



## Insight

# FTC Eyes Reverse Acquihires in AI Sector

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### Executive Summary

- The race to secure talent in artificial intelligence is driving an increase in the use of “acquihires” - a strategy in which large tech companies buy startups to secure their talent, and “reverse acquihires” - a strategy in which these companies recruit startups’ top talent but without an outright acquisition.
- The latter of these strategies, reverse acquihires, is drawing increasing scrutiny from antitrust authorities, which have expressed concerns about firms structuring deals intended to avoid notification requirements, as well as the potentially harmful effects that the hoarding of labor by large tech firms may have on competition.
- While enforcement action may be necessary to preserve competition, agencies should ensure that investigations focus on case-specific facts and consumer impact rather than the overly zealous, innovation-stifling enforcement posture of the Biden Administration.

### Introduction

The race to secure talent in artificial intelligence (AI) remains red hot and is driving an increase in the use of “acquihires” - a strategy in which large tech companies buy startups to secure their talent, and “reverse acquihires” - a strategy in which these companies recruit startups’ top talent but without an outright acquisition. These strategies are typically employed by large tech companies where the target is the leadership and primary engineering talent of startup firms rather than its products or intellectual property.

Acquihires and reverse acquihires allow companies to gain top-tier talent quickly. Reverse acquihires are a particularly attractive option because Hart-Scott-Rodino Act (HSR)

premerger notification requirements do not apply unless an acquiring firm purchases voting securities or assets.

Reverse acquisitions are drawing increased scrutiny from antitrust authorities - particularly at the Federal Trade Commission (FTC) - which have expressed concerns about firms structuring deals intended to avoid notification requirements and the potentially harmful effects that the hoarding of labor by large tech firms may have on competition. While enforcement action may be necessary to preserve competition, agencies should ensure that investigations focus on case-specific facts and consumers impacts rather than the overly zealous, innovation-stifling enforcement posture of the Biden Administration.

## **Acquihires and Reverse Acquihires**

*What are they?*

The motivations of a merger are specific to each transaction. Some mergers seek cost savings and revenue enhancements. Others are motivated by diversifying product lines or achieving economies of scale. While the mechanics of an acquisition are the same as any other acquisition - the acquiring firm gains intellectual property, customers, and products - the primary objective is to get the acquired firm's talent. In the AI sector, that talent is typically a startup's founders and top engineers.

Reverse acquisitions are different, and their use has been growing in the AI sector. In this deal structure, a large firm signs a non-exclusive license agreement for the startup's technology - which is often used to pay off investors. In exchange, the startup's key employees quit and are immediately hired by the large firm. Often, there is an additional payment made to the startup designed to avoid litigation over poaching their employees. The main distinction is that in a reverse acquisition transaction, the firm does not purchase the startup's shares or all its assets. After the transaction, the startup continues to operate independently, albeit in a much more limited capacity.

*Why use a reverse acquisition strategy?*

The reverse acquisition strategy provides many benefits to the acquiring firm. First, it allows the company to acquire top talent quickly. Compared to the often lengthy, and sometimes uncertain, traditional merger route which can last months or years, the employees are integrated into the large firm in a matter of weeks.

Perhaps even more significant is the regulatory flexibility this strategy offers. Reverse acquisitions allow the firm to avoid the HSR premerger notification requirements. Since the firm is acquiring talent rather than purchasing the startup's stock, assets, or noncorporate

interests that give the acquirer control, the deal does not require an automatic notification to the antitrust enforcement agencies. This strategy meaningfully reduces the risk of antitrust intervention, though it does not provide total immunity.

### *Recent examples of reverse acquihires*

There were several notable reverse acquihires in recent years. In March 2024, the founders of Inflection AI and 70 of its employees left for Microsoft. [Microsoft](#) paid \$620 million to license Inflection AI's models and \$30 million "for Inflection to agree not to sue over Microsoft's poaching." Inflection AI then used that money to pay off the company's investors.

In June 2024, a similar [transaction](#) took place between Amazon and Adept AI, a startup valued at over \$1 billion. Adept's founders, along with approximately 66 percent of its employees, quit and joined Amazon. Google and Character AI, [Amazon](#) and Adept, as well as [Nvidia](#) and Groq also engaged in reverse acquihire transactions.

### **Concerns Over Reverse Acquihires**

In an [interview with Bloomberg](#), FTC Chair Andrew Ferguson stated that the agency intends to investigate acquihires and reverse acquihires. He expressed concern that tech companies may be structuring these deals to avoid HSR reporting requirements, which violates HSR rules. Yet the speed in which firms can integrate these new employees into their existing operations could yield tremendous benefits compared to the slow process of traditional acquisitions. This is particularly important in the AI sector where leading firms are quickly replaced by competitors.

