Belts, Suspenders, and the Perfection of Security Interests in Copyrights: The Undressing of the Contemporary Creditor

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BELTS, SUSPENDERS, AND THE PERFECTION OF SECURITY INTERESTS IN COPYRIGHTS: THE UNDRESSING OF THE CONTEMPORARY CREDITOR

I. INTELLECTUAL PROPERTY AS COLLATERAL IN COMMERCIAL TRANSACTIONS

For over 100 years, intellectual property has served as collateral in secured financing, enabling inventors like Thomas Edison to secure loans and build companies.\(^1\) Today, intellectual property law impacts every business and individual who offers or hopes to develop a marketable product or service.\(^2\) While access to capital is critical to start-up high-technology companies that have few assets other than copyrights,\(^3\) creditors continue to have difficulty identifying and valuing copyrighted or copyrightable material.\(^4\)

1. See Shawn K. Baldwin, Comment, "To Promote the Progress of Science and Useful Arts": A Role for Federal Regulation of Intellectual Property as Collateral, 143 U. PA. L. REV. 1701, 1701 (1995) (citing ANDRE MILLARD, EDISON AND THE BUSINESS OF INNOVATION 43-46 (1990)). Baldwin notes that "[t]he value of intellectual property has risen substantially in recent years, to the point where, in many instances, a company's intellectual property is now far more valuable than its real property. As a result, intellectual property has earned recognition as the dominant factor behind many recent commercial transactions." Id. at 1704.


3. See Aimee A. Watterberg, Comment, Perfecting a Security Interest in Computer Software Copyrights: Getting It Right, 15 J. MARSHALL J. COMPUTER & INFO. L. 855, 855 (1997) ("Making, marketing, and ownership of computer software is the foundation of many prosperous companies. Often times equipped with only ingenuity and bright ideas, these businesses require financial support from commercial lenders.") (citation omitted); Dornbos, supra note 2, at 657.

4. See Dornbos, supra note 2, at 657; see also Patrick R. Barry, Note, Software Copyrights as Loan Collateral: Evaluating the Reform Proposals, 46 HASTINGS L.J. 581 (1995) (discussing how the current regime for the perfection of security interests in copyrights impacts the software industry). Barry describes the basic dilemma facing creditors and debtors alike as follows:

If commercial finance law imposes inordinate costs and risks upon lenders in conjunction with the use of intellectual property as collateral, then lenders will be less likely to extend credit to companies with

\(^{1415}\)
Creditors with security interests in copyrights have also been frustrated when deciding how to perfect such interests.® Whether involved in high-stakes commercial transactions or more modest ventures, creditors have had to choose between the filing requirements of the 1976 Copyright Act® and those of Article 9 of the UCC.™ This choice tends to devalue intellectual property as collateral in commercial transactions since lenders, fearful of the uncertainty inherent in such a bifurcated system, may be less likely to extend credit to companies with a large proportion of their assets in the form of intellectual property.® Just as important, the choice between a federal and a state system becomes essential in bankruptcy proceedings, where the bankruptcy trustee or debtor in possession, acting as a hypothetical judicial lien creditor, can avoid unperfected security interests.®

a large proportion of their assets in this form. Therefore, finance laws that are uncertain or unclear or that impose procedural burdens on the use of intellectual property as collateral reduce the value of such property by preventing its use to secure loans. This, in turn, reduces market incentives for the creation of new software and hinders entrepreneurial efforts by reducing the universe of potential collateral available to such companies.

Id. at 583-84 (citations omitted).

5. Regarding the relevance of perfecting security interests, see infra notes 41-42 and accompanying text.
8. See Barry, supra note 4, at 583-84.
   (a) The trustee shall have, as of the commencement of the case, and without regard to any knowledge of the trustee or of any creditor, the rights and powers of, or may avoid any transfer of property of the debtor or any obligation incurred by the debtor that is voidable by—
   (1) a creditor that extends credit to the debtor at the time of the commencement of the case, and that obtains, at such time and with respect to such credit, a judicial lien on all property on which a creditor on a simple contract could have obtained such a judicial lien, whether or not such a creditor exists.[]

This provision of the bankruptcy code also applies to debtors in possession. See id. § 1107(a); National Peregrine, Inc. v. Capitol Fed. Sav. & Loan Ass'n (In re Peregrine Entertainment, Ltd.), 116 B.R. 194, 204-05 (C.D. Cal. 1990) (citing Wind Power Sys., Inc. v. Cannon Fin. Group, Inc. (In re Wind Power Sys., Inc.), 841 F.2d 288, 293 (9th Cir. 1988)). A debtor in possession is a debtor in a bankruptcy proceeding who remains in control of its business or assets. See BLACK'S LAW DICTIONARY 404 (6th ed. 1990).

If creditors with a security interest in a copyright are unsure where to perfect their security interests, the likelihood that those creditors will actually remain unperfected greatly increases. Even assuming that a state filing would suffice, creditors might still need to conduct searches of multiple state indexes, instead of a single federal index, to ensure perfection; such multiple searches would pose considerable problems in terms of expense, delay, and certainty. See infra notes 97-104 and accompanying text; infra Part V.
The bankruptcy trustee or debtor in possession can even avoid perfected security interests, in some instances, as preferential transfers.10

Before 1990 discrete lenders probably opted for a belt and suspenders approach under which they filed at both the federal and state levels.11 Judge Kozinski's 1990 opinion in In re Peregrine Entertainment, Ltd., however, reduced by half the protections available to creditors, leaving them even more exposed under the current statutory scheme to the commercial forces that determine whether an upstart debtor company prospers or fails.12 In rebuking the lower court's "tongue-in-cheek analogy to the use of a belt and suspenders to hold up a pair of pants," Judge Kozinski explained why the federal recordation system trumps state-based systems in the area of security interests in copyrights:

There is no legitimate reason why pants should be held up in only one particular manner: Individuals and public modesty are equally served by either device, or even by a safety pin or a piece of rope; all that really matters is that the job gets done. Registration schemes are different in that the way notice is given is precisely what matters. To the extent


No court had addressed squarely the issue of how a creditor must perfect a security interest in a copyright until Judge Kozinski argued in favor of federal preemption in Peregrine. See Peregrine, 116 B.R. at 197. While appellate courts have since acknowledged that the Copyright Act controls the recordation of security interests in copyrights, this issue has not comprised the central holding of any court higher than the district court level. Compare Broadcast Music, Inc. v. Hirsch, 104 F.3d 1163, 1166 (9th Cir. 1997) (holding that "[a]ssignments of interests in royalties have no relationship to the existence, scope, duration or identification of a copyright" and are thus not documents pertaining to a copyright), and G.S. Rasmussen & Assoc. v. Kalitta Flying Serv., Inc., 958 F.2d 896, 904-06 (9th Cir. 1992) (holding that protection of property interest in Supplemental Type Certificate under California law was not preempted by federal copyright or aviation statutes), with In re Avalon Software Inc., 209 B.R. 517, 522 (Bankr. D. Ariz. 1997) (holding that any security interest in a "completely new and mature program, or an accessory to an older, copyrighted or non-copyrighted program" can only be perfected as against a bankruptcy trustee through filing with the United States Copyright Office), and Official Unsecured Creditors' Comm. v. Zenith Prods., Ltd. (In re AEG Acquisition Corp.), 127 B.R. 34, 42 (Bankr. C.D. Cal. 1991) (holding that creditor was required to comply with domestic United States law to perfect its security interest in foreign films under Berne Convention).


13. See supra note 4.
interested parties are confused as to which system is being employed, this increases the level of uncertainty and multiplies the risk of error, exposing creditors to the possibility that they might get caught with their pants down.14

Judge Kozinski’s effort to focus attention on the inconsistencies engendered by the overlapping of state and federal law underscores the need for clearly defined rules in the area of security interests in copyrights. His reasoning, to be sure, has not gone unheeded.15 Much of the literature indicates, however, that such reasoning may have precisely the opposite effect: in today’s world of increasingly complex commercial transactions, creditors may indeed find themselves with their pants around their knees.16 At that point, of course, not even a safety pin or a piece of rope would be sufficient to cure the irreparable damage to their financial security, let alone to public modesty.

14. Peregrine, 116 B.R. at 201. Judge Kozinski’s retort reflects the logic of Judge Cardozo’s earlier warning that “[m]etaphores in law are to be narrowly watched, for starting as devices to liberate thought, they end often by enslaving it.” Berkey v. Third Ave. Ry. Co., 155 N.E. 58, 61 (1926).

15. At least one commentator has appreciated Judge Kozinski’s analogy to the exposed creditor. See, e.g., Nancy Bellhouse May, Belts or Suspenders? Perfecting a Security Interest in a Trademark or Copyright, ARK. LAW., Spring 1993, at 8 (highlighting the current law of secured transactions as it relates to perfecting a security interest in trademarks or copyrights).

