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Striving for Perfection: The Reform Proposals for Copyright-Secured Financing

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THE REFORM PROPOSALS FOR
COPYRIGHT-SECURED FINANCING

I. INTRODUCTION

When making a loan, it is of paramount importance for a lender to perfect its security interest in the property used as collateral. As part of the process for perfection, the lender records its security interest in the appropriate office. Recordation then gives rise to constructive notice indicating that the collateral is already encumbered, and thus prioritizes the security interests as they pertain to that particular collateral. So, in the event of a bankruptcy, or when the borrower defaults on the loan, perfection secures the lender against third parties, and allows the lender to use the proceeds from the sale of the collateral to satisfy the debt.

In the imperfect world of intellectual property secured financing, the current law makes it very difficult for a lender to perfect its security interest in intellectual property. When the collateral is a copyright, the lender meets considerable hurdles. To perfect its security interest, the lender must ensure that the copyright has been registered with the U.S. Copyright Office and then record its security interest there. This

1. "Perfection" is the "[v]alidation of a security interest as against other creditors, usu[ally] by filing a statement with some public office or by taking possession of the collateral." BLACK’S LAW DICTIONARY 1157 (7th ed. 1999) [hereinafter BLACK’S].

2. A "security interest" is "an interest in personal property or fixtures which secures payment or performance of an obligation." U.C.C. § 1-201(37) (1999).

3. "Collateral" is "[p]roperty that is pledged as security against a debt; the property subject to a security interest." BLACK’S, supra note 1, at 255. According to the Uniform Commercial Code, "collateral" is "the property subject to a security interest." U.C.C. § 9-105(1)(c) (1999).

Comment describes why such a two-step process is problematic and accordingly suggests a solution based in federal law.

When borrowing money, the borrower wants to obtain the highest premium and the most favorable loan terms. One way it can do this is by pledging a valuable asset as collateral—for example, a copyright, patent, or trademark. In fact, borrowers often pledge many forms of property in one collateral package to secure a loan. But risks, whether they involve the valuation of that collateral package or the process for perfecting a security interest, increase the costs associated with such secured transactions. Thus, by minimizing the risks associated with the transaction, the borrower can maximize the funds borrowed.

A brief discussion of the risks will illuminate some of the issues borrowers and lenders face. In intellectual property secured financing, one type of risk involves the inherent nature of the collateral. More than real property, intellectual property tends to gain and lose value very quickly. For that reason, valuing intellectual property is often more challenging than valuing other kinds of real or personal property.

5. This Comment focuses on copyrights used as collateral in secured transactions. Patents, trademarks, and other types of intellectual property deserve separate analyses due to their inherent differences. Often, however, different types of property form a single collateral package. In other words, a loan is often secured not only with a copyright, but also with other forms of property, such as accounts receivable, equipment, real property, and trademarks, all of which together secure the loan.

As of this writing, the Franklin Pierce Law Center, in a joint effort with the University of Maine School of Law and the University of New Hampshire Whittemore School of Business & Economics, has embarked upon a study commissioned by the U.S. Patent and Trademark Office to assess the feasibility of a centralized intellectual property registry. Ultimately, such a registry would be the only place to search for security interests in all federal intellectual property. See Electronic Message from Thomas M. Ward, Professor, University of Maine (Feb. 7, 2000) (on file with the Loyola of Los Angeles Law Review); Electronic Message from William J. Murphy, Professor, Franklin Pierce Law Center (Nov. 24, 1999) (on file with the Loyola of Los Angeles Law Review). For a review of the methods for perfection of security interests in copyrights, patents, and trademarks, 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, 1707-16 (1995).


7. The high rate of change in the computer industry is one example of how intellectual property tends to gain and lose value very quickly.
Accurate valuation is important, however, because if a lender cannot ascertain the value of the property, it might either withdraw from the transaction or loan much less than what the borrower believes is justified.\footnote{8}

Another type of risk relates to the secured transaction itself, having to do with recordation, indexing, and searching. These risks may also cause a lender to decline to make the loan or significantly reduce the borrower’s negotiating power. To reduce these risks, the process for perfecting a security interest must be certain and predictable.\footnote{9} The lender should face no more than \textit{de minimis} risks; if the borrower defaults on a loan, the lender should be able to sell the copyright used as collateral and apply the proceeds against the borrower’s obligation.\footnote{10}

Because intellectual property is such a valuable commodity,\footnote{11} it is critical that Congress\footnote{12} settle the law governing this kind of secured

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9. See Barry, \textit{supra} note 6, at 583-84.
10. “Proceeds” are “whatever is received upon the sale, exchange, collection or other disposition of collateral.” U.C.C. § 9-306(1) (1999).
11. Intellectual property is ubiquitous, touching everything—from genetic coding to supermarket scanners, from the Internet to the movies, from brand names to commercial processes. In terms of the commodification of intellectual property, the Court of Appeals for the Federal Circuit, for instance, has continually supported patent holders, making patents an increasingly valuable and stable commodity. See Baldwin, \textit{supra} note 5, at 1705-06. For a discussion of intellectual property in the global market, see Lorin Brennan, \textit{International Copyright Conflicts}, 17 WHITTIER L. REV. 203 (1995). See also Watterberg, \textit{supra} note 8, at 855 n.1 (discussing “internationalization via multinational trade agreements”).
12. Legislation by Congress, and not by individual state legislatures, is required for the uniform protection of borrowers and lenders. \textit{See infra} note 178 and accompanying text; Baldwin, \textit{supra} note 5, at 1732-33 & n.150; Watterberg, \textit{supra} note 8, at 871. It may be argued that Congress can just as easily pass a law making clear that state law governs the process for perfecting security interests in copyrights; however, given the federal policies behind the copyright laws, the Copyright Act should control perfection. \textit{See infra} notes 182-84 and accompanying text. Explicit congressional enactment is also
financing. There is much at stake. For instance, in 1999, the Copyright Office registered 594,501 copyrights. Of those, 283,187 registrations were for literary works, encompassing computer software and Internet-related copyrights.

The value of other forms of intellectual property has also increased. In 1999, the U.S. Patent and Trademark Office issued 169,154 patents worldwide. This represents an increase of 3.6% over the level in 1998 for the United States and 5.8% for California.

In addition to the increased worth of intellectual property, many companies experiencing significant growth, especially start-up software companies, have an enormous need for capital. Although these new, closely-held companies often enjoy the support of venture capitalists, that support sometimes comes with a cost. In exchange for the venture capital, some investors expect an ownership interest in the company. Since some young companies may not wish to divest themselves of any ownership interest, they may instead choose to raise money through other means, such as financing. If intellectual property secured financing is a realistic possibility, a young company may then be able to raise capital on its own terms, even if its only valuable assets are intellectual property, as is often the case.

Even if a company relies on venture capital backing, it may still want to use debt in its capital structure for a number of reasons—for instance, to deduct interest payments for tax purposes or to increase the value of its equity by using leverage. In some cases, the equity market may be unavailable for a company, especially a non-Internet company, until it turns a profit. In short, there are a number of reasons why it

needed to convey to lenders and borrowers alike that this kind of borrowing is reliable.

13. Telephone interview with Cindy Romanyk, Senior Copyright Information Specialist, U.S. Copyright Office (Feb. 29, 1999).
14. See id.
16. See id. California, which received 18,865 patents in 1999, was exceeded by only one foreign nation—Japan—which received 32,515 patents. See id.
17. Since software development often occurs "from individual effort with only minimal capital input," a young firm in the software industry usually has intellectual property as its only valuable asset. Barry, supra note 6, at 584. The firm's other property, such as its equipment and fixtures, is usually of little value. See id. at 584-85.
may be advantageous for a company to borrow against its intellectual property.

Currently, there is an "uncertain nexus" between federal intellectual property law and state commercial law. Partly due to the landmark case *National Peregrine, Inc. v. Capitol Federal Savings & Loan Ass'n*, which in 1990 proscribed the two-step process for perfection, this uncertainty has manifested itself in the law governing intellectual property secured financing. This clash, however, extends beyond the theoretical issues of federal preemption to other practical considerations. Many intellectual property and finance attorneys often are not sufficiently familiar with each others' practices. As intellectual property continues to pervade every aspect of business, corporate and finance lawyers must learn the complex issues involving intellectual property to adequately advise their clients, issues which normally are reserved for intellectual property specialists.

This Comment will present, in Part II, the recent history of copyright-secured financing, discussing the relevant federal and state statutes and case law. Part III will discuss the current reform proposals: the Federal Intellectual Property Security Act proposed by two subcommittees of the American Bar Association (ABA), the Proposed

18. *Id.* at 585.
20. See John P. Fry & Robert L. Lee, *Recovering from Bad Loans: Finding Security in a Borrower's Intellectual Property*, LEGAL TIMES, May 10, 1999, at S30 (discussing the benefits of foreclosing instead of litigating or taking other steps, for the intellectual property to exchange hands from the borrower to the lender in the event the borrower defaults).
21. Fry and Lee also state that:

most of the firm's intellectual property attorneys, and corporate attorneys whose practice involves security agreements where the collateral is some form of intellectual property, never considered how to foreclose on the intellectual property in the event of a default. Additionally, the attorneys who had experience with foreclosures on real property and tangible personal property were in large part also unfamiliar with the issues that might arise when the collateral is intangible personal property, such as a patent.

