

The America Invents Act and Innovation by Small Entities

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Abstract

This paper studies patenting activity by small U.S. entities before and after the passage of the Leahy-Smith America Invents Act (AIA) of 2011. The AIA changed the patenting rule in the United States from a first-to-invent to a first-inventor-to-file. Previously, entities had the benefit of flexibility on when to file for patents but this benefit came at a cost; it created uncertainty in an atmosphere of litigative behavior about the date of the invention. Using the patent-level statistics from the patent applications filed at the U.S. Patent and Trademark Office (USPTO), this paper estimates the change in patenting activity post-AIA. Contrary to the AIA's intended effects of encouraging invention disclosure, the results indicate its decline post-AIA for all entities, and among them, a relative decline for the small entities compared to all the entities pre-AIA. But, among the small entities, the first-time small entities on average significantly increased the quantity and quality of their inventions post-AIA compared to all the entities pre-AIA. This paper adds nuance to the predictions on patenting activity derived for the AIA from an AIA-like reform in Canada, where patenting activity skewed towards the large entities from the small entities after the reform.

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1 Introduction

The Leahy-Smith America Invents Act (AIA) of 2011 substantially changed the patenting rules in the United States by adopting a first-inventor-to-file (FITF) rule, which also harmonized the country’s rules with the rest of the world. A FITF rule recognizes the *first filer* of an invention as the sole inventor, as opposed to a first-to-invent (FTI) rule, which recognizes the *first inventor*, regardless of the filing date. An FTI rule provided an inventor the flexibility of inventing first and then deciding on filing. While this flexibility is beneficial to inventors, because they can focus solely on the invention, this also generates uncertainty on when an inventor actually files for patents. This uncertainty attracts a large number of lawsuits. A FITF rule aims to curb a portion of lawsuits by taking away the flexibility in the date of filing, and recognizes the first filer as the only inventor. Unfortunately, recognizing the first filer also implicitly asks an inventor to rush to the patent office immediately after invention, and entities with constrained budgets may not have the luxury of doing so. We do not know how the small entities of the United States reacted to this legislation. This paper explores this question, by studying the quantity and quality of patents applied at the U.S. Patent and Trademark Office (USPTO) by the small entities relative to the large entities before and after the passage of this legislation.¹

The United States followed a different set of patenting rules in comparison with the rest of the major patenting countries for centuries because both the set of rules have their benefits and costs, and the understanding and beliefs of these measures can vary by country because a substantial part of these benefits and costs are immeasurable. In theory, under a defined litigation environment, an FTI rule triumph over a FITF rule in terms of proliferation of invention and patenting (Scotchmer and Green, 1990). However, in practice litigation is uncertain and can seriously undermine the validity of patents and therefore discourage patenting. This also has a cascading effect on the follow-on inventions (Mezzanotti, 2021; Kiebzak et al., 2016; Tucker, 2013; Lanjouw and Schankerman, 2001).

¹A small entity can be a person, a small business concern, or a nonprofit organization. If the entity is a small business, it should be less than 500 employees. Universities and institutes of higher education are categorized under nonprofit organizations. The detailed definition can be found here: <https://mpep.uspto.gov/RDMS/MPEP/e8r9#/e8r9/d0e30961.html>

On the flip side, a FITF rule limits a part of these litigations but comes at a cost of quickly filing for patents as soon as an invention is completed. Anecdotes from the U.S. small entities suggest that often these entities invent first and then search to secure resources to file the invention as a patent, which is not only limited to funds, but also assistance from attorneys and agents.^{2,3} Needless to say that these entities have to also worry about their idea being stolen, now more than before. The U.S. legislative therefore was divided when the AIA was being discussed.⁴ The AIA aimed to curb the increase in litigation, and also included provisions to limit the increase in costs of filing patents for smaller entities and in particular the individual inventors.⁵ We do not know if these provisions were enough to offset the increase in costs of patenting for the small entities. Thus, this paper studies and provides evidence of changes in patenting activity before and after the AIA in the United States with a focus on small entities. The changes in patenting activity reflect the resultant change in innovation stimulated by the AIA. In particular, this paper asks the following question: Did small entities patent more than before and relative to the large entities post-AIA? Studying only the count of patent applications can be deceptive and incomplete because patent counts do not provide any information on the quality of an invention (Mezzanotti, 2021). Therefore, another question must also be asked for a comprehensive understanding of the innovation by small entities before and after the AIA: Were the patents filed by small entities of higher value than before and relative to the large entities post-AIA?

Though early evidence indicates a reduction in disclosure of inventions by larger entities post-AIA; for the smaller entities, the evidence remains inconclusive partly due to limitations in the data and partly due to unexplored and thus undefined scope of inno-

²<https://www.nytimes.com/2012/02/09/business/smallbusiness/business-owners-adjusting-to-patent-system-overhaul.html>

³In 2015, the cost of filing a patent in the United States ranged from \$6000 for an “extremely simple” patent application, to more than \$19,000, for a “highly complex” patent application. <https://www.ipwatchdog.com/2015/04/04/the-cost-of-obtaining-a-patent-in-the-us/id=56485/>

⁴Senator Feinstein’s argument on the AIA being detrimental to the small entities: “[t]his presents a particular hardship for independent inventors, for startups, and for small businesses, which do not have the resources and volume to employ in-house counsel but must instead rely on more-costly outside counsel to file their patents. This added cost and time directed to filing for ideas that are not productive will drain resources away from the viable ideas that can build a patent portfolio—and a business.”

⁵The AIA created a new category of inventors, called “micro entity”, who can avail 75 percent discount in all fees. This is discussed in detail in Section 2.1

vative activity in small entities (Lerner et al., 2015; Huang et al., 2020).⁶ Small entities can have markedly different patenting strategies, introduce disruptive inventions, drive innovation in new directions, and are litigated at a higher rate (Abrams et al., 2019). It is unknown how they modified their portfolio of patenting activity post-AIA.

To address these questions, from the Patent Examination Research Dataset and Compustat database, I use the number of patent applications applied by different entities as an indicator of invention disclosure, which is the broadest indicator of innovative activity at the entity level. The number of patent applications captures the resulting effect of all the policy changes the AIA introduced, and this approach to the data is in line with the literature. To measure the change in the quality of patents, I use the number of citations a patent received in its first two years of issue per patent. These two measures used for the main set of analyses are not the only measures of quantity and quality of innovation. In recent years, the value of innovation captured through changes in stock value for public entities as well as measures of quality developed from patent texts have been widely used as a proxy for patent value (Kogan et al., 2017; Kelly et al., 2018). These different measures highlight a particular dimension of innovation and none are adequate on their own. Therefore, I will show in this paper a range of alternative specifications and alternative measures in an effort to highlight the nuances of patent analysis and corroborate my findings.

Using a difference-in-differences approach, this paper reports a relative decline in the number of patent applications and an increase in citation per patent for the small entities after the AIA as compared to the large entities. Among the small entities exposed to litigation, I observe an increase in the number of patents but no change in the citations per patent post-AIA. The publicly listed small firms report no change in patenting activity compared to the large entities post-AIA.

⁶The definition of disclosure of an invention can vary with contexts, and so does its intensity. From only declaring the name of the new invention, to a few mentions on certain websites without its specifics to laying down the exact steps to recreate it, everything can be counted as its disclosure. If an invention is to be counted as a patent, a fairly exact definition exists: <https://www.uspto.gov/patents/basics/general-information-patents>. De Rassenfosse et al. (2020) and Rantanen (2012) differentiate between the disclosure of the technical information of a patent and “peripheral” disclosure, where it is adequately detailed as to propagate follow-on innovation. Though this paper only studies patents, in this paragraph, I refer to a broad range of disclosures, which are not limited to patents.

Answering these questions contributes to the following: First, it estimates the change in patenting activity by small entities post-AIA compared to them pre-AIA and relative to the large entities, which is a longstanding concern among policymakers wary of the detrimental effects of AIA on small inventors; and second, it contributes to the understanding of public sector induced incentives to stimulate innovation disclosures among different types of entities.

The remainder of the paper is organized as follows: the next section, Section 2 details the AIA, where I discuss the Act, its intended effects, and compare it with its counterparts from other countries. In the next section — Section 3, I list the data sources, the sample used in this paper, and the definition of the variables. After that in Section 4, I discuss the empirical strategy, and lastly, in Section 5, I discuss the broad inferences derived from the estimates and their caveats. Finally, I conclude by summarizing my findings in Section 6.

2 The America Invents Act (AIA) of 2011

2.1 Provisions of the AIA

The U.S. patent regime underwent significant changes since World War II and the most recent amendment to the 35 US Code—the America Invents Act of 2011 is regarded as the most substantial one since the Patent Act of 1952, changing the regime from First-to-Invent (FTI) to First-Inventor-to-file (FITF) (Lerner, 2000).⁷ Under an FTI rule, an inventor had the option to claim that they are the original inventor even if another inventor had filed a patent application for a similar invention before theirs. Under a FITF rule, the inventor who files for patent rights first is the rightful owner of the patent. Pre-AIA, the invention date could be used to claim rights that do not matter post-AIA, and instead the date of filing matters (Masur and Ouellette, 2020). While the former rule provided flexibility to an inventor as to when to file for patent rights, entities could abuse this flexibility for strategic advantages. A group of entities, commonly known as “patent

⁷<https://www.nytimes.com/2011/09/09/business/senate-approves-overhaul-of-patent-system.html>

trolls” or Non-Performing Entities (NPEs) is those who do not invent; but rather acquire patents and assert their rights to invalidate other patents. Such entities wait for other inventors to file for a similar patent application as theirs or start producing a product that uses an invention similar to theirs. When the producing entities apply for patent rights or start production, the NPEs file for injunctive relief and ask for hefty royalty for infringement. This action is known as a hold-up. Due to the fear of hold-ups or infringing upon other patents, inventors restrict the disclosure of their inventions. As a result, the innovation of an economy does not reach its optimum level (Tucker, 2013).

