The 1979 United and American Airlines Coupon Arbitrage

After airline strikes ended in May 1979 against United and American, to quickly put passengers back on planes, United Airlines, and then American, began giving each passenger on all their flights a transferable 50% off coupon to fly on any of their flights. The only catch was that the United and American coupons expired on Dec. 15, 1979. From a business standpoint, the coupons were simply an expiring option.

Within a few days of reading about the coupons in the *Wall Street Journal*, Steve Markoff put together a group under his metals trading operation (A-Mark Precious) to buy the coupons directly from deplaning passengers at 12 airports around the country, including LAX. After some weeks, A-Mark became the largest airline coupon buyer in the U.S.

In a short time, A-Mark accumulated almost 40,000 United and American airline coupons at an average cost of about $25 each. Passengers were paid $20 each for their coupons and A-Mark paid $5 per coupon to each coupon buyer. The total purchase price for the coupons totaled about $1 million.

Given that the coupons expired (became worthless) in not many months after being purchased, there was a need to sell them before their date of expiry, so after accumulating them, how to monetize them became the issue. Markoff then contacted and worked with the General Services Administration ("GSA"), an arm of the Federal government, to help the GSA construct an RFP (Request for Proposal) for the coupons. Essentially, the RFP, finally drafted and published, would take consignments (without liability to purchase) of airline coupons at $35 each and the GSA would let other government agencies know the coupons were available.

A-Mark then consigned the coupons to the GSA on the terms of the RFP, and without cost or risk to the GSA, the GSA then let the word out about the bargain coupons. The coupons were particularly valuable for first class travel because the 50% discount, even when adding the government agency's $35 coupon cost, was less than regular coach class on many routes.

A-Mark started receiving checks for multiples of $35 from many government agencies, including the Army, Navy, Air Force, and the IRS. Sales were brisk as government employees using the coupons flew on United and American via first class, and coach, at far less than the retail costs of those fares.

Unfortunately, the GSA didn't sell enough coupons in time, and when the coupon date expired, A-Mark's remaining coupons became worthless.

When the final accounting was done, taking in the income from the coupons sold, less their cost and deducting the operating expenses of the collecting and sales efforts, and after writing off as a loss the coupons that weren't sold by the expiration date, A-Mark had a small loss for the adventure...and enough coupons left over to wallpaper a small room.

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