*Id.*

Copyright Filing Modernization Act advanced by the American Film Marketing Institute,\textsuperscript{24} and the interim measure proposed by the Commercial Finance Association.\textsuperscript{25} The discussion of each proposal will include a description of the proposal along with criticism, as each proposal is bound to pose different problems for borrowers, lenders, third parties—such as purchasers and licensees—and their respective advocates.

Part IV will then present suggestions based on a purely federal system for perfecting security interests in copyrights, similar to the Proposed Copyright Filing Modernization Act advanced by the American Film Marketing Institute. Part V will provide a hypothetical of how a lender would perfect its security interest in Internet-based copyrights under the proposed regime. Finally, this Comment will conclude that a purely federal system most effectively addresses the problems faced by borrowers and lenders when attempting to perfect security interests in copyrights.

II. BACKGROUND: A TALE OF TWO SYSTEMS

A. Conflicting Federal and State Laws

Primarily a creature of federal law, intellectual property presents unique issues when embedded within the context of state commercial law.\textsuperscript{26} For copyrights, the question is whether, and to what extent,
federal law\textsuperscript{27} preempts state commercial law\textsuperscript{28} under the Supremacy Clause of the U.S. Constitution.\textsuperscript{29}

As a starting premise, the federal government does not exercise exclusive authority over intellectual property regulation.\textsuperscript{30} For secured financing, the issue of where to file a security interest instead arises from the interplay between sections 9-104(a) and 9-106 of the UCC.\textsuperscript{31} The official comment to UCC section 9-106 identifies copyrights—along with patents and trademarks—as an example of "general intangibles . . . except to the extent that they may be excluded by [s]ection 9-104(a)."\textsuperscript{32} Thus, since the Copyright Act is "a statute of the United States, [which] governs the rights of parties to and third parties affected by transactions in" copyrights,\textsuperscript{33} UCC section 9-104(a) seems to suggest that the intent and scope of federal law preempts the UCC with respect to copyrights.\textsuperscript{34}
Moreover, UCC section 9-302(3)(a) states that a UCC filing "is not necessary or effective to perfect a security interest in property subject to . . . a statute or treaty of the United States [that] provides for a national or international registration . . . or which specifies a place of filing different from that specified in . . . Article [9] for filing of the security interest." In fact, "[t]he Official Code Comment to this section lists the Copyright Act as just such a statute and states that when ‘an adequate system of filing, state or federal, has been set up outside . . . Article [9] . . . perfection of a relevant security interest can be had only through compliance with that system.’"

Thus, it seems that the drafters of the UCC intended for the Copyright Act, not the UCC, to govern perfection. The official comment to UCC section 9-104(a), however, may contradict this view:

Although the Federal Copyright Act contains provisions permitting the mortgage of a copyright and for the recording of an assignment of a copyright . . . such a statute would not seem to contain sufficient provisions regulating the rights of the parties and third parties to exclude security interests in copyrights from the provisions of . . . Article [9].

To further complicate matters, the Copyright Act defines a transfer of copyright ownership as “an assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation.” Besides UCC is better equipped than federal law to govern security interests).


36. Barry, supra note 6, at 586-87 (quoting U.C.C. § 9-302(1)); see also Choate, supra note 8, at 1424-29 (discussing federal preemption of the UCC).

37. U.C.C. § 9-104 cmt. 1.

38. 17 U.S.C. § 101. At issue here is whether the federal law only recognizes transfers of interests, i.e., title and title transfer, or whether it also recognizes security interests, such as liens. See U.C.C. § 1-201(37) (1999) (defining security interest without making a distinction between security interests as liens and as title transfers); U.C.C. § 9-102(1)(a) (1999) (stating that Article 9 applies to any transaction intended to create a security interest). However, § 201(d)(1) of the Copyright Act states that “[t]he ownership of a copyright may be transferred in whole or in part.” 17 U.S.C. § 201(d)(1). As previously stated, § 101 states that a transfer may be “an assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright.” 17 U.S.C. § 101. Furthermore, according to Peregrine, mortgages and hypothecations “include a pledge of property as security or collateral for a debt.” Choate, supra note 8, at 1420 (citing National Peregrine, Inc. v. Capitol Fed.
mortgages and hypothecations, however, the Copyright Act makes no further reference to security interests in copyrights. Consequently, for the Copyright Act to effectively and fully govern the area of copyright-secured financing, it should have rules that explicitly deal with the creation and perfection of security interests, in addition to rules governing priority, after-acquired property, and floating liens, areas with which the UCC already deals.\(^39\)

A recent case from the Ninth Circuit discusses federal preemption of copyright law in dictum. *Cybernetic Services, Inc. v. Matsco, Inc.*\(^40\) dealt with whether the federal Patent Act preempts the UCC when the collateral at issue is a patent.\(^41\) The court pointed to the “limited focus and skeletal nature of the Patent Act and its lack of reference to the creation and perfection of security interests” and held that the UCC was not preempted with respect to patents.\(^42\) In comparison, the court cited “three specific federal statutes that provide a filing system adequate to supersede the Article [9] filing system for perfection of security interests.”\(^43\)

The court cited the Copyright Act as one such federal statute, which defines ownership to include transfers of security interests,\(^44\) sets forth a priority scheme for conflicting interests,\(^45\) and provides that recordation in the Copyright Office gives rise to constructive notice.\(^46\) For these reasons, the Ninth Circuit concluded that the Copyright Act preempts the UCC for perfecting security interests in copyrights.\(^47\) *Cybernetic* is therefore important not only for its holding relating to patents, but also for its concurrence with *Peregrine* that the Copyright Act, not the UCC, governs security interests in copyrights. With this

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39. See Barry, supra note 6, at 588 (quoting and citing 17 U.S.C. § 205(a), (c) (1988)).
40. 239 B.R. 917 (B.A.P. 9th Cir. 1999).
41. See id. at 918.
42. Id. at 923.
43. Id. These three statutes covered security interests in copyrights, aircrafts, and railroads. See id.
44. See 17 U.S.C. § 101; see also Cybernetic, 239 B.R. at 921-22.
45. See 17 U.S.C. § 205(d); see also Cybernetic, 239 B.R. at 921-22.
46. See 17 U.S.C. § 205(c); see also Cybernetic, 239 B.R. at 921-22.
47. See Cybernetic, 239 B.R., at 922.
backdrop in mind, the remainder of Part II will discuss some of the problems relating to copyright-secured financing.\(^{48}\)

1. Constructive notice and recordation

The central concern in intellectual property secured financing relates to recording, since recording gives rise to constructive notice, which then allows for the prioritization of security interests in a certain piece of collateral. Specifically at issue is whether a lender should perfect its security interest by filing a UCC-1 financing statement\(^{49}\) in a state agency or by filing a comparable instrument in the U.S. Copyright Office.

Usually, the "exclusive rights of reproduction, adaptation, publication, performance, and display" created by section 106 of the Copyright Act do not depend upon the registration of the copyright with the Copyright Office.\(^{50}\) Instead, a copyright holder gains copyright protection when the original work of authorship is fixed in "any tangible medium."\(^{51}\) Thus, the copyright holder is not required to take any formal steps to protect its work. Otherwise, copyright registration only becomes an issue when the holder wishes to pursue an infringement action.\(^{52}\) As articulated by the *Peregrine* court, however, a copyright now must also be registered for another purpose: to perfect a security interest in a copyright.\(^{53}\)

Another concern is recordation. Unlike the simple filing of a UCC-1 financing statement, no simple equivalent exists at the federal level. Transfers of ownership\(^{54}\) filed in the Copyright Office must meet the various requirements of sections 201 through 205 of the Copyright Act.\(^{55}\) These requirements include filing documents with

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48. Exposure to infringement liability presents a fifth area of concern. *See* Baldwin, *supra* note 5, at 1719. However, infringement liability may be alleviated by the lender’s exercise of due diligence during the execution of the secured transaction.


52. *See id.* § 411.


54. A transfer also arguably includes the granting of a security interest. *See infra* note 100 and accompanying text.

the "actual signature" of the transferor and providing a detailed description of the work.  

The requirements for filing under the UCC are simpler than the steps mandated by the Copyright Office. Under the UCC, the lender simply files a financing statement recording its security interest under the borrower's name in a state office, usually with the secretary of state where the borrower's place of business is located.  However, pursuant to the holding in *Peregrine*, only recordation under the Copyright Act—and not the UCC—gives rise to constructive notice to third parties regarding existing liens on copyrights. This is extremely important given that constructive notice allows prioritization of security interests for the purposes of bankruptcy or foreclosure.

2. Priority

As with recordation, establishing priority under the UCC is simpler than it is under the Copyright Act. While the UCC has first-to-file rules, the federal rules have relate-back periods, which establish priority based upon the date of execution of the security agreement. For copyrights, the relate-back period lasts for one month, meaning that there is a one-month lag for some transfers executed in the United States. This lag allows not only for subsequent lenders to inadvertently take a junior security interest in a copyright, but it could also allow for bad faith transfers by those using the lag periods for their unlawful advantage.

In addition, UCC-1 financing statements are indexed by the borrower's name, not by registration number, as with the Copyright Office. The UCC index thus makes it easier for lenders and third parties to ascertain a lender's interest.

