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Two Rules on a Collision Course: How SBA's Size-Standards Overhaul Could Reshape GovCon M&A

Most commentary on the August 20, 2026, size-standards proposal from the U.S. Small Business Administration (SBA) has focused on who gets to bid. For owners, investors, and strategic buyers in government services, the more consequential question is what happens when the size-standards proposal is layered onto SBA's transaction-triggered recertification rule, which became fully effective on January 17, 2026. The interaction could expand the strategic-buyer universe, extend the growth runway for today's small businesses, and reprice the scarcity factor historically attached to small-business contract vehicles.

The Recertification Rule Already in Effect

On January 17, 2026, SBA's amendments to 13 C.F.R. § 125.12 became fully effective. A concern must recertify size and socioeconomic status within 30 calendar days after a merger, acquisition, or sale involving the concern or an affiliate that results in a change in controlling interest. If the recertification is disqualifying, the consequences depend on the transaction counterpart and the type of contract vehicle:

- **Set-Aside Multiple-Award Contracts (MACs).** If the transaction involves an entity that is not small under the North American Industry Classification System (NAICS) code assigned to the MAC, the contractor becomes ineligible, after the triggering event, to compete for future set-aside or reserved orders under that MAC and is generally ineligible for future MAC option years. It may remain eligible for unrestricted orders where the vehicle permits them. Agencies cannot count post-recertification awards toward small-business goals.
- **Single-Award Set-Aside Contracts.** A disqualifying recertification does not terminate the contract or rewrite its terms. The contractor generally remains

eligible for options, but the agency cannot count the option period – or post-recertification orders under the single-award contract – toward small-business goals.
- **Pending Proposals.** If the triggering transaction occurs within 180 days after offer submission but before award, a disqualifying recertification makes the offeror ineligible for the pending set-aside or reserved award. If it occurs more than 180 days after offer submission, the concern may remain eligible for a pending single-award set-aside or reserve, but not for a pending multiple-award small-business set-aside or reserve.
- **Small-to-Small Rule.** If the transaction is with another concern that is small under the NAICS code assigned to the MAC, the contract holder may remain eligible for set-aside or reserved orders and options even if affiliation makes the combined enterprise other-than-small. An important limitation on the other-than-small combination: the agency may not count those post-transaction orders or option periods toward its small-business or socioeconomic goals.

That last rule is a narrow eligibility-preservation mechanism, not a full continuation of small-business status. The new size standards proposal could nevertheless make it much more important, while also reducing how often parties need to rely on it at all.

Why the Interaction of Size Standards and Recertification Matters

Consider a systems integrator with $80 million in average annual receipts under NAICS industry group 5415. Under today's standard it is other-than-small. If it acquires a $25 million small business holding seats on set-aside governmentwide acquisition contracts (GWACs) the target's transaction-triggered recertification would be disqualifying; the target generally would lose eligibility for future set-aside orders and options on those MACs. That loss of addressable backlog is priced into the deal.

Now assume the proposed $531 million size standard for NAICS 5415 is finalized and is in effect when the parties recertify. The $80 million buyer and the $25 million target are each small, and – subject to affiliation, the applicable receipts period, and other size rules – the combined firm remains comfortably below the proposed ceiling. The recertification therefore should be qualifying; the parties would not need the small-to-small rule merely to preserve eligibility. Even where the combined enterprise exceeds the new ceiling, the small-to-small rule may preserve eligibility for set-aside MAC orders and options, although the awards would no longer count toward agency goals. Applied across the 37,002 existing federal contractors that SBA estimates would become newly small, the proposal does not merely enlarge the buyer pool – it could redraw it.

The Case for Optimism

The buyer universe for small government contractors could expand substantially. Sellers who previously faced a choice between a small strategic buyer with limited balance-sheet capacity and a large strategic buyer whose acquisition could impair the target's set-aside MAC eligibility, may gain a third category: newly small, mid-sized firms with meaningful capital and integration capability.

