

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1994-03-18** | Period of Report: **1994-01-01**
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FILER

COTTER & CO

CIK: **25095** | IRS No.: **362099896** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **002-20910** | Film No.: **94516839**
SIC: **5072** Hardware

Business Address
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CHICAGO IL 60614
3129752700

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)

FOR THE FISCAL YEAR ENDED JANUARY 1, 1994 OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 2-20910

COTTER & COMPANY

(Exact name of Registrant as specified in its charter)

DELAWARE 36-2099896
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

2740 NORTH CLYBOURN AVENUE, CHICAGO, ILLINOIS 60614
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (312) 975-2700

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act: NONE

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS
REQUIRED TO BE FILED BY SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF
1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE
REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH
FILING REQUIREMENTS FOR THE PAST 90 DAYS. YES X . NO .

INDICATE BY CHECK MARK IF DISCLOSURE OF DELINQUENT FILERS PURSUANT TO ITEM
405 OF REGULATION S-K IS NOT CONTAINED HEREIN, AND WILL NOT BE CONTAINED, TO THE
BEST OF REGISTRANT'S KNOWLEDGE, IN DEFINITIVE PROXY OR INFORMATION STATEMENTS
INCORPORATED BY REFERENCE IN PART III OF THIS FORM 10-K OR ANY AMENDMENT TO THIS
FORM 10-K. [X]

STATE THE AGGREGATE MARKET VALUE OF THE VOTING STOCK HELD BY NON-AFFILIATES
OF THE REGISTRANT.

THERE IS NO PUBLIC MARKET FOR REGISTRANT'S CLASS A COMMON STOCK. SUCH
SHARES ARE OFFERED BY THE REGISTRANT IN TEN-SHARE UNITS, EXCLUSIVELY TO
RETAILERS OF HARDWARE, VARIETY AND RELATED MERCHANDISE, IN CONNECTION WITH
BECOMING MEMBERS OF THE COMPANY. SAID STOCK IS LIMITED AS TO
TRANSFERABILITY BY ITS TERMS.

INDICATE THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE REGISTRANT'S
CLASSES OF COMMON STOCK, AS OF THE LATEST PRACTICABLE DATE.

<TABLE>
<CAPTION>

CLASS	OUTSTANDING AT FEBRUARY 26, 1994
<S>	<C>
CLASS A COMMON STOCK, \$100 PAR VALUE.....	65,160
CLASS B COMMON STOCK, \$100 PAR VALUE.....	1,086,978

</TABLE>

PART I

ITEM 1. BUSINESS.

Cotter & Company (the "Company") was organized as a Delaware corporation in 1953. Upon its organization, it succeeded to the business of Cotter & Company, an Illinois corporation organized in 1948. The Company's principal executive offices are located at 2740 North Clybourn Avenue, Chicago, Illinois, 60614. Its telephone number is (312) 975-2700.

The Company is a Member-owned wholesaler of hardware, variety and related merchandise. It is the largest wholesaler of hardware and related items in the United States. The Company also manufactures paint, paint applicators, outdoor power equipment, heaters and hardware related products. For reporting purposes, the Company operates in a single industry as a Member-owned wholesaler cooperative.

Membership entitles a Member to use certain Company trademarks and trade names, including the federally registered collective membership trademarks indicating membership in "True Value Hardware Stores" and "V&S Variety Stores". The "True Value" collective membership mark has a present expiration date of January 2, 2003 and the "V&S Variety Stores" collective membership mark has a present expiration date of July 22, 1995.

The Company serves approximately 7,500 True Value Hardware Stores throughout the United States, including approximately 900 combination True Value Hardware and V&S Variety Stores and 1,000 V&S Variety Stores. Primary concentrations of Members exist in California (approximately 8%), New York (approximately 7%), Illinois (approximately 6%), Pennsylvania and Texas (approximately 5% each) and Michigan and Ohio (approximately 4% each).

The Company's total sales of merchandise to its U.S. Members were divided among the following general classes of merchandise:

<TABLE>
<CAPTION>

	JANUARY 1, 1994	JANUARY 2, 1993	DECEMBER 28, 1991
	-----	-----	-----
<S>	<C>	<C>	<C>
Hardware Goods.....	20.0%	20.8%	20.9%
Electrical and Plumbing Supplies.....	16.3%	16.3%	16.7%
Painting and Cleaning Supplies.....	14.9%	14.7%	15.5%
Variety and Related Goods.....	13.9%	14.2%	13.7%
Farm and Garden Supplies.....	12.3%	11.7%	12.0%
Lumber and Building Materials.....	12.3%	10.8%	9.5%
Appliances and Housewares.....	10.3%	11.5%	11.7%

</TABLE>

The Company serves its Members by purchasing products in quantity lots and selling them to Members in smaller lots, passing along any savings to Members in the form of lower prices and/or patronage dividends. The Company holds conventions and meetings for its Members in order to keep them better informed as to industry trends and as to new merchandise available. The Company also provides each of its Members with an illustrated price catalog showing the products available from the Company. The Company's sales to its Members are divided into three categories, as follows: (1) warehouse shipment sales (approximately 47% of total sales); (2) direct (drop shipment) sales (approximately 41% of total sales); and (3) relay sales (approximately 12% of total sales). Warehouse shipment sales are sales of products purchased, warehoused, and resold by the Company upon orders from the Members. Direct shipment sales are sales of products purchased by the Company but delivered directly to Members from manufacturers. Relay sales are sales of products purchased by the Company in response to the requests of several Members for a product which is not normally held in inventory and is not susceptible to direct shipment. Generally, the Company will give notice to all Members of its intention to purchase products for relay shipment and then purchases only so many of such products as the Members order. When the product shipment arrives at the Company, it is not warehoused; rather, the Company breaks up the shipment and "relays" the appropriate quantities to the Members who placed orders.