56. *Id.* §§ 204 to 205.
58. *See 17 U.S.C.* § 205(c); *U.C.C.* § 9-103.
62. *See 17 U.S.C.* § 205(d). For international transfers, the relate-back period is two months. *See id.*
64. *See 17 U.S.C.* § 205(c)(1).
Furthermore, under the copyright laws, separate filings must be made for each individual work pledged as collateral;\(^5\) this is not so with the UCC. Instead, the UCC has provisions that enable a lender to obtain a floating lien on all of the borrower’s intellectual property without requiring specific identification of the property under the lien.\(^6\)

3. After-acquired property and floating liens

After-acquired property is a “debtor’s property that is acquired after a security transaction and becomes additional security for payment of the debt.”\(^7\) Floating liens may be attached to any asset, including after-acquired property, equipment, inventory, accounts receivable, general intangibles—which include intellectual property—and other personal and real property.\(^8\)

Under the current system, lenders have a difficult time establishing floating liens that allow for automatic perfection in after-acquired copyrights. This is because the proper system for recordation under current law is two-fold. First, a lender must record its security interest at the Copyright Office. Second, the lender must ensure that the borrower has registered the copyright securing the loan. Moreover, the Copyright Act requires that the filing identify a specific work.\(^9\)

This regime forces the lender to require that the borrower register newly authored works, which it may not wish to do, fearing disclosure of confidential information. But this is not the end of the story. The lender must record its security interests in the borrower’s new works \textit{as they become} subject to copyright registration.\(^7\) Therefore, the current system requires the lender to make multiple, burdensome filings, relying on the record or on the word of the borrower.\(^1\) As a result,

\(^6\) See \textit{id.}.

\(^5\) A floating lien is “1. [a] lien that is expanded to cover any additional property obtained by the debtor while the debt is outstanding [or] 2. [a] lien that continues to exist even when the collateral changes in character, classification, or location.” Black’s, \textit{supra} note 1, at 934.

\(^7\) Id. at 61; see also U.C.C. § 9-204 (1999).

\(^8\) See Black’s, \textit{supra} note 1, at 934.


\(^7\) In other words, the lender has to record its security interest in the work once the work becomes copyrightable.

\(^1\) Of course, lenders need not rely on the borrowers’ word, but may protect themselves via contract. The borrowers will be contractually bound to
problems with enforcement abound, even for diligent borrowers and lenders.\textsuperscript{72}

On the other hand, the UCC allows for the easy encumbrance of intellectual property.\textsuperscript{73} Section 9-204 of the UCC permits lenders to obtain a security interest in after-acquired property,\textsuperscript{74} and section 9-110 permits lenders to perfect that interest by filing a statement containing a broad description of the collateral.\textsuperscript{75} Thus, lenders do not have to make multiple, specific filings under the UCC as they would under the Copyright Act.

\textbf{B. Case Law}

When Judge Kozinski authored \textit{National Peregrine, Inc. v. Capitol Federal Savings \\& Loan Ass'n}\textsuperscript{76} in 1990, he set the debate regarding copyright-secured financing into full throttle. As a result, \textit{Peregrine}, and the cases that followed it, have "forced bankers to act like copyright lawyers, and [have] forced the U.S. Copyright Office into the business of secured financing."\textsuperscript{77} These are mutually unfamiliar and inefficient roles for these players, which only create further uncertainty, contributing to intellectual property's devaluation for finance purposes. Consequently, because of this uncertain state of affairs, lenders continue to pursue a "belt and suspenders" approach to perfection.\textsuperscript{78} The following discussion will further illuminate the conflict.

\textsuperscript{72} Furthermore, some copyright libraries may be so big that, even after a thorough effort to list all of the copyrights in the library has been attempted, the borrower may overlook some items. Thus, despite extensive due diligence, omissions may occur. This may, however, hurt the borrower more than the lender: Since the determination of the loan amount depends upon the value of the collateral, it is in the borrower's best interests to ensure that all assets appear on the collateral list.

\textsuperscript{73} See \textit{U.C.C.} § 9-103 (1999).
\textsuperscript{74} See id. § 9-204.
\textsuperscript{75} See id. § 9-110.
\textsuperscript{76} 116 B.R. 194 (C.D. Cal. 1990).
\textsuperscript{77} Johnson, \textit{Hearings}, supra note 25.
\textsuperscript{78} See Choate, \textit{supra} note 8, at 1416-17.
1. National Peregrine, Inc. v. Capitol Federal Savings & Loan

Ass 'n—catalyst for debate

As mentioned above, the Peregrine court brought the issue of copyright-secured financing to the fore. Until then, no federal court had considered this topic. In June of 1985, Capitol Federal Savings and Loan Association of Denver (Capitol Federal) extended a six million dollar line of credit to American National Enterprises, Inc., the predecessor of National Peregrine, Inc. (NPI). To secure this transaction, NPI pledged "[a]ll inventory consisting of films and all accounts, contract rights, chattel paper, general intangibles, instruments, equipment, and documents related to such inventory." On January 30, 1989, NPI filed a voluntary chapter 11 petition. Just over two months later, NPI filed an amended complaint against Capitol Federal. NPI claimed that Capitol Federal's interests in NPI's library and accounts receivable were unperfected because Capitol Federal had failed to record its security interest with the Copyright Office. As a debtor in possession, NPI had the right to avoid any unperfected security interest.

First, the Peregrine court held that the Copyright Act broadly preempts state law with regard to security interests in copyrights. In general, federal law preempts state law when the two conflict, when federal law is so pervasive as to occupy an entire area, or when there

79. See Peregrine, 116 B.R. at 197.
80. See id.
81. Id. at 197-98.
82. See id. at 198.
83. See id.
84. See id.
85. See id.; see also 11 U.S.C. §§ 544(a), 550 and 1107 (1999). This was a novel argument at that time. Before Peregrine, lenders perfected their security interests in copyrights by either treating the copyrights as trade secrets or by filing a UCC-1 financing statement in the respective state office. See Johnson, Hearings, supra note 25.
86. See Peregrine, 116 B.R. at 201-02 ("The court ... concludes that any state recordation system pertaining to interests in copyrights would be preempted by the Copyright Act."). The U.S. Constitution also supports this view, stating that "[t]he 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 . . . ." U.S. Const. art. I, § 8, cl. 8.
are unique federal interests involved. Here, the court followed the latter two rationales, since the Copyright Act is a very expansive act, providing for comprehensive federal regulation, and since "Congress left no room for supplementary state regulation."

Second, the *Peregrine* court held that lenders must record their security interests in copyrights in the Copyright Office and also register the copyright underlying the loan. This holding poses significant problems for both lenders and borrowers, forcing them to formally register the works used as collateral. Although forced registration reduces false claims of ownership to copyrights, it is unduly difficult for a lender to effectively and efficiently ensure that the borrower register not only existing copyrightable works, but also any future works subject to the lender's lien.

If the collateral is a single work not subject to revision, this requirement of registration may not be a great burden because the lender can easily ensure that the borrower registers the single work. In most cases, however, the collateral undergoes significant changes, as with a screenplay or software, each change requiring a separate registration.

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87. See *Peregrine*, 116 B.R. at 199.
88. *Id.* (quoting Hillsborough County v. Automated Med. Lab., Inc., 471 U.S. 707, 713 (1985)).
89. *See id.* at 203.
90. According to § 411 of the Copyright Act, the only time copyright holders must register their copyrights is when they wish to bring an infringement action. *See* 17 U.S.C. § 411 (1994). Thus, the *Peregrine* holding essentially created another category of mandatory filers.
91. In the case of film financing, films are commonly registered when they are substantially complete and ready for release. *See* Engel & Montgomery, *Hearings*, supra note 23. Under *Peregrine*, lenders must record their security interest in the films in the Copyright Office and also ensure that borrowers register their films in the Copyright Office. However, early registration of a film poses certain problems. For instance, early registration can technically perfect the lender's security interest in only the preliminary stages of film production (e.g., the script). Unless the borrower registers the film at frequent intervals, including the final film product, the lender's security interest will not be perfected. Practically speaking then, a lender's security interest in a film may remain unperfected until it has disbursed some of the funds to the borrower, during which time the borrower may make potentially conflicting transfers to other bona fide purchasers. *See* Steven Weinberger, Note, *Perfection of Security Interests in Copyrights: The Peregrine Effect on the Orion Pictures Plan of Reorganization*, 11 CARDozo ARTS & ENT. L.J. 959, 960 (1993).
92. Under § 408(a), a work of authorship fixed in a tangible medium enjoys
registration. Additionally, developers of software often do not register their copyrights because of the desire not to disclose the contents of their product in a public manner. This strongly suggests that the law should not require computer software developers to endanger through public disclosure the most valuable asset they own in order to use it as collateral.

Further, since each revision of the collateral is subject to a new registration, the registration requirement unduly burdens the lender. To comply with this requirement, the lender must ensure that the borrower has registered each work used as collateral, in addition to each revision of the work, for the lender to retain value in the collateral. But, as stated above, the borrower may not wish to register the copyright because of the confidential nature of its intellectual property. Also, even if a lender could employ a floating lien on after-acquired


Computer software, however, presents distinct problems. Since software is constantly being modified, the modifications are separately copyrightable as “derivative works.” See Radcliffe & Nelsen, supra note 34, at 236 (likening a computer software program to a layer cake, each layer representing a “new version or revision of the software . . . protected by a separate copyright”). This indicates that subsequent versions of a computer software are subject to copyright registration separate from the original version of the software. As such, a single computer software can be composed of several copyrights, in addition to any other intangible rights which may relate to the software, such as patents, trademarks, or trade secrets.