The size-out cliff moves. The familiar growth arc – grow, graduate, and enter the point at which a business is too large for set-asides but too small to compete effectively against prime contractors – could be pushed years further out. Owners gain options. A founder who otherwise might have sold in year seven because graduation was approaching could have additional time to grow and eventually sell a larger business. Firms that already graduated may find themselves eligible again.

Affiliation headroom expands, but affiliation rules do not disappear. Higher thresholds can accommodate more aggregated receipts or employees before a concern becomes other-than-small, which may create additional room for joint ventures, minority investments, and acquisition platforms.

Separately, SBA's affiliation revisions, effective January 16, 2025, clarified the extraordinary circumstances at 13 C.F.R. § 121.103(a)(3)(ii) over which a minority shareholder may hold blocking rights without creating negative control. The enumerated list now includes seven items and ends with a catch-all for any other extraordinary action crafted solely to protect the minority's investment rather than to impede the majority's control. Blocking rights over ordinary, day-to-day decisions still create negative control.

The Case for Concern

Small-business status has been a scarce, difficult-to-replicate asset, and buyers have paid for it. Part of the premium in lower-middle-market GovCon reflects eligibility arbitrage – acquiring access to competitions the buyer could not otherwise reach. If the proposal adds approximately 114,541 firms to the small-business category, including those 37,002 existing federal contractors, that scarcity premium may thin. Valuation would shift toward what the business actually does: differentiated capability, contract quality, customer intimacy, talent, IP, and durable past performance.

The proposal also expands the eligible competitor pool without itself expanding set-aside spending. That does not automatically make every small-business backlog asset less valuable, but it can increase recompete risk – particularly in markets where newly small firms have stronger balance sheets, broader past performance, or more mature capture functions. Buyers should therefore underwrite renewal / recompete probability by customer, vehicle, NAICS code, and competitive field rather than apply a blanket discount.

There is also a transition problem. The proposal is not final, and any final rule could change both the thresholds and their effective date. Until then, parties cannot price a target's forward set-aside revenue with full confidence. That uncertainty is likely to produce slower processes, wider bid-ask spreads, and more contingent consideration – not necessarily a frozen market.

Likely Outcomes

- **A Pause, Then a Repricing.** Processes launched before the September 21 comment deadline may move more cautiously, with buyers modeling both current and proposed standards and seeking additional protection against regulatory uncertainty. MAC-heavy targets and deals expected to close near a final rule's effective date are the most exposed.
- **Newly Small Firms Become Important Strategic Buyers.** Firms in the roughly $50 million to $400 million range that would be reclassified as small are natural acquirers: they may bring capital and integration capability while preserving a target's eligibility through a qualifying recertification. Where aggregation still

produces an other-than-small result, the small-to-small rule may preserve MAC order and option eligibility, but without goaling credit.

- **Valuation Bifurcation.** Differentiated capability, clearances, incumbency on hard-to-displace work, IP, customer access, and mission-critical past performance should hold or gain relative value. Businesses whose thesis is principally "we are small and we are on the vehicle" face the greatest compression risk.
- **Acquisition Platforms Under a Small Umbrella.** Holding companies may pursue multiple small-prime acquisitions while the consolidated group remains below a higher size standard. But each transaction requires disciplined affiliation and recertification analysis; the small-to-small rule preserves specified contract eligibility, not the buyer's general small-business status or agency goaling credit.