The AIA’s FITF rule tries to address the problem of unnecessary lawsuits partially. While not all kinds of patent lawsuits will be taken care of by the implementation of the AIA, at least for the cases related to the invention date, the AIA tries to establish a more certain regime by not providing the opportunity to contest conflicts on the date of invention. Pre-AIA, conflicts on the date of the invention were litigated under interference proceedings. An interference proceeding would be conducted when one patent application interferes with another in the process of its filing.⁸

The AIA emboldens the certainty in patent protection. Aiming to achieve a reduction in frivolous lawsuits is the most important and substantial policy change that the AIA introduces and is one of the many policy changes. The move from FTI to FITF also harmonizes the patent regime in the US with the rest of the world. Since the AIA imposes a hard deadline on the filing date of a patent, it gives rise to a race to the patent office. Quickly filing patents after invention requires resources, which benefits larger entities. Therefore certain provisions were drafted and implemented to cushion the small entities from bearing the extra cost of quick filing. The AIA sets up two programs

⁸To understand interference proceedings and its relation to the AIA, I present an example. In a pre-AIA period, an invention i_1 came into existence at t_1 but was not filed at the patent office and an independent invention i_2 , also in the pre-AIA period, was invented at t_2 ($t_2 > t_1$) and was filed as a patent application immediately. Here, invention i_2 interferes with invention i_1 . Invention i_1 can still claim its patent rights or at the least negate i_2 ’s patentability by conducting an interference proceeding, which will be conducted as a lawsuit. In the post-AIA period, in a similar situation, i_2 ’s patent application will be upheld as the only patent application and i_1 can contest if it files for a derivation proceeding. Derivation proceeding replaced interference proceeding post-AIA and in the example, i_1 will claim that i_2 has been derived from i_1 . But in the post-AIA period, invention i_2 will have stronger protection and i_1 will face higher costs because i_1 will have to show that i_2 has been derived from i_1 and not independently invented. A low count of interference proceedings does not mean that they are seldom used. Rather, it indicates that the patent applications prone to such opposition are deterred from filing.

to assist small entities to file their patent applications, called the Pro Bono Program and the Patent Ombudsman for Small Businesses. The Pro Bono Program provides the qualifiers with free legal assistance in preparing and filing patent applications.⁹ The Patent Ombudsman program assists applicants when a normal application stalls.¹⁰ The AIA defines a new category of entities, called “micro-entity” for whom the USPTO levies a discount of 75 percent on all patent filing fees.¹¹ Lastly, the AIA also sets up Post Grant Review of patents. Any third party can file a petition to challenge the validity of one or all of the claims of a granted patent.¹²

2.2 Comparison with other countries and the unintended effects of the AIA

Most countries have always followed a FITF rule. To date, three countries have made a move from FTI to FITF. Since 2007, different patent reform bills have been highlighting the need of harmonizing the patent system in the US with the rest of the world, and by the advent of AIA, the US is the third and last country to make such a change (Matal, 2011a; Matal, 2011b). In 1989 and 1998 Canada and the Philippines made a similar move respectively.^{13,14} Only a few studies exist on the evaluation of patenting activity by entity types around the AIA and the Canadian reform and no study evaluates the Philippines reform. A common theme from all the studies points toward no significant benefit to smaller entities after such a change.

In Canada, patenting activity skewed towards large firms compared to small and independent inventors after their reform (Lo and Sutthiphisal, 2009). Additionally, a drop in the number of patents is reported among independent inventors with no change in their patent quality (Abrams and Wagner, 2013). In the US, studies find a decline

⁹<https://www.uspto.gov/patents/basics/using-legal-services/pro-bono/patent-pro-bono-program>

¹⁰<https://www.uspto.gov/patents/ombudsman-program>

¹¹A micro-entity is a small entity with additional thresholds. A micro-entity has to qualify for an income threshold, which is three times the median income household. Note that institutes of higher education are considered micro-entities. The detailed definition can be found here: <https://www.uspto.gov/patents/laws/micro-entity-status>

¹²<https://www.uspto.gov/patents/ptab/trials/post-grant-review>

¹³Canada’s reform: <https://www.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/eng/wr04732.html>

¹⁴Philippines’ reform: <https://wipolex.wipo.int/en/text/488675>

in innovative activity, especially among publicly traded firms, after the AIA. [Huang et al. \(2020\)](#) use narrative R&D disclosure of publicly traded firms to measure innovative activity and find a decline, especially for the innovative firms among all publicly traded post-AIA. A narrative R&D is different from the R&D expenditure reported by firms in their annual reports. The authors use the number of R&D-related sentences counted from the firms' 10-K filings. Measures developed from the 10-K filings are considered to be more revealing in terms of firms' innovation strategies and activities as compared to their annual reports ([Merkley, 2014](#)). But, a decline in R&D-related sentences does not necessarily mean a decrease in the number of patents. Also, [Huang et al. \(2020\)](#) study a specific group of innovative entities, the publicly traded firms. 10-K is not applicable for individuals and small entities but these entities participate significantly in innovative activity.

Though compared to pre-AIA, [Huang et al. \(2020\)](#) find a decline in R&D-related sentences for publicly traded firms post-AIA, their market returns did not significantly change ([Lerner et al., 2015](#)). Among the venture capital-backed firms (VC), [Lerner et al. \(2015\)](#) do not find any significant difference in their formative stage funding post-AIA. It is unknown how the other small entities, such as individual inventors, small firms not backed by VCs, and universities filed their patents before and after the AIA. In fact, the quantity and quality of patents for all entities before and after the AIA remain understudied. Neither 10-K filings nor information on VC fund disbursement completely capture the patenting activity of entities, but they do provide a direction to this paper. The mixed evidence of a decline or insignificant change in the innovative activity while the AIA encourages disclosure seems counter-intuitive. However, economics suggests that given different conditions we can observe either an increase or a decrease in the disclosure of inventions. AIA rewards early filers, which may result in a direct increase in patent applications. But, if an entity discloses one of its inventions, its competitors can preempt any pipeline of inventions that they may have had, which may be connected to a focal invention. Because FITF rewards the first filer as opposed to the previous rule of FTI where an inventor could furnish proof of invention date if another inventor filed for a

similar invention, an entity may become secretive and only file patent applications when they are sure that their patent application will not be invalidated or their future work cannot be preempted.

In the case of the AIA, [Huang et al. \(2020\)](#) discuss a similar mechanism of holding back on patenting because of competitors' preemptive activity and therefore we observe a decline in narrative R&D disclosure post-AIA. [Abrams and Wagner \(2013\)](#) also discuss similar explanations for the decline in patents by individuals post-Canadian reform. Some of the possible explanations they discuss are fewer resources for individual inventors which makes it difficult to file quickly for multiple patents, a shift in the use of different intellectual property protection mechanisms such as trade secrets, or a shift to patenting in the US. The authors find significant evidence of an increase in Canadian inventors patenting in the US after the Canadian reform. This is one of the reasons why inferences from the Canadian case cannot readily predict the effects of the AIA. In Canada, inventors still had an option of enjoying First-to-Invent if they filed their application in the US. Therefore, it is possible that the Canadian entities shift their activity toward the US, especially because of their geographical proximity, as well as the US, being a hub for innovative activities. However, in the case of AIA, entities do not have an option to move their activity to another country where they could still enjoy the FITF rule. Therefore, concluding that reforms similar to the AIA always reduce innovative activity, especially by small entities may be misleading.

The other strategies as described in [Abrams and Wagner \(2013\)](#) may play out in the US, especially for small entities. Rather than shifting the patenting activity to another country, entities in the US could choose higher secrecy and file patent applications only for those inventions which they expect to prevail in the market. Economic theory suggests mixed effects of the AIA on invention disclosure ([Scotchmer and Green, 1990](#)). Empirically, it is unknown if its intended effects of achieving certainty were indeed achieved or not ([Lerner, 2000](#); [Vandenburg, 2013](#); [Cerro, 2014](#)).

2.3 Conceptual framework

The various components of the AIA inevitably overlap with one another. Because of this, even if AIA's FITF rule targets a specific group of lawsuits, the other policy changes provide greater certainty in securing patent rights in the post-AIA period compared to the previous regime. Therefore, the AIA affects all patent applications and not only those which were prone to litigation on the invention date. It may be impossible to decompose the overall effect of the AIA into the effects of the individual components of the policy. But, we know that the AIA's primary goal which encompasses all its components is to improve the innovative environment in the US. The way chosen by the AIA to improve is by favoring certainty over flexibility. Greater certainty should result in timely disclosure of inventions, which also translates to an increase in the number of disclosures. The rationale behind this change in policy is that the increase in welfare from increased disclosure surpasses the welfare from a flexible date of invention. The broadest and most direct measure of innovation that stems from this reasoning is the count of patent applications. Since the AIA encourages disclosure of inventions, I expect an increase in the number of patent applications post-AIA as an indicator of increased disclosure of inventions. This increase is not only expected from the existing entities but should also encourage new entities to disclose their invention. This is the first question this paper explores, for the small entities, did the number of patents increase after the AIA as compared to the large entities and themselves before the AIA? A higher number of patent applications without an increase in their quality of would not mean much. In fact, the AIA specifically mentions that enhancing patent quality is one of its goals. However, the AIA's goal of encouraging quality disclosure can be met with the opposite effect because entities may respond strategically, and like every policy, the AIA is also laced with unintended consequences. It is possible that even though the AIA encourages invention disclosure, it increases the cost of disclosure of follow-on inventions. It is therefore unknown if the quality and quantity of patent applications indeed increase as a result of the AIA. This is the second question this paper explores, did the quality of patents by the small entities increase after the AIA as compared to the large entities and themselves before the AIA?