93. In one transaction secured by software, both the borrower and the lender expressed deep concern over the requirement of registration. See Johnson, Hearings, supra note 25. The borrower did not want to register its copyright because of the confidential nature of the software, a concern shared by the lender as well. See id. In addition, the lender was concerned that there was insufficient code to warrant registration in the Copyright Office. See id. The lender was also troubled that it would need to update the registration and also its security interest at frequent intervals. See id. For these reasons, the transaction was delayed by several weeks, adversely affecting the relationship between the borrower and the lender. See id.

94. See id.
property,\textsuperscript{95} it is unreasonable for the lender and the borrower to continually register every copyright that ultimately may or may not become valuable.\textsuperscript{96}

Third, the \textit{Peregrine} court held that the Copyright Act not only governs the perfection of security interests in copyrights, but also in the accounts receivable they generate.\textsuperscript{97} The court reasoned that because a copyright entitles the copyright holder to receive all the proceeds from a work's display, \textit{a fortiori}, an agreement creating a security interest in those proceeds must also be recorded at the Copyright Office.\textsuperscript{98} This reasoning stretches copyright law beyond its scope. Reaching a more accurate conclusion, the court in \textit{Broadcast Music, Inc. v. Hirsch}\textsuperscript{99} held that "[a]ssignments of interests in royalties have no relationship to the existence, scope, duration or identification of a copyright, nor to 'rights under a copyright,'" and thus are not "documents 'pertaining to a copyright.'"\textsuperscript{100} If future courts view copyright royalties in this manner, the

\textsuperscript{95} Although the Copyright Office does not allow for the perfection of security interests in after-acquired property, the UCC does. Under the UCC, the lender need only file a financing statement describing the property in general. \textit{See supra} notes 57, 63-64 and accompanying text.

\textsuperscript{96} \textit{See Haemmerli, supra} note 4, at 1694-95 (discussing practical problems under \textit{Peregrine}).

\textsuperscript{97} \textit{See Peregrine}, 116 B.R. at 199. UCC § 9-106 includes royalty income or accounts receivable, and also the intellectual property, that is the basis of these income flows, in the definition of "general intangibles." \textit{See U.C.C. § 9-106 cmt.} (1999).

\textsuperscript{98} \textit{See Peregrine}, 116 B.R. at 199.

\textsuperscript{99} 104 F.3d 1163 (9th Cir. 1997).

\textsuperscript{100} \textit{Id.} at 1166 (quoting 17 U.S.C. § 106 (1994)). As one commentator has stated:

\begin{quote}
Determining whether a security interest is a transfer or an assignment is essential to understanding the application of the law. The distinction between transfer and assignment rests on whether title in the underlying property passes. If title does not pass, then the interest is transferred; if title does pass, the interest is assigned. Security interests are transfers and not assignments, therefore, under a strict reading of the Copyright Act . . . the security interest in the copyright must be recorded at the federal level . . .
\end{quote}

Shubha Ghosh, \textit{The Morphing of Property Rules & Liability Rules: An Intellectual Property Optimist Examines Article 9 and Bankruptcy}, 8 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 99, 117-18 (1997); \textit{see also} Haemmerli, \textit{supra} note 4, at 1682 n.184 ("The right to receive royalty income is simply not the same thing as the right to reproduce, distribute, display or perform a work, even if it is implied by, or is a corollary of, those rights.").
resulting case law will likely direct lenders to treat royalty interests under the UCC provisions, and not under federal copyright law.\textsuperscript{101}

Furthermore, as a right arising from the sales license of intellectual property, accounts receivable do not fall within the definition of copyright under section 102 because they are not "works" as defined by the Copyright Act.\textsuperscript{102} Moreover, federal law does not control accounts receivable under private licenses, which are also traditionally within the realm of state commercial law.\textsuperscript{103} Thus, licenses in federal intellectual property are contracts governed by state contract law.\textsuperscript{104} Most convincingly, the Copyright Act does not mention any security interests in accounts receivable.\textsuperscript{105} If Congress intended to include accounts receivable under the administration of the Copyright Act, it probably would have done so explicitly, given that state law already regulates interests in accounts receivable.

Finally, although the Peregrine court found federal preemption in the area of copyright-based transactions, the court did not define the boundaries of federal preemption of the UCC.\textsuperscript{106} Specifically, Peregrine focused on the filing issue without addressing the extent to which the UCC may, nevertheless, govern other aspects of secured financing, such as enforcement. Thus, it appears that the UCC rules would still

\textsuperscript{101} A decision from a higher court, Broadcast Music questions the Peregrine holding. \textit{See Broadcast Music}, 104 F.3d at 1163. It distinguishes copyrights from the contract rights that arise from reselling or licensing them. \textit{See id.}


\textsuperscript{103} \textit{See Power Lift, Inc. v. Weatherford Nipple-Up Sys., 871 F.2d 1082, 1085 (Fed. Cir. 1989) ("A license agreement is a contract governed by ordinary principles of state contract law .... That the present contract is a patent license does not mean that state laws . . . cannot be applied to it."); see also McCoy v. Mitsubishi Cutlery, Inc., 67 F.3d 917, 920 (Fed. Cir. 1995) (following the same principle).}

\textsuperscript{104} \textit{See Power Lift, Inc., 871 F.2d at 1085.}

\textsuperscript{105} \textit{See Haemmerli, supra note 4, at 1681-85 (offering several arguments for why the Copyright Act should not govern the perfection of security interests in accounts receivable, including the absence of any mention of accounts receivable from the Copyright Act itself); see also Engel & Montgomery, Hearings, supra note 23 (citing U.C.C. §§ 9-106, 9-109, and 9-306 and Broadcast Music as authority for the proposition that the UCC should govern accounts receivable pertaining to copyrights).}

\textsuperscript{106} For more commentary on the need for clearly defined boundaries, see Choate, \textit{supra} note 8, at 1418 n.16.
apply to a foreclosure on a copyright-secured loan, especially since the Copyright Act does not contain an analogous provision.

2. AEG Acquisition Corp. v. Zenith Productions Ltd.

In 1993, AEG Acquisition Corp. v. Zenith Productions Ltd. up-held the Peregrine two-step process for the perfection of a security interest in copyrights. AEG Acquisition Corp. (AEG) gave Zenith Productions Ltd. (Zenith) a security interest in three films in 1989 as part of a restructuring agreement. To perfect its security interest in the films, Zenith filed financing statements in the relevant states and recorded a copyright mortgage with the Copyright Office. Zenith, however, filed a certificate of copyright registration covering only one of the three films. Zenith did not do the same for the other two films because it thought that those films, which were foreign works, were exempt from registration by the Berne Convention for the Protection of Literary and Artistic Works (Berne Convention).

On July 12, 1989, AEG filed a chapter 11 petition. The bankruptcy court rejected Zenith’s claim that Zenith could perfect its security interest in the foreign films without first registering them under the theory that searches for security interests in copyrights are conducted either by work title or by registration number. Thus, if a copyright is not registered, a security interest in it cannot be searched.

The court also held that although “authors of Berne Convention works are entitled to copyright protections without complying with formalities [such as registration] . . . United States law provides no [such] exemptions for Berne Convention works” with respect to

107. 161 B.R. 50 (9th Cir. 1993).
108. See id. at 58.
109. See id. at 53.
110. See id.
111. See id.
112. See id. The Berne Convention, to which the United States became a member in March 1, 1989, is a multilateral international treaty that offers heightened copyright protection to authors. See Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, as revised at Paris, July 24, 1971, 828 UNTS 221 [hereinafter Berne Convention]; see also 17 U.S.C. § 411 (1994). For international copyrights or copyrights in international transactions, see supra note 11 and accompanying text.
113. See AEG Acquisition Corp., 161 B.R. at 53-54.
perfection. Furthermore, the court noted that section 205 of the Copyright Act, which deals with the recordation of copyright transfers, does not distinguish foreign from domestic works. Therefore, Zenith’s failure to register the two foreign films in the Copyright Office and record its security interest in them resulted in Zenith’s interests being unperfected in those films. This turned Zenith into an unsecured creditor, similar to Capitol Federal in *Peregrine*.

3. *In re Avalon Software, Inc.*

In *In re Avalon Software, Inc.*, the Arizona court primarily addressed *Peregrine*’s unclear delineation of federal preemption and issues relating to after-acquired property and works-in-progress. The lender, Imperial Bank, had lent money to Avalon Software, Inc. (Avalon), a computer software developer, secured by Avalon’s personal property, including accounts, general intangibles, equipment inventory, and proceeds. The security agreement used in this transaction contained a standard after-acquired property clause.