The Company also manufactures paint, paint applicators, outdoor power equipment, heaters and hardware related products. The principal raw materials used by the Company include chemicals, engines and steel. All raw materials are purchased from outside sources. The Company has been able to obtain adequate sources of raw materials and other items used in production and no shortages of such materials which will materially impact operations are currently anticipated.

The Company annually sponsors two "markets" (one in the Spring and one in the Fall). In fiscal year 1994, these markets will be held in St. Louis, Missouri. Members are invited to the markets and generally place substantial orders for delivery during the period prior to the next market. During such markets, new merchandise and seasonal merchandise for the coming season is displayed to attending Members.

As of February 26, 1994 and February 27, 1993, the Company had a comparable backlog of orders (including relay orders) believed to be firm of approximately \$23,000,000. It is anticipated that the entire backlog existing at February 26, 1994 will be filled by April 30, 1994. The Company's backlog at any given time is made up of two principal components: (i) normal resupply orders and (ii) market orders for future delivery. Resupply orders are orders from Members for merchandise to keep inventories at normal levels. Generally, such orders are filled the day following receipt, except that relay orders for future delivery (which are in the nature of resupply orders) are not intended to be filled for several months. Market orders for future delivery are orders for new or seasonal merchandise given by Members during the Company's two markets, for delivery during the several months subsequent to the markets. Thus, the Company will have a relatively high backlog at the end of each market which will diminish in subsequent months until the next market.

The retail hardware and variety industry is characterized by intense competition. Independent retail hardware and variety businesses, as served by the Company, have met increased competition from chain stores, discount stores, home centers, and warehouse operations. Increased operating expenses for the retail stores, including increased costs due to longer open-store hours and higher rental costs of shopping center locations, have cut into operating margins and brought pressures for lower merchandise costs, to which the Company has been responsive. The Company competes with other Member-owned and non-member-owned wholesalers as a source of supply and merchandising support for independent retailers. Competitive factors considered by independent retailers in choosing a source of supply include pricing, servicing capabilities, promotional support and merchandise quality. General increased operating costs and decreased margins have resulted in the withdrawal from business of several non-member-owned wholesalers or conversion to Member-owned status.

During fiscal year 1992, the Company acquired a majority equity interest in Cotter Canada Hardware and Variety Cooperative, Inc., a Canadian wholesaler of hardware, variety and related merchandise. This cooperative serves 336 MacLeod's True Value and Stedman's V&S Variety Stores, all located in Canada. The cooperative has approximately 330 employees and generated less than 5% of the Company's consolidated revenue in fiscal year 1993.

The Company operates several other subsidiaries, most of which are engaged in businesses providing additional services to the Company's Members. In the aggregate, these subsidiaries are not significant to the Company's results of operations.

The Company employs approximately 4,300 persons in the United States on a full-time basis. Due to the widespread geographical distribution of the Company's operations, employee relations are governed by the practices prevailing in the particular area and are generally dealt with locally. Approximately 40% of the Company's hourly-wage employees are covered by collective bargaining agreements which are generally effective for periods of three years. In general, the Company considers its relationship with its employees to be good.

DISTRIBUTION OF PATRONAGE DIVIDENDS

The Company operates on a cooperative basis with respect to business done with or for Members. All Members are entitled to receive patronage dividend distributions from the Company on the basis of gross margins of merchandise and/or services purchased by each Member. In accordance with the Company's By-Laws, the annual patronage dividend is paid to Members out of the gross margins from operations and

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other patronage source income, after deduction for expenses and provisions authorized by the Board of Directors.

Patronage dividends are usually paid to Members within 60 days after the close of the Company's fiscal year; however, the Internal Revenue Code permits distribution of patronage dividends as late as the 15th day of the ninth month after the close of the Company's fiscal year, and the Company may elect to distribute the annual patronage dividend at a later time than usual in accordance with the provisions of the Internal Revenue Code.

The Company's By-Laws provide for the payment of year-end patronage dividends, after payment of at least 20% of such patronage dividends in cash, in qualified written notices of allocation including (i) Class B nonvoting Common Stock based on book value thereof, to a maximum of 2% of the Member's net

purchases of merchandise from the Company for the year (except in unusual circumstances of individual hardships, in which case the Board of Directors reserves the right to make payments in cash), (ii) Promissory (Subordinated) Notes, and (iii) other property. The Company may also issue nonqualified written notices of allocation to its Members as part of its annual patronage dividend.

A Member's required investment in Class B Common Stock of the Company is currently limited to an amount in the aggregate not exceeding an amount (computed on the basis of par value thereof and to the nearest multiple of \$100) equal to (i) two percent (2%) of a Member's net purchases of direct (drop shipment) sales from the Company and purchases of direct (drop shipment) sales of 'Competitive Edge Program Lumber' materials computed separately at one percent (1%), (ii) four percent (4%) of a Member's net purchases of relay sales from the Company and (iii) eight percent (8%) of a Member's net warehouse purchases from the Company in the year of the highest total net purchases of the three preceding years. The Board of Directors anticipates maintaining these percentages. In that each member has equal voting power (voting rights being limited to Class A Common Stock), acquisition of Class B Common Stock as patronage dividends results in the larger volume Members having greater Common Stock equity in the Company but a lesser proportionate voting power per dollar of Common Stock owned than smaller volume Members.