3 Data

3.1 Data sources

The main results of this paper are estimated using all the patents applied for at the USPTO between and including the years 2008 and 2016. Since not all entities release their balance sheet information, such as their R&D expenditure, assets, number of employees, etc., but such characteristics are determinants of patenting behavior, I use a subset of all patents that are applied for by the publicly traded firms in a separate analysis. For this subset of patent applications, I can control for certain entity-level characteristics (also called firm-level, since they are publicly traded firms). The data sources of patent-level and firm-level characteristics are given below:

Patents: Patent Examination Research Dataset (PatEx) is the dataset compiled by the Office of the Chief Economist (OCE) at USPTO that contains patent-level characteristics for the patents applied in the US from the 1900s to 2020.¹⁵ In this dataset each row is a patent application which contains all the relevant information the patent application’s prosecution generated till date; for example, the application number, filing date, issue date (if granted), number of claims, etc. Firm names in the patent database are not standardized and Patentsview bridges this gap using algorithms to standardize patent assignee names. I sum the relevant statistics for each quarter for each assignee using the Patentsview assignee names.¹⁶

Firms: Compustat’s North America data provides quarterly financial information from the quarterly balance sheets of the publicly listed firms.¹⁷ The Center for Research in Security Prices (CRSP) provides daily stock prices of these firms.¹⁸ I average the daily

¹⁵Patent Examination Research Dataset: <https://www.uspto.gov/ip-policy/economic-research/research-datasets/patent-examination-research-dataset-public-pair>

¹⁶Patentsview is a collaborative project developed by the USPTO, American Institutes for Research (AIR), University of Massachusetts Amherst, New York University, University of California, Berkeley, Twin Arch Technologies, and Periscope. See here for details: <https://patentsview.org/what-is-patentsview>

¹⁷Compustat is accessed through Wharton Research Data Services (WRDS). <https://wrds-www.wharton.upenn.edu/pages/about/data-vendors/sp-global-market-intelligence/>

¹⁸Center for Research in Security Prices (CRSP) is accessed through Wharton Research Data Services (WRDS): <https://wrds-www.wharton.upenn.edu/pages/about/data-vendors/center-for-research-in-security-prices-crsp/>

stock prices to a quarterly-level.

While Patentsview standardizes patent assignee names, they still have to be connected to the Compustat database to get their financial information. Also, firms merge or hold subsidiaries that may individually file for patents. They may be listed as a different firm in the patent database but the patent belongs to the parent firm. [Kogan et al. \(2017\)](#) (henceforth referred to as KPSS) and [Arora et al. \(2021\)](#) (henceforth referred to as ABS) bridge this gap by standardizing the firm names, connecting them to the patent database, and connecting the Compustat firms and their subsidiaries to one standardized name. I use their databases to obtain a sub-sample of publicly listed firms' patents. The next section details the sample selection.

Litigation: The OCE at USPTO recently compiled a dataset on cases involving patents filed at district courts in the United States from 1963 to 2016. This dataset is called the Patent Litigation Docket Reports (PLDR). From the PLDR, I create a measure of exposure to litigation.

3.2 Descriptive evidence

Figure 1 shows the number of applications filed each month at the USPTO since 1975. It also marks the months when the said amendments to the Patent Act were enforced. We observe spikes in patent applications during or after each amendment. After each spike, we also observe either a change in growth rate or a parallel shift in monthly patents or both. Along with the amendments to the Patent Act, certain patent lawsuits also delineate boundaries of patent rules by establishing case laws, which may affect patenting activity but such cases are not marked in the figure. The AIA came into effect as a law on September 16, 2011, which is the second red dotted line from the right. The FITF rule came into effect on March 16, 2013, shown by the rightmost red dotted line. A large spike in patenting can be observed in the month when the AIA's FITF rule was enforced. From the Great Recession to AIA, the growth in the number of patents was positive which dampened after the AIA spike. But, we can observe an increase in noise post-AIA. I investigate this further in Figure 2.

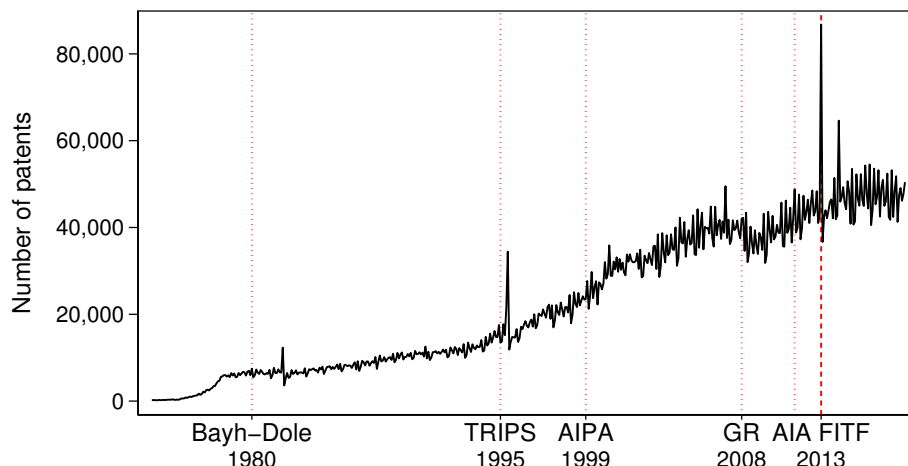


Figure 1: Patent applications filed each month

This figure plots total patents for each month from 1975 through 2018. The months of enforcement for the policies are Bayh-Dole Act (Dec 1980), Trade Related Intellectual Property Rights (Jan 1995), American Inventors Protection Act (AIPA; Nov 1999), Great Recession (Sept 2008), and America Invents Act (Sept 2011 and Mar 2013). Coverage of patents before 1981 is poor and only granted patents are observed till 1999. Post-1999, due to the introduction of pre-grant publication of patent applications, we see all barring the classified patents.

Figure 2 furthers the investigation of the patenting activity around the AIA by separating the patents into small and large entities. After a preliminary cleaning of raw patent application statistics, such as removing plant and design patents and restricting the dataset to observe patent applications only applied between 2008 and 2016, I plot Figure 2. It zooms in on the portion of Figure 1 after the Great Recession and plots the change in quarterly patents for the small and large entities. I move from the monthly number of patent applications to quarterly because of two reasons. First, it irons out the large monthly variations, making it easier to observe the pattern, and, second, in the latter part of the paper, I conduct a separate set of analyses for publicly traded firms for which quarterly financial statistics are available. I also switch from the absolute number of patents to $\log(\text{number of patents})$ because regressing large absolute values on small X 's or vice-versa makes the estimates unreadable.

We can observe similar trends for both small and large entities in Figure 2. In the USPTO database, entities are recorded as small entities or undiscounted entities. Undis-

counted entities do not receive discounts in patenting fees and therefore are assumed to proxy large entities. The number of patents filed by large entities is always higher than the number of small entities, but the change quarter-on-quarter remains similar. Similar to Figure 1, quarterly patent applications grow quarter-on-quarter till the AIA's enforcement, and then the growth rate nears zero.

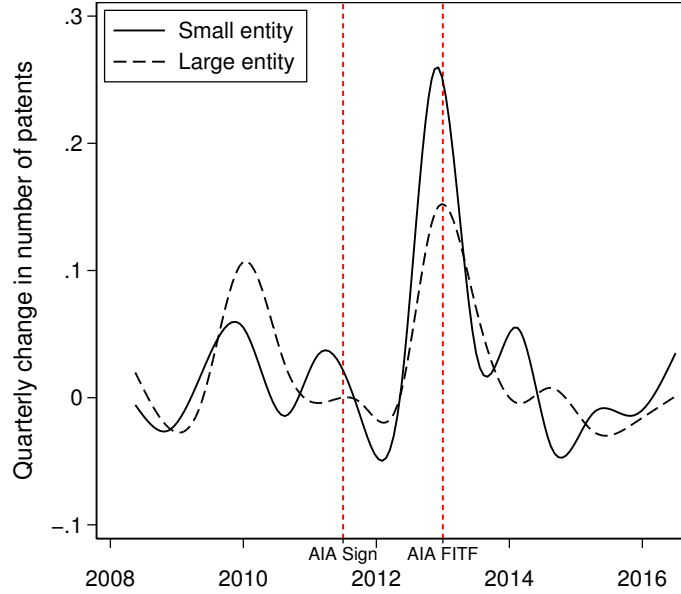


Figure 2: Patent applications by small and large entities by quarter

Not all patent applications are drafted equally. Some are of greater quality than others. The literature on innovation uses citations as a proxy to measure the quality of a patent. Citations can be added to a patent by the examiner and the applicant. Figure 3 plots the log number of total citations in the first two years after the issue of a patent for each quarter. Older patents will have an advantage here, and to limit that, I restrict the citations for the first two years after a patent's issue. The quarter in the x-axis is the patent application quarter, rather than the issue quarter since a patent issued post-AIA can still be applied for before the AIA. Small entities on average have a lower number of citations, similar to a lower number of patents in Figure 2. But post-AIA, we observe a modest increase in citations for small entities and no substantial change for the large entities, which is also similar to the patterns observed in Figure 3. Unconditionally, this suggests that the small entities have filed a greater number of patents on average post-AIA

and the citations received by those patents are also higher. Similar to the comparisons made between all applicants and first-time applicants in Figures 2 and ?? respectively, to dig deeper for citations as well, I plot Figure ??.