16. See, e.g., Paul A. Baumgarten, Copyrights as Collateral: Perfection Finally Perfected After Peregrine?, 71 U. DET. MERCY L. REV. 581, 591-92 (1994) (noting that Peregrine failed to clarify whether registration of the copyright must precede recordation of the security interest); Amelia H. Boss & Stephen Veltri, Introduction to the Uniform Commercial Code Survey: A Plea for Cooperation, 48 BUS. LAW. 1583, 1590-91 (1993) (noting that the Peregrine decision “jeopardized major commercial loans” and that federal filing practices, together with their long grace periods, “diminish the value of the intellectual property rights federal law seeks to protect”); Dornbos, supra note 2, at 669 (noting that Peregrine’s “expansive view of federal preemption creates pitfalls for a creditor trying to take a security interest in a copyright . . . [and] raises even more serious problems for those seeking to finance works that are in the process of being completed”); Haemmerli, supra note 11, at 1695 (Discussing the practical problems under Peregrine, the author notes that “[o]btaining a registration from the [U.S.] Copyright Office . . . is a matter of many months. If time is money, the expense here quite clearly exceeds that imposed by searching state files. Peregrine’s efficiency rationale therefore proves naive on analysis, as it ignores the facts of life in secured lending.”) (citations omitted); Elise B. May, Comment, Where Your Priorities Should Be: Analysis of the Perfection and Priority of Security Interests in Copyrights as It Affects Bankruptcy, 11 BANKR. DEVS. J. 509, 534 (1994-95) (noting that despite Peregrine, “no definitive answer exists regarding whether the Copyright Act preempts the UCC with regard to perfection and priority of security interests in copyrights”).
Scholars have dissected many, though not all, of the problems engendered by *Peregrine*. Moreover, a recent decision issued by an Arizona bankruptcy court threatens to further complicate matters, especially in the areas of work-in-progress and after-acquired property. It is appropriate at this time, therefore, to reexamine the process and problems involved in perfecting security interests in copyrights and copyrightable material.

Accordingly, Part II of this Comment examines the federal and state statutory provisions that bear upon the perfection of security interests in copyrights. Part III then discusses the case law that has interpreted this statutory web. Part IV discusses several legal ramifications of the case law relating primarily to the extent of federal preemption of state law. This section also argues that existing law undermines the viability of complex commercial transactions involving copyrights or copyrightable material, especially in the context of works-in-progress or after-acquired property.

Finally, Part V analyzes potential solutions. This Comment concludes that a federally administered system will provide the best means for achieving both the efficiency and certainty in commercial transactions that preoccupied Judge Kozinski, as well as the constitutional objectives underlying federal protection of copyrights in general. A federally administered recordation system, however, cannot depend on the current language of the Copyright Act. Indeed, to achieve such a system, Congress must implement several critical changes.

II. THE COPYRIGHT ACT OF 1976 AND ARTICLE 9 OF THE UCC

The perfection of security interests in copyrights has traditionally been subject to both state and federal law. Even before *Peregrine* and its successors argued in favor of federal preemption, the

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17. See supra note 16 and accompanying text.
19. See supra note 14 and accompanying text; see also Baldwin, * supra* note 1, at 1732-33 (advocating the formulation of a federal approach to perfecting security interests in copyrights based upon maximum certainty and minimal costs).
20. See U.S. CONST. art. I, § 8, cl. 8 ("[Congress shall have power] [t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.").
wise lender probably filed at both the state and federal level. Indeed, anyone who delves into the ambiguous statutory web created by Article 9 and the Copyright Act will understand why. A brief overview of the applicable statutes will help illuminate this frustrating and frustrated area of the law.

A. The Copyright Act of 1976

Under the Copyright Act, copyright protection extends to an original work of authorship that is fixed in “any tangible medium of expression.” Copyrights therefore protect artwork, books, music, films, software, and similar items. Furthermore, the owner of a copyright enjoys certain exclusive rights, including, but not limited to, the right to transfer ownership of the copyright.

The Copyright Act defines a ‘transfer of copyright ownership’ as an assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license.

Although the terms “mortgage” and “hypothecation” are not defined under the Copyright Act, such terms include a pledge of property as security or collateral for a debt.

Any transfer of copyright ownership, moreover, may be recorded in the United States Copyright Office provided that certain conditions are met. Significantly, recordation of a document in the


23. See Baumgarten, supra note 16, at 582-86 (discussing several ambiguities in both Article 9 and the Copyright Act).


25. Section 201(d)(1) provides that “[t]he ownership of a copyright may be transferred in whole or in part by any means of conveyance or by operation of law, and may be bequeathed by will or pass as personal property by the applicable laws of intestate succession.” Id. § 201(d)(1).

26. Id. § 101.


28. Section 205 of the Copyright Act provides in part:

Any transfer of copyright ownership or other document pertaining to a copyright may be recorded in the Copyright Office if the document filed for recordation bears the actual signature of the person who executed it, or if it is accompanied by a sworn or official certification that it is a true copy of the original, signed document.

United States Copyright Office gives all persons constructive notice of the facts stated in the document if and only if: (1) the document specifically identifies the work to which it pertains such that a reasonable search under the title or registration number of the work would reveal the work; and (2) the underlying copyrightable material has been registered. Because material is copyrightable only once it is fixed in a tangible medium of expression, the requirement that a transfer document specifically identify the copyright means that creditors cannot obtain security interests in after-acquired property, or property that is not in existence at the time the transfer document is recorded.

Once a creditor files a security interest in a copyright, federal law also determines the creditor’s priority vis-à-vis conflicting transfers. Regarding priority, section 205 provides:

As between two conflicting transfers, the one executed first prevails if it is recorded, in the manner required to give constructive notice under subsection (c), within one month after its execution in the United States or within two months after its execution outside the United States, or at any time before recordation in such manner of the later transfer. Otherwise the later transfer prevails if recorded first in such manner, and if taken in good faith, for valuable consideration or on the basis of a binding promise to pay royalties, and without notice of the earlier transfer.

Under this “relation-back” provision, a first transferee who records within a month after execution of a security agreement may still have

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29. See id. § 205(c). Significantly, the federal requirement that the underlying copyrightable work be registered is not a requirement under state law. See infra Part II.B.
30. See supra note 24 and accompanying text.
31. See Baldwin, supra note 1, at 1716-18. The net effect of copyright law as described above, see supra notes 24-30 and accompanying text, means that creditors have to repeatedly file appropriate recordation and registration documents every time after-acquired property comes into existence. See infra notes 158-68 and accompanying text for a discussion of this problem. In practice, however, creditors usually create collateral assignments requiring that after-acquired property be conveyed to the creditor. See Baldwin, supra note 1, at 1716-17. Such provisions are problematic, though, “because they rely upon the debtor to inform the creditor of any new acquisition.” Id. at 1717 (citing Raymond T. Nimmer & Patricia A. Krauthaus, Secured Financing and Information Property Rights, 2 HIGH TECH. L.J. 195, 224-25 (1987)).
33. Id.
priority over a second transferee, even if the second transferee recorded at the United States Copyright Office immediately after execution of its security agreement. As a result, the federal tract priority system invariably leaves creditors with a sense of insecurity even though they have followed every appropriate step.

The foregoing analysis leads to the conclusion that a creditor may indeed file a security interest in a copyright at the United States Copyright Office. This, of course, is not a novel conclusion. The harder question, and the one which seems to have evaded critical discussion, is whether the language of the Copyright Act requires the recordation of such a security interest at the federal level. Indeed, the permissive "may" of section 205 rather than the mandatory "shall" or "must," seems to indicate the contrary.

This linguistic ambiguity, however, can be accounted for by appreciating the underlying context of the Copyright Act. The exclusive rights of reproduction, adaptation, publication, performance, and display created by section 106 of the Copyright Act do not depend on the copyright owner's registration of the copyright with the United States Copyright Office. Registration of a copyright becomes an

34. See id.
36. See 17 U.S.C. § 205(a). A security agreement pertaining to copyrightable material is by its very nature a "document pertaining to a copyright." Id.
37. Commentators apparently do not agree, even on a semantic level, on this basic concept. Compare Weinberg & Woodward, supra note 35, at 448-49 ("[S]ection 205 [of the 1976 Copyright Act] . . . provides for the permissive recordation of any document 'pertaining to a copyright' . . . .") (emphasis added), with Haemmerli, supra note 11, at 1666 ("[The 1976 Copyright Act] also contains a recordation scheme that requires recordation of copyright transfers . . . .") (emphasis added).
38. See supra note 28 (quoting 17 U.S.C. § 205(a)).
39. See 17 U.S.C. § 106. Indeed, § 101 defines a copyright owner simply as the owner of any of the individual rights listed in § 106; § 101 does not mention that registration of a copyright is a prerequisite of copyright ownership. See id. § 101. Section 201 of the Copyright Act, which provides that a "[c]opyright in a work protected under this title vests initially in the author or authors of the work[,]" makes this clear. Id. § 201(a). So too does that section's treatment of involuntary transfers of copyrights, which provides that "[w]hen an individual author's ownership of a copyright . . . has not previously been transferred voluntarily by that individual author, no action by any governmental body . . . purporting to seize, expropriate, transfer, or exercise rights of ownership with respect to
issue only when the copyright owner wishes to pursue an infringement action.\textsuperscript{40}

Just as copyright owners are not required to register their copyrights, lenders are similarly not required to record their security interests for such interests to be valid.\textsuperscript{41} Indeed, recodarion of security interests in copyrights becomes a problem primarily when the debtor files for bankruptcy.\textsuperscript{42} Given this, it would be illogical for the language of section 205 of the Copyright Act to require lenders to perfect their security interest by filing at the federal level.

Furthermore, under traditional rules of statutory interpretation, the same word in one context can have an entirely different meaning in another context.\textsuperscript{43} The permissive language of the Copyright Act relating to registration of copyrights and recodarion of security interests in copyrights, therefore, does not necessarily allow for the continued recodarion of security interests in copyrights at the state level. In other words, if lenders ultimately decide to file their security interests, they can then construe the Copyright Act to require federal filings.\textsuperscript{44}

Congress, to be sure, could have eliminated this ambiguity altogether by simply providing that if a creditor chooses to file a security interest at all, then such filing must be made at the federal rather than at the state level.\textsuperscript{45} Unfortunately, Congress was not so clear in

\textsuperscript{40} See id. § 411(a) ("[Subject to a few exceptions], no action for infringement of the copyright in any work shall be instituted until registration of the copyright claim has been made in accordance with this title.").

