



Regulatory Circular RG02-114

DATE: December 18, 2002

TO: Members and Member Firms

FROM: Market Operations Department

RE: Restrictions on Transactions in
Kmart Corporation (KM)

The New York Stock Exchange has announced that trading in Kmart Corporation (KM) common stock on the NYSE will be suspended after the close of trading on December 18, 2002 and that the NYSE will then delist KM common stock. The OTC Bulletin Board has announced that KM common stock will begin trading on the OTC Bulletin Board on December 19, 2002.

Commencing on December 19, 2002, trading on CBOE in existing series of KM options will be subject to the following restrictions. Only closing transactions may be effected in any series of KM options, except for (i) opening transactions by market-makers executed to accommodate closing transactions of other market participants and (ii) opening transactions by CBOE member organizations to facilitate the closing transactions of public customers executed as crosses pursuant to and in accordance with CBOE Rule 6.74(b) or (d). Pursuant to CBOE Rule 8.51, floor officials have determined that all series of KM option will be in non-firm mode. In addition, KM will not be traded on RAES.

The execution of opening transactions in KM options, except as permitted above, and/or the misrepresentation as to whether an order is opening or closing, will constitute a violation of CBOE rules, and may result in disciplinary action.

There are no restrictions in place with respect to the exercise of KM options and the Options Clearing Corporation (OCC) has advised CBOE that the expiration of KM options will remain subject to OCC's Exercise-by-Exception Procedures.

The provisions of this circular apply to any options on Kmart Corporation traded on CBOE, including any Kmart Corporation option series with a different option symbol than KM.

Any questions regarding this circular may be directed to Kerry Winters at (312) 786-7312 or Mike Felty at (312) 786-7504.