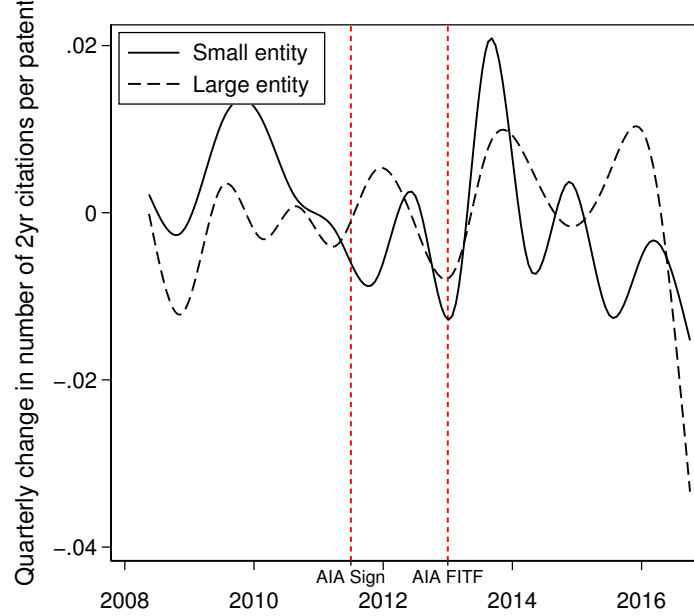


Figure 3: Citations within two years by small and large entities by quarter

3.3 Sample selection

There are three types of patents in the US: utility, design, and plant. Inventions relating to new products or processes, or their improvement are utility patents. The AIA's objectives are best represented by these inventions and therefore, in this paper, I only study the utility patents. Plant or design patents are granted to inventions that relate to the development of new plants and new designs, which may be unaffected by the aspects of the AIA this paper focuses.¹⁹ Each row of the PatEx database is a patent application. The 2020 release of PatEx contains 16,514,638 patent application numbers. After removing design, plant, and blank patent applications, I have 15,811,897 patent applications. A patent application can appear multiple times in the dataset through continuations but will culminate in *one* granted patent.²⁰ A patent application appearing

¹⁹See USPTO patent process for details on the definitions of utility, plant, and design patents here: <https://www.uspto.gov/patents/basics/patent-process-overview#step3>

²⁰At the USPTO, a patent application can be initially filed as a provisional or a non-provisional application. A provisional application may not contain claims or the specifics of the invention. Its primary

for the first time in the patent database is called a “parent” application, and all the connected applications, appearing later, are called its “children” applications. Multiple parent applications can be connected to multiple children applications. Using the parent and children continuation data from PatEx, I connect all the parents and their children to find the earliest application date. 13,537,926 patent applications contain a filing date.²¹ I also restrict the dataset to patent applications that were applied between and including the years 2008 and 2016. I take patent applications post-2008 to avoid distortions from the financial crisis and till 2016 for comprehensive coverage of patent applications. The average grant lag of a patent is about four years and two standard deviations above the grant lag are about eight and half years at the USPTO.²² Therefore, as years go by, the proportion of pending patent applications post-2016 would increase. For pending patent applications, information on citation is unavailable or scarce. The verdict for these applications, whether they will be granted or abandoned, is also unknown. To avoid these, I consider the patent applications that are applied on or before the end of 2016.

Restricting patent applications by year leaves me with 5,087,133 patent applications. Among these, 3,255,080 patent applications have a standardized assignee ID or an inventor ID in the Patentsview Database. The rest, 1,832,053 patent applications, do not have any ID. While these patent application numbers are unique in terms of their numbers or labels, they still can be a derivative of another application, as discussed earlier. In Ap-

use is to establish an effective filing date and should be followed by a non-provisional application, applied within 12 months of the provisional application’s filing date. A non-provisional application is prosecuted by an examiner to determine its patentability. This type of application can further be continued as a continuation application, in-part continuation application, or divisional application can If an entity wishes to apply to more than one country, they may opt for a Patent Cooperation Treaty (PCT) application. If applied as a PCT application, the applicant has to choose the countries they wish to apply for patent rights. If an applicant wishes to file for patent protection in multiple countries, rather than applying to every country separately, the entity may choose to file the application as an international patent. This type of patent is also called a Patent Cooperation Treaty (PCT) application. The decision on grants is still given by the countries separately. For details refer here: <https://www.wipo.int/pct/en/faqs/faqs.html> Later, this enters the conventional application procedure, during which a new application number is assigned to the provisional or PCT application. Counting a PCT or a provisional and its conventional application counterpart as two different patent applications will result in double counting.

²¹The patent application that does not contain a filing date usually are filed as a PCT application. In place of the filing date, such applications receive a World Intellectual Property Organization (WIPO) publication date. The USPTO records these patent applications as National Stage Entry (NST) when they are examined at the USPTO, they receive an application number, and they do contain a filing date at this point.

²²Grant lag winsorized at the 5 and 95 percentile cutoffs post-2000.

pendix [A.1](#), I provide a detailed discussion of the patent application numbers that do not have any ID and provide reasons as to why these applications are either insignificant or are repeats of the patent applications already in the main sample of patent applications that can be identified with a standardized ID.

There are 582,293 unique entity IDs that have applied for patent applications between and including the years 2008 and 2016. I use the disambiguated Patentsview assignee IDs, wherever they are available, and the disambiguated inventor IDs where the assignee IDs are unavailable. For the rest of the paper, I refer to the entity identifiers as entity IDs. An entity can be identified as either a company, or an individual, or a Government entity. Assignee IDs are unavailable when an applicant is an individual. Each ID on average has 5.59 patent applications. Using the quarter of the earliest application date of each patent and the entity IDs, I sum or average all the variables at the entity-quarter level. I detail all the variables in the next section. 3,255,080 patents by 582,293 IDs are reduced to an unbalanced panel of 1,783,604 entity-quarter rows. Among these, 730,343 entities were patented only once in their lifetime and appeared only once in the sample. These observations are singletons. Singletons in models with entity fixed effects where the standard errors are clustered may overstate the number of clusters and hence the statistical significance ([Correia, 2015](#)). I, therefore, report the main results without the singletons. The results of this paper however remain unchanged even with the inclusion of the singletons, as we will observe while discussing the results in Section 5. The final sample for the main set of analyses, therefore, is 1,053,261 entity-quarter observations. The concern is evident about entities self-selecting themselves into pre and post-AIA depending on their objectives. The unbalanced panel used in estimating the main results does not have zeroes when an entity does not file for any patent application for a given quarter. I address this issue by adding zeroes for the quarters where an entity does not patent, thereby balancing the entity-quarter panel and replicating the main analyses in Appendix [A.2](#).

Next, I use patent number-*PERMNO* match from [Kogan et al. \(2017\)](#) to identify

patents by publicly traded firms.²³ *PERMNO* is the permanent issue identifier as provided by CRSP data. There are 2,075 unique *PERMNO*s in Kogan et al. (2017) who had applied for patent applications between 2008 and 2016. I also use Arora et al. (2021) to match the *PERMNO*s with the Compustat identifier, *GVKEY*. There are 1,374 unique *GVKEY*s who had applied for patent applications between 2008 and 2016. For the firm-level analyses, I have 1,374 publicly traded firms’ characteristics and their patent applications. Different studies employ their own assignee disambiguation method but Arora et al. (2021) corrects for mergers, acquisitions, and patent reassignment. From the 3,255,080 patent applications, 1,309,860 patents can be identified as having a *PERMNO* and a *GVKEY*. These observations constitute the sample for the second set of analyses in Table 5.

3.4 Variables

I use two patent outcome measures as dependent variables to study the disclosure and the value of invention; log number of applications and log number of citations within two years of issue of a patent. They are calculated at the assignee-quarter level. Older patents may have a higher number of citations and may be incomparable to the newer ones and therefore are capped at two-year after their issue.

Using the parent application number’s date of filing, I create an indicator called *Post*. This variable takes a value of 1 if the patent application was applied for after March 16, 2013, and 0 otherwise. Note that I use the “parent” application number as opposed to the “patent” application number. This is because a patent application can claim priority to an earlier provisional or non-provisional application. Through this, an application filed later claims continuation from a previously filed application. If this happens, then the earliest application date is considered the application date for the patent application. In such cases, the patent applications filed post-AIA can still be under the purview of pre-AIA rules.

PatEx provides an indicator *Small Entity*, which takes a value of 1 if the patent

²³The authors have released data updated till 2020 here: <https://github.com/KPSS2017/Technological-Innovation-Resource-Allocation-and-Growth-Extended-Data>

application was filed by a small entity and 0 otherwise. A small entity is defined as a person, a small business concern, or a nonprofit organization, which includes universities and educational institutes. An entity is considered to be a small business concern if it meets the size standards, i.e. the total number of employees and affiliates should not exceed 500 persons at the time of application. The size is self-declared at the time of patent application and is not formally verified by the USPTO. A small entity receives a 50 percent discount on all patenting fees. An entity can file its patent as a small or a large entity, and the reasons for choosing either are unknown.²⁴ To keep the main results simple, I assume that within a quarter, if an entity files as a small entity once, the entity is a small entity for that quarter. In Appendix A.3, I relax this assumption to consider the proportion of patents filed as small among all patents an entity had filed for that quarter and replicate the main results.