Although Imperial Bank filed a UCC-1 financing statement with the appropriate state agencies, it failed to record in the Copyright Office. Moreover, although Avalon registered its copyrights with the Copyright Office between 1986 and 1991, it did not thereafter register any copyrights on its newly developed products or modifications of its already registered products. When Avalon filed a chapter 11 petition, it owed Imperial Bank $1,483,662. Avalon challenged the

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114. *Id.* at 57; see Berne Convention, art. 5(2) (stating that “[t]he enjoyment and the exercise of . . . rights [under the Berne Convention] shall not be subject to any formality”).
115. See *AEG Acquisition Corp.*, 161 B.R. at 57.
116. *See id.*
118. *See id.* at 520.
119. *See id.* at 519.
120. The UCC defines “security agreement” as “an agreement which creates or provides for a security interest.” U.C.C. § 9-105(1)(I) (1999).
121. *See Avalon*, 209 B.R. at 519.
122. *See id.* at 519-20.
123. *See id.* at 520.
124. *See id.* at 519.
perfection of Imperial Bank's security interests in Avalon's various assets purported to secure this significant loan.\textsuperscript{125}

Unlike the Peregrine court, the court in Avalon had the opportunity to discuss the issue of after-acquired property. The Avalon court stated that a lender can, by filing one security agreement with the Copyright Office, perfect in after-acquired property if it registers the individual future works or modifications. This at least saves the lender from filing a security agreement for future works.\textsuperscript{126}

As a result, Avalon gave more leeway for after-acquired property than did Peregrine. According to Avalon, if a lender properly files its security interest at the Copyright Office from the start of the transaction, an "after-acquired" clause would protect the bank upon default or bankruptcy.\textsuperscript{127} The court found no logical way to separate original works ripe for copyright registration from their derivatives, including enhancements, offshoots, and modifications.\textsuperscript{128} This still poses a problem, however, since perfection depends upon registration of updates which is one of the major problems of the Peregrine holding.

Furthermore, the Avalon court stated that the Copyright Act governs everything that is copyrightable; thus, if the intellectual property—for example, computer software—is not copyrighted but could be, the developer cannot call it a trade secret and thereby circumvent the

\textsuperscript{125} See id. at 520.
\textsuperscript{126} See id. at 522-23. Of course, the Avalon holding somewhat robs the definition of after-acquired property of its meaning. By using an after-acquired clause, a lender hopes to forego the registration and recordation requirements for future works. This holding seems to indicate that although a lender can include an after-acquired provision in the security agreement, the lender still has to ensure that the copyright holder registers all future relevant copyrights. Avalon at least indicates, however, that the lender no longer has to file subsequent security agreements covering the after-acquired property. See id. Importantly, the Avalon court upheld the Peregrine requirement of registration. But since one of the problems of the registration requirement is backlogging at the Copyright Office, this holding does not help because the lender still must require the borrower to register every copyright. See also Choate, supra note 8, at 1442 (arguing that the holding in Avalon does not decrease the risks involved in copyright-secured financing because the transaction would still be halted while the borrower registers present and any future copyrights at the Copyright Office).
\textsuperscript{127} See Avalon, 209 B.R. at 522-23.
\textsuperscript{128} See id. at 522.
Peregrine requirements. But this fails to consider the practice of software developers who, instead of treating their software as copyrights, treat them as trade secrets in order to avoid revealing the code through registration. Therefore, the registration requirement compels disclosure of confidential information, which may bar the copyright holder’s ability to obtain financing if it is unwilling to disclose its intellectual property.

After determining that the Copyright Act controls security interests in copyrights, the Avalon court held that the Copyright Act “also extends to the proceeds naturally derived from the copyrighted material.” Avalon did not, however, explain why this is so. But if a loan is secured only with the proceeds of a copyright, such as the accounts receivable or the licensing proceeds, and not the work itself, does this mean that the transaction is still subject to the Peregrine requirements of recordation and registration? If so, the result is unduly burdensome and needlessly expensive.

III. EVALUATING THE RECENT PROPOSALS

There are currently three reform proposals that have been raised as potential solutions to the concerns discussed thus far: the Federal Intellectual Property Security Act, the Proposed Copyright Filing

129. See id. (“Attempting to call . . . a [copyrightable] product a ‘trade secret’ does not change the requirement for security-interest filing at the Copyright Office.”). In other words, parties to a transaction cannot describe the intellectual property as a trade secret instead of a copyright, if that choice is available to them, in order to avoid the recordation and registration requirements of Peregrine. See id. This would create an “unwarranted end-run” around the requirements of the current law. Choate, supra note 8, at 1437-38.

130. See id. at 1438-39 (arguing that the Copyright Office maintains certain procedures that enable copyright holders to treat their computer software as trade secrets, driven by the “economic and strategic realities” of the technology industry).


132. Peregrine failed to explain this as well, except for its citation to § 106 which states that “because a copyright entitles the holder to receive all income derived from the display of the creative work . . . an agreement creating a security interest in the receivables generated by a copyright may also be recorded in the Copyright Office.” Peregrine, 116 B.R. at 199 (citing 17 U.S.C. § 106 (1976)).
Modernization Act, and the Commercial Finance Association interim measure.133

A. Federal Intellectual Property Security Act

The most recent reform proposal advanced by some members of the ABA is the Federal Intellectual Property Security Act (FIPSA).134

FIPSA advocates a dual system for perfection in copyrights where security interests are filed at the state level and ownership interests at the federal level.135 FIPSA also emphasizes that the current case law makes it impossible for a lender to preserve its interest in unregistered copyrights and their "proceeds" upon default or bankruptcy.136 As a

133. On June 24, 1999, the House Subcommittee on Courts and Intellectual Property of the House Committee on the Judiciary held a hearing to address "Intellectual Property Security Registration." See Hearings, supra note 23, available in <http://www.house.gov/judiciary/ct0624.htm> (visited Feb. 26, 2000) (witness list). At the hearing, the proponents of the reform proposals and other interested parties stated their cases. These parties included the ABA, the American Film Marketing Institute, the U.S. Copyright Office, the Commercial Finance Association, the Motion Picture Association of America, the International Trademark Association, the American Intellectual Property Law Association, and Professor John T. Cross of the University of Louisville School of Law. See id.

At the hearing, Fritz E. Attaway voiced the singular opinion that the current law does not need reform, since copyright holders seem to be getting financing. See Hearings, supra note 23 (statement of Fritz E. Attaway, Senior Vice President of Government Relations and Washington General Counsel for the MPAA), available in <http://www.house.gov/judiciary/atta0624.htm> (visited Jan. 21, 2000) [hereinafter Attaway, Hearings]. However, given the controversial case law and the mismatched federal and state laws on this topic, along with the disparate voices urging change, there is a distinct need for reform.

To date, commercial attorneys, with lender-clients unwilling or hesitant to enter into transactions secured with intellectual property, continue to have important questions regarding intellectual property secured financing. For this and many other significant reasons explored in this article, this area of finance law needs immediate reform. See, e.g., supra note 12 and accompanying text.

134. At the June 24, 1999, congressional hearing, the Section of Intellectual Property Law and the Section of Business Law of the ABA presented FIPSA. See Engel & Montgomery, Hearings, supra note 23. FIPSA, however, is not the official viewpoint of the ABA, since it has not been approved by the ABA's House of Delegates or its Board of Governors. See id.

135. See id.

136. See id. For a fuller analysis of copyright-secured financing within the setting of bankruptcy, see Elise B. May, Comment, Where Your Priorities
result, lenders are hesitant or entirely unwilling to make loans secured by intellectual property. Moreover, even if a lender enters into an intellectual property secured transaction, the lender devalues the intellectual property to reflect the risks and uncertainty associated with this type of lending.  

FIPSA uses Article 9 of the UCC to govern the perfection of security interests, while employing a federal filing system to establish priority among outright transfers. In proposing this mixed state and federal filing system, FIPSA asserts that lenders prefer the UCC filing system because: (1) the UCC permits floating liens on after-acquired property without requiring registration of derivative works; (2) the UCC notice filings can be done by describing the collateral in general terms, even in advance of the closing of the transaction; (3) a lender can conduct UCC searches in the applicable state by reference to the debtor-owner's name, instead of by registration number in the Copyright Office; and (4) the UCC does not use any look-back provisions.

In line with the above reasons, FIPSA seeks to: (1) establish a "mixed approach" for recordation where (a) the relevant federal agency governs the filing of security interests with respect to subsequent transferees of ownership, and (b) the relevant state UCC governs the filing of security interests with respect to secured parties and lien creditors; (2) utilize the same type of notice filing in the federal agencies relating to security interests as in state agencies under the UCC, without requiring specific identification of the properties and without requiring recordation of the security agreement itself; (3) allow perfection of security interests in after-acquired property, as does the UCC; (4) eliminate or reduce the look-back periods, requiring prompt recording and indexing by the federal agencies; and (5) reduce the agencies' burden of handling and recording security interests by implementing an electronic filing system.

The Peregrine court, however, aptly described the central argument against this type of dual filing:

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137. See Engel & Montgomery, Hearings, supra note 23.

138. See id.

139. See id. Look-back provisions are also known as relate-back provisions. See supra notes 59-62 and accompanying text.

140. See Engel & Montgomery, Hearings, supra note 23.
A recordation scheme best serves its purpose where interested parties can obtain notice of all encumbrances by referring to a single, precisely defined recordation system. The availability of parallel state recordation systems that could put parties on constructive notice as to encumbrances on copyrights would surely interfere with the effectiveness of the federal recordation scheme. Given the virtual absence of dual recordation schemes in our legal system . . . any state recordation system pertaining to interests in copyrights would be preempted by the Copyright Act.\textsuperscript{141}

In other words, searchers need a specific place to look to determine whether a particular interest has been encumbered or transferred outright.\textsuperscript{142} "To the extent there are competing recordation schemes, this lessens the utility of each."\textsuperscript{143} Since FIPSA presents a mixed approach, it falls within this uneasy framework of "competing recording systems" when it comes to filing different types of interests in a copyright.