PAYMENT OF PATRONAGE DIVIDENDS IN ACCORDANCE WITH THE INTERNAL REVENUE CODE

The Internal Revenue Code (the 'Code') specifically provides for the taxation of cooperatives (such as the Company) and their patrons (such as the Company's Members) so as to ensure that the business earnings of cooperatives are currently taxable either to the cooperatives or to the patrons.

The shares of Class B Common Stock and the Promissory (Subordinated) Notes distributed by the Company to its Members as partial payment of the patronage dividend are 'written notices of allocation' within the meaning of that term as used in the Code. In order that such written notices of allocation shall be deducted from earnings in determining taxable income of the Company, it is necessary that the Company pay 20% or more of the annual patronage dividend in cash and that the Members consent to having the allocations (at their stated dollar amount) treated as being constructively received by them and includable in their gross income. These conditions being met, the shares of Class B Common Stock and the Promissory (Subordinated) Notes distributed in payment of patronage dividends become 'qualified written notices of allocation' as that term is used in the Code. Section 1385(a) of the Code provides, in substance, that the amount of any patronage dividend which is paid in money or in qualified written notices of allocation shall be included in the gross income of the patron (Member) for the taxable year in which he receives such money or such qualified written notices of allocation.

Thus, every year each Member will receive, as part of the Member's patronage dividend, non-cash items ('written notices of allocation') including Class B Common Stock and Promissory (Subordinated) Notes, the stated dollar amount of which must be recognized as gross income for the taxable year in which received. The portion of the patronage dividend paid in cash (at least 20%) may be insufficient, depending on the tax bracket in each Member's case, to provide funds for the payment of income taxes for which the Member will be liable as a result of the receipt of the entire patronage dividend, including cash, Class B Common Stock and Promissory (Subordinated) Notes.

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In response to the provisions of the Code, the Company's By-Laws provide for the treatment of the shares of Class B Common Stock, Promissory (Subordinated) Notes and such other notices as the Board of Directors may determine, distributed in payment of patronage dividends as 'qualified written notices of allocation.' The By-Laws provide in effect:

(i) for payment of patronage dividends partly in cash, partly in qualified written notices of allocation (including the Class B Common Stock and Promissory (Subordinated) Notes as described above), other property or in nonqualified written notices of allocation, and

(ii) that membership in the organization (i.e. the status of being a Member of the Company) shall constitute consent by the Member to take the qualified written notices of allocation or other property into account in the Member's gross income as provided in Section 1385(a) of the Code.

Under the provisions of the Code, persons who become or became Members of the Company or who retained their status as Members after adoption of the By-Laws providing that membership in the organization constitutes consent, and after receiving written notification and a copy of the By-Laws are deemed to have consented to the tax treatment of the cash and the qualified written notices of allocation in which the patronage dividends are paid, in accordance with Section 1385(a) of the Code. Written notification of the adoption of the By-Laws and its significance, and a copy of the By-Laws, were sent to each then existing Member and have been, and will continue to be, delivered to each party

that became, or becomes a Member thereafter. Such consent is then effective except as to patronage occurring after the distributee ceases to be a Member of the organization or after the By-Laws of the organization cease to contain the provision with respect to the above described consent.

Each year since 1978, the Company has paid its Members 30% of the annual patronage dividend in cash in respect to patronage (excluding nonqualified written notices of allocation) occurring in the preceding year. It is the judgment of management that the payment of 30% of patronage dividends in cash will not have a material adverse effect on the operations of the Company or its ability to maintain adequate working capital for the normal requirements of its business. However, the Company is obligated to distribute only 20% of the annual patronage dividend (excluding nonqualified written notices of allocation) in cash and it may distribute this lesser percentage in future years.

ITEM 2. PROPERTIES.

The Company's national headquarters is located at 2740 North Clybourn Avenue, Chicago, Illinois. Information with respect to the Company's owned and leased warehousing and office facilities is set forth below:

<TABLE>
<CAPTION>

LOCATION	SQUARE FEET OF WAREHOUSE AND OFFICE AREA	INTEREST
<S>	<C>	<C>
Chicago, Illinois.....	980,000	Owned
Corsicana, Texas.....	450,000	Owned
Denver, Colorado.....	310,000	Leased
Fogelsville (Allentown), Pennsylvania.....	600,000	Owned
Harvard, Illinois.....	640,000	Owned
Henderson, North Carolina.....	300,000	Owned
Indianapolis, Indiana.....	420,000	Owned
Jonesboro (Atlanta), Georgia.....	360,000	Owned
Kansas City, Missouri.....	415,000	Owned
Kingman, Arizona.....	375,000	Owned
Manchester, New Hampshire.....	525,000	Owned
Mankato, Minnesota.....	320,000	Owned
Ocala, Florida.....	375,000	Owned
Portland, Oregon.....	405,000	Owned
Westlake (Cleveland), Ohio.....	405,000	Owned
Winnipeg, Manitoba.....	432,000	Owned
Woodland, California.....	350,000	Owned

</TABLE>

No location owned by the Company (with the exception of Woodland) is subject to a mortgage.

In December 1983, the Company completed construction of a 150,000 square foot addition to its regional distribution center in Manchester, New Hampshire. This addition was financed with the proceeds from the sale of \$4,000,000 State of New Hampshire Industrial Development Authority Revenue Bonds (Cotter & Company Project) Series 1982. The 5.94% interest rate will be adjusted based on a bond index on October 1, 1994 and every three-year period thereafter. These bonds may be redeemed at face value at either the option of the Company or the bondholders on October 1, 1994 and every three-year period thereafter until maturity in 2003.