A patent application is categorized in the United States Patent Classification (USPC) System. Each patent application is assigned a USPC class and subclass. Since there are numerous USPC classes, I aggregate them into six NBER categories and 36 NBER sub-categories. The broad six categories are chemical, computer and communications, drugs and medical, electrical and electronic, mechanical, and others.²⁵ Since I am collapsing the patent-level statistics into the assignee-quarter level and an assignee can have patents in various categories in each quarter, I take the mode category. If there are multiple modes of categories, I randomly choose one category for that assignee-quarter.

Among the patent level controls, I sum the number of claims for each assignee-quarter. Claims are specific statements that define the uses of a patent. Claims are of two types, independent and dependent claims. The independent claims are the standalone statements defining the invention while the dependent claims define its boundaries and limitations.²⁶ Until recently, claims were thought to be a mix of complexity and quality of patents, but [Marco and Miller \(2019\)](#) dispel a few confusions around the significance of claims.

²⁴If an entity that qualifies as a small entity transfers the rights of its patent to an undiscounted entity partly or fully, then the patent will cease to be from a small entity. But, licensing to a federal agency or using the patent as a security interest does not preclude the entity's patent to be considered as one from a small entity.

²⁵A concordance between NBER categories and USPC classes are provided in [Hall et al. \(2005\)](#)

²⁶Put a simple example of independent and dependent claims

They find that the narrow claims have a greater probability of being granted. Along with this, claims' length and breadth are strategically written and fought with the examiner. Next, I use the log of experience of an applicant in USPTO. Finally, I also control for the number of patents that are maintained at the 4th year post-grant. Maintenance or renewal of patents is a predictor of the quality of patents. The higher the quality, the greater the chance that the patent would be renewed (Bessen, 2008). These controls act to provide a stricter restriction to the estimates.

From Kogan et al. (2017) and Arora et al. (2021), I obtain a patent-*PERMNO-GVKEY* match. I use this information to create a subset of patents summed at the firm-quarter level. For these firms, I observe different firm characteristics which come from their quarterly balance sheets. Following the literature, I control for their quarterly log number of employees, log number of assets, log R&D expenditure, and log of firm age since establishment (Hegde and Sampat, 2009).

4 Empirical strategy

I estimate the change in the log number of patent applications and the log number of 2-year citations per patent at the assignee-quarter level using a difference-in-differences method. The number of patent applications and the number of citations proxy quantity and quality of inventions respectively. I compare the change in quantity and quality of inventions by small entities post-AIA with the inventions by the small and large entities pre-AIA.

The main set of results, as presented in Tables 2 and 5 use two different samples: all patenting entities and a subset of them — the publicly traded firms involved in patenting, respectively. Next, I develop a measure of exposure to litigation, following Mezzanotti (2021) and estimate the changes in the two Y's for only the small entities. I use the measure of exposure to litigation as a continuous treatment, and the results are reported in Figures 6 and 7.

A crucial assumption of this paper hinges on is the comparison of small and large

Table 1: Definition of the variables

| Panel A: Quarterly patent data | | |
|--------------------------------|---|-------------|
| Variable | Definition | Source |
| Log number of patents | Log number of patents | PatEx |
| Log number of 2 year citations | Log(1+citations within two years of issue) | Patentsview |
| Post | 1 if the patent was filed on or after March 16, 2013 | |
| Small entity (SE) | 1 if the patent was filed by a small entity; 0 otherwise | |
| Log experience | Log experience of assignee at the USPTO | |
| First patent | 1 if the patent was the first patent for the assignee; 0 otherwise | PatEx |
| NBER category | Patent classified into one of the six NBER categories: chemical, computer and communications, drugs and medical, electrical and electronic, mechanical and others | |
| Log number of claims | Log number of claims per patent | Patentsview |
| Renewal proportion | Proportion of patents renewed (maintained) at 4 th year | |
| Pending proportion | Proportion of patents pending as of Dec 2020 | |
| Abandoned proportion | Proportion of patents abandoned | |
| Joint patent | Proportion of patents jointly applied | |
| Entity type | 0 if company, 1 if individual, and 2 if Government | |
| Revealed tech advantage | Revealed technological advantage is a ratio of ratios the proportion of patents in category c (P_{ijt}) out of all patents by entity i at time t (P_{it}) over the proportion of patents in category c (P_{jt}) out of all patents by all entities at time t (P_t) Formally: $\frac{\frac{\sum P_{ijt}}{\sum P_{it}}}{\frac{\sum P_{jt}}{\sum P_t}}$ | USPTO |
| Panel B: Quarterly firm data | | |
| Variable | Definition | Source |
| Log emp | Log number of employees | |
| (Log assets)/emp | Log assets per employee | Compustat |
| (Log R&D)/emp | Log R&D expenditure per employee | |
| Log age | Log age since establishment | |
| Log Market cap | Log(stock price \times shares outstanding) | CRSP |
| KPSS value | Log real-KPSS value of patents | KPSS |
| PERMNO | CRSP firm identifier; identifies firms in KPSS | |
| GVKEY | Compustat firm identifier, identifies firms in Compustat; ABS provides GVKEY-PERMNO match | ABS |

Panel A lists the variables used for the assignee level analyses. Panel B lists the variables used for the firm level analyses.

[Kogan et al. \(2017\)](#) is abbreviated as KPSS, and [Arora et al. \(2021\)](#) is abbreviated as ABS. The variables *PERMNO* and *GVKEY* are not variables. From the assignee-quarter level patent data, the firm identifiers *PERMNO* and *GVKEY* are used to create a sub-sample of only-firm assignees.

entities pre and post-AIA. I assume that if the AIA was not enacted, there would be no change in the rate of change of the number of patents and citations between small and large entities quarter-on-quarter. Also, by comparing discrete entity sizes i.e. small and large entities, I implicitly assume that size is an adequate measure to capture the resources the entities have in their disposal. This measure because of being discrete dampens the variation that I could have exploited in the estimation if I had a continuous measure of resources available to entities. One reason to use publicly listed firms is to allow for varying entity sizes.

The main set of results i.e. the entity level and the firm level analyses, are estimated using Equation 1, and the full specification is as follows:

$$Y_{it} = \beta_0 + \delta(Post \times SE_i) + \phi SE_i + X'_{it}\beta + \lambda_i + \lambda_t + \varepsilon_{it} \quad (1)$$

Here Y_{it} denotes two outcome variables, the log of the total number of patents for an assignee at each quarter and the log of (total number of citations) received by an assignee at each quarter within two years of the patents' issue. The coefficient δ captures the change in the difference in Y s between the small and the large entities after the implementation of the AIA. The coefficient ϕ captures the average of small entities for all the quarters, and also acts as a baseline upon which δ captures the increment. I control for the assignee i and the quarter t 's baseline using assignee and quarter fixed effects, given by a range of indicator variables and their coefficients in the matrices λ_i and λ_t respectively. I also control for a range of patent quality and complexity correlates denoted by the vector X_{it} . A discussion on these measures follows after the models used in this paper are explained.

I estimate this equation for the full sample, i.e. all the patenting entities, and for only the publicly listed firms. For the firm-level analyses, I employ additional firm-level controls, which control the firm's resources with greater precision than only using the information derived from their patenting behavior and entity size.

While δ reports the average of Y s for the small entities over all the quarters post-AIA,

I also separate the effects by each quarter. This enables us to understand and verify if any pre-trend influences δ . The estimating equation is given by Equation 2. The full specification is:

$$Y_{it} = \beta_0 + \sum_{s \neq 0} (\beta_s \times 1[s = t] \times SE_i) + \phi SE_i + X'_{it} \beta + \lambda_i + \lambda_t + \varepsilon_{it} \quad (2)$$

In this Equation, β_s ranges from the first quarter of 2008 to the last quarter of 2016, barring the first quarter of 2013 i.e. when the AIA was implemented, which acts as the base quarter. The other coefficients have the same interpretation as in Equation 1.

The crucial assumption, as described previously, is the use of the large entities as a comparison group for the small entities. Therefore, I try to report the results from different perspectives, and argue that given the controls variables, the large entities can act as a comparison group for the small ones.

5 Results

5.1 Evidence from all small entities

In this section, I examine and report the change in two outcome variables: quantity of inventions — log number of patent applications and the quality of inventions — log(number of citations per patent) after the enactment of the AIA for all the small entities in the sample. The results are reported in Table 2. For this and all subsequent tables, I present four columns for each Y variable, where the first column is with and the second is without controls.

The estimate δ from Equation 1 reports how the gap between the small and large entities changes after the AIA's enactment. In Table 2, this is reported in the first row $SE \times Post$. The difference between the number of patents filed by the large and small entities is 2.8 percentage points, after the AIA's implementation. This indicates a relative drop in the filing of patents by an average small entity as compared to an average large

entity post-AIA.

The time trends are controlled using quarter fixed effects. To minimize clutter, I plot the fixed-effects in a separate graph and is shown in Appendix A.4’s Figure A8 and Figure A9. The trends exhibit a pattern similar to Figures 1 and 2, i.e. for the quarters after the AIA, we observe a decline in the growth rate quarter-on-quarter and a plateauing of the number of patents for all the entities. Note that in Equation 1, SE and ID fixed-effects capture the overall effects for small entities and each entity’s mean number of patents. The quarter fixed-effects report a trend over and above the individual baselines of each entity as compared to the quarter when the AIA was enacted. In Figure 1, we observed that the filing of patents was increasing at a fairly constant rate over the years, especially after the Great Recession. This is followed by a spike in the number of patents, on the date of enactment of the AIA and finally is followed by a plateauing of the number of patents, or a near-zero growth rate.