\textsuperscript{41} One author has explained the matter as follows:
Attachment or creation of a security interest simply establishes the relationship between the secured party and the debtor and gives the secured party a special property interest in personal property of the debtor. Perfection is relevant only to the secured party's position vis-à-vis third-party claimants of the same personal property of the debtor. Perfection has no bearing on the relationship between the debtor and the secured party, and an unperfected secured party has the right to enforce its security interest if the debtor defaults.


\textsuperscript{42} When lenders perfect their security interests, they are in essence providing constructive notice to other potential third party claimants. See 17 U.S.C. § 205(c). The concept of constructive notice underlies, in turn, the priority between conflicting transfers. See id. § 205(d).

\textsuperscript{43} See United States v. Martinez-Cano, 6 F.3d 1400, 1404-05 (9th Cir. 1993).

\textsuperscript{44} See infra Part III.

\textsuperscript{45} Congress could have resolved any ambiguity simply by using the more restrictive "shall" in place of the permissive "may." This was apparently the approach taken by the drafters of the Federal Aviation Act. See 49 U.S.C. § 1403 (1970) (current version at 49 U.S.C. § 44107 (1997)). Section 1403(a) of the Fed-
its requirements. Congress may have even intended the federal and state systems to operate at the same time, thus accounting for the permissive language of section 205. However, the lack of clarity in the legislative record of the Copyright Act, the complexity of interaction issues, and the statutory silence on the issue of preemption together render this possibility an inappropriate influence on the judicial decision-making process.

B. Article 9 of the UCC

Analysis of the Copyright Act and its legislative history, however, provides only one component of understanding the recordation requirements for security interests in copyrights. One must also consult Article 9 of the UCC. The UCC treats intellectual property as “general intangibles.”

The UCC further provides that security interests in such property must be filed under Article 9 to be perfected. Normally, this means that security interests will be filed in the state in which the debtor’s place of business is located. In cases of conflicting security interests, priority is generally determined by who perfected first and not...
according to a relation-back period as under the Copyright Act.\textsuperscript{53} Furthermore, because financing statements are indexed according to the name of the debtor;\textsuperscript{54} and not by the title or registration number of the work as under the Copyright Act,\textsuperscript{55} creditors have an easier time verifying that their security interests are truly secure.

Unlike the Copyright Act, the UCC also provides creditors with two additional advantages in the area of secured transactions. First, the UCC allows a creditor to obtain and perfect a security interest in after-acquired property, if provided for in the security agreement.\textsuperscript{56} Second, the UCC enables the creditor to obtain a "blanket lien" on a debtor’s property and to perfect that interest by filing a statement containing a broad description of the collateral.\textsuperscript{57} Together, these provisions obviate the need for the multiple, specific filings often required under the Copyright Act.\textsuperscript{58}

Because the UCC definition of "general intangibles" includes copyrights,\textsuperscript{59} copyrights and security interests therein fall within the purview of Article 9. Sections 9-104 and 9-302 of Article 9, however, suggest that creditors must actually file security interests in copyrights at the federal rather than the state level.\textsuperscript{60}

Section 9-104(a) states that Article 9 does not apply to "a security interest subject to any statute of the United States, to the extent that such statute governs the rights of parties to and third parties affected by transactions in particular types of property . . . ."\textsuperscript{61} The Copyright Act is, of course, a statute of the United States and thus satisfies at least one of the conditions of this UCC "step-back" provision. Furthermore, in any transaction involving a security interest in a copyright, the Copyright Act necessarily governs the rights of the

\begin{itemize}
  \item \textbf{53.} \textit{See supra} notes 32-35 and accompanying text.
  \item \textbf{54.} \textit{See U.C.C.} § 9-403(4).
  \item \textbf{55.} \textit{See supra} note 29 and accompanying text.
  \item \textbf{56.} See UCC § 9-204, which provides that "a security agreement may provide that any or all obligations covered by the security agreement are to be secured by after-acquired collateral." \textit{U.C.C.} § 9-204(1).
  \item \textbf{57.} See UCC § 9-110, which provides that "[f]or the purposes of this Article any description of personal property or real estate is sufficient whether or not it is specific if it reasonably identifies what is described." \textit{Id.} § 9-110.
  \item \textbf{58.} \textit{See supra} note 31 and accompanying text; \textit{infra} notes 159-69.
  \item \textbf{59.} \textit{See supra} note 49 and accompanying text.
  \item \textbf{60.} \textit{See U.C.C.} §§ 9-104, 9-302.
  \item \textbf{61.} \textit{Id.} § 9-104(a).
\end{itemize}
parties to that transaction. Finally, to the extent that transactions involving security interests in copyrights impact the rights of third parties, the priority scheme of section 205 of the Copyright Act determines the viability of those rights.

While section 9-104 constitutes a step-back provision relating to security interests in general, section 9-302 contains a step-back provision that bares specifically upon the perfection of security interests. Section 9-302(3) provides that:

The filing of a financing statement otherwise required by this Article is not necessary or effective to perfect a security interest in property subject to

(a) a statute or treaty of the United States which provides for a national or international registration or a national or international certificate of title or which specifies a place of filing different from that specified in this Article for filing of the security interest . . . .

Section 9-302(4) also provides that:

Compliance with a statute or treaty described in subsection (3) is equivalent to the filing of a financing statement under this Article, and a security interest in property subject to the statute or treaty can be perfected only by compliance therewith except as provided in Section 9-103 on multiple state transactions. Duration and renewal of perfection of a security interest perfected by compliance with the statute or treaty are governed by the provisions of the statute or treaty; in other respects the security interest is subject to this Article.

Because the Copyright Act is a federal statute which provides for the filing of security interests in copyrights at the United States Copyright Office, the Act does appear to trigger the step-back provision of section 9-302. Section 9-302 further states that only by filing

62. See id. § 9-302(3).
63. Id.
64. Id. § 9-302(4).
65. See Haemmerli, supra note 11, at 1661-62. Haemmerli notes that one may interpret the language of § 9-302 to mean that only federal statutes which provide for a form of registered property, as opposed to a registration system for security interests in such property, may trigger the step-back provision of § 9-302. See id. at 1661. In support of this interpretation, Haemmerli notes that the original 1962 text of § 9-302, which referred to "a statute . . . of the United States which provides for a national registration or filing of all security interests in such prop-
at the federal level can a creditor perfect its security interest in a copyright.66

Sections 9-104 and 9-302, however, do contain several ambiguities that cast doubt on their applicability to the recodification of security interests in copyrights. A potential ambiguity of section 9-104, for example, lies in its reference to affected third parties.67 This ambiguity turns essentially on whether the contemplated federal statute must contain provisions which could conceivably affect third parties or whether the transaction itself must actually affect the rights of third parties before the step-back provision is triggered.68 Indeed, if there are no third parties challenging a transaction, then there are no third party rights for a federal statute like the Copyright Act to govern. Since any statute triggering a state step-back provision must govern “the rights of parties to and third parties affected by transactions,” however, security interests in property that do not affect the rights of third parties would not fall within the purview of this UCC step-back provision. Perfection of such security interests would instead remain subject to state recordation procedures.

Such an interpretation, however, makes little sense when one considers that the general purpose of recordation is to provide notice to third parties who may or may not exist and who may or may not actually decide to enter into transactions involving another person’s property.71 Thus, whether a transaction involving a security interest

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67. See supra note 61 and accompanying text.
68. This is the reading of Judge Koziński in Peregrine. See National Peregrine, Inc. v. Capitol Fed. Sav. & Loan Ass’n (In re Peregrine Entertainment, Ltd.), 116 B.R. 194, 202 (C.D. Cal. 1990). For a more detailed discussion of this aspect of the Peregrine decision, see supra Part III.A.
69. While no court appears to have espoused this interpretation, the language of § 9-104 clearly allows for such an outcome. See U.C.C. § 9-104(a). To be sure, if a transaction involves an individual creditor and an individual debtor and there are no third parties affected on either side, then no third party rights exist which could be subject to the Copyright Act. Under such circumstances, the Copyright Act would simply be inapplicable.
70. Id. (emphasis added).
71. This logic applies to recordation schemes for copyrights or real property. For example, the grantor-grantee, grantee-grantor, and tract indexes for real property used in many jurisdictions are intended in part to alert potential buyers of property encumbrances. Buyers who find encumbrances may either take cor-
in a copyright actually implicates the rights of identifiable third parties does not seem to bear on the issue of when federal recordation procedures for such security interests trump state-based systems.

Another ambiguity lies in the Official Comments to sections 9-104 and 9-302. The Official Comment to section 9-104 questions whether the Copyright Act contains sufficient provisions regulating the rights of parties and third parties in transactions involving security interests in copyrights to exclude such transactions from the provisions of Article 9. The Official Comment to section 9-302 recognizes, however, that the Copyright Act's filing requirements are sufficient to trigger this UCC step-back provision.

The apparent conflict between the Official Comments and their corresponding sections can be reconciled by considering two points. First, the Comments refer not to the Copyright Act of 1976 but rather
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to the Copyright Act of 1909. Because the former contains many provisions regulating the rights of parties and third parties in transactions involving security interests in copyrights that were absent in the latter, the logic of the Official Comment to section 9-104 is simply inapposite to contemporary commercial transactions.

Second, the applicability of section 9-302 has never depended, under either version of the Copyright Act, on the extent to which federal law regulates the rights of parties to transactions. On the contrary, this section is triggered whenever federal law provides a national place of filing security interests that differs from that established under Article 9. This constitutes a more narrow window of applicability, such that federal law could govern the filing of a security interest in a copyright even if state law governed other aspects of that interest.

