

Performance Guarantees



Guiding Principle

A performance guarantee is an enforceable commitment by a corporate entity to supply the necessary resources to a prospective contractor and to assume all contractual obligations of the prospective contractor.

[References: [FAR 9.104](#); [FAR 9.105](#); [FAR 32.501-5](#); [DEAR 909.104-3](#); [DEAR 970.0970](#)]

1.0 Summary of Latest Changes

This update includes administrative changes.

2.0 Discussion

This chapter supplements other more primary acquisition regulations and policies contained in the references above and should be considered in the context of those references.

2.1 **Overview.** This chapter provides a model performance guarantee agreement for use with new entities that contract with the Department.

2.2 **Background.** The Department of Energy contracts with entities that have been created by an already existing corporate entity or entities solely for the purpose of performing a specific contract. This occurs with the award of most management and operating contracts.

This situation also can occur in the award of contracts that are not management and operating contracts where the prospective awardee is created for performance of the instant contract, for example, where a joint venture or similar legally binding corporate partnership is created in other types of contracts.

The Government's interests must be protected if the financial and other resources of a potential awardee necessary to establish financial responsibility are owned or controlled by a parent corporate entity or other entity.

Prior to award of any contract, the contracting officer must make a responsibility determination, including consideration of whether the new entity will have sufficient financial and other resources available to it to carry out performance of the prospective contract, including any liabilities it could incur to the Department under the terms of the contract.

Attached is a model performance guarantee agreement. Each performance guarantee agreement should be drafted to ensure that it is enforceable in the forum where an enforcement action would be brought should the subsidiary corporate entity fail to perform, and should the parent or other entity refuse to fulfill its guarantee. The performance guarantee agreement should then be included as an appendix to the contract.

3.0 Attachment

1 Performance Guarantee Agreement

PERFORMANCE GUARANTEE AGREEMENT

For value received, and in consideration of, and in order to induce the United States (the Government) to enter into Contract No. _____ for the _____ (Contract dated, _____, by and between the Government and _____ (Contractor), the undersigned, _____ (Guarantor), a corporation incorporated in the State of _____ with its principal place of business at _____ hereby unconditionally guarantees to the Government (a) the full and prompt payment and performance of all obligations, accrued and executory, which Contractor presently or hereafter may have to the Government under the Contract, and (b) the full and prompt payment and performance by Contractor of all other obligations and liabilities of Contractor to the Government, fixed or contingent, due or to become due, direct or indirect, now existing or hereafter and howsoever arising or incurred under the Contract, and (c) Guarantor further agrees to indemnify the Government against any losses the Government may sustain and expenses it may incur as a result of the enforcement or attempted enforcement by the Government of any of its rights and remedies under the Contract, in the event of a default by Contractor thereunder, and/or as a result of the enforcement or attempted enforcement by the Government of any of its rights against Guarantor hereunder.

Guarantor has read and consents to the signing of the Contract. Guarantor further agrees that Contractor shall have the full right, without any notice to or consent from Guarantor, to make any and all modifications or amendments to the Contract without affecting, impairing, or discharging, in whole or in part, the liability of Guarantor hereunder.

Guarantor hereby expressly waives all defenses which might constitute a legal or equitable discharge of a surety or guarantor, and agrees that this Performance Guarantee Agreement shall be valid and unconditionally binding upon Guarantor regardless of (i) the reorganization, merger, or consolidation of Contractor into or with another entity, corporate or otherwise, or the liquidation or dissolution of Contractor, or the sale or other disposition of all or substantially all of the capital stock, business or assets of Contractor to any other person or party, or (ii) the institution of any bankruptcy, reorganization, insolvency, debt agreement, or receivership proceedings by or against Contractor, or adjudication of Contractor as a bankrupt, or (iii) the assertion by the Government against Contractor of any of the Government's rights and remedies provided for under the Contract, including any modifications or amendments thereto, or under any other document(s) or instrument(s) executed by Contractor, or existing in the Government's favor in law, equity, or bankruptcy.

Guarantor further agrees that its liability under this Performance Guarantee Agreement shall be continuing, absolute, primary, and direct, and that the Government shall not be required to pursue any right or remedy it may have against Contractor or other Guarantors under the Contract, or any modifications or amendments thereto, or any other document(s) or instrument(s) executed by Contractor, or otherwise. Guarantor affirms that the Government shall not be required to first commence any action or obtain any judgment against Contractor before

enforcing this Performance Guarantee Agreement against Guarantor, and that Guarantor will, upon demand, pay the Government any amount, the payment of which is guaranteed hereunder and the payment of which by Contractor is in default under the Contract or under any other document(s) or instrument(s) executed by Contractor as aforesaid, and that Guarantor will, upon demand, perform all other obligations of Contractor, the performance of which by Contractor is guaranteed hereunder.

Guarantor agrees to assure that it shall cause this Performance Guarantee Agreement to be unconditionally binding upon any successor(s) to its interests regardless of (i) the reorganization, merger, or consolidation of Guarantor into or with another entity, corporate or otherwise, or the liquidation or dissolution of Guarantor, or the sale or other disposition of all or substantially all of the capital stock, business, or assets of Guarantor to any other person or party, or (ii) the institution of any bankruptcy, reorganization, insolvency, debt agreement, or receivership proceedings by or against Guarantor, or adjudication of Guarantor as a bankrupt.

Guarantor further warrants and represents to the Government that the execution and delivery of this Performance Guarantee Agreement is not in contravention of Guarantor's Articles of Organization, Charter, by-laws, and applicable law; that the execution and delivery of this Performance Guarantee Agreement, and the performance thereof, has been duly authorized by the Guarantor's Board of Directors, Trustees, or any other management board which is required to participate in such decisions; and that the execution, delivery, and performance of this Performance Guarantee Agreement will not result in a breach of, or constitute a default under, any loan agreement, indenture, or contract to which Guarantor is a party or by or under which it is bound.

No express or implied provision, warranty, representation or term of this Performance Guarantee Agreement is intended, or is to be construed, to confer upon any third person(s) any rights or remedies whatsoever, except as expressly provided in this Performance Guarantee Agreement.

In witness thereof, Guarantor has caused this Performance Guarantee Agreement to be executed by its duly authorized officer, and its corporate seal to be affixed hereto on _____.

NAME OF CORPORATION

NAME AND POSITION OF OFFICIAL

EXECUTING PERFORMANCE

GUARANTEE AGREEMENT ON BEHALF OF GUARANTOR

ATTESTATION INCLUDING APPLICATION

OF SEAL BY AN OFFICIAL OF

GUARANTOR AUTHORIZED TO AFFIX

CORPORATE SEAL