California Antitrust Bill Raises New Risks For Dealmakers

By **Joseph Halloum and Jody Boudreault** (June 22, 2026)

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On May 27, the California Assembly approved A.B. 1776, by a 44-17 vote,[1] moving the legislation one step closer to becoming law.

If enacted, the COMPETE Act would expand California's monopolization and monopsonization framework and potentially increase California's flexibility to pursue those claims under state law. The bill's most important implication for buyers, sellers, sponsors and boards may have little to do with antitrust doctrine.

The COMPETE Act would broaden the authority of the California attorney general in a way that may make it matter more than the Federal Trade Commission or the U.S. Department of Justice Antitrust Division.

The reason is simple: Uncertainty often matters as much as substantive liability. Federal merger review, however difficult, generally operates within a familiar legal framework that dealmakers understand.

The COMPETE Act would introduce a different challenge: a regulator with potentially broader state law theories of liability. For M&A participants, the significance of California's growing role in transaction oversight is not merely theoretical. Recent efforts,[2] led by California and other states, to investigate the Paramount Skydance Corp.-Warner Bros. Discovery Inc. transaction demonstrate that California is willing to play an increasingly significant role in shaping transaction outcomes.[3]

The COMPETE Act would build upon that trend by expanding California's substantive antitrust toolkit. Thus, California may increasingly influence not only whether deals close, but also how they are diligenced, negotiated, financed, valued and integrated. Below, we discuss five significant points.

1. A.B. 1776 expands what California can challenge.

Monopoly power concerns market power over customers. Monopsony power concerns market power over sellers, including employees, suppliers, contractors and others providing goods or services into a market.

Dealmakers over the past few years have increasingly dealt with expanded antitrust scrutiny of labor and supplier relationships. Under the COMPETE Act, buyers will have even more reason to focus on how a company competes, not merely whom it competes against.

Labor markets, supplier relationships, exclusivity arrangements, platform ecosystems and other forms of conduct may receive increased attention from the state.

Those expanded theories are only part of the story. Equally important is California's growing role in competition enforcement and the way that role is evolving.

California is already an active antitrust enforcer. The significance of the COMPETE Act is not that it would create enforcement authority where none previously existed, but that it expands the tools available to California regulators and the theories they can pursue under state law.

Earlier this year, California adopted its own premerger notification law,[4] giving the California attorney general greater visibility into transactions reportable under the Hart-Scott-Rodino Antitrust Improvements Act.

The COMPETE Act is designed to expand the limits of state antitrust law beyond comparable federal law. The bill provides that federal antitrust law would be "at most instructive, not conclusive" in interpreting California law, potentially giving California courts greater flexibility to develop state law competition doctrine independent of federal precedent.

That distinction may ultimately prove significant because states already possess substantial authority to challenge anticompetitive conduct and transactions under existing federal and state law. The COMPETE Act would expand California's ability to pursue monopolization claims under potentially different substantive standards.

The significance of that distinction should not be understated. Among other things, the legislation would make treble damages available for certain monopolization claims, potentially relax standards applicable to conduct such as predatory pricing and refusals to deal, and limit the ability to rely on certain out-of-market efficiencies as a defense.

For dealmakers, the practical challenge is not simply whether a transaction can obtain regulatory approval. It is determining how much risk to the business model remains after federal review has concluded and how that risk should be allocated among deal parties.

That may ultimately prove to be the legislation's most significant impact on M&A transactions. The COMPETE Act would lower the threshold for establishing liability for monopolizing conduct, increasing uncertainty over certain business models.

2. Ecosystem deals and acquihires may face new scrutiny.

Most Silicon Valley technology deals are not designed to eliminate a direct competitor. They are designed to enhance a technology company's capabilities.

A platform may acquire a complementary product, an AI capability, a developer tool, a data asset or an infrastructure provider. The same is often true of both acquihires, or transactions in which a company purchase company secure certain key staff, and reverse acquihires, in which a major corporation licenses a startup's technology and hires its core staff.

While these transactions frequently involve little direct overlap, they may nevertheless deepen platform dependence, strengthen network effects, increase switching costs, expand access to key inputs, or consolidate specialized talent.

Federal enforcers have increasingly examined these types of concerns in recent years. The significance of the COMPETE Act is not that it creates those theories for the first time, but that it expands California's ability to pursue them under state law and potentially under standards that diverge from federal precedent.

Under the COMPETE Act, California regulators may have greater flexibility to examine whether a transaction reinforces an already dominant ecosystem, strengthens network effects, increases switching costs, or affects competition for labor, suppliers and other strategic inputs, even where traditional product market concentration appears limited.

Transactions involving AI programmers, semiconductor engineers, cybersecurity specialists and other highly specialized talent may increasingly attract scrutiny not because of product market concentration, but because of concentration in labor markets.

The practical takeaway is important. Ecosystem deals, acquihires and team acquisitions have often been viewed by dealmakers as presenting less antitrust risk than traditional horizontal mergers. The COMPETE Act may require parties to revisit that assumption. More importantly, it may require parties to revisit assumptions about the conduct, integration strategies and competitive advantages that ultimately justify paying for the transaction in the first place.

3. Deals will need to price risk differently.

The most significant drafting challenge created by the COMPETE Act may not be regulatory approval. It will likely be risk allocation.