Similarly, FTC Commissioner Mark Meador [commented](#) that acquihires are leading to "individuals join[ing] some of the most powerful and dominant firms in the tech sector, allowing those firms to consolidate their power still further," and that "'firms may acquire talent not to utilize it productively but to preempt rivals from accessing it.' In other words: buy and kill, but for ultra-skilled labor." And while such concerns would likely have negative consumer consequences in the form of less innovation, the agencies will have to dig deeper into any restrictions placed on the newly acquired talent, including noncompete agreements. If employees have limited restrictions on leaving their new employer, it could be difficult to argue that reverse acquihires have negative downstream effects on consumers.

The Biden Administration's antitrust enforcement leads - former FTC Chair Lina Khan and former Assistant Attorney General for the Antitrust Division Jonathan Kanter - were largely opposed to large tech firms acquiring small startups, known as killer acquisitions. Khan and

Kanter believe that large incumbent tech firms would acquire these smaller startups to prevent them from competing in the future. Previous American Action Forum (AAF) commentary [challenged](#) this assertion. Meador applied these concerns to acquihires and reverse acquihires.

Members of Congress are also [concerned](#). Pointing to several examples, Senators Elizabeth Warren (D-MA), Ron Wyden (D-OR), and Richard Blumenthal (D-CT), wrote a letter to the DOJ and FTC arguing that reverse acquihiring arrangements “further consolidate the Big Tech industry, which in turn could cause higher prices and stifle innovation.” They urged the agencies to “apply close scrutiny while investigating these deals and block or reverse them should they violate antitrust law.”

### **Possible Agency Considerations and Action**

The comments from Chair Ferguson and Commissioner Meador suggest that antitrust enforcers are concerned about the process of acquihires and reverse acquihires - evading HSR review - and potential anticompetitive behavior by using market power to acquire industry-leading talent. It is, however, unclear how the agencies will proceed.

Acquihires are typically small transactions that do not exceed the HSR reporting threshold, while reverse acquihires do not require premerger filings. Nevertheless, agencies may still investigate and potentially challenge a transaction. The difficulty is that because these transactions tend to close quickly, it is likely the agencies would have to unwind an already consummated deal.

The agencies could respond to the trend in reverse acquihires in several ways. A first step would likely include an industry study under section 6(b) of the FTC Act, seeking to understand how and why firms choose to use this acquisition model. It is possible that the rise in popularity of this deal structure was a reaction to the aggressive enforcement approach of the Biden Administration, specifically deals involving startups. A 2025 [research paper](#) found that the antitrust agencies challenged only five deals (2 percent of all challenges) involving the acquisition of startups between 2011-2019. That number surged to 14, or 15.2 percent of all challenges during much of Biden’s term between 2020-2023. Chair Ferguson alluded to this in his Bloomberg interview, saying that the reason firms were trying to escape HSR review was “because the Biden Administration was trying to block all deals.”

The study could also examine the downstream effects on innovation. As AAF has previously [discussed](#), the ecosystem of large and small tech firms relies heavily on mergers and acquisitions as an exit strategy for venture capital investors as well as founders. The Biden

Administration's aggressive posture toward such mergers likely chilled startup activity, and acquires provided a solution to the regulatory risk posed by the antitrust enforcers while providing a vital exit strategy for founders and key employees.

In a [piece](#) discussing reverse acquires, Founders Forum Group identified startups as being "optimise[d] specifically for talent acquisition." The authors noted that these startups hire from top AI programs, publish research to build credibility, raise modest funding to sustain operations, and then wait for larger tech firms to recognize "their talent concentration." In other words, these startups market themselves as takeover targets as they are a collection of industry-leading talent. This specialization lowers the cost of identifying and hiring talent across the entire AI industry. This dynamic is not specific to AI, but can be found across the economy, notably in the biotech industry.

In its research, the agencies will need to consider why firms have chosen a reverse acquires model compared to other acquisition options.

The antitrust agencies could also issue guidance to help companies avoid potential enforcement actions. Such guidance should, however, reflect the findings of the 6(b) study that identified anticompetitive behavior. Overly prescriptive guidance would likely repeat the chilling effects of the Biden Administration's aggressive posture toward startup-involved acquisitions that led to the creation of alternative acquisition strategies such as reverse acquires.

Chair Ferguson's comments suggest that the FTC believes reverse acquires expose a regulatory gap in HSR reporting requirements. This perceived gap could be filled by changing the HSR form. The most recent changes to the form - which went into effect in 2025 - were vacated by a federal court as they were deemed arbitrary and capricious. The difficulty is creating a rule that would capture a transaction that currently falls outside the scope of what the agency deems a reportable transaction.

## **Conclusion**

The increased use of reverse acquires among big tech firms, puts the industry - or, perhaps keeps it - in the crosshairs of the antitrust enforcement agencies. While enforcement action may be necessary to preserve competition, agencies should ensure that investigations focus on case-specific facts and consumers impacts rather than the overly zealous, innovation-stifling enforcement posture of the Biden Administration.