In July 1985, the Company completed construction of a regional distribution center in Woodland, California. The construction of the regional distribution center was financed with the proceeds from the sale of Industrial Development

Revenue Bonds issued by the City of Woodland, California. At January 1, 1994, the total outstanding debt was \$1,150,000. These bonds bear interest at 8.25%. Final principal payment of \$1,150,000 is due in fiscal year 1994.

In February 1993, the Company completed the sale of a facility that it previously owned in Pomona, California.

The Company's facility in Denver, Colorado is currently leased through June 30, 1994. The Company is moving this operation to a 360,000 square feet facility in Denver, Colorado, that is leased through June 30, 1999.

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Information with respect to the Company's manufacturing facilities is set forth below:

<TABLE>
<CAPTION>

LOCATION	SQUARE FEET OF MANUFACTURING AREA	PRINCIPAL PRODUCT	INTEREST
Chicago, Illinois.....	105,000	Paint	Owned
Cary, Illinois.....	580,000	Paint and Paint Applicators	Owned
Harvard, Illinois.....	830,000	Heaters and Outdoor Power Equipment	Owned

</TABLE>

The Company's facilities are suitable for their respective uses and are, in general, adequate for the Company's present needs.

The Company owns and leases transportation equipment for use at its regional distribution centers for the primary purpose of delivering merchandise from the Company's regional distribution centers to its Members. Additional information concerning these leases can be found in Notes 3 and 5 to the consolidated financial statements included elsewhere herein.

ITEM 3. LEGAL PROCEEDINGS.

There are no material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the Company or any of its subsidiaries is a party or of which any of their property is the subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

There is no existing market for the Common Stock of the Company and there is no expectation that any market will develop. The Company's Class A Common Stock is owned almost exclusively by retailers of hardware, variety and related products each of whom is a Member of the Company and purchases ten shares of the Company's Class A Common Stock (the only class of voting stock) upon becoming a Member. The Company is organized and operates as a cooperative corporation. The shares of the Company's Class B Common Stock now outstanding were issued to Members in partial payment of the annual patronage dividend to which they became entitled as a result of patronage business done by such Members with the Company. In accordance with the Company's By-Laws, the annual patronage dividend is paid to Members out of the gross margins from operations and other patronage source income, after deduction for expenses and provisions authorized by the Board of Directors.

The number of holders of record (as of February 26, 1994) of each class of stock of the Company is as follows:

<TABLE>
<CAPTION>

TITLE OF CLASS	NUMBER OF HOLDERS OF RECORD
Class A Common Stock, \$100 Par Value.....	6,516
Class B Common Stock, \$100 Par Value.....	6,396

</TABLE>

Dividends (other than patronage dividends) upon the Class A Common Stock and Class B Common Stock, subject to the provisions of the Company's Certificate of Incorporation, may be declared out of gross margins of the Company, other than gross margins from operations with or for Members and other patronage

source income, after deduction for expenses and provisions authorized by the Board of Directors. Dividends may be paid in cash, in property, or in shares of the Common Stock, subject to the provisions of the Certificate of Incorporation. Other than the payment of patronage dividends, including the redemption of all nonqualified written notices of allocation, the Company has not paid dividends on its Class A Common Stock or Class B Common Stock. The Board of Directors does not plan to pay dividends on either of said classes of stock. See the discussion of patronage dividends under Item 1--Business.

ITEM 6. SELECTED FINANCIAL DATA.

SELECTED FINANCIAL DATA

<TABLE>

<CAPTION>

	FOR THE YEARS ENDED				
	JANUARY 1, 1994	JANUARY 2, 1993	DECEMBER 28, 1991	DECEMBER 29, 1990	DECEMBER 31, 1989
	(IN THOUSANDS EXCEPT PER SHARE DATA)				
<S>	<C>	<C>	<C>	<C>	<C>
Revenues.....	\$2,420,727	\$2,356,468	\$2,139,887	\$2,135,120	\$2,058,822
Net margins.....	\$ 57,023	\$ 60,629	\$ 59,425	\$ 54,847	\$ 66,507
Patronage dividends.....	\$ 54,440	\$ 60,901	\$ 60,339	\$ 56,269	\$ 67,605
Total assets.....	\$ 803,528	\$ 833,372	\$ 763,109	\$ 709,895	\$ 714,889
Long-term debt and obligations under capital leases.....	\$ 69,201	\$ 72,749	\$ 13,335	\$ 15,077	\$ 15,642
Promissory (subordinated) and instalment notes payable.....	\$ 217,996	\$ 235,695	\$ 235,289	\$ 215,452	\$ 216,770
Redeemable Class A Common Stock...	\$ 6,633	\$ 6,857	\$ 7,077	\$ 7,362	\$ 7,401
Redeemable Class B Common Stock...	\$ 110,773	\$ 108,982	\$ 104,151	\$ 101,398	\$ 95,793
Book value per share of Class A Common Stock and Class B Common Stock(a).....	\$ 103.85	\$ 101.42	\$ 102.50	\$ 103.38	\$ 104.74

</TABLE>

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(a) The book value per share of the Company's Class A Common Stock and Class B Common Stock is the value, determined in accordance with generally accepted accounting principles, of such shares as shown by the respective year-end consolidated balance sheets of the Company, included elsewhere herein as reported on by the Company's independent auditors, after eliminating therefrom all value for goodwill, and other intangible assets and any retained earnings specifically appropriated by the Company's Board of Directors.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

RESULTS OF OPERATIONS

FISCAL YEAR 1993 COMPARED TO FISCAL YEAR 1992

Revenues increased \$64,259,000 or 2.7% compared to the previous year. The majority of this revenue gain resulted from increased direct shipment sales to Members. Contributing to the increased direct shipments were strong increases of 15.6% from Lumber and Building Materials and a 20.5% increase from the Company's manufacturing division, General Power Equipment Company. Another significant portion of the Company's revenue increase was due to Cotter Canada Hardware and Variety Cooperative, Inc. ("Cotter Canada"). With its growth in membership and its first full year of operations, Cotter Canada shipments to Canadian members increased by 36.4%.