III. CONTEMPORARY CASE LAW

The statutory interplay between the Copyright Act and Article 9 of the UCC confused creditors and commentators for almost fifteen years before the federal courts first tackled the issue of how one perfects a security interest in a copyright. Judge Kozinski's decision in 1990 has not helped to alleviate the confusion. On the contrary, this case arguably has generated several new problems where none had previously existed. In fact, a recent decision by an Arizona bankruptcy court threatens to further complicate matters, especially in the areas of work-in-progress and after-acquired property. A brief overview of these two cases will clarify the obstacles now faced by the commercial creditor.

75. See Haemmerli, supra note 11, at 1664-65 & n.93.
76. See id. at 1665-67.
77. See id. at 1664-67.
78. See id. at 1661-65.
79. See id. at 1665.
80. See id.
81. See supra notes 4-7 and accompanying text; supra Part II.A-B.
83. See supra notes 12-16 and accompanying text.
84. See supra note 16 and accompanying text.
A. In re Peregrine

National Peregrine, Inc. ("NPI") was a Chapter 11 debtor in possession whose principal assets included a library of copyrights to approximately 145 films and accounts receivable generated from the licensing of these films to various third parties. In 1985 Capitol Federal Savings and Loan Association of Denver ("Cap Fed") extended to NPI's predecessor by merger a $6 million line of credit. This line of credit was secured by NPI's film library. Cap Fed filed a UCC financing statement in several states, including California, but did not record its security interest in the United States Copyright Office.

After NPI filed a voluntary petition for bankruptcy, it argued that Cap Fed failed to perfect its security interest in the copyrights to the films in NPI's library and in the accounts receivable generated by their distribution based on Cap Fed's failure to record that security interest in the United States Copyright Office. Claiming a judicial lien on all assets in the bankruptcy estate, including the copyrights and receivables, NPI sought to recover Cap Fed's allegedly unperfected security interest for the benefit of the estate.

Judge Kozinski reasoned that an agreement granting a creditor a security interest in a copyright may in fact be recorded in the United States Copyright Office. He reasoned similarly that an agreement creating a security interest in the receivables generated by a copyright may also be recorded in the Copyright Office, since a copyright entitles the holder to receive income generated by the display of the copyrighted material. Judge Kozinski ultimately concluded that Cap Fed was actually required to file its security interest in the Copyright Office to achieve perfection. He reached this conclusion by analyzing both federal and state law.

86. See Peregrine, 116 B.R. at 197.
87. See id.
88. See id.
89. See id. at 198.
90. See id.
91. A judicial lien is a lien "obtained by judgment, levy, sequestration, or other legal or equitable process or proceeding." BLACK'S LAW DICTIONARY 848 (6th ed. 1990). A bankruptcy trustee or debtor in possession can, under certain circumstances, avoid unperfected security interests by invoking the rights of a hypothetical judicial lien creditor. See supra note 9 and accompanying text.
92. See Peregrine, 116 B.R. at 198.
93. See id. at 199.
94. See id.
95. See id. at 203. That a security interest in copyright receivables can be per-
Judge Kozinski began his federal analysis by reasoning that even though the language of the Copyright Act does not expressly preempt state law, such a result necessarily follows from the "comprehensive scope" of the Act's recording provisions and the "unique federal interests they implicate." Such interests apparently include ensuring "predictability and certainty of copyright ownership," promoting "national uniformity," and avoiding the "practical difficulties of determining and enforcing . . . rights" in copyrights under disparate state laws. Another congressional policy

affected only by a filing at the United States Copyright Office has proven to be one of the most contentious holdings of this case. Compare Weinberg & Woodward, supra note 35, at 471-72 ("A rule giving effect to a state filing covering receivables of federal copyrights could, in effect, require lenders to search and file both in the federal and state office to get protection for the full value of the copyrighted collateral. . . . [Because] receivables are integral to the value of the underlying copyrights[,] . . . federal law must cover them if federal filing is to be meaningful."); with Barry, supra note 4, at 592 ("[T]he Copyright Act does not speak at all about receivables financing as a substantive matter . . . . Thus, the court's holding stretches copyright law beyond its traditional scope—an act Professor Jerome H. Reichman has said will lead to 'unsupported restraints of trade and a breakdown of the world's intellectual property system.'") (quoting STEERING COMM. FOR INTELLECTUAL PROPERTY ISSUES IN SOFTWARE, NAT'L RESEARCH COUNCIL, INTELLECTUAL PROPERTY ISSUES IN SOFTWARE 12).

While the issue of copyright receivables is beyond the scope of this Comment, it is worth noting that two recent cases have apparently qualified this holding of Peregrine. See Broadcast Music, Inc. v. Hirsch, 104 F.3d 1163, 1165-67 (9th Cir. 1997); In re Avalon Software Inc., 209 B.R. 517, 523 (Bankr. D. Ariz. 1997).

In Hirsch, the court held that assignments of interests in copyright royalties were not subject to the recodnation rules of the Copyright Act. See Hirsch, 104 F.3d at 1166. The assignments did not constitute a transfer of copyright ownership nor did they have a "relationship to the existence, scope, duration or identification of a copyright, . . . [or] to 'rights under a copyright.'" See id. (citing 17 U.S.C. § 106). The court, however, noted that because this case did not involve an assignment of a security interest in a copyright, "the rationale for recordation underlying the Peregrine case . . . is inapposite." Id.

In Avalon, the court held that the filing of a UCC-1 financing statement perfected receivables created by maintenance agreements relating to computer software license agreements. See Avalon, 209 B.R. at 523. The court reasoned that the maintenance agreements "covered a service only, and did not involve, require, or significantly include the sale or licensing of any tangible 'intellectual property' other than the expertise of the personnel who carried out maintenance under such agreements." Id. (emphasis added). The court's opinion does suggest, however, that the maintenance agreements may have provided for relatively minor new releases of software. See id. To this extent, Avalon limits the reach of Peregrine.

96. See Peregrine, 116 B.R. at 199.
97. Id.
98. Id. (quoting Community for Creative Non-Violence v. Reid, 490 U.S. 730 (1989)).
noted by Judge Kozinski is that copyrights be readily transferable in commerce.  

According to Judge Kozinski, parallel recordation schemes would frustrate these goals for three basic reasons. First, parallel recordation schemes would force potential creditors to undertake numerous searches before ascertaining whether the property in question is encumbered. According to Judge Kozinski, the confusion that would necessarily result is the very reason that parallel recordation schemes are “scarce as hens’ teeth.” Second, because copyrights are incorporeal, potential creditors could never rest assured that all relevant jurisdictions had been searched. Finally, the expense and delay of searching numerous jurisdictions could hinder the transfer of interests in copyrights.

Judge Kozinski also reasoned that, in addition to undermining the federal objectives embodied in the Copyright Act, state filing schemes would directly interfere with the operation of federal law. The conflict lies in the methods for determining priority between conflicting transferees; unlike Article 9, under which priority is generally determined by who perfected first, the Copyright Act permits the effect of recordation to relate back as far as two months.

In terms of his state law analysis, Judge Kozinski reasoned simply that though Article 9 establishes a comprehensive regulatory scheme for security interests in personal property, it “is not all encompassing” given the operation of the step-back provisions embodied in sections 9-104 and 9-302.

B. In re Avalon

Avalon Software, Inc. (“Avalon”) developed computer software to assist businesses in various aspects of inventory control, from purchasing through manufacturing to sales, collection, and accounting.
Before filing for bankruptcy, Avalon borrowed money from Imperial Bank ("Imperial"). To secure its loan, Avalon granted Imperial a security interest in, among other things, Avalon’s general intangibles and related proceeds. Avalon’s general intangibles included copyrighted and non-copyrighted software as well as updates and modifications thereto. The security interest also contained an “after-acquired” provision that extended to subsequent versions of Avalon’s software.

Imperial filed a UCC-1 financing statement with the Arizona Secretary of State, but it never filed any document evidencing its security interest with the United States Copyright Office. A few years before its loan from Imperial, Avalon had registered its copyrights on its intellectual property at the United States Copyright Office. Thereafter, however, Avalon did not register its copyrights on either its newly developed products or on the updates and modifications to its previous versions.

The court began its analysis by noting that, because a computer program is a work of authorship subject to copyright protection, a security interest in such a program must comply with federal copyright law. The court stressed that the burden of perfecting a security interest so it does not become subordinate to the rights of a bankruptcy trustee or debtor in possession rests entirely with the secured creditor:

The burden to perfect properly is entirely on the secured creditor in such an instance. It is immaterial whether the debtor has registered its material. Perfection and constructive notice to the world is accomplished by the creditor’s satisfaction of two requirements: (1) documenting the security interest with the U.S. Office of Copyright, and (2) insuring that a registration of the copyrighted product has also been made at the U.S. Copyright Office.