This mixed approach also applies an awkward state framework to federal copyrights, which are "simultaneously everywhere, and highly divisible" with "complex chains of title."\textsuperscript{144} As national assets, they should be "supported by a single, unified federal recording system in the Copyright Office."\textsuperscript{145} Also, since copyrights are "incorporeal," lacking a "fixed situs[,] a number of state authorities could be relevant" for the purpose of conducting a search, thereby increasing the burden on searchers.\textsuperscript{146} Such a dual system, requiring federal filing for

\textsuperscript{141} National Peregrine, Inc. v. Capitol Fed. Sav. & Loan Ass’n, 116 B.R. 194, 201-02 (C.D. Cal. 1990); see also Baldwin, supra note 5, at 1716-19 (arguing against a dual filing system in favor of a purely federal regime). For further arguments against dual filing, see Choate, supra note 8, at 1444-46 (raising the issue of registered and unregistered copyrights in light of a dual filing scheme).

\textsuperscript{142} See Peregrine, 116 B.R. at 200-02.

\textsuperscript{143} Id. at 200.

\textsuperscript{144} Brennan, Hearings, supra note 24.

\textsuperscript{145} Id. In extending this argument to patents and trademarks, the Patent and Trademark Office would be the corollary of the Copyright Office. As such, the federal recording system for patents and trademarks would be in the Patent and Trademark Office. However, due to the inherent differences among the various types of intellectual property, the solution for copyrights may not be the best solution for patents and trademarks, which deserve separate analyses.

\textsuperscript{146} Peregrine, 116 B.R. at 200.
ownership interests and state filing for security interests, would inevitably lead to uncertainty, expense, and delay. Third parties, such as lenders and potential purchasers, who conduct searches would also be unsure that all relevant jurisdictions have been searched.\footnote{147}

In contrast, the UCC, which has been adopted by all fifty states, "deals with assets that are either located in an easily identifiable place . . . or, in the case of intangibles, presumed to exist only at the location of the debtor . . . rarely hav[ing] complex chains of title."\footnote{148} Mixing the straightforward UCC approach and federal law is a "recipe for disaster."\footnote{149} Only one system can prevail. Where, even under current law, a lender can conduct a single search of the records in the Copyright Office to find all prior copyright liens, under FIPSA, the lender must search the UCC filing systems in addition to the Copyright Office to discover whether a copyright is already encumbered by a lien.\footnote{150}

"[E]nsuring a clear chain of title . . . is critical" to determine the parties who have security interests in the copyrights.\footnote{151} Current recordation practice takes this into account: The Copyright Office is the only place where a lender goes to conduct a search for existing liens. Under FIPSA, every lender must search both state and federal records because if a borrower has sold outright ownership, it will show up only in the federal records, but senior liens will show up in state records.\footnote{152} A purchaser would also have to search both records because it needs to know whether it is acquiring title free of liens.\footnote{153}

Another possible concern is the increased leverage that FIPSA would give to lenders by enabling liens on after-acquired property.\footnote{154}

\footnote{147. See id.}
\footnote{148. Brennan, Hearings, supra note 24.}
\footnote{149. Id.}
\footnote{150. See id.}
\footnote{151. Attaway, Hearings, supra note 133.}
\footnote{152. See Engel & Montgomery, Hearings, supra note 23.}
\footnote{153. See id. Applied to the argument against FIPSA, Cybernetic is another indication that interests in copyrights should remain in the exclusive arena of federal law. See supra notes 40-48 and accompanying text.}
\footnote{154. See Attaway, Hearings, supra note 133 (arguing that the balance in FIPSA would "tilt the field in favor of financial institutions"); see also Hearings, supra note 23 (statement of Marybeth Peters, Register of Copyrights, U.S. Copyright Office), available in <http://lcweb.loc.gov/copyright/cqypub/regstat62499r.html> (visited Feb. 8, 2000) [hereinafter Peters, Hearings]. The Copyright Office recognizes the "legal advantages for [a] financing institution
If a lender can claim an interest in already existing or future property, the copyright holder would potentially be giving up too much collateral or too many rights to the lender.\textsuperscript{155}

\textbf{B. Proposed Copyright Filing Modernization Act}

In stark contrast to FIPSA, the Proposed Copyright Filing Modernization Act (CFMA) is a purely federal solution to the problem of copyright-secured financing advanced by the American Film Marketing Institute (AFMI).\textsuperscript{156}

The AFMI cites two issues that are problematic for lenders—floating liens and after-acquired property\textsuperscript{157}—and advocates a purely federal regime.\textsuperscript{158} In establishing a federal solution, the AFMI proposes to create a facility in the Copyright Office to house constructive notice filings against persons and works.\textsuperscript{159} In other words, the Copyright Office would maintain both a "person index" and a "work" index. Parties would file a "person registration statement," similar to the copyright work registration statement.\textsuperscript{160} Recorded transfers would then be indexed against the parties in the "person register" or the work in the "work register."\textsuperscript{161} These filings would be
linked in a computerized, relational database.\textsuperscript{162} The relational database would include two indices, one organized by debtor name and the other by work name. Either index would impute constructive notice, create priority, and be necessary for perfection.\textsuperscript{163}

A major argument against CFMA is that it imposes practical difficulties on the Copyright Office and on parties involved in copyright-secured transactions.\textsuperscript{164} Opponents assert that a federal scheme would require the complete revamping of the current copyright system, claiming that the Copyright Office is not institutionally equipped to track security interests. However, the alternative provided by the opponents would pose even greater obstacles for the Copyright Office and related parties. In particular, the dual filing approach, recommended by FIPSA, would require the Copyright Office to continually coordinate its scheme with the state filing agencies, since ownership interests would be filed with the Copyright Office and security interests with the states. This forced partnership would also impose great obstacles to borrowers and lenders because they would essentially have to follow two different sets of laws to verify that their liens are unencumbered by existing interests.

Opponents also argue that a purely federal approach would "federalize" state finance law.\textsuperscript{165} This argument, however, is not an accurate representation of the federal proposal. Under the CFMA, the Copyright Act would merely govern the creation and perfection of security interests in copyrights, not the subsequent measures taken when, for example, a borrower defaults on a loan. Since the other important functions of commercial law will be governed by the UCC, secured transactions will not wholly enter the federal domain.

\textbf{C. Commercial Finance Association Interim Measure}

The Commercial Finance Association (CFA) also proposed its interim measure at the June 24, 1999, hearing.\textsuperscript{166} This measure would

\begin{itemize}
\item \textsuperscript{162} See id.
\item \textsuperscript{163} See id.
\item \textsuperscript{164} See Baldwin, supra note 5, at 1734.
\item \textsuperscript{165} Id.
\item \textsuperscript{166} See Johnson, Hearings, supra note 25. The CFA is a trade group for the asset-based financial services industry. See id.
\end{itemize}
provide temporary relief to a strained system, giving more time to deliberate on complete reform legislation that covers all forms of federal intellectual property. In proposing this interim measure, the CFA opposes Peregrine, arguing that federal law does not preempt state law with respect to recordation. The CFA also emphasizes the need for a comprehensive recording statute governing all types of intellectual property.\textsuperscript{167} The CFA, apparently in agreement with the Copyright Office,\textsuperscript{168} suggests that “[b]efore taking on comprehensive reform, solving the immediate needs of the financing community by allowing the perfection of a security interest in copyrighted material through a [UCC] filing seems desirable.”\textsuperscript{169}

As proposed, the interim measure would amend the Copyright Act to allow a lender, through a UCC filing, to perfect a security interest in both copyrighted and copyrightable material.\textsuperscript{170} This would only affect the rights of holders of security interests and lien creditors, not the rights of outright transferees of a copyright. Such bona fide purchasers or licensees would continue to take free and clear of any security interest filed only at the state level under the UCC,\textsuperscript{171} emphasizing the point that a lender should file federally to be safe.

Thus, if the subsequent party is a purchaser, that party need look for a filing in the Copyright Office.\textsuperscript{172} If the security interest is not recorded there, the purchaser or licensee would take the copyright free and clear of security interests. Further, if an outright transferee elects to conduct a search for UCC recorded security interests, the outright transferee would search in the borrower’s resident state.\textsuperscript{173}

The CFA’s proposal would thus “allow a secured lender with a [UCC] perfected security interest to prevail over bankruptcy trustees and other secured parties when copyrighted and copyrightable material are offered as collateral.”\textsuperscript{174} This measure would “also conform the

\begin{itemize}
  \item \textsuperscript{167} See id.
  \item \textsuperscript{168} See Peters, Hearings, supra note 154.
  \item \textsuperscript{169} Johnson, Hearings, supra note 25.
  \item \textsuperscript{170} See id.
  \item \textsuperscript{171} See id.
  \item \textsuperscript{172} This would eliminate the concern that one body of law controls security interests while another controls title. See Haemmerli, supra note 4, at 1723-24.
  \item \textsuperscript{173} See Johnson, Hearings, supra note 25.
  \item \textsuperscript{174} Id.
\end{itemize}
law covering the treatment of copyright security interests in bankruptcy to the law covering patents and trademarks in that arena.”

Ultimately, this interim measure is similar to FIPSA: Both measures propose that the UCC “govern the creation, attachment, perfection, priority and enforcement of security interests, while federal law should govern the rights of a person other than a secured party or lien creditor who acquires any other right or interest in intellectual property.” Due to this similarity, the CFA’s interim measure encounters similar problems facing FIPSA.

IV. A WORKABLE SOLUTION: NEED FOR IMMEDIATE ACTION

In assessing the landscape of intellectual property secured financing, one thing is clear: Immediate action is needed. But what form should that action take? On the one hand, borrowers want to protect their rights in their works. On the other hand, lenders want to ensure that the intellectual property used as collateral is, first, adequately valued and, second, properly perfected. In other words, lenders want to feel as safe as possible with the funds that they loan.