Consolidated gross margins increased \$1,313,000 but as a percentage of revenue decreased to 9.0% from 9.2% reflecting the change in sales mix from

warehouse to direct shipments.

Warehouse, general and administrative expenses increased by \$9,430,000 or 7.7% due to higher manufacturing and logistic costs, increases associated with a full year of operations at Cotter Canada and

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non-recurring expenses related to the decentralization of functions previously performed at the Company's National Headquarters.

Interest paid to Members decreased \$1,258,000 or 4.9% primarily due to a lower average interest rate.

Other interest expense increased by \$156,000 or 2.1% due to a long-term financing agreement entered into by the Company during the second quarter of fiscal year 1992 to finance the expansion of the Company's distribution network and entry into Canada. This increase was partially offset by a decrease in short-term borrowings and the average rate of interest compared to the corresponding period last year.

The gain on sale of properties owned of \$5,985,000 and the corresponding increase in income tax expense of \$2,193,000 resulted primarily from the disposition of a regional distribution center in Pomona, California and real estate located in Chicago, Illinois.

Net margins were \$57,023,000 for the year ended January 1, 1994 compared to \$60,629,000 for the year ended January 2, 1993.

FISCAL YEAR 1992 COMPARED TO FISCAL YEAR 1991

Revenues for fiscal year 1992 increased by \$216,581,000 or 10.1%. This represents the highest single year dollar increase in the Company's history. The majority of the revenue growth resulted from a 7.8% increase in merchandise shipments to the True Value and V&S Variety Members from the Company's regional distribution network and manufacturing facilities. All general classes of merchandise experienced revenue gains, reflecting Member confidence in merchandising programs and regional assortments. Another significant influence on revenues was the Company's expansion into the Canadian market. Shipments to Canadian Members by Cotter Canada exceeded \$65,000,000.

Gross margins increased by \$18,863,000 or 9.5%. As a percentage of revenues, gross margins remained comparable to last year.

Warehouse, general and administrative expenses increased by \$11,404,000 or 10.2% but as a percentage of revenues remained comparable with the prior year. The Company was able to maintain this percentage, even though the Company increased the number of items stocked in regional distribution centers and member ordering patterns continued to shift away from direct (drop shipment) sales. Additionally, fiscal year 1992 was the first full fiscal year of operating the Kingman, Arizona regional distribution center, and the year the Company began its Canadian operation.

Interest paid to Members decreased slightly due to a decrease in the average interest rate partially offset by an increase in the balance of the promissory (subordinated) and instalment notes.

Other interest expense increased by \$4,807,000 due to long-term financing agreements entered into by the Company during fiscal year 1992, to finance the expansion of the Company's distribution network and entry into Canada.

Other income, net decreased by \$1,502,000 due to a reduction in interest income compared to fiscal year 1991. Interest income decreased due to a reduction in the notes receivable and short-term investment amounts held during the year as well as lower rates of interest earned on these balances.

Net margins were \$60,629,000 and \$59,425,000 for fiscal years 1992 and 1991, respectively. The difference resulted primarily from increased merchandise shipments to Members.

LIQUIDITY AND CAPITAL RESOURCES

At January 1, 1994, net working capital decreased to \$225.2 million from \$230.2 million at January 2, 1993. The current ratio increased to 1.57 in fiscal year 1993 compared to 1.56 in fiscal year 1992. Current assets decreased \$18.0 million, primarily due to the Company's change in cash position, offset by an increase of \$22.2 million in receivables due to increased sales and offering Members favorable payment terms received by the Company from its vendors. Current liabilities decreased \$13.0 million primarily due to a decrease in

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accounts payable as a result of decreased wholesale merchandise inventory offset by an increase in current maturities of long-term obligations and short-term borrowings.

Historically, cash flow from operations together with proceeds of short-term borrowings have sufficiently funded the Company's operations. In an attempt to improve Members' cash flow, the Company continued to offer Members extended terms on purchases during fiscal year 1993 thereby increasing extended term receivables by 24.7%. During fiscal year 1994, the Company anticipates that cash provided by operating activities will increase due to forecasted improvement in the relationship between inventories and accounts payable.

Cash and cash equivalents decreased to \$1.3 million at January 1, 1994 compared to \$37.6 million at January 2, 1993. Short-term lines of credit available under informal agreements with lending banks, cancelable by either party under specific circumstances, amounted to \$56.5 million at January 1, 1994. There were \$23.3 million of borrowings outstanding under these agreements at January 1, 1994 compared to \$0.3 million at January 2, 1993.

The Company's capital is primarily derived from redeemable Class A Common Stock and retained earnings, together with promissory (subordinated) notes and redeemable nonvoting Class B Common Stock issued in connection with the Company's annual patronage dividend. Funds derived from these capital resources are usually sufficient to satisfy long-term capital needs.

Net capital expenditures, including those made under capital leases, were \$5.6 million in fiscal year 1993 compared to \$27.0 million in fiscal year 1992 and \$30.5 million in fiscal year 1991. These capital expenditures were principally related to additional equipment and technological improvements at the regional distribution centers and National Headquarters. Additionally, a wholly-owned subsidiary of the Company acquired certain assets of a hardware and variety wholesaler based in Canada for approximately \$13.1 million in fiscal year 1992. In fiscal year 1991, capital expenditures included the construction of a new regional distribution center in Kingman, Arizona. Funding of capital expenditures in fiscal year 1994 is anticipated to come from operations and external sources, if necessary.