110. See id.
111. See id.
112. See id. at 520.
113. See id. at 522.
114. See id. at 519-20.
115. See id. at 520.
116. See id.
117. See id. at 520 (citing Tandy Corp. v. Personal Micro Computers, Inc., 524 F. Supp. 171, 173 (N.D. Cal. 1981)).
118. See id. at 520-21.
119. Id. at 522.
Again, the court emphasized that the burden of registering the underlying copyright "is placed exclusively upon the creditor."\textsuperscript{120} In this regard, the court rejected three arguments by Imperial. First, the court rejected Imperial’s argument that it was unable to document its security interest until Avalon registered its product.\textsuperscript{121} Imperial asserted that a security interest not attached to a registered copyright is equivalent to a "‘wild deed,’ or is a headless horseman."\textsuperscript{122} The court reasoned that the UCC allows for a creditor to file a security interest against property that is not even in existence at the time of filing.\textsuperscript{123} Thus, though Imperial’s security interest contained an after-acquired property clause, "[f]ederal copyright law does not change that right, nor does it appear to alter those provisions of the UCC."\textsuperscript{124}

Second, the court rejected Imperial’s argument that unregistered copyrightable material can be construed as something other than a copyright, such as a trade secret, so as to avoid the federal filing requirements.\textsuperscript{125} The court reasoned that a product such as computer software, to which a copyright attaches, "acquires its character as ‘copyrightable’ when the intellectual work is created."\textsuperscript{2}\textsuperscript{6} As a result, a product which is entitled to be registered at the U.S. Copyright Office, but is not, does not carry a different "label" or become something different solely because it was not registered at the U.S. Copyright Office. In other words,

\begin{itemize}
\item \textsuperscript{120} Id.
\item \textsuperscript{121} See id.
\item \textsuperscript{122} Id. Whether a security interest in a copyright could be filed before registration of the copyright was not addressed in \textit{Peregrine}. See National Peregrine, Inc. v. Capitol Fed. Sav. & Loan Ass’n \textit{(In re Peregrine Entertainment, Ltd.)}, 116 B.R. 194 (C.D. Cal. 1990). This issue was not even resolved in a subsequent case upholding \textit{Peregrine}. See Official Unsecured Creditors’ Comm. v. Zenith Prods., Ltd. \textit{(In re AEG Acquisition Corp.)}, 127 B.R. 34, 41 (Bankr. C.D. Cal. 1991) (holding that before a security interest in a motion picture can be perfected, the film itself must be registered at the United States Copyright Office). In that case, Judge Bufford acknowledged that since "[n]either party has raised the issue of whether recordation of a copyright mortgage is valid if it is recorded before the registration of the underlying copyright . . . [t]he Court does not address this issue for copyrights." \textit{Id.} at 41 n.8.
\item \textsuperscript{123} See \textit{Avalon}, 209 B.R. at 522 (citing ARIZ. REV. STAT. § 47-9204 (1997); Valley Nat’l Bank v. Flagstaff Dairy, 570 P.2d 200, 205 (Ariz. Ct. App. 1977)).
\item \textsuperscript{124} \textit{Id.} at 522-23. This conclusion, however, appears to undermine the central holding of \textit{Peregrine}, namely that the Copyright Act preempts state law in the area of security interests in copyrights. See supra notes 97-106 and accompanying text.
\item \textsuperscript{125} See \textit{id.} at 521-22.
\item \textsuperscript{126} \textit{Id.} at 521.
\end{itemize}
a security interest in such an item is unperfected if filed or recorded anywhere other than at the U.S. Copyright Office. Attempting to call such product a "trade secret" does not change the requirement for security-interest filing at the Copyright Office.  

Third, the court quickly disposed of Imperial's argument that the UCC should apply to security interests in copyrightable material that has not been registered at the United States Copyright Office. Noting a lack of authority for this supposedly "novel proposition," the court further reasoned that such an outcome would undermine Congress' attempt to establish central filing for security interests in copyrights by preempting state law in this area.

Finally, the court held that, in general, the registration and recordation requirements remain the same in the case of derivative intellectual property, or material that is in the process of development. The court reasoned that "whether the new product is a completely new and mature program, or an accessory to an older, copyrighted or non-copyrighted program, any security interest therein must be filed with the U.S. Copyright Office in order to be perfected as against a bankruptcy trustee."

The court suggested, however, that the after-acquired clause in the instant case changed this general dynamic. Had Imperial initially filed its security interest at the United States Copyright Office as mandated by federal law, it would have perfected its security interest in any after-acquired property, so long as such property was properly registered. The after-acquired clause, therefore, would have at least spared Imperial from having to make repeated filings of security agreements every time Avalon updated its software.

127. Id. at 521-22 (citation omitted).
128. See id. at 523.
129. Id.
130. See id. (citing Peregrine, 116 B.R. at 200; Maljack Prods., Inc. v. Good-Times Home Video Corp., 81 F.3d 881, 888 (9th Cir. 1996)).
131. See id. at 522.
132. Id.
133. See id.
134. See id. at 523.
135. See id.
136. See id. at 522. This aspect of Avalon undermines somewhat the pervasive criticism that the Peregrine decision would necessitate multiple filings of security agreements in cases involving after-acquired property or work-in-progress. See supra note 31 and accompanying text; infra notes 158-68.
IV. THE USE OF INTELLECTUAL PROPERTY AS COLLATERAL AFTER PEREGRINE AND AVALON

As mentioned above, many commentators have roundly criticized Peregrine for what they view as its perversion of both state and federal law and its myopic policy judgments. Specifically, such criticism has focused on Judge Kozinski's treatment of copyright accounts receivable, his failure to clearly delineate the boundaries of federal preemption, and the detrimental impact that federal pre-emption could pose to commercial transactions involving works-in-progress and after-acquired property. While Avalon dealt with all these issues, it underscored most notably the problems associated with the latter two.

A. Registered and Unregistered Copyrights

Indeed, by holding that perfection of security interests in both registered and unregistered copyrights is governed by federal law, Avalon disposed of a critical preemption issue that Peregrine avoided. One can argue that this holding disregards the legislative intent behind the Copyright Act, since the drafters of the Act deliberately excluded unregistered copyrights from its perfection provisions. Similarly, one can also argue that Avalon disregards the plain language of Article 9, which is triggered only “to the extent” that the Copyright Act governs the rights of parties to and third parties affected by security interests in copyrightable material. Under this theory, therefore, Article 9 would simply not apply in the case of security interests in unregistered copyrights.

137. See supra note 16 and accompanying text.
138. See supra notes 94-95 and accompanying text.
139. See supra note 16 and accompanying text.
140. See supra notes 16, 31 and accompanying text; infra notes 158-68.
142. For a discussion of this issue, see Haemmerli, supra note 11, at 1665-68. Haemmerli argues that because “the 1976 Act deliberately excluded unregistered copyrights from the coverage of its perfection provisions . . . Article 9 should not be rendered inapplicable to them.” Id. at 1668.
143. See id. at 1668 (citing Weinberg & Woodward, supra note 35, at 459-60). Weinberg and Woodward note that the drafters of the Act likely believed that “an unregistered copyright would be too ill-defined for constructive notice to attach to the filing of a [security agreement].” Weinberg & Woodward, supra note 35, at 460.
144. See supra note 61 and accompanying text.
145. See Haemmerli, supra note 11, at 1668.
The above arguments, however, fail to recognize the logic behind the Copyright Act's perfection provisions. The distinction between registered and unregistered copyrights was likely made not to exclude the latter from the Act's coverage; rather, it apparently underscored the drafters' desire to encourage the registration of copyrightable material and thereby expand the applicability of a newly re-formulated scheme of federal copyright protection.\footnote{146. See Weinberg & Woodward, supra note 35, at 460 & n.148 (citing STAFF OF HOUSE COMM. ON THE JUDICIARY, 88TH CONG., COPYRIGHT LAW REVISION; PART 2; DISCUSSION AND COMMENTS ON REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW 161 (Comm. Print 1963)).}

In any event, regardless of whether an underlying copyright is registered, the Copyright Act still governs the rights of parties to and third parties affected by transactions involving copyrights. To be sure, if secured creditors fail through inadvertence or otherwise to register the underlying copyright, their security interests will not be perfected.\footnote{147. See 17 U.S.C. § 205(c) (1994).} This, however, does not change the "extent"\footnote{148. U.C.C. § 9-104(a) (1995).} to which the Copyright Act governs the parties' rights. On the contrary, it only determines the practical effect of the Act's applicability. In other words, the Act always governs the parties' rights because it determines in both cases—registered and unregistered copyrights—whether a creditor's security interest is perfected.

The impact of Avalon, however, extends beyond its holding that the Copyright Act governs security interests in both registered and unregistered copyrights. Indeed, Avalon further complicated the debate on federal preemption by holding that federal law governs the perfection of security interests in any product that is copyrightable, regardless of whether the product also qualifies for state protection as a trade secret.\footnote{149. See In re Avalon Software Inc., 209 B.R. 517, 521-22 (Bankr. D. Ariz. 1997); supra notes 125-27 and accompanying text.} Apparently, the Avalon court felt that labeling a copyrightable product as a trade secret constituted nothing more than

\footnote{The court supported this proposition by citing to a case in which an appellate court rejected an argument because a party raised it for the first time on appeal and not because of its merits. See Avalon, 209 B.R. at 521-22 (citing Zenith Prods., Ltd. v. AEG Acquisition Corp. (In re AEG Acquisition Corp.), 161 B.R. 50, 55-56 (B.A.P. 9th Cir. 1993) ("Moreover, we normally will not consider a new issue on appeal absent extraordinary circumstances. We are especially reluctant to consider a new issue on appeal where the issue does not involve a 'pure' question of law.") (citations omitted)). The relevancy of this appellate rule of law is unclear since Avalon is not an appellate case.}
an unwarranted end-run around the perfection provisions of the
Copyright Act.

Such reasoning, however, disregards the plain language of both
the Copyright Act and Article 9 of the UCC,150 as well as the logic of
Peregrine itself.151 Moreover, this reasoning disregards the economic
and strategic realities that govern many commercial transactions re-
lated, for example, to security interests in computer software.152 In-
deed, owners of computer software frequently do not register the
software as a copyright but rather hold it as a trade secret.153 Even if
they do seek copyright registration, the United States Copyright

150. Trade secrets are considered general intangibles within the meaning of
Article 9. See U.C.C. § 9-106 (defining general intangibles as "any personal
property (including things in action) other than goods, accounts, chattel paper,
documents, instruments, investment property, rights to proceeds of written let-
1013, 1016 (D.N.H. 1966) (holding that confidential engineering concepts, ideas,
and principles are general intangibles within the meaning of the UCC); Thomas
L. Bahrick, Security Interests in Intellectual Property, 15 AIPLA Q.J. 30, 32
(1987) (noting that "patents, copyrights, trademarks, and trade secrets are intan-
gible legal rights distinct from the tangible property to which they pertain");
Thomas M.S. Hemmes & Susan Barbieri Montgomery, The Bankruptcy Code,
The Copyright Act, and Transactions in Computer Software, in COMPUTER
SOFTWARE 1988 657, 700 (PLI Patents, Copyrights, Trademarks, and Literary
Property Course Handbook Series No. 255, 1988) (noting that "[b]oth copyrights
and trade secrets fall within the Article 9 definition of 'general intangibles'").