Currently, to ensure perfection under federal law, the lender must take the following steps:

175. Id.

176. Id.

177. See supra notes 142-55 and accompanying text.

178. Note that Peregrine and Avalon are district court and bankruptcy court decisions, respectively. As such, they are not binding on either Ninth Circuit courts or courts elsewhere. “For this reason alone, creditors seeking to perfect security interests in copyrights should continue to file at both the federal and state levels.” Choate, supra note 8, at 1442. This is also why Congress must pass a reform law regarding copyright-secured financing, to avoid the problem of jurisdictional treatments of federal assets. See supra note 12 and accompanying text.

179. See Peters, Hearings, supra note 154 (presenting arguments in favor of copyright holders, including the concern that lenders may exercise too much “leverage” over copyright holders if lenders are allowed to attach floating liens to after-acquired property and if lenders are allowed to describe the assets in general terms).

180. In its most basic form, the issue of intellectual property secured financing is identical to secured financing. For this reason, the same basic principles apply, even though the assets used as collateral pose unique problems.
(1) conduct a thorough audit of all the borrower’s copyrights and copyrightable material, (2) require the borrower to register any copyrightable material, (3) enter into a security agreement that identifies each of the copyrights by title or registration number, (4) record the security agreement with the Copyright Office, (5) establish a reporting and monitoring process with respect to the borrower’s existing and after-acquired copyrights, (6) require the borrower to register all after-acquired copyrights, and (7) record any additional security interests with the Copyright Office as additional copyrights (including derivative works, enhancements and modifications . . . ).181

These requirements for perfection create difficulties and questions for both borrowers and lenders. As discussed in this section, the best way to satisfy both parties is through a federal system with a simple recording scheme.182 As suggested by the Peregrine court, federal copyright laws provide a predictable and stable scheme for copyright ownership and a uniform national system for perfection that avoids the problems associated with determining and enforcing parties’ rights under the differing laws and courts of the various states.183

182. A mixed approach is “not consistent with the goals and policies of commercial credit law and fails to give proper recognition to strong federal policy interests.” Baldwin, supra note 5, at 1720. Much has been written on the issue of federal preemption of Article 9 with respect to intellectual property secured financing. For discussions arguing in favor of federal preemption, see generally Baldwin, supra note 5; Choate, supra note 8; Klumb, supra note 26; May, supra note 136; Watterberg, supra note 8. For discussions arguing in favor of a dual filing regime, see generally Paul A. Baumgarten, Copyrights as Collateral: Perfection Finally Perfected after Peregrine?, 71 U. DET. MERCY L. REV. 581 (1994); Barry, supra note 6; Haemmerli, supra note 4; Harold R. Weinberg & William J. Woodward, Jr., Easing Transfer and Security Interest Transactions in Intellectual Property: An Agenda for Reform, 79 KY. L.J. 61 (1990-91).

An additional argument supporting federal preemption of the UCC involves copyrights used in international secured transactions. Since copyrights are national assets by explicit mandate of the U.S. Constitution, it makes sense that parties involved in international transactions conduct their searches in a national agency, not in individual state offices. See Brennan, supra note 11, at 210.
183. See Peregrine, 116 B.R. at 199.
Accordingly, since the AFMI's proposal best embraces these characteristics, the author suggests that the CFMA represents the preferred base model.

A. Recordation: A Federal Answer to a Federal Question

Consistent with federal copyright policy, a single, purely federal filing system would establish uniformity for those seeking to file security interests or outright ownership interests involving federal intellectual property. Such a filing system would not only serve as a means of recording such interests, but would also give rise to constructive notice to lien creditors, secured creditors, and other third parties, including purchasers and assignees for value. The constructive notice would also form the basis for establishing priority among the various parties. However, since a copyright usually forms only a part of the collateral package securing a loan, a lender perfecting a security interest in the copyright will most likely also search state UCC records for all of the assets within the collateral package. Given this fact, it may appear that recording a security interest in the state system better serves the goal of convenience. Contrary to this initial appearance, however, this argument rests in equipoise, since a lender who takes a copyright as part of its collateral package must also search the Copyright Office for outright transfers of the copyright because the collateral package will most likely contain other forms of property. Moreover, given the formidable federal concerns in support of maintaining a uniform system governing national assets, the scale

184. "The States cannot separately make effectual provision for either [the right to copyright a work or patent an invention], and most of them have anticipated the decision of this point, by laws passed at the instance of Congress." THE FEDERALIST NO. 43 (James Madison), at 309 (Benjamin Fletcher Wright ed., 1961). Another goal is to maintain a single national measure for the efficient exchange of copyrighted works. See 1 MELVILLE NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 1.01[A] (1999); see also Peregrine, 116 B.R. at 200 (citing "Congress’s policy that copyrights be readily transferable in commerce" as a major policy of federal copyright law).

185. Certain kinds of state intellectual property—such as trade secrets—would be excluded from this regime.

186. A collateral package often includes other forms of intellectual property and other real, personal, and intangible property. See supra note 5 and accompanying text.

187. See supra notes 12, 183-85 and accompanying text.
tips in favor of recording security interests exclusively in the Copyright Office.

B. After-Acquired Property, Floating Liens, and Other Filing Requirements

Until *Peregrine*, the only time a copyright holder was required to register a copyright was prior to bringing an infringement action. The *Peregrine* holding essentially created another category for mandatory registration by requiring that borrowers register their copyrights in order for lenders to perfect their security interests in the copyrights. Simply put, this registration requirement is unnecessary for efficiently transacting in copyrightable assets. The simple recordation described above would suffice for "registering" the copyright for purposes of a secured loan.

188. In the expanding market of electronic commerce, the contents of a Web site often change daily. In light of this quick turn-over within Web sites, the registration requirement may in fact be impossible to meet, not merely too burdensome or too expensive. See Noel D. Humphreys, *The Peril of Copyrightable Materials as Security*, PA. LAW., Mar.-Apr. 1998, at 42, 42-43 ("How does counsel prove in court the contents of a Web site on a particular date?").

189. Even Judge Kozinski in *Peregrine* noted that the registration requirement may make the purely federal system for perfection "much less convenient than filing under the UCC." *Peregrine*, 116 B.R. at 202 n.10. However, Kozinski also stated that "[i]f the mechanics of filing turn out to pose a serious burden, it can be taken up by Congress during its oversight of the Copyright Office or, conceivably, the Copyright Office might be able to ameliorate the problem through exercise of its regulatory authority." *Id.* at 203 n.10.

Furthermore, in *MCEG Sterling, Inc. v. Phillips Nizer Benjamin Krim & Ballon*, 646 N.Y.S.2d 778 (1996), the Supreme Court of New York, without explicitly questioning the holding in *Peregrine*, nevertheless noted that the holding was "somewhat questionable [and novel] because the assets in question were not themselves copyrights." *Id.* at 780 (citing Schuyler M. Moore, *Entertainment Bankruptcies: The Copyright Act Meets the Bankruptcy Code*, 48 BUS. LAW. 567, 571-72 (1993)). The New York court also found "no controlling or even advisory [case law] in existence which indicated that the accounts, royalties and contract rights at issue were a type of security interest which must be perfected by recording with the Copyright Office." *Id.*

Even though *MCEG Sterling* arises out of a professional malpractice case and in no way affects the case law regarding copyright-secured financing, it sheds light on how the New York Supreme Court might rule on the matter if it were given the opportunity. See 17 U.S.C. § 702 (1994) (regarding the regulatory authority of the Copyright Office).
Furthermore, the Copyright Office already uses a form called a "Document Cover Sheet." Currently, when a lender files a security agreement with the Copyright Office, the lender also must file a Document Cover Sheet along with it, stating the title, author, registration number, and date of registration of the relevant copyrights. The Document Cover Sheet and the security agreement, however, can be filed before the copyright is actually registered. If so, the filer leaves the registration number and the date of registration blank on the Document Cover Sheet. Under the suggested regime, lenders would continue to use the Document Cover Sheet—or another similar document—in this manner, but the requirement of copyright registration for loaning purposes would be entirely eliminated, unless specifically contracted for by the parties. If such a reform occurs, section 205(c) of the Copyright Act, which currently states that constructive notice arises out of registration of specific works either by the title or by registration number of the works, would have to be amended. Specifically, the new section 205(c) would state that constructive notice arises by filing a Document Cover Sheet and the accompanying security agreement. If need be, the parties then can decide to redact the security agreement to protect any sensitive information. The parties, of course, can always register the copyright as a final measure, but that would be a duplicative effort, not a mandatory one.

The Copyright Act defines "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." Accounts receivable most closely fit into this definition as "exclusive rights comprised in a copyright." However, this relation between a copyright and the proceeds that flow from it is too attenuated to place copyright accounts receivable under

190. See Watterberg, supra note 8, at 877.
192. See id. at 54-55 (requiring registration of a work for constructive notice to arise even though the Copyright Office permits the lender to record its security interest before the borrower registers the work).
195. Id.
the purview of the Copyright Act. Instead, accounts receivable are “incidental” to, not “integral” to, copyrights. As such, they should be governed by state law—the UCC—and not by federal copyright law. But outright sales of copyrights would still be subject to the requirements of the Copyright Act.