The effects of all recent tax legislation have not had a material effect on the Company's financial position and results of operations.

Effective January 3, 1993, the Company adopted SFAS No. 109, "Accounting for Income Taxes". As permitted under the new rules, prior years' financial statements have not been restated. The cumulative effect of this adoption does not have a material effect on the consolidated financial statements. Additionally, the Company has reviewed the impact of all new accounting standards issued as of the filing date of this report, that will be adopted at a future date, and has determined that these will not have a material impact on the Company's operating results and financial position.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Consolidated financial statements and consolidated financial statement schedules covered by the report of the Company's independent auditors are listed on Page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The directors and executive officers of the Company are:

<TABLE>

<CAPTION>

NAME	AGE	POSITION(S) HELD AND BUSINESS EXPERIENCE
----	---	-----
<S>	<C>	<C>
Karen M. Agnew.....	51	Appointed Vice President in February, 1992. Director of National Headquarters Support from July, 1991 to February, 1992. Prior position from April, 1986 was Executive Assistant to the President.
Daniel T. Burns.....	43	Vice President and General Counsel. Vice President since November, 1990. General Counsel

		since April, 1988.
Danny R. Burton.....	47	Appointed Vice President in May, 1992. National Member Development Manager from July, 1990 to May, 1992. Prior position from September, 1985 to June, 1990 was Sales Manager.
Kenneth O. Cayce, Jr.....	73	Director since March, 1964. Term expires April, 1995.
William M. Claypool, III.....	71	Director since March, 1970. Term expires April, 1994. Nominated by the Board of Directors for reelection to a three-year term.
Michael P. Cole.....	50	Director since July, 1988. Term expires April, 1996.
Samuel D. Costa, Jr.....	52	Director since July, 1988. Term expires April, 1996.
Daniel A. Cotter.....	59	President, Chief Executive Officer and Director. Elected President in January, 1978, Chief Executive Officer in January, 1983 and Director since September, 1989. Term expires April, 1996.
Leonard C. Farr.....	72	Director since March, 1972. Term expires April, 1996.
William M. Halterman.....	46	Director since June, 1990. Term expires April, 1995.
Robert F. Johnson.....	50	Appointed Vice President in January, 1994. Director of Corporate Planning and Information Services since March, 1992. Prior position was Distribution Industry Consulting Manager of a Corporation in Illinois.
Jerrald T. Kabelin.....	56	Chairman of the Board since April, 1993. Director since April, 1985. Term expires April, 1994. Nominated by the Board of Directors for reelection to a three-year term.
Arthur W. Ketelsen.....	74	Director since April, 1985. Term expires April, 1994. Not seeking reelection.
Kerry J. Kirby.....	47	Vice President and Chief Financial Officer since November, 1990. Secretary and Treasurer (Principal Financial and Accounting Officer) since April, 1989. Controller from April, 1988 to October, 1990.
Robert J. Ladner.....	47	Nominated by the Board of Directors for election as a Director to a three-year term to replace Arthur W. Ketelsen, whose term will expire April, 1994.
Lewis W. Moore.....	81	Director since June, 1948. Term expires April, 1994. Nominated by the Board of Directors for reelection to a three-year term.

</TABLE>

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<TABLE>
<CAPTION>

NAME	AGE	POSITION(S) HELD AND BUSINESS EXPERIENCE
----	---	-----
<S>	<C>	<C>
Robert A. Nolawski.....	55	President of Cotter Canada Hardware and Variety Cooperative, Inc. since February, 1992. Vice President since November, 1990. Prior position was Warehouse and Physical Distribution Manager.
Jeremiah J. O'Connor.....	51	Director since July, 1984. Term expires April, 1995.
Steven J. Porter.....	41	Executive Vice President and Chief Operating Officer since August, 1993. Prior position was Vice President of Merchandising of a retail building materials and hardware company based in Missouri.

Richard L. Schaefer.....	64	Director since May, 1976. Term expires April, 1995.
John P. Semkus.....	47	Vice President, Distribution and Transportation since February 1992. Appointed Vice President in June, 1988. Prior position was Operating Manager of a regional distribution center.
Robert G. Waters.....	73	Director since March, 1973. Term expires April, 1994. Nominated by the Board of Directors for reelection to a three-year term.
John M. West, Jr.....	41	Director since October, 1991. Term expires April, 1995.
Donald E. Yeager.....	51	Director since April, 1993. Term expires April, 1996.

</TABLE>

During the past five years, the principal occupation of each director of the Company, other than Daniel A. Cotter, was the operation of retail hardware stores.

ITEM 11. EXECUTIVE COMPENSATION.

PENSION AND COMPENSATION COMMITTEE

The Pension and Compensation Committee of the Board of Directors (the "Committee") consists of three non-employee directors: Kenneth O. Cayce, Jr. (Chairman), Lewis W. Moore and Michael P. Cole. In addition, Jerrald T. Kabelin, Chairman of the Board of Directors, and Daniel A. Cotter, President and Chief Executive Officer, served as ex-officio members of the Committee. The Committee assists the Board of Directors in fulfilling its responsibilities for setting and administering the policies which govern annual compensation and monitoring the Company's pension plans. It meets in executive session and with ex-officio members and the Chief Financial Officer concerning executive compensation matters. The Committee calls upon outside consultants for assistance, as necessary.

