United States Court of Appeals for the Federal Circuit

SOLUTRAN, INC.,
Plaintiff-Cross-Appellant

v.

ELAVON, INC., U.S. BANCORP,
Defendants-Appellants

2019-1345, 2019-1460

Appeals from the United States District Court for the District of Minnesota in No. 0:13-cv-02637-SRN-BRT, Judge Susan Richard Nelson.

Decided: July 30, 2019

ROBERT JAMES GILBERTSON, Greene Espel, PLLP, Minneapolis, MN, argued for plaintiff-cross-appellant. Also represented by SYBIL LOUISE DUNLOP, DAVID WALLACE-JACKSON.

JOHN THOMAS VITT, Jones Day, Minneapolis, MN, argued for defendants-appellants. Also represented by GREGORY A. CASTANIAS, Washington, DC; PETER MCCREERY LANCASTER, TIMOTHY J. DROSKE, BEN DESMOND KAPPELMAN, Dorsey & Whitney LLP, Minneapolis, MN.

Before CHEN, HUGHES, and STOLL, *Circuit Judges.*

CHEN, *Circuit Judge*.

U.S. Bancorp and its affiliate Elavon, Inc. (collectively, U.S. Bank) appeal orders in the United States District Court for the District of Minnesota (1) denying U.S. Bank's motion for summary judgment that claims 1–5 of U.S. Patent No. 8,311,945 ('945 patent), assigned to Solutran, Inc. (Solutran), are invalid under 35 U.S.C. § 101 for failing to recite patent-eligible subject matter and (2) granting Solutran's motion for summary judgment that Solutran's products infringe claims 1–5 of the '945 patent. Solutran cross-appeals, arguing that the district court abused its discretion when it denied Solutran the ability to amend its complaint to include a claim for willful infringement after the deadline set out in the scheduling order.

Because we agree with U.S. Bank that claims 1–5 of Solutran's patent are invalid under § 101, we reverse.

BACKGROUND

A. The '945 Patent

The '945 patent, issued in 2012, describes a system and method for processing paper checks. '945 patent. The patent explains that in the past, the payee would transport the check to his or her own bank to be read and processed, then the payee's bank would transport the check to the payor's bank, where it also would be read and processed. *Id.* at col. 1, ll. 30–39. At this point, the payor's bank would debit the payor's account and transfer the money to the payee's bank, which would credit the payee's account. *Id.* at col. 1, ll. 39–45.

The Background section of the '945 patent explains that the digital age ushered in a faster approach to processing checks, where the transaction information—*e.g.*, amount of the transaction, routing and account number—on the check is turned into a digital file at the merchant's

point of sale (POS) terminal. *Id.* at col. 1, l. 51 – col. 2, l. 8, col. 4, ll. 51–58 (at the point of purchase, "the merchant keys, or applies amount captured at POS, into the terminal the amount of the purchase" and "passes the check through a MICR (magnetic ink character recognition) reader to capture the consumer's account number, routing number of the financial institution holding the account, and the check number"). The digital check information is sent electronically over the Internet or other network, *id.* at col. 1, ll. 54–61, and the funds are then transferred electronically from one account to another. *Id.* at col. 2, ll. 5–8. By converting the check information into digital form, it no longer was always necessary to physically move the paper check from one entity to another to debit or credit the accounts. *Id.* at col. 2, ll. 1–5. But retaining the checks was still useful for, among other things, verifying accuracy of the transaction data entered into the digital file. *Id.* at col. 2, ll. 11–15. It was well-known that merchants could optionally capture a digital image of the check at the point of purchase. *Id.* at col. 2, ll. 61–63, col. 4, ll. 58–59, FIG. 1; *see also id.* at col. 2, ll. 30–31 ("The original check can be scanned and its digital image stored for later use . . . .").

The patent also discloses a method proposed by the National Automated Clearing House Association (NACHA) for "back office conversion" where merchants scan their checks in a back office, typically at the end of the day, *id.* at col. 2, l. 65 – col. 3, l. 1, "instead of at the purchase terminal," *id.* at col. 5, ll. 2–4, FIG. 2. A scanner captures an image of the check, and MICR data from the check is stored with the image. *Id.* at col. 3, ll. 1–2. An image file containing this information can be transferred to a bank or third-party payment processor. *Id.* at col. 3, ll. 2–4.

The patent describes its invention as a system and method of electronically processing checks in which (1) "data from the checks is captured at the point of purchase," (2) "this data is used to promptly process a deposit to the merchant's account," (3) the paper checks are moved

elsewhere "for scanning and image capture," and (4) "the image of the check is matched up to the data file." *Id.* at col. 3, ll. 16–46. The proffered benefits include "improved funds availability" for merchants and allegedly "reliev[ing merchants] of the task, cost, and risk of scanning and destroying the paper checks themselves, relying instead on a secure, high-volume scanning operation to obtain digital images of the checks." *Id.* at col. 3, ll. 46–62. Solutran explains that its method allows merchants to get their accounts credited sooner, without having to wait for the check scanning step.

The court treated claim 1 as representative, which the parties do not dispute. *See* J.A. 47. Claim 1 recites:

> 1. A method for processing paper checks, comprising:
>
> a) electronically receiving a data file containing data captured at a merchant's point of purchase, said data including an amount of a transaction associated with MICR information for each paper check, and said data file not including images of said checks;
>
> b) after step a), crediting an account for the merchant;
>
> c) after step b), receiving said paper checks and scanning said checks with a digital image scanner thereby creating digital images of said checks and, for each said check, associating said digital image with said check's MICR information; and
>
> d) comparing by a computer said digital images, with said data in the data file to find matches.

Id. at claim 1.

B. District Court and CBM Proceedings

Solutran sued U.S. Bank in the United States District Court for the District of Minnesota, alleging infringement of claims 1–5 of the '945 patent. U.S. Bank filed an answer and counterclaims alleging, *inter alia*, that it did not infringe and that the asserted claims were invalid under § 101. U.S. Bank later filed a motion for summary judgment that the '945 patent was invalid because it did not recite patent-eligible subject matter under § 101, specifically because the claims were directed to the "abstract idea of delaying and outsourcing the scanning of paper checks." *See* J.A. 50. The district court disagreed, concluding that the claims were not directed to an abstract idea and the '945 patent was therefore patent-eligible.

The district court found a previous covered business method (CBM) review of the '945 patent by the Patent Trial and Appeal Board (Board) persuasive in reaching its determination. J.A. 52 n.5. In August 2014—two months after the Supreme Court issued its *Alice Corp. Pty. Ltd. v. CLS Bank International*, 573 U.S. 208 (2014), decision—the Board issued an institution decision denying the petition as to the § 101 challenge, concluding that claim 1 of the '945 patent was not directed to an abstract idea. *U.S. Bancorp v. Solutran, Inc.*, No. CBM2014-00076, 2014 WL 3943913 (P.T.A.B. Aug. 7, 2014). The Board reasoned that "the basic, core concept of independent claim 1 is a method of processing paper checks, which is more akin to a physical process than an abstract idea." *Id.* at *8. "Indeed, there is nothing immediately apparent about this basic, core concept that would indicate that it is directed to an abstract idea at all." *Id.*

The district court's reasoning aligned with the Board's. The district court focused on the physical nature of checks' processing and movement and accused U.S. Bank of improperly construing the claim to "a high level of abstraction." J.A. 51–57. The district court distinguished U.S.

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