Furthermore, federal law does not normally preempt state regulation of
trade secrets and security interests therein. See U.C.C. §§ 9-104(a), 9-302(3)(a);
1986) (holding that trade secrets are not preempted by the Copyright Act);
Dombos, supra note 2, at 679 (noting that in the case of trade secrets, as opposed
to copyrights, the "simple rule" mandates appropriate state filings).

151. See National Peregrine, Inc. v. Capitol Fed. Sav. & Loan Ass'n (In re
Peregrine Entertainment, Ltd.), 116 B.R. 194, 199 (C.D. Cal. 1990). Judge Koz-
inski predicated his endorsement of federal preemption on the fact that both the
Copyright Act and Article 9 of the UCC contain recording provisions relating to
the perfection of security interests in copyrights. See id. Specifically, Judge
Kozinski sought to avoid the confusion, expense, and delay of complying with
multiple systems and to ensure that the state priority scheme did not directly in-
terfere with the operation of federal law. See id. at 200-01; supra Part III.A. It is
therefore incongruous to hold that state protection of trade secrets and security
interests therein, which are wholly a product of state law, should be preempted
by the Copyright Act. See Mark F. Radcliffe & Nels R. Nelsen, Perfecting Secu-

152. See Baumgarten, supra note 16, at 593; Mitchell Zimmerman, Copyright
in the Digital Electronic Environment, in UNDERSTANDING BASIC COPYRIGHT
LAW 409, 451-53 (PLI Patents, Copyrights, Trademarks, and Literary Property

153. See Baumgarten, supra note 16, at 593.
Office has certain procedures in place that allow them to maintain
the trade secret status of their software.\textsuperscript{154}

The new rule set forth in \textit{Avalon}, however, threatens to destroy
this balance. Now, creditors with security interests in computer soft-
ware must forgo the benefits of state trade secret protection, to which
they were once entitled, simply because the software may be capable
of copyright registration.\textsuperscript{155} The problem, of course, is not limited to
the computer industry. One only need consider an engineer who has
trade secrets in certain concepts, ideas, and principles; once those se-
crets are put into the form of blueprints and drawings, the engineer
will lose, at least under \textit{Avalon}, recourse to state trade secret protec-
tion.\textsuperscript{156} The same result would occur in the case of a restaurateur who
has trade secrets in recipes and methods of preparation.\textsuperscript{157}

\textbf{B. After-Acquired Property and Work-in-Progress}

After \textit{Peregrine}, many commentators feared that creditors would
be hesitant to rely on derivative intellectual property in structuring
commercial transactions.\textsuperscript{158} Even Judge Kozinski acknowledged the
inconvenience engendered by federal filing:

[I]t's worth noting that filing with the Copyright Office can
be much less convenient than filing under the UCC. This is
because UCC filings are indexed by owner, while registra-
tion in the Copyright Office is by title or copyright registra-
tion number. See 17 U.S.C. § 205(c). This means that the
recording of a security interest in a film library such as that
owned by NPI will involve dozens, sometimes hundreds, of

\textsuperscript{154} See Zimmerman, supra note 152, at 451-53.
\textsuperscript{155} Even if the drafters of the Copyright Act sought to encourage the regis-
tration of copyrights, it is doubtful that they intended to displace state protection
of state-created intellectual property. See supra note 151 and accompanying text.
\textsuperscript{156} See generally Antenna Sys., 251 F. Supp. at 1016 (holding that confidential
engineering concepts, ideas, and principles are general intangibles within the
meaning of the UCC).
\textsuperscript{157} See generally Buffets, Inc. v. Klinke, 73 F.3d 965 (9th Cir. 1996) (rejecting
claim that recipes for such well-known American dishes as BBQ chicken and
macaroni and cheese were trade secrets).
\textsuperscript{158} See Baldwin, supra note 1, at 1716-19; Barry, supra note 4, at 594-96;
Baumgarten, supra note 16, at 591-93; Dornbos, supra note 2, at 669-71; Wein-
berg & Woodward, supra note 35, at 475-76.

Recall that Article 9 of the UCC, unlike the Copyright Act, allows a credi-
tor to establish a blanket lien on a debtor’s intellectual property and to obtain
and perfect a security interest on property which the debtor may acquire in the
future, after the security interest has been filed. See supra notes 56-57 and ac-
companying text.
individual filings. Moreover, as the contents of the film library changes [sic], the lienholder will be required to make a separate filing for each work added to or deleted from the library. By contrast, a UCC-1 filing can provide a continuing, floating lien on assets of a particular type owned by the debtor, without the need for periodic updates. See UCC § 9204.159

While Peregrine did not directly implicate after-acquired property and work-in-progress, since the debtor’s copyrights in that case consisted of an established library of completed motion picture films,160 commentators predicated their concern on three realities of the Copyright Act: first, copyright protection extends to a work once it is fixed in any tangible medium of expression;161 second, security interests must specifically describe the copyright at issue;162 and third, the copyright itself must be registered before a security interest therein can be perfected.163

The cumulative effect of these procedures, they felt, would burden the financing process. Every line of software code, every chapter of a novel, and every daily shooting of a film would have to be registered with the United States Copyright Office before a secured creditor could perfect its interest.164 When one considers the delay accompanying every application for copyright registration,165 the cost of making repeat registrations,166 and the threat that creditors might lose their investments should their debtors file for bankruptcy,167 creditors’ incentives to base financing on intellectual property in its development stage would rapidly dwindle. Furthermore, the Copyright Act’s allowance of a one to two month window after the execution of a

160. See supra note 86 and accompanying text.
162. See id. at § 205(c).
163. See id.
164. See Weinberg & Woodward, supra note 35, at 475-76.
165. See Barry, supra note 4, at 597-98 (noting that the “Copyright Office has experienced a substantial increase in the number of documents submitted for recordation in the last few years, particularly after Peregrine was handed down, leading to a backlog of up to nine months”). Another commentator has noted that Peregrine led to a 50% increase in the recordation of transfer documents with the United States Copyright Office. See Baumgarten, supra note 16, at 594.
166. See Baumgarten, supra note 16, at 593.
167. See supra note 9 and accompanying text.
security agreement during which the creditor need not file at the United States Copyright Office would only amplify the risk to creditors in general. After Avalon, these commentators’ fears appear to have materialized. By holding that the Copyright Act governs the perfection of security interests in both registered and unregistered copyrights, the Avalon court forced all creditors with security interests in copyrights to confront the deficiencies of the current federal system. The court’s attempt to lessen the impact of the registration process by referring to it as a “simple step,” however, hardly lowers the hurdles that now face today’s creditors and debtors alike, at least in the case of work-in-progress.

Curiously, however, the court’s holding in Avalon may actually lessen the burden on creditors in terms of recording their security interests in after-acquired copyrights, as opposed to registering the underlying copyrights themselves. Indeed, Avalon is the first case to hold that a creditor can record its security interest even before the underlying copyright is registered. Under this rationale, creditors need not file multiple security interests as new collateral comes into existence and the debtor acquires rights in it. Instead, they need file only one security agreement containing an after-acquired provision, remembering to register new copyrights as they are created.

The court’s holding, however, remains suspect on at least two grounds. First, it is predicated on the UCC’s provision that a security agreement can be filed against property not even in existence at the time the agreement is recorded. Such logic, however, misses the central thrust of Peregrine, namely that federal law preempts state methods of perfecting security interests in copyrights. Given this, it

168. See Baldwin, supra note 1, at 1718-19; Baumgarten, supra note 16, at 593-94.
170. See supra notes 121-24 and accompanying text.
171. See Avalon, 209 B.R. at 522.
172. See id. at 523.
173. See supra note 123 and accompanying text.
174. See Peregrine, 116 B.R. at 199, 201-02; supra notes 97-106 and accompanying text. Judge Marlar contradicts his understanding of the law when he later states that “[f]ederal law is clear and well-settled that state laws, which come within the scope of federal copyright laws, are preempted.” Avalon, 209 B.R. at 523 (citing Maljack Prods., Inc. v. GoodTimes Home Video Corp., 81 F.3d 881, 888 (9th Cir. 1996)).
is simply inaccurate to conclude that a UCC provision could determine how a court applies federal copyright law.\footnote{See Avalon, 209 B.R. at 523; Peregrine, 116 B.R. at 199, 201-02.} Furthermore, the federal requirement that a security interest specifically identify the copyright to which it pertains\footnote{See 17 U.S.C. § 205(c)(1).} renders the court's over-generalized statement theoretically impossible.\footnote{See Weinberg & Woodward, supra note 35, at 451 (noting that “[m]eaningful filings with respect to transactions that are merely contemplated, to property not already in existence, or to loans that might, but will not necessarily, be advanced are conceptually impossible”) (emphasis added).}

Second, the court's holding is simply misguided from a practical standpoint. Because copyrights must still be registered before a security interest is perfected,\footnote{See 17 U.S.C. § 205(c)(2).} the court's skewing of Peregrine's logic does not really save creditors much time or expense. The registration requirement also means that too many early recordations could clog the United States Copyright Office with a backlog of filings which, without more, have no legal effect. This would only jeopardize the system's ability to efficiently process documents that do relate to registered copyrights.\footnote{See supra note 165 and accompanying text.} In such cases, creditors hoping to finalize commercial transactions will be forced to endure an even longer period of uncertainty during which they may ultimately lose their investments.