The Committee meets at least annually. In fiscal year 1993, the Committee met on four occasions. Primary responsibilities of the Committee include:

- Establishing the President's salary and annual and long-term incentive opportunities.
- Approving other executive officer salaries recommended by the President.
- Setting performance goals for the annual incentive plan and long-term incentive plan.
- Assessing performance achievement relative to goals and approving incentive payments.
- Determining which individuals, upon recommendation of the President, will participate in the annual incentive plan and the long-term incentive plan and the level of incentive awards which will be available to each participant.
- Approving any revisions proposed for executive compensation.

The Committee makes recommendations to the Board of Directors regarding compensation of the Company's executive officers. The philosophy of the Committee is to maintain an executive compensation program to help the Company attract, retain and motivate the executive resources it needs to maintain industry leadership, provide high levels of service to Members, and achieve the financial objectives as determined by the Board of Directors.

To achieve its stated goals, the Company has developed three executive compensation policies.

- The Company provides levels of salaried compensation that are competitive.
- The Company provides annual incentive compensation for executives that vary in a consistent and predictable manner with the performance of the Company.
- The Company provides an incentive program which enables selected executives to achieve incentive awards based on the long-term (multiple year) performance of the Company.

The combination of these three compensation policies is intended to provide competitive earnings opportunities when performance reaches desired levels. The annual incentive program and the long-term incentive program are cancelable by the Board of Directors at any time.

The Company provides salary levels that are competitive with the median (50th percentile) of the executive marketplace. The industry comparison groups used to evaluate competitiveness include: member owned organizations, wholesale distribution firms, mass merchandising firms and general industry and manufacturing organizations. Competitiveness is measured using data from a number of sources, including published information, proxies and surveys by consulting firms.

The annual incentive plan is designed to ensure that executive compensation varies in relation to achievement of annual performance goals. In fiscal year 1993, the plan's overall Company goal was based on achieving Member payout objectives. Each executive had at least a portion of their incentive award determined by Member payout results. The President's entire incentive award is based upon Member payout results. Those executives with departmental responsibilities are measured against department goals in addition to Member payout.

The long-term incentive plan assures a continuing focus on the Company's future. Goals are set for performance achievement over three-year intervals. A new performance period starts each year and goals for each three-year cycle currently underway are related to achievement of revenue growth.

EXECUTIVE COMPENSATION

The following table sets forth the total annual compensation paid to the Company's five most highly compensated executive officers during fiscal year 1993 and Paul F. Fee, who ceased to be an officer of the

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Company, during fiscal year 1993, and the total compensation paid to each such individual for the Company's two previous fiscal years:

SUMMARY COMPENSATION TABLE

<TABLE>
<CAPTION>

NAME AND PRINCIPAL POSITION	YEAR	SALARY	BONUS (1)	OTHER COMPENSATION (2)	LONG-TERM INCENTIVES (3)
<S>	<C>	<C>	<C>	<C>	<C>
Daniel A. Cotter.....	1993	\$500,000	\$ --	\$ 4,996	\$ --
President and Chief	1992	500,000	136,500	3,928	250,000
Executive Officer	1991	500,000	262,500	12,166	250,000
Paul F. Fee.....	1993	275,000	59,419	257,677	--
Executive Vice	1992	275,000	81,623	7,563	90,283
President	1991	275,000	77,108	9,536	48,125
Kerry J. Kirby.....	1993	225,000	25,313	6,746	--
Vice President,	1992	193,299	36,304	7,518	--
Finance	1991	148,674	49,005	7,026	--
Robert A. Nolawski.....	1993	200,000	41,100	33,038	--
Vice President	1992	205,111	77,175	13,046	--
	1991	127,488	33,534	6,651	--
Daniel T. Burns.....	1993	175,000	23,625	5,214	--
Vice President, Legal	1992	162,602	39,946	9,466	--
and Human Resources	1991	145,102	47,850	4,358	--
Steven J. Porter.....	1993	167,115	25,000	11,944	--
Executive Vice President	1992	--	--	--	--
and Chief Operating Officer	1991	--	--	--	--

</TABLE>

(1) Annual bonus amounts are earned and accrued during the fiscal years indicated, and paid subsequent to the end of each fiscal year.

(2) Other compensation consists primarily of Company contributions to the Cotter & Company Employee's Savings and Compensation Deferral Plan (the "Savings Plan"). Under the Savings Plan, each participant may elect to make a contribution in an amount of up to ten percent (10%) of his annual compensation, not to exceed \$30,000 (including Company contributions) a year, of which \$8,994 of the executive officer's salary in fiscal year 1993 may be deferred. The Company's contribution to the Savings Plan is equal to seventy-five percent (75%) of the participant's contribution, but not to

exceed four and one-half percent (4 1/2%) of the participant's annual compensation. Mr. Fee's other compensation in fiscal year 1993 consists of payments pursuant to an employment agreement. Mr. Nolawski's other compensation includes \$4,443 and \$27,427 of relocation payments in fiscal year 1992 and 1993, respectively. Mr. Porter's other compensation consists of \$11,944 of relocation payments in fiscal year 1993.

(3) Mr. Cotter and Mr. Fee earned transition awards during the initial first two fiscal years of the long-term incentive program initiated in fiscal year 1991. No long-term incentive awards were earned in fiscal year 1993.

Daniel A. Cotter is employed under a long-term contract which commenced January 1, 1985 for a period of 15 years terminating December 31, 1999. Mr. Cotter agreed, in 1990, to revise his contract to conform his compensation to that applicable to all other executives. His base salary has not changed since 1990.

