



GC Newsletter

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FINAL RULE - SMALL BUSINESS SIZE RECERTIFICATION

The goal of many small businesses to work hard, be successful and then become wealthy by merging with or being acquired by a larger company may be a dream of the past. Or at least a lot harder to attain.

Effective June 30, 2007 government agencies must request a size recertification before the start of the 6th year of a long-term contract (GWAC, GSA MAS and multi-agency contracts of 5 years or more); upon the establishment of a joint venture; in the event of a merger, acquisition or novation; or the straight-forward purchase of one company by another. A recertification is also required when there is a change in controlling interest in a publicly traded company, when 51% of small company is purchased by a single buyer or when there is a change of hands in a controlling minority interest.

The result of this final rule designed to correct/improve Federal agency small business reporting deficiencies will cause a significant decrease in small business acquisition values as potential buyers think twice about the certainties of future revenue streams associated with small businesses. Businesses that recently bought a small business may have overpaid and some small businesses are going to be caught short.

This final rule does not affect subcontractors or subcontract arrangements or individual task orders already negotiated under a long-term contract.

To reduce the impact of this new regulation it is suggested that small businesses: (1) develop strong relationships with their target agencies to become a preferred vendor; (2) create a niche that other companies cannot or have a hard time filling; (3) enter into mentor/protégé relationships with potential contractors; and (4) continue to pursue long-term contracts where the benefits outweigh the decision not to pursue.

More information can be found on the SBA website at www.sba.gov or in the Federal Register/Vol.71, No. 220/Wednesday, November 15, 2006/Rules and Regulations/Pages 66434-66443.



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