

THE MOXIE COMPANYBACKGROUND

A firm fixed-price contract awarded to the Moxie Company on July 2, 1966, was for the manufacture of gadgets which Moxie developed under prior AF contracts. Moxie is the only established source for gadgets and this was the fourth procurement of gadgets from Moxie.

The price was established through negotiations between Moxie officials and procurement personnel on the basis of estimated production costs as submitted by Moxie, and comparison by the negotiation team of this estimate with Moxie's prior experienced costs. There was no audit evaluation of this proposal.

FACTS

The price negotiated included an estimated cost of \$900 a unit for a major component, designated as LSD-2. Under prior production contracts, Moxie had purchased LSD-2 from XYZ Company for \$500 a unit, but on March 1, 1966, the XYZ Company discontinued part of its operation and advised that it would no longer be a source for LSD-2. In anticipation of future orders for gadgets, in March 1966, Moxie began to explore other sources for LSD-2.

In response to a request from the Government on May 20, 1966, Moxie submitted a price proposal for gadgets. As indicated, their proposal included an estimate of \$900 for LSD-2. Moxie indicated that a new supplier had not been selected at the date of its proposal and it was, therefore, necessary to include an allowance in its estimate for the cost of resolving