The gap between small and large entities post-AIA, as measured by δ exhibit similarities with the results from Abrams and Wagner (2013), Lerner et al. (2015), and Lo and Sutthiphisal (2009). The results from the Canadian reform act as a reference for this study. Abrams and Wagner (2013) predicted a decline in the number of patents for small entities, especially among them the individual inventors. By and large, we do observe a similar effect. However, there are a number of nuances and divergences from the predictions as well which are discussed in the subsequent paragraphs.

The controls in the matrix X being measures of patents’ quality and complexity are also laced with patenting strategies of entities. These patenting strategies are not impervious to the AIA. A change in incentives due to the AIA’s introduction may induce a strategic response. Particularly, among the variables described in Table 1, the claims listed in a patent document are shown to be a strategic tool (Marco and Miller, 2019). An example of a strategic response could be an entity separating its claims into multiple patents or combining all into one, which may widen or narrow the purpose of its patent. The AIA can induce a strategic change, and the variation in the number of claims is likely to be non-random. The number of claims may change post-AIA and thus can

absorb some of the treatment effects which could be attributable to the Y . The inclusion of claims, therefore, imposes a stricter restriction on the estimate. In other words, it helps us understand if the change in the log number of patents is entirely driven by the various measures of quality and complexity, or do the log number of patents change as a response to the AIA.

Now, if we move to the second outcome, the log(number of citations within two years of issue of the patent per patent); we observe results similar to that of the log number of patents. Specifically, the estimate of δ reported in columns (3) and (4) of Table 2 indicates a drop in the number of citations within two years of the issue of a patent per patent of about 1.2 percentage points for the small entities post-AIA relative to all entities pre-AIA. A decline in the number of patents is followed by a decline in their citations. While [Abrams and Wagner \(2013\)](#) and [Lerner et al. \(2015\)](#) report a reduction in the number of patents, they do not find any appreciable difference in the quality, as also measured by citation, for the small entities during the Canadian reform in Canada. For the U.S. small entities, we do note a drop in the quality of patents filed post-AIA.

Figures 4 and 5 report the main results in an event study form, as given by Equation 2. I also split the coefficient of $SE \times Post$ by year. Quarterly coefficients of $SE \times Post$ do show similar results as in Table 2. But, averaging by year averages the variation within the year, which enables us to see a broad trend over time. The event study setup serves two purposes. Firstly, it tests the identifying assumption, i.e. whether the small entities patent differently than the large entities pre-AIA — the parallel trends assumption; and secondly, it separates the effect by quarter and year, enabling us to see if a particular time drives the result.

For the number of patents, compared to the AIA’s implementation quarter, i.e. the first quarter of the year 2013, the pre-trends have on average coefficients of magnitudes greater than 0. While, post-AIA, the percentage drop is negative. The number of citations within two years of issue per patent does show a similar trend as the number of patents, but with wider confidence intervals. I also provide results using the number of citations within one year of issue per patent in Appendix Figure A10 to show that the two citation

figures do move in a similar fashion. Table 3 compares the coefficient of $SE \times Post$ keeping the year 2013 as base. Compared to the base year, we observe a drop in patenting, which increases over years. The number of citations per patent, on the other hand, starts declining in 2015.

Table 2: Main results: Log number of patents and citations

| | Patents | | Citations | |
|-------------|------------------------|------------------------|-----------------------|-----------------------|
| | (1) | (2) | (3) | (4) |
| SE x Post | -0.0645*** (0.0034) | -0.0404*** (0.0025) | 0.0157*** (0.0020) | 0.0108*** (0.0020) |
| Controls | No | Yes | No | Yes |
| Qtr F.E. | Yes | Yes | Yes | Yes |
| ID F.E. | Yes | Yes | Yes | Yes |
| Subcat F.E. | Yes | Yes | Yes | Yes |
| N | 1053263 | 1052172 | 1053263 | 1052172 |

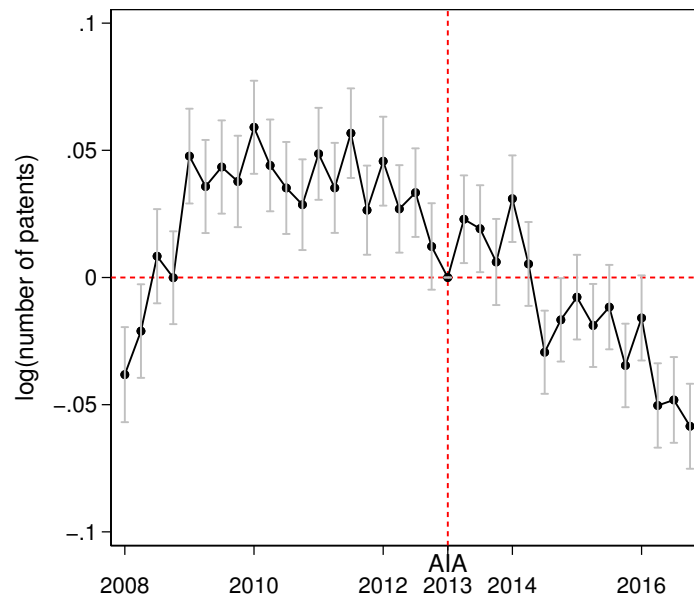


Figure 4: Change in small entities' number of patents over time

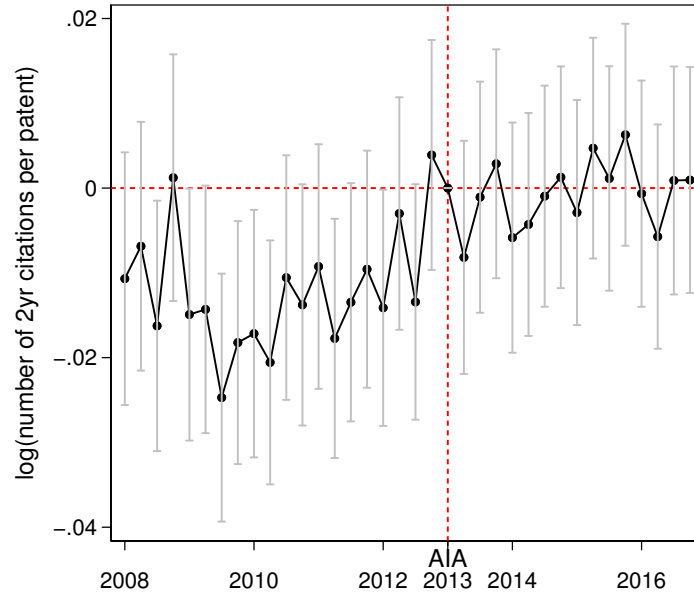


Figure 5: Change in small entities' number of citations over time (within 2 year of issue) per patent

Table 3: Main results: Log number of patents and citations

| | Patents | | Citations | |
|-------------|------------------------|------------------------|------------------------|------------------------|
| | (1) | (2) | (3) | (4) |
| SE x 2008 | 0.0109 (0.0068) | -0.0232*** (0.0051) | -0.0108*** (0.0041) | -0.0060 (0.0041) |
| SE x 2009 | 0.0459*** (0.0067) | 0.0282*** (0.0050) | -0.0194*** (0.0040) | -0.0160*** (0.0040) |
| SE x 2010 | 0.0285*** (0.0065) | 0.0278*** (0.0049) | -0.0155*** (0.0039) | -0.0133*** (0.0039) |
| SE x 2011 | 0.0212*** (0.0064) | 0.0279*** (0.0048) | -0.0109*** (0.0038) | -0.0103*** (0.0038) |
| SE x 2012 | 0.0061 (0.0062) | 0.0156*** (0.0046) | -0.0038 (0.0037) | -0.0043 (0.0037) |
| SE x 2014 | -0.0359*** (0.0059) | -0.0166*** (0.0044) | 0.0015 (0.0036) | -0.0004 (0.0035) |
| SE x 2015 | -0.0597*** (0.0060) | -0.0314*** (0.0045) | 0.0087** (0.0036) | 0.0044 (0.0036) |
| SE x 2016 | -0.0878*** (0.0061) | -0.0568*** (0.0046) | 0.0079** (0.0037) | 0.0007 (0.0037) |
| Controls | No | Yes | No | Yes |
| Year F.E. | Yes | Yes | Yes | Yes |
| ID F.E. | Yes | Yes | Yes | Yes |
| Subcat F.E. | Yes | Yes | Yes | Yes |
| N | 1053263 | 1052172 | 1053263 | 1052172 |

5.2 Evidence from the litigation exposure

In this section, I focus only on the small entities' exposure to litigation, though I refer to results for all the entities which are provided in Appendix [A.6](#).

We observe that though the gap in the number of patents between small and large entities widen post-AIA; within the small entities, those operating in patent categories with heavier exposure to litigation do increase their patenting compared to all small entities post-AIA by 5.04 percent, given by the coefficient of $Exposure \times Post$.

The coefficient of $Exposure$, 0.0688, or a 6.88 percent difference between the exposed and non-exposed entities tells us that the entities exposed to litigation also patent more on average, within the small entities. This is true, because the areas litigated more are also the areas with a greater return on investment, on average (REFERENCE). Also, we know that the small entities are on average litigated more as compared to the larger ones (REFERENCE).

