. Ass’n.*, 79 F.3d 1415, 1430 (5th Cir. 1996) (en banc).