The legislation may affect not only whether a transaction is challenged, but also whether certain post-closing conduct remains viable after the transaction closes. Historically, antitrust covenants were built around U.S. federal review, international merger control and foreign direct investment regulatory regimes.

The key questions often involved divestitures, litigation obligations and the level of effort a buyer would be required to expend to obtain regulatory approval. California introduces a different challenge.

Many acquisitions are valued based on anticipated synergies and post-closing integration strategies. If California ultimately adopts a more expansive view of what constitutes monopoly conduct, the relevant question may no longer be limited to whether the transaction itself survives scrutiny. It may also include whether the buyer can fully execute the strategy that justified the purchase price.

As a result, antitrust covenants may increasingly need to address post-closing conduct restrictions in addition to traditional structural remedies.

Parties may increasingly need to negotiate how potential restrictions on exclusivity arrangements, interoperability limitations, platform-integration strategies, supplier relationships or labor market practices are allocated if California later raises monopolization or monopsonization concerns.

Such potential restrictions may directly undermine the value the buyer expected to create through the acquisition. As a result, parties may increasingly distinguish between structural remedies that permit a transaction to close and conduct remedies that alter the buyer's post-closing business strategy.

Parties may also focus more heavily on state litigation obligations. If a transaction receives federal clearance but later becomes the subject of a California challenge, must the buyer continue litigating? For how long? At whose expense? Historically, those questions were framed around FTC or DOJ litigation.

The COMPETE Act may require parties to think more carefully about whether California challenges are treated the same way as FTC or DOJ challenges and, if not, where the risk is allocated. Buyers may increasingly seek greater precision around the remedies they are required to accept and the circumstances under which they must continue defending a transaction after federal review has concluded.

4. California risk could influence who wins the deal.

California-related antitrust risk can affect bidder competitiveness, financing, valuation and transaction economics long before any regulator files a complaint.

In a competitive sale process, a bidder willing to offer a higher headline price may nevertheless lose if a board believes the transaction carries materially greater California antitrust risk. A lower-value offer may ultimately be preferable if it is perceived as materially more likely to close.

The same dynamic may affect financing. California introduces greater uncertainty regarding timing, enforcement priorities and potential remedies, all of which may affect underwriting assumptions for transactions that depend heavily on post-closing integration or synergy realization.

Buyers may also revisit valuation models if anticipated synergies depend on conduct that could later attract scrutiny under California law. Such conduct may involve platform integration, exclusivity arrangements, self-preferencing, supplier relationships, labor market practices or other strategies that contribute to the buyer's investment thesis.

Synergies tied to workforce rationalization, supplier consolidation, platform integration, exclusive distribution arrangements or ecosystem expansion may become harder to underwrite if those same initiatives could later attract scrutiny under California law. The result is not necessarily fewer transactions. It is a broader recognition that assumptions historically treated as business execution risks may increasingly need to be evaluated as regulatory risks as well.

5. Federal clearance will not end the story.

Dealmakers have always understood that closing a deal does not necessarily eliminate antitrust risk. Federal and state regulators have long retained the ability to challenge transactions after closing, and recent enforcement actions demonstrate a continued willingness to do so.

Historically, however, many parties have viewed post-closing antitrust challenges as relatively remote compared to the risks associated with obtaining regulatory clearance. The COMPETE Act may change that calculus.

Federal clearance does not eliminate state antitrust risk. California would need only to establish that the transaction or related conduct violates California law. In some cases, the focus may be less on the transaction itself than on the conduct that follows the transaction.

Competitors may also view California as an additional avenue through which to raise labor market, supplier or ecosystem-related concerns that could increase scrutiny of a transaction.

Importantly, that challenge could occur after closing because a completed transaction is not immune from scrutiny.

Closing may eliminate execution risk, but it does not eliminate regulatory risk. In many cases, closing simply converts execution risk into remediation risk and remediation risk can become substantially more expensive once integration has already occurred.

Practical Takeaways for Dealmakers

The bill has now moved to the California Senate where it will be assigned to committee, heard, potentially amended and voted on. Gov. Gavin Newsom has not publicly committed to signing the COMPETE Act. If enacted, the law would likely become effective on Jan. 1, 2027.

The COMPETE Act matters because it potentially changes both the scope of California antitrust enforcement and the role California may play in transaction planning. The legislation does not create another merger review process. Rather, it expands California's ability to pursue monopolization and monopsonization claims under state law, making certain business models riskier.

For buyers, sellers, boards and sponsors, the key question is no longer simply whether a transaction can obtain federal clearance. It is how California's expanding role in competition enforcement may affect a host of considerations such as deal certainty, risk allocation, valuation, financing and integration planning.

If enacted, dealmakers will increasingly need to evaluate California exposure not as a compliance issue to be addressed after signing, but as a core consideration in determining whether to pursue a deal, how it should be priced, which party should bear the resulting regulatory risk and whether the anticipated value of the transaction depends on conduct that could later attract scrutiny under California law.

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[1] https://leginfo.legislature.ca.gov/faces/billVotesClient.xhtml?bill_id=202520260AB1776.

[2] https://oag.ca.gov/news/press-releases/attorney-general-bonta-issues-statement-proposed-warner-bros-mergers-california.

[3] https://www.law360.com/articles/2489391/doj-clears-paramount-s-110b-deal-to-acquire-warner-bros-

[4] https://leginfo.legislature.ca.gov/faces/billCompareClient.xhtml?bill_id=202520260SB25&showamends=false.