Post-AIA, we can infer that the entities experiencing heavy exposure to litigation are in a way more "comfortable" in patenting in those areas. This is because the threat of litigation relatively lowered with the enactment of AIA. Since Table 4 report the average for all the quarters pre and post-AIA, I also separate the pre and post averages by each quarter and report the changes over time and compare it with the quarter when the AIA's FITF was enacted. We note that the exposed entities were anticipating the change and were building up to the AIA's passage, and this buildup sustains post-AIA. However, we also observe that the average fluctuates compared to the pre-AIA period. But, on average, the number of patents are higher for the exposed entities post-AIA. This result is clearer when I consider all the entities, and estimate the change in the number of patents and citations with exposure as a dosage post-AIA. The results are provided in [A11](#) for the number of patents and [A12](#) for the number of 2 year citations per patent. Formally, a unit increase in exposure is related to a 6 percent increase in the log number of patents.

Coming to the quality of patents within the small entities exposed to litigation, we observe no change in the two-year citation per patent for the exposed relative to the unexposed small entities post-AIA. Figure 7 separates the coefficient by quarters and

shows that the coefficient for each quarter hovers around 0. We do observe that the variation for each quarter for citations is not as precise and the number of patents.

I also report the results using For all the entities, as reported in Appendix A12, we do observe that a unit increase in exposure leads to a drop of about 0.63 percentage in the average 2 year citations per patent post-AIA, but this does not change within the small entities.

Table 4: Exposure to litigation within the small entities

| | Patents | | Citations | |
|-----------------|-----------------------|-----------------------|------------------------|------------------------|
| | (1) | (2) | (3) | (4) |
| Exposure x Post | -0.0023 (0.0027) | 0.0688*** (0.0019) | -0.0004 (0.0016) | -0.0023 (0.0016) |
| Exposure | 0.0639*** (0.0018) | 0.1946*** (0.0013) | -0.0218*** (0.0011) | -0.0241*** (0.0011) |
| Controls | No | Yes | No | Yes |
| Qtr F.E. | Yes | Yes | Yes | Yes |
| ID F.E. | Yes | Yes | Yes | Yes |
| Subcat F.E. | Yes | Yes | Yes | Yes |
| N | 356224 | 355423 | 356224 | 355423 |

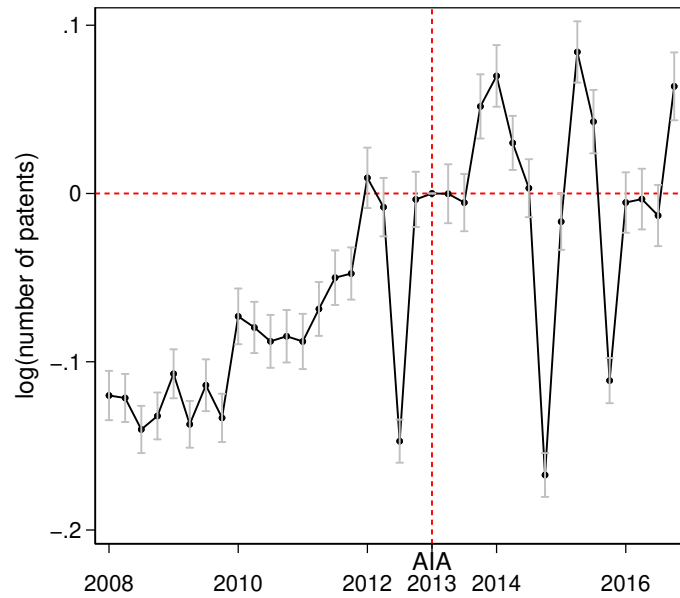


Figure 6: Exposure to litigation: Patents

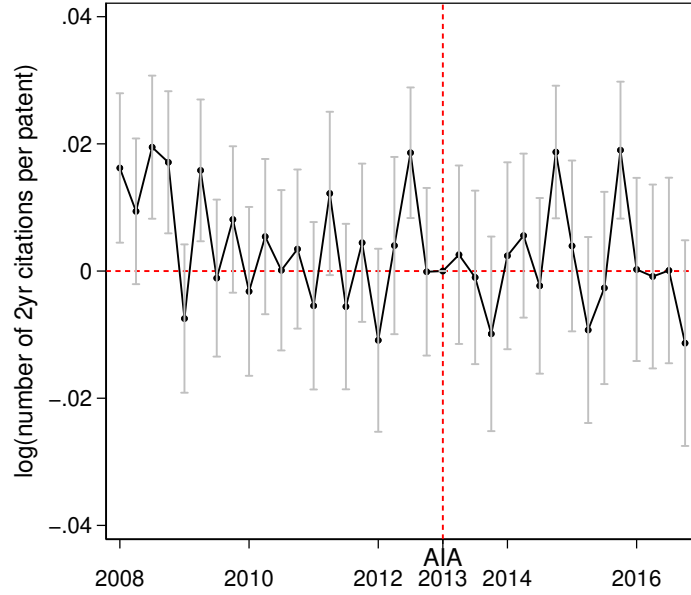


Figure 7: Exposure to litigation: Citations

5.3 Evidence from the Compustat firms

Small entities cover about 30 percent of the patents in the main sample. But, among the publicly traded firms, only a percentage of the patents are from small entities. While this sample enables me to control for a greater number of entities' characteristics, such as assets, R&D expenditure, and the number of employees; I inevitably lose all the individual patentees and a large proportion of unlisted firms. Patents by individuals and the small firms are important for this paper because of the results from the Canadian reform, and because the small entities are not represented adequately among the sample of publicly listed firms. Publicly traded firms do not adequately represent the small entities. The lack of small entities is evident in the results reported in Table 5. Overall, we do not observe any difference between the small and large entities among the publicly listed ones. The two year citations per patent reports a significance at the 10 percent level, and because of its lack of precision it must be considered with a significant amount scrutiny.

The small entities publicly listed are still sufficiently large to be listed as compared to the unlisted firms and individuals. They also are significantly less budget constrained than the other small entities.

Table 5: Compustat firms results: Log number of patents and citations

| | Patents | | Citations | |
|-------------|----------------------|---------------------|----------------------|---------------------|
| | (1) | (2) | (3) | (4) |
| SE x Post | -0.0924* (0.0560) | -0.0300 (0.0503) | 0.1098** (0.0549) | 0.1000* (0.0543) |
| Controls | No | Yes | No | Yes |
| Qtr F.E. | Yes | Yes | Yes | Yes |
| ID F.E. | Yes | Yes | Yes | Yes |
| Subcat F.E. | Yes | Yes | Yes | Yes |
| N | 18366 | 18366 | 18366 | 18366 |

6 Concluding remarks

This paper studies the quantity and quality of inventions by the small entities relative to the large entities around a recent and substantial change in the patenting rule of the United States, the Leahy-Smith America Invents Act (AIA) of 2011. Through this paper, I shed light on the innovative activities of a relatively understudied group of entities, the small entities. I show that the entities indeed are different as compared to the large entities, and if they are not considered in a study which focuses on patents, such studies may not be considered representative of all innovative entities. Next, I show that This paper acts as an update to the study of the effects of FITF on the small entities, as mandated by the AIA. This study was released on June, 2015 ([Lerner et al., 2015](#)). However, as the authors note “[p]atents have historically taken roughly two to three years to issue and several additional years to generate a reasonable number of citations that will allow systematic analysis of importance. This timing poses difficulties in directly measuring the effects of the AIA at this time.”

I find that on average, the gap in patenting between small and large entities has widened after the enactment of AIA. But, the average quality of patents, as measured by the 2 year citations per patent do not drop, and rather improve post-AIA. While this is the total effect of the AIA on quantity and quality of patents, entities exposed to litigation exhibit an opposite effect. That is, entities with a greater share of their portfolio of patents in areas exposed heavily to litigation increase their patenting activity, which

does not necessarily translate in an increase in the average citations of patents.

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A Appendix

A.1 Patent applications without assignee IDs

The Subsection 3.3 describes the sample selection this paper. In the second paragraph, I end up with 5,087,133 patent applications, with or without entity identifiers. Among these, 1,832,053 did not have either assignee ID or inventor ID from the Patentsview database. In this section of the Appendix, I argue that the patent application without the IDs is not a systematic error of the disambiguation algorithm. Rather, most of these patent applications are a derivative of another patent application already considered in the main sample. 87 percent of the patent applications which do not have an ID are either connected to the patent applications in the main sample through a parent or a child application. Among the 87 percent, 99.2 percent are either PCT or provisional applications. These applications are not examined if they are not converted into a non-provisional application within a given time. They either end up being abandoned or are marked as “pending” throughout their life in the USPTO patent database. A summary of the types of patent applications among those who do not have an ID is provided in Table A1. Each row reports an application type, and if they are connected to the main sample through parent or child applications. The main concern here is the utility patents, which amount to 13,203 patent applications. Utility patents may end up being examined, but the other patents will not, and therefore do not pose a threat to the main results of the paper. The proportion of utility patents out of the total missing is minuscule and will not disturb the estimates even if they were in the main sample.

Table A1: Patent applications with missing IDs

| Patent application type | Connected | Not-connected | Total |
|-------------------------|-----------|---------------|-----------|
| Utility | 9,080 | 4,123 | 13,203 |
| PCT | 901,286 | 209,622 | 1,110,908 |
| Provisional | 679,304 | 25,644 | 704,948 |
| Re-issue | 2,146 | 24 | 2,170 |
| Re-examination | 815 | 7 | 822 |
| Missing | 1 | 1 | 2 |
| Total | 1,592,632 | 239,421 | 1,832,053 |

A.2 Results from a balanced panel

In Subsection 3.3, I briefly mention a concern regarding selection that may arise from the use of an unbalanced panel. While the sample is intrinsically not unbalanced, because I do observe all the patents each entity files for each quarter and there are no missing observations for any particular quarter for a given entity; in a definitional sense of an unbalanced panel, the main sample *is* unbalanced.