Less Likely Outcomes

- **Adoption Exactly as Proposed.** SBA is seeking comment on aggregation levels, size measures, data sources, minimum standards, and the inflation-plus-productivity methodology. That breadth creates meaningful implementation uncertainty. A final rule could retain more five-digit standards, phase in changes, or preserve selected exceptions; deal models should not assume the proposed table will be adopted unchanged.
- **Distress-Driven Selling.** Nobody loses status under this proposal. There is no forced-seller group. The pressure is competitive and is likely to emerge over recompete cycles rather than all at once.
- **A Wave of Traditional Large-Business Acquisitions of Small Primes.** The size-standards proposal does not repeal 13 C.F.R. § 125.12. A buyer that remains other-than-small under the applicable NAICS code can still trigger loss of future set-aside MAC order and option eligibility. Higher thresholds change who counts as large; they do not eliminate transaction-triggered recertification.
- **Immediate Deal-Term Overhaul.** It is too early to rewrite form representations or hard-wire earnouts to a proposed rule. It is not too early, however, to add dual-case size modeling, regulatory-change covenants, and targeted diligence around recertification-sensitive backlog. Parties should continue to monitor SBA's rulemaking process.

What This Means for Exit Planning

For an owner near a current threshold with a two-year horizon, an earlier process may be worth considering – but the answer is business-specific. The eligibility premium exists today and could compress if the buyer and competitor pools broaden. Against that must be weighed the value of a longer growth runway if higher standards become final.

For an owner well below the current threshold and still building, the calculus may reverse. Higher standards could extend the period in which the company can compound organically or acquire other businesses without losing general small-business status. The key is to model affiliation and the applicable size measure, not simply compare standalone revenue to a headline threshold.

For buyers and sellers in process now, diligence should be contract-by-contract. Segment backlog into single-award set-asides, set-aside or reserved MACs, unrestricted MACs, and unrestricted single-award work. Identify the NAICS code assigned to each underlying award – rather than relying only on the target's primary NAICS code – and model size under both current and proposed standards. For pending proposals, record the offer date, expected closing date, expected award date, and whether the 180-day rule could apply.

On structure and terms, the highest-value outcome is ordinarily a qualifying post-closing recertification. If that is unavailable, the small-to-small rule may preserve eligibility for certain set-aside MAC orders and options, but not goaling credit. Confirming each party's size under the NAICS code assigned to each material vehicle – and the combined enterprise's size after applying affiliation – belongs in the deal plan, not the post-closing checklist.

Where recertification-sensitive revenue drives price, consider: (i) contingent consideration tied to actual set-aside task-order awards or backlog conversion; (ii) a targeted indemnity for inaccurate pre-closing size representations or failures to comply with recertification covenants; (iii) a vehicle-level representation covering assigned NAICS codes, size certifications, and known protests or determinations; and (iv) covenants allocating responsibility for post-closing System for Award Management (SAM) and contracting officer notices. No party should update SAM representations based on a proposed rule.

The Comment Nobody is Writing

SBA expressly discusses the proposal's effects on access to capital, competition, and industry consolidation. Yet the record can still benefit from transaction-specific evidence: how current thresholds and recertification rules affect buyer eligibility, purchase price, contingent consideration, and the survival of set-aside MAC backlog. If you believe the proposal will change how capital moves through the GovCon market – in either direction – that is the type of concrete, transaction-specific information SBA can use. Comments close September 21, 2026.

Where to Find the Proposed Table

The full table of proposed size standards is set out in the proposed rule itself.

One practical note: the proposed standards generally sit at the four- or five-digit NAICS level, while solicitations and awards will continue to use six-digit NAICS codes. Map the six-digit award code to the applicable proposed parent group – for example, 541512 and 541519 map to 5415. Where SBA proposes a five-digit standard, that more specific standard governs the six-digit industries beneath it.

- Proposed Rule, Small Business Size Standards[1]
- Proposed Rule Official PDF (GovInfo)
- Revised Size Standards Methodology[2]
- Methodology Official PDF (GovInfo)

Comments may be submitted through Regulations.gov under Docket No. SBA-2026-0199 (size standards) and Docket No. SBA-2026-0265 (methodology). Both comment periods close September 21, 2026.

This blog was drafted by Ray Jones, a government contracts and M&A attorney in the Spencer Fane Washington, D.C. office. For more information, visit www.spencerfane.com.

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1 91 Fed. Reg. 53741

2 91 Fed. Reg. 54096

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