DIVISION OF
CORPORATION FINANCE

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

03 JUN 1982

Mr. Alan S. Donnahoe
Vice Chairman and Chief Executive Officer
Media General, Inc.
P.O. Box C-32333
Richmond, Virginia 23293-0001

Dear Mr. Donnahoe:

Chairman Shad has asked me to reply to your letter of April 23, 1982 in which you express concern with the application of the short-swing trading provisions of Section 16(b) of the Securities Exchange Act of 1934 to stock acquired pursuant to the exercise of long-term stock options, perhaps held ten years or more. You observe that where such options have been approved by stockholders and fully disclosed in proxy materials for so long a period, their exercise can hardly be viewed as short-swing trading.

As you know, Section 16(b) of the Exchange Act provides in part that, for the purpose of preventing the unfair use of information by an insider, any profit realized by him from any purchase and sale of the equity securities of his company within any period of less than six months, shall be recoverable by the company. Disregarding certain limited exemptions, the statute applies whenever the requisite purchase and sale occur within a six-month period. The length of time that the insider has held the particular security sold is irrelevant. The purpose of this provision, of course, is to minimize any possible inclination by insiders to utilize non-public information to their own advantage in trading the equity securities of their companies.

You suggest a complete exemption from Section 16(b) for shares acquired pursuant to a long-term option, on the theory that the option itself had been held for a considerable length of time and its terms fully disclosed to the public. While I understand your position, it seems to me that if you focus on the underlying equity security, an acquisition pursuant to a long-term option, followed by a sale within six months, presents a situation of the type which Section 16(b) was meant to discourage. The duration of the option alone, even assuming appropriate disclosure, would not seem to provide an adequate substitute for the short-swing deterrent of Section 16(b).

The Commission has long recognized, however, that the long-term option (one held more than six months) differs significantly from the short-term option precisely because of the duration of its term. As you may know, in 1950 the Commission adopted Rule 16b-6 under the Exchange Act to provide a measure of relief for persons acquiring securities under long-term options. Rule 16b-6 acknowledges, in effect, that not all of the profit inherent in the exercise of a long-term option need be attributed to the insider for purposes of computing profits recoverable under Section 16(b), since at least a portion may derive from appreciation which occurred prior to the relevant six-month period. The rule establishes this apportionment of long and short-term profit in an effort to maintain the basic policy of Section 16(b) against short-swing trading by insiders and, at the same time, to avoid recapture of the long-term gain as not comprehended within the purposes of the Section. Thus, when profit is calculated under Section 16(b) with respect to a purchase resulting from the exercise of a long-term option and a matching sale within six months, Rule 16b-6 limits recovery to the difference between the proceeds of the sale, and the lowest market price of the security within six months before or after the date of sale. In view of the statutory purpose for Section 16(b), Rule 16b-6 strikes a reasonable balance between the special characteristics of the long-term options and the statutory prohibition against short-swing trading.

Thank you for your letter. The views of persons, such as yourself, are always helpful to us in administering the federal securities laws.

Sincerely,

John J. Huber

John J. Huber
Deputy Director