Different entities may find it favorable to choose between the pre and post-AIA periods to file their patent application which may relate to their objectives and characteristics. If the entities in the groups small and large for the before and after periods are vastly different, estimates showing the change in their patenting activity before and after the AIA may also contain bias. One way to tackle the issue would be to control for enough of the varying entity characteristics which explain their choice between the two periods if any. If we assume that the control variables adequately capture their strategies, the estimates would be consistent. This is one reason why I estimate the model with different samples and variables.

Another way to tackle this is to force the unbalanced panel to be balanced. In the quarters when an entity did not file for patent applications, I put zeroes in the number of patents and citations column. If the participation by the small entities is vastly different pre and post-AIA, the mean would

Table A2: Balanced panel results

| | Patents | | Citations | |
|------------|------------------------|------------------------|------------------------|-----------------------|
| | (1) | (2) | (3) | (4) |
| SE x Post | 0.0222*** (0.0002) | 0.0222*** (0.0002) | 0.0003*** (0.0000) | 0.0003*** (0.0000) |
| Individual | | 0.1162*** (0.0323) | | 0.0033 (0.0088) |
| Government | | 0.1481*** (0.0178) | | 0.0055 (0.0048) |
| Constant | -0.0290*** (0.0001) | -0.1249*** (0.0266) | -0.0017*** (0.0000) | -0.0045 (0.0072) |
| Qtr F.E. | Yes | Yes | Yes | Yes |
| ID F.E. | Yes | Yes | Yes | Yes |
| N | 36441360 | 36346212 | 36441360 | 36346212 |

A.3 Alternate definition of small entities

An entity can file as a small or undiscounted entity. The reason for this choice is unclear. The main set of results assumes an entity to be small if it is ever claimed to be small. But, it is possible that an entity grew over time to be large and be misrepresented as a small entity because of the assumption. Therefore, Table A3 reports results when the variable small entity is not an indicator variable. Rather, it is the proportion of times an entity claimed to be small out of total patents filed for that quarter. This value ranges between 0 and 1 and is a continuous measure of an entity being small and large in each quarter.

I re-estimate Equation 1 considering the proportion of small entity for each quarter in place of the indicator variable small entity. The coefficients of $SE \times Post$ do not qualitatively change compared to Table 2.

Table A3: Proportion of patents as small entity

| | Patents | | Citations | |
|-------------|------------------------|------------------------|-----------------------|-----------------------|
| | (1) | (2) | (3) | (4) |
| SE x Post | -0.0819*** (0.0037) | -0.0434*** (0.0028) | 0.0187*** (0.0022) | 0.0118*** (0.0022) |
| Controls | No | Yes | No | Yes |
| Qtr F.E. | Yes | Yes | Yes | Yes |
| ID F.E. | Yes | Yes | Yes | Yes |
| Subcat F.E. | Yes | Yes | Yes | Yes |
| N | 1053263 | 1052172 | 1053263 | 1052172 |

A.4 Quarter fixed-effects from the main table

Figures A8 and A9 plot the quarter fixed-effects from Table 2.

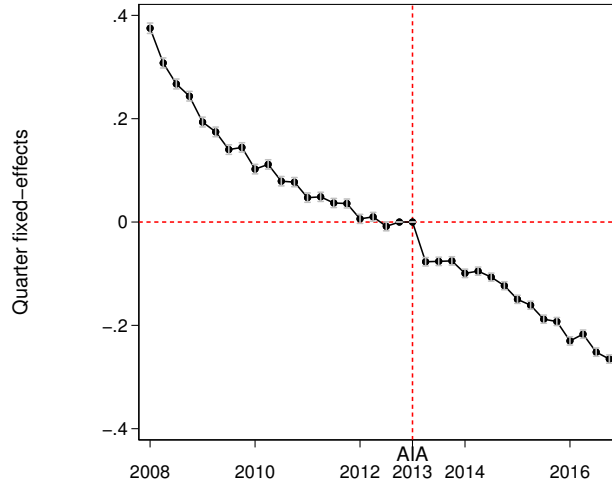


Figure A8: Number of patents' quarter fixed-effects

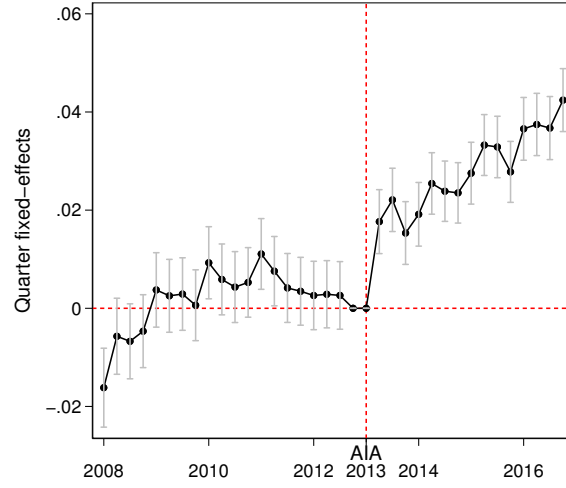


Figure A9: Number of citations' quarter fixed-effects

A.5 Number of citations within one year of issue

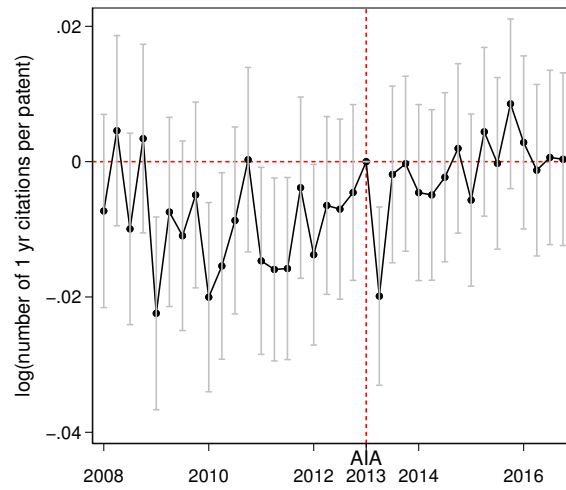


Figure A10: Change in small entities' number of citations over time (within 1 year of issue)

A.6 Litigation exposure for all entities

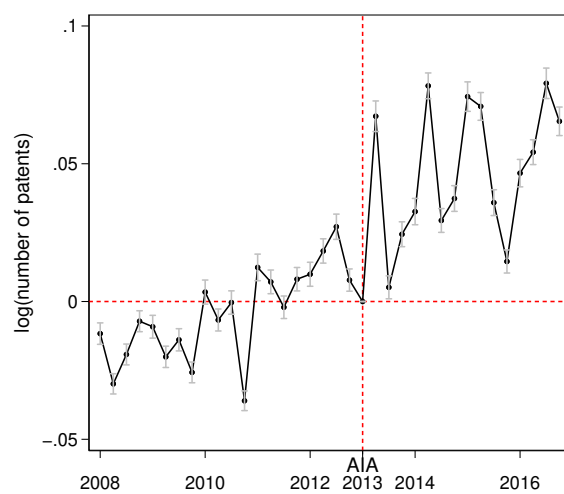


Figure A11: Exposure to litigation: Patents

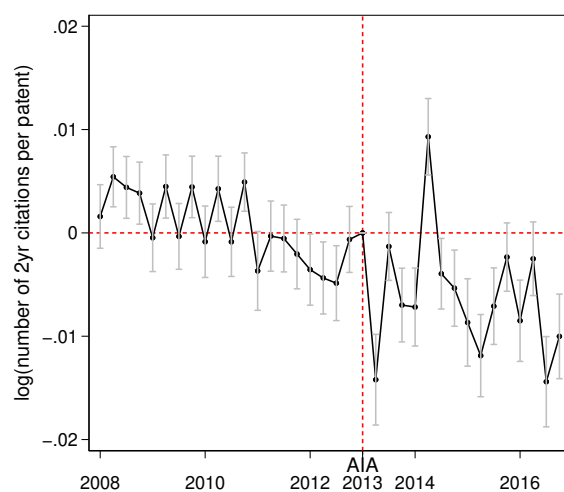


Figure A12: Exposure to litigation: Citations

Table A4: Exposure to litigation: small entities relative to the large entities

| | Patents | | Citations | |
|----------------------|------------------------|------------------------|------------------------|------------------------|
| | (1) | (2) | (3) | (4) |
| SE x Exposure x Post | -0.0109*** (0.0030) | 0.0078*** (0.0021) | 0.0037** (0.0018) | 0.0023 (0.0018) |
| SE x Exposure | 0.0326*** (0.0019) | 0.0685*** (0.0014) | -0.0133*** (0.0012) | -0.0149*** (0.0011) |
| Exposure x Post | 0.0092*** (0.0008) | 0.0482*** (0.0006) | -0.0040*** (0.0005) | -0.0063*** (0.0005) |
| SE x Post | -0.0536*** (0.0037) | -0.0225*** (0.0026) | 0.0109*** (0.0022) | 0.0054** (0.0022) |
| Exposure | 0.0279*** (0.0006) | 0.0992*** (0.0005) | -0.0075*** (0.0004) | -0.0094*** (0.0004) |
| Controls | No | Yes | No | Yes |
| Qtr F.E. | Yes | Yes | Yes | Yes |
| ID F.E. | Yes | Yes | Yes | Yes |
| Subcat F.E. | Yes | Yes | Yes | Yes |
| N | 1053263 | 1052172 | 1053263 | 1052172 |