V. PERFECTING THE SYSTEM: A FEDERAL SOLUTION

After Peregrine and Avalon, it appears that a federal filing is required to perfect security interests in both registered and unregistered copyrightable material, even if such material could also be construed as another form of intellectual property historically subject to state regulation.\footnote{See supra Part III.A-B.} One must remember that because Peregrine and Avalon are lower federal court and bankruptcy court decisions, respectively, they lack “binding precedential value on other courts either in California or elsewhere.”\footnote{See supra Part III.B.} For this reason alone, creditors seeking to perfect security interests in copyrights should continue to file at both the federal and state levels.

\footnote{Melvin Simensky, The New Role of Intellectual Property in Commercial Transactions, ENT. & SPORTS LAW., Spring 1992, at 5, 8 (emphasis added). Significantly, however, no court has reversed or otherwise limited any part of Peregrine since that case's decision in 1990. Indeed, Avalon represents a significant expansion of Peregrine's logic. See supra Part III.B.}
The practical necessity of multiple filings underscores the disadvantages that our federalist system can pose to modern commercial transactions. As intellectual property continues to grow as a dominant force in commercial financing, any long-term solution must achieve two goals to be viable: maximum certainty and minimum cost.

Numerous alternatives, ranging from wholly state-based systems to hybrid state-federal systems to exclusively federal systems, aim to achieve these goals. While each system has advantages and disadvantages, a reformulated federal system probably offers the best hope of encouraging and maximizing the use of copyrights as collateral at the local, national, and international levels. A brief discussion of each system's principal components and underlying policy objectives should make this clear.

A. The State Approach

Under a state approach, Article 9 of the UCC would govern the perfection of security interests in copyrights. This approach would have two advantages. First, it would allow creditors to obtain blanket liens on debtors' property as well as liens on debtors' after-acquired property. In the case of conflicting security interests, a relatively straightforward notice scheme would determine priority. Because there would be no requirement of copyright registration at the state level, this approach would also encourage transactions involving work-in-progress. Second, since practitioners are already familiar with current state recordation provisions, they would not waste significant energy or resources deciphering intricate and multifarious compliance procedures.

These advantages, however, cannot overcome the realities of current federal statutory and case law. The Copyright Act on its face governs the perfection and priority of security interests in registered copyrights. Federal preemption in this area is also bolstered by the step-back provisions of the UCC. Further, current case law and,

182. See Weinberg & Woodward, supra note 35, at 482.
183. See id.; Baldwin, supra note 1, at 1726.
184. See, e.g., Barry, supra note 4, at 606-07.
185. See, e.g., Haemmerli, supra note 11, at 1739-41.
186. See, e.g., Baldwin, supra note 1, at 1732-37.
187. See supra notes 56-57 and accompanying text.
188. See supra note 52 and accompanying text.
189. See supra notes 28-33 and accompanying text.
190. See supra notes 60-66 and accompanying text.
arguably, the language and legislative history of the Copyright Act itself, hold that federal law governs the perfection and priority of unregistered copyrights.\footnote{See supra notes 128-30, 142-48 and accompanying text.}

Any exclusively state approach, therefore, would entail significant amendments to both federal and state law. Even if such legislative reform were feasible,\footnote{See infra Part V.C for a discussion of the interests which support the establishment of an exclusively federal system.} the problem of repetitive searches in multiple state offices would still complicate creditors' efforts to verify the status of encumbered property and to properly perfect their interests.\footnote{See supra notes 101-04 and accompanying text. For example, the creditor in \textit{Peregrine} apparently deemed it prudent to file in three states. See \textit{National Peregrine, Inc. v. Capitol Fed. Sav. & Loan Ass'n (In re Peregrine Entertainment, Ltd.)}, 116 B.R. 194, 198 n.4 (C.D. Cal. 1990).}

\section*{B. The Hybrid State-Federal Approach}


One commentator has suggested that federally registered copyrights should be subject to the Copyright Act while unregistered copyrights would remain under the jurisdiction of the UCC.\footnote{See Haemmerli, \textit{supra} note 11, at 1739-41.} In addition to clearly delineating the boundaries of federal preemption, this scheme would also reduce "perfection-induced anxiety" by eliminating the need to register copyrights which do not really merit registration in the first instance and by allowing blanket security
interests in unregistered copyrights and security interests in after-acquired, unregistered copyrights. 197

Invoking *Peregrine*, however, the court in *Avalon* flatly rejected this scheme as a "novel proposition" lacking authority. 198 Even if the Copyright Act supported such a proposition, it would still entail the needless expense and delay of conducting a preliminary search at the United States Copyright Office to determine if a copyright is registered in the first place. Such gratuitous searches only underscore the inefficiency that a new regime should remedy.

The American Bar Association Task Force on Security Interests in Intellectual Property ("Task Force") 199 and the Article 9 Study Committee of the Permanent Editorial Board of the Uniform Commercial Code ("Article 9 Committee") 200 each contributed more complicated proposals in the early 1990s. Both proposals recommended the adoption of a mixed approach to perfection and priority but differed over the necessary details. 201

Under the Task Force approach, a UCC filing would perfect security interests in copyrights. 202 Creditors, however, would still need to file a copy of the UCC financing statement at the United States Copyright Office. 203 State filing would determine priority as against all claimants other than purchasers for value. 204 A new federal notice filing system would determine priority as against purchasers for value; indexed by the debtor's name, this system would replace the existing tract system. 205

Under the more convoluted Article 9 Committee approach, a new federal notice filing system for security interests, indexed by debtor name, would supplement the existing federal tract index. 206 Creditors would perfect security interests in copyrights only by recording under either Article 9 or the existing federal tract index. 207 While Article 9 would determine priority as against subsequent

197. *See id.* at 1739-40.
201. For a detailed discussion of these reform proposals, see Baldwin, *supra* note 1, at 1720-26; Barry, *supra* note 4, at 598-602; Haemmerli, *supra* note 11, at 1725-29.
203. *See id.* at 436.
204. *See id.* at 435.
205. *See id.*
207. *See id.* at 51 (Recommendation C).
secured creditors.208 a first-to-file rule would determine priority as against subsequent purchasers in either the federal tract or the federal notice systems.209 This means that a purchaser or secured party who records in the federal tract index would have priority over other security interests perfected in accordance with Article 9 but not recorded under either federal system. This also means that the only way to both perfect a security interest in a copyright and ensure priority over subsequent secured creditors and purchasers alike would be to file under the existing federal tract system, the very system which is in such dire need of reform.

At this point, it should be clear that any long-term solution which hopes to instill consistency into the current system must also strive for a degree of simplicity. To be sure, while the Task Force approach clearly confines perfection to Article 9, it splits the determination of priority among the federal and state systems. Even worse, the Article 9 Committee approach splits both perfection and priority among a tripartite, state-federal system. Perfection and priority, however, are integral concepts, at least from the perspective of creditors seeking a convenient and comprehensible way to secure their investments.

Congress took the first step toward reforming the current system with the Copyright Reform Act of 1993.210 The proposed changes included overturning Peregrine by restricting the extent of federal pre-emption.211 Commentators have criticized the bill, however, for leaving undefined the boundaries of state and federal law.212 Ultimately, the bill passed the House of Representatives without the provision overturning Peregrine.213

208. See id. (Recommendation D).
209. See id.
211. Title 1 of House Bill 897 would have added the phrase “perfecting security interests” to the language of 17 U.S.C. § 301(b), thus exempting perfection of security interests from coverage of the Copyright Act. See H.R. 897, § 101.
212. See, e.g., Barry, supra note 4, at 603 (noting that the bill failed to eliminate the “uncertainty that plagued perfection of security interests in copyrights prior to Peregrine”).
213. See H.R. 897.
C. The Federal Approach

Rather than overturning Peregrine, as advocated by the Copyright Reform Act of 1993, legislators should embrace the logic of preemption espoused by Judge Kozinski.\(^\text{214}\) Properly understood, such logic has its roots in the United States Constitution, which provides that “[t]he Congress shall have Power... To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”\(^\text{215}\) Furthermore, the Supremacy Clause of the United States Constitution, which provides that federal laws “shall be the supreme Law of the Land[,]”\(^\text{216}\) ensures this power.

In keeping with this constitutional mandate, the Supreme Court has recently acknowledged that the purpose of copyright law is to encourage the dissemination of socially valuable works.\(^\text{217}\) In a similar vein, Judge Kozinski reasoned in Peregrine that federal copyright laws secure predictability and certainty of copyright ownership, thereby giving effect to Congress’s policy that copyrights be readily transferable in commerce.\(^\text{218}\)

Still, one commentator has suggested that “‘strong federal interest[s]’ in intellectual property financing do not satisfy the tests for preemption articulated by the Supreme Court.”\(^\text{219}\) This assertion may be technically correct as to the characterization of the required federal interest. The suggestion that federal law should not preempt state-based copyright financing, however, does not survive close scrutiny.\(^\text{220}\)

\(^{214}\) See supra notes 97-106 and accompanying text.

\(^{215}\) U.S. Const. art. I, § 8, cl. 8.

\(^{216}\) Id. art. VI, § 2. See also Gibbons v. Ogden, 22 U.S. (9 Wheat.) 1, 211 (1824) (holding that state laws are invalid if they “interfere with, or are contrary to the laws of Congress”).

\(^{217}\) See Feist Publications, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 349 (1991) (noting that the “primary objective of copyright is not to reward the labor of authors, but ‘[t]o promote the Progress of Science and useful Arts’”).

\(^{218}\) See supra notes 98-99 and accompanying text.