Similar to the requirements under UCC section 9-203, the Document Cover Sheet should provide a reasonable description of the collateral and contain language specifically creating or granting a security interest in the collateral described. If the Document Cover Sheet is filed electronically, it need not bear any original signatures. The lender would also file a federal financing statement or the security agreement itself, the latter document containing a more detailed description of the collateral, if required by the parties to the transaction.

The law should be changed to allow for the recordation of floating liens, referencing only the borrower’s name—since the names of future works may be unknown—and expressly covering after-acquired property. This would run contrary to the current wording of section 205(c)(1), which states that a filing gives rise to constructive notice if the recordation references a copyright by title or registration number. In line with this proposal, section 205(c)(1) would allow for constructive notice when the recorded document references only the party name when filing a floating lien on after-acquired property. In that case, the risk would shift to future parties seeking to take an interest in the copyright. Thus, future parties will simply know to

196. Haemmerli, supra note 4, at 1691.

197. See U.C.C. § 9-203 (1999). The requirement of describing the collateral should include the elements of UCC § 9-110. In commercial secured transactions, an “all asset” description would not qualify as a “reasonable identification” of assets under this subjective standard. See Edwin E. Smith, Overview of Revised Article 9, 73 AM. BANKR. L.J. 1, 13 (1999) (citing U.C.C. § 9-108(c) (1998)).

198. See, e.g., Ginter v. Real Media Group, Inc., No. 98-C3319, 1999 U.S. Dist. LEXIS 6153, at *8-10 (N.D. Ill. Apr. 6, 1999) (quoting Allis-Chalmers Corp. v. Staggs, 453 N.E.2d 145, 148 (Ill. App. Ct. 1983)) (holding that a security agreement overrides a UCC financing statement when determining the scope of the security interest, since the “function of the financing statement is merely to put third parties on notice that the secured party who filed it may have a perfected security interest in the collateral described”).

search not only by the title of the copyright, but also by the name of the copyright holder.

C. Relational Indexing, Electronic Filing, and Eliminated Look-Back Provisions

To facilitate maximum ease in searching the records of the Copyright Office, a relational index should be created. This relational index would be comprised of two indices, one by debtor name and the other by work description.

Modern technology allows, and time-sensitive transactions necessitate, easy public access to the database. To achieve this, the Copyright Office should create an electronic filing and searching system with the ability to conduct simultaneous filing and searching in the relational database.

To avoid complications between competing secured parties, the new legislation should also rid itself of the antiquated look-back periods which create a one-month lag for domestic works and a two-month lag for international works. This system would be more like the UCC and would help the lender to easily ascertain whether competing interests already exist.

D. After the Security Interest Is Created, State Law Should Govern What Happens Next: Foreclosure

Once a federal system is established for the creation and perfection of security interests, state law should govern the security interest (e.g., foreclosure). One of the official comments to UCC section 9-302 provides support for the notion that once the lender perfects its security interest at the federal level, upon default of the loan or upon bankruptcy, the lender can foreclose on the loan in accordance with Article 9.

200. See Brennan, Hearings, supra note 24.
201. See supra notes 162-63 and accompanying text.
202. See supra notes 162-63 and accompanying text.
203. See supra note 62 and accompanying text.
204. For the insiders' account of foreclosing on a loan secured by patents, see Fry & Lee, supra note 20.
205. The official comments to UCC § 9-302 state the following:
   Subsection (3) exempts from the filing provisions of...
   Article [9] transactions as to which an adequate system of filing, state
V. PERFECTING A SECURITY INTEREST IN INTERNET-BASED COPYRIGHTS: A HYPOTHETICAL

Imagine that GameTech.com is a new company that wants to produce on-line computer games. A consumer would go to the GameTech.com Web site, pay for the game on-line by using a credit card, and then be able to download the game onto a personal computer. As the company develops new versions of the games, the consumer can purchase and download them.

A. The Loan Transaction

To develop its business, GameTech.com seeks to obtain financing through a bank, in addition to obtaining limited venture capital funds. The drawback for the company, however, is that it has no valuable assets other than various forms of intellectual property, primarily patents and copyrights. Nevertheless, the company needs money to fine-tune its Web site and then to market it.

After obtaining board approval for a loan, the chief financial officer of GameTech.com approaches a certain bank. After negotiations, the bank agrees to loan the company three million dollars secured by the following collateral package: a library of copyrights (the games and the Web site itself), patents (for how the company sets up the games on-line for the purchaser to download), and a trademark (since GameTech.com has gained recognition among Internet-savvy consumers).

or federal, has been set up outside this Article and subsection (4) makes clear that when such a system exists[,] perfection of a relevant security interest can be had only through compliance with that system (i.e., filing under this Article is not a permissible alternative).

Perfection of a security interest under a . . . federal statute of the type referred to in subsection (3) has all the consequences of perfection under the provisions of [Article 9].


206. The management only wants limited venture capital funding because it wants to avoid divesting itself of significant ownership interests in the company.
Assuming that the bank perfects its security in the patents and trademark,\(^{207}\) it still needs to perfect its security interest in the copyrights since they form a very important part of the collateral package. The bank first obtains a Document Cover Sheet from the Copyright Office Web site.\(^{208}\) The bank completes this form to the extent that it can, including the name of the copyright holder (GameTech.com) and the name of the works (the Web site and, if available, the games). If any of the copyrights have been registered, the bank would also include the registration number and the date of registration. As part of its reform efforts, the Copyright Office will have set up an electronic filing system, which the bank can use to file both the Document Cover Sheet and its security agreement.

In the security agreement, the bank only provides a commercially reasonable description of the collateral, thus avoiding the disclosure of confidential information. In this instance, the bank would have to provide the domain address for GameTech.com and also a general description of the games underlying the loan. The titles of the games would be helpful but not mandatory.

Recognizing that GameTech.com will develop many revisions and offshoots of its current games in addition to many new games, the security agreement contains an after-acquired clause to cover any future property.\(^{209}\) If GameTech.com wishes to limit the scope of the after-acquired clause, it can do so contractually in the security agreement. For instance, the company may not wish to subject a certain game and its progeny to the security agreement with the bank. It can do this by explicitly removing it from the reach of the after-acquired property clause. However, once the bank records the security agreement, the bank will not need to make any subsequent filings to perfect its security interest in the future property already subject to that agreement. Furthermore, this single filing will

\(^{207}\) Note that both domestic and international transactions would be subject to this proposed scheme. Accounts receivable, however, would fall under the reign of the UCC, which has traditionally controlled perfection in royalties. See supra notes 102-05 and accompanying text.


\(^{209}\) If the parties agree, the bank can also have a floating lien, covering all the property of GameTech.com.
automatically be entered into a work index and a person index, since the electronic filing will be set up in this fashion.

The filing fee can also be delivered electronically, since current technology makes it feasible to do so. Also, since the bank files the documents electronically, it does not need to submit original signatures to the Copyright Office. This electronic recording will then give rise to constructive notice. However, if the bank is worried that the property may not be copyrightable, as a precautionary measure, it should also file a UCC-1 financing statement in the state where the borrower is headquartered. This is simple to do and, in many circumstances, highly advisable.

Finally, in terms of priority, if the bank is the first to record a security interest in these copyrights, it will have priority over any subsequent lender on a first-to-file basis. The reform law will have completely eliminated or substantially reduced the relate-back periods, thus greatly reducing bad faith transfers. Finally, in the event that GameTech.com defaults on its loan, the bank can look to the UCC and bankruptcy law for its remedy as a secured creditor.

B. The Subsequent Creditor

A month later, GameTech.com realizes that it underestimated its need for capital, so it seeks financing from another bank. During negotiations, GameTech.com offers its most successful line of games as collateral for the loan.

To ensure that this collateral is not encumbered, the second bank goes to the Copyright Office Web site to conduct a search in the relational database. The second bank either can search by party name or by work description. In this instance, either search will show that the proposed collateral is already subject to the security agreement between GameTech.com and the first bank. Thus, the second bank will be on notice that if it lends money to the company, it will be considered an unsecured creditor in the event of a bankruptcy proceeding or a default. Alternatively, if the second bank lends money subject to the bank’s lien, the second bank may be a secured creditor second in line to collect any proceeds. It will not, however, gain priority over the first bank absent any agreement which subordinates the interests of the first bank under those of the second bank.
VI. CONCLUSION

Whatever law Congress passes, participants in the commercial world will follow. Nevertheless, due to the inherent conflicts in the current law of intellectual property secured financing, and the importance of intellectual property in the world market, Congress must enact legislation to address this issue.

In addition, since a loan is typically secured by a collateral package—which may include inventory, accounts receivable, equipment, trademarks, patents, and copyrights—parties to a secured transaction must file as to many of these forms of property at the state level. This essentially creates a de facto dual filing system for most secured transactions. A purely federal system for copyrights, however, would place perfection in copyrights under the guidance of federal law, leaving other important functions with the UCC and the Bankruptcy Code, including foreclosure. Such a system would avoid the conflicts that arise from a “mixed” approach where security interests are filed at the state level and ownership interests at the federal level. This system would also endorse the constitutional goals pertaining to federal intellectual property, goals that encourage developers to develop and the public to benefit from authored works.

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210. Such a tenor can be heard in *Avalon* where the court stated:

[i]f Imperial Bank had merely done what the law requires . . . it would have been found to be perfected. All it had to do was determine what its collateral consisted of, consult the law, and perfect its interest. It failed to take those simple steps, and it is now unperfected as a result. *In re Avalon Software, Inc.*, 209 B.R. 517, 523 (Bankr. D. Ariz. 1997).

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