\(^{219}\) Haemmerli, supra note 11, at 1730 (citing Baldwin, supra note 1, at 1727-28). Haemmerli concludes that these judicial tests reveal a “determination to preempt state law that undermines the balance that Congress has established.” Id. at 1675. Haemmerli, however, does not clarify the constituent elements of this “balance.”

\(^{220}\) Even Haemmerli reasons that where the congressional objectives underlying federal law are frustrated, state law cannot stand. See id.
Indeed, copyrights today derive considerable value from their marketability as collateral in commercial loans.\textsuperscript{221} In this regard, \textit{Peregrine}'s discussion of copyright receivables proves helpful: Just as copyright receivables are intertwined in a symbiotic relationship with the exclusive rights of copyright ownership created in 17 U.S.C. § 106, thereby justifying their inclusion under the Copyright Act's preemptive reach,\textsuperscript{222} so too does the transferability of these exclusive rights pursuant to 17 U.S.C. § 201 depend on the copyright's value as collateral. If a copyright's value as collateral is entrusted to a system for the recodarion of security interests that is not comprehensive, efficient, and easy to use, Congress's power to encourage and support the dissemination of copyrightable material will be compromised.\textsuperscript{223}

Because the current bifurcated system does not facilitate commercial transactions involving copyrights, and because the power to regulate the perfection and priority of security interests in copyrights should repose in a unified, federal system, Congress must undertake serious legislative reform. To be effective, the contours of the new federal system should incorporate elements from the existing state and federal systems. This would require three principal changes. First, only security interests in copyrights would be subject to federal copyright law. Second, the new system would eliminate the current requirement that the underlying copyright be registered. Third, a notice filing system, indexed by debtor name, would supplement a revised tract index. Neither index, however, would allow for grace periods.

The proposal that federal copyright law extend only to security interests in copyrights seeks to overturn \textit{Avalon}'s holding that all copyrightable work must be federally registered in order to perfect a security interest therein, regardless of whether such work may be properly characterized as a trade secret.\textsuperscript{224} State law has historically

\textsuperscript{221} See supra notes 1-3 and accompanying text.
\textsuperscript{223} Another argument posits that a wholly federal system regulating security interests in copyrights is impractical since many commercial transactions involve collateral consisting of more than copyrights. See Haemmerli, supra note 11, at 1730-31. This argument, however, misses the point. Just because many transactions involve a variety of property does not justify the maintenance of a bifurcated system that controls some but not all of the property in the transaction. Instead, by developing one system that applies uniformly to security interests in copyrights, Congress would encourage the efficient financing of all transactions, regardless of the amount of copyrightable material involved.
\textsuperscript{224} See supra notes 123-27 and accompanying text.
regulated trade secrets. Further, the language of the Copyright Act does not extend to security interests in trade secrets.

Segregating the treatment of trade secrets and copyrights along state-federal lines will preserve a delicate balance in our federalist system. It will not, however, undermine the substantive rights associated with either form of intellectual property. Indeed, depending on whether one characterizes a work as a trade secret or a copyright, that work may possess different value and confer different rights upon the creditor who takes it as collateral in a commercial loan. If a debtor’s property qualifies as both a copyright and a trade secret, then the creditor’s choice of where to file should be discretionary.

In terms of the actual mechanics of a new federal system, discarding the current requirement of federal copyright registration would prove significant. Since copyright registration currently threatens the viability of using work-in-progress as collateral in commercial transactions, relinquishing this requirement will encourage transactions involving after-acquired property. Creditors, therefore, could tailor their transactions as broadly or as narrowly as necessary to satisfy their individual economic and strategic goals without having to repeatedly register their collateral. Moreover, dispensing with copyright registration will not hamper the quality of constructive notice provided by perfection, as explained below.

The mechanics of a new federal system would further include the creation of a new notice filing system, indexed by debtor name. This index would facilitate the establishment of blanket liens on and liens on after-acquired property of the debtor. This, in turn, would reduce the repetitive recordation of transfer documents required under the current system. While the elimination of grace periods would necessarily foster a degree of uncertainty, since creditors cannot simultaneously execute and file transaction documents and since any filed document may relate to multiple past and future transactions, practitioners who are already adept at working with the UCC would likely welcome this particular form of uncertainty. Indeed, the elimination of grace periods would at least assure the creditor that no prior unrecorded transactions exist that could take priority over that creditor’s interest.

225. See supra note 150 and accompanying text.
226. See supra Part II.A.
227. See supra Part IV.B.
228. See Haemmerli, supra note 11, at 1668.
229. See supra notes 35, 52 and accompanying text.
Finally, maintaining the existing tract system—without grace periods or the registration requirement—would benefit creditors seeking to verify the status of known copyrights. Creditors could access this system by either the name of the copyrighted work or by a "tract index" file number.

Perfection and priority would depend on making an initial filing at the United States Copyright Office indexed by the name of the debtor in the new notice filing index and assigned a "notice index" file number. The filing would also describe each copyright capable of specific identification. The Copyright Office could establish procedures that govern when a copyright is capable of specific identification and the level of description required. The Copyright Office would then assign a "tract index" file number to each copyright so identified in the initial filing. Each tract index file number could serve as the basis for the corresponding copyright's inclusion in the revised tract index.

Take the example of a creditor with a security interest in a film library consisting of fifty copyrightable films, some of which are finished products and others of which are in the process of development, but all of which are capable of specific identification as per Copyright Office guidelines. Assume further that the security agreement extends to any after-acquired property in the form of work-in-progress or copyright receivables. This creditor would submit an initial filing, destined for the notice index, accompanied by fifty additional forms, one for each of the films, all destined for the tract index. At this point, the creditor would have perfected its interest and would have priority as against subsequent secured creditors and purchasers alike.

If, on the other hand, the creditor's security agreement extended to any future copyrights acquired by the debtor, such that specific identification of copyrightable material is not possible, the creditor would simply make the initial filing in the notice index. Again, once the security interest attaches, the creditor would have perfected its interest and achieved priority against any subsequent secured creditors and purchasers.230

230. *See* U.C.C. § 9-303(1) (1995) ("A security interest is perfected when it has attached and when all of the applicable steps required for perfection have been taken."). As soon as the debtor acquires rights in a copyright, the interest would attach and perfect simultaneously. *See id.* § 9-203(1) (requirements of attachment); *see also* Bank of the West v. Commercial Credit Fin. Servs., Inc., 852 F.2d 1162 (9th Cir. 1988) (bank acquired perfected security interest in debtor’s future-
This new system could still require a creditor to file periodic updates describing any after-acquired property related to the copyrights or copyrightable material referenced in the original security agreement. Accordingly, creditors would file a single document under the notice index number pertaining to the underlying transaction involving the debtor. The Copyright Office would then insert copies of the relevant portions of this document into each of the tract files that correspond to the copyrights referenced in the original security agreement. If the original transaction involved only a notice filing—because the copyright collateral did not exist at the time of filing—and the creditor has since acquired rights in copyrights capable of specific identification, the creditor would then submit the appropriate forms for filing in the tract index.\textsuperscript{231}

Failure to submit the required forms would not impact the creditor's perfection or priority since the notice-index filing would have already imparted constructive notice to the world. Instead, the Copyright Office could assess a monetary penalty against creditors for failing to refile. The Copyright Office could use all such penalties to help finance the system.

This unified federal system would thus ensure the twin goals of efficiency and certainty that are essential to perfecting security interests in copyrights. Any creditor wanting to verify the status of a debtor's property would simply conduct a search under the debtor's name in the notice index. If a creditor was interested in verifying the transactional history of a given copyright, it could also search the tract index, provided it knew the title of the copyright or the copyright's tract file number. Either way, creditors would have constructive notice of any actual or potential encumbrances on the lender's property. If a creditor found any encumbrances, it would then be sure to obtain sufficient warranties of title from its debtor. Finally, as technology develops and resources allow, this unified system could be incorporated into an even more efficient and accessible electronic database.\textsuperscript{232}

\textsuperscript{231} In a sense, this reoriented tract index would serve as an informal registration system. Once a creditor obtains a security interest in a specifically identifiable copyright and records that interest, the Copyright Office would then catalogue the encumbered copyright in the tract index under its name and assigned a file number. The creditor would eventually make appropriate filings for any updates or modifications to the copyright.

\textsuperscript{232} See, e.g., Baldwin, supra note 1, at 1736 n.162 ("If documents filed with

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acquired inventory, accounts, and proceeds at time transfer of the assets took effect because financing statement covering a security interest in such collateral was already on file).
VI. CONCLUSION

Copyrights already play a vital role in the financing of commercial transactions. As the information age continues its progression into an increasingly complex and global economy, the collateralizing of copyrights will only intensify. Despite such seeming progress, however, the bifurcated state and federal statutory scheme for perfecting security interests in copyrights remains mired in inconsistency and inefficiency. While *Peregrine* and *Avalon* have elucidated the extent to which federal law preempts state law in this area, these cases have simultaneously exposed the problems created when federal preemption extends both too far and not far enough. There is no reason why copyright law should preempt state regulation of security interests in trade secrets simply because trade secrets may happen to be copyrightable themselves. On the other hand, uniform application of existing federal law is burdensome and archaic when considered in light of modern UCC financing principles.

A new system is needed to govern the perfection and priority of security interests in copyrights. While state-based systems ignore the federal interests involved, hybrid state-federal systems perpetuate confusion and inefficiency. A unified federal system thus presents the best long-term solution. Properly designed, such a system would not only encourage and facilitate commercial transactions involving security interests in copyrights, it would also give effect to the preemptive federal interest in this area.\(^2\)\(^3\) Concerted congressional reform is the first step toward realizing these twin goals of efficiency and certainty.

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