The Company has a severance policy providing termination benefits based upon annual compensation and years of service.

No reportable loans were made by the Company to its executive officers or to its directors during the last three fiscal years.

LONG-TERM PERFORMANCE CASH AWARDS

Beginning in fiscal year 1991, the Board of Directors adopted a long-term incentive program for selected senior executive officers of the Company. The plan covers three-year periods beginning in 1991 through 1993. Senior executives of the Company are eligible for cash payouts ranging from 20% to 50% of their average annual salary if performance goals established for the plan are met. Performance goals for the current plans relate to the achievement of revenue growth.

A new plan starts each year with goals set for the next three-year period. A range of estimated payouts which could be earned by the individuals listed in the Summary Compensation Table in fiscal year 1994, and paid in fiscal year 1995 is shown in the following table:

<TABLE>
<CAPTION>

NAME	PERFORMANCE PERIOD	THRESHOLD	TARGET	MAXIMUM
<S>	<C>	<C>	<C>	<C>
Daniel A. Cotter.....	1992-1994	\$ 125,000	\$250,000	\$375,000
Kerry J. Kirby.....	1992-1994	22,500	45,000	67,500
Robert A. Nolawski.....	1992-1994	20,000	40,000	60,000
Daniel T. Burns.....	1992-1994	17,500	35,000	52,500

</TABLE>

DEFINED BENEFIT RETIREMENT PLANS

The Company has a defined benefit pension plan, the Cotter & Company Pension Plan (the "Plan"), which is qualified under the Internal Revenue Code. The amount of the Company's annual contribution to the Plan is determined for the total of all participants covered by the Plan, and the amount of payment with respect to a specified person is not and cannot readily be separated or individually calculated by the actuaries for the Plan. The Plan provides fully vested unreduced monthly benefits to eligible employees who have retired at or after age 65 or served a minimum of five years of service and reached age 62. Each of the executive officers listed in the foregoing Summary Compensation Table is a participant in the Plan. The Plan has been amended to be a Social Security "excess" plan instead of being a Social Security "integrated" plan. The benefits provided by the Plan are calculated in the form of a single annuity.

The formula of the benefit for the service completed before January 1, 1989 is one and two-thirds percent of the participant's "average compensation" multiplied by the person's years of service thru December 31, 1988 up to a maximum of thirty such years, minus one and two-thirds percent of the participant's primary Social Security benefit multiplied by the person's years of service thru December 31, 1988 up to a maximum of thirty such years.

For service completed after January 1, 1989, the benefit formula is one and one-twentieth percent of the participant's "average compensation" equal to one-third of the retirement year Taxable Wage Base multiplied by the person's years of service after January 1, 1989 up to a maximum of thirty such years, plus one and one-half percent of the participant's "average compensation" over one-third of the retirement year Taxable Wage Base multiplied by the person's years of service after January 1, 1989 up to a maximum of thirty such years.

A third benefit formula for service completed prior to January 1, 1992 is one and two-thirds percent of the participant's "average compensation"

multiplied by the person's years of service thru December 31, 1991 up to a maximum of thirty such years, minus one and two-thirds percent of the participant's primary Social Security benefit multiplied by the person's years of service thru December 31, 1991 up to a maximum of thirty such years. The third formula will be used only if the benefit calculated is higher than the combination of the first two formulas.

"Average compensation" means the average of the compensation received by an eligible employee during the five highest consecutive calendar years within the ten consecutive calendar years immediately preceding the date of termination of employment. Compensation considered in determining benefits includes salary, overtime pay, commissions, bonuses and deferral contributions under the Savings Plan. The average compensation does not differ substantially from all of the compensation for the officers listed in the Summary Compensation Table.

The Company amended and restated in 1991 a Supplemental Retirement Plan (the "Supplemental Plan") for certain employees as designated by the Company's President and Chief Executive Officer. The benefits provided by the Supplemental Plan are calculated in the form of a single annuity in an amount per year which is equal to three percent of the participant's "average compensation" multiplied by years of service up to a maximum of twenty such years, minus any benefits provided to the participants by the Plan, and minus the participant's primary Social Security benefit. "Average Compensation" for the Supplemental Plan is defined the same as for the Plan, as discussed above. The Supplemental Retirement Plan is not a qualified plan under the Internal Revenue Code. Benefits payable under the Supplemental Plan will be financed through internal operations.

The estimated annual retirement benefits which may be payable pursuant to the Plan to the officers named in the Summary Compensation Table (except Mr. Cotter and Mr. Nolawski) is currently limited under the Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA") to \$118,800 at retirement under various assumed conditions. Beginning in 1983, "TEFRA" limited the maximum annual retirement benefits payable to an individual under the Pension Plan to the higher of (a) \$90,000 or (b) the participant's accrued benefits under the Pension Plan as of December 31, 1982. The limits of the "TEFRA" maximum annual retirement benefits are subject to the cost-of-living adjustments in 1994 for post-1986 cost-of-living increases.

The following table reflects the estimated annual retirement benefits which may be payable pursuant to the Plan to the officers named in the Summary Compensation Table (except to those officers currently limited under "TEFRA," as previously explained) at retirement under various assumed conditions. The benefit amounts are not subject to deduction for Social Security except as provided by the aforesaid benefit formula nor are said amounts subject to any other offset.

<TABLE>
<CAPTION>

AVERAGE COMPENSATION	YEARS OF SERVICE				
	10	15	20	25	30
<S>	<C>	<C>	<C>	<C>	<C>
\$700,000.....	\$111,542	\$118,800	\$118,800	\$118,800	\$118,800
600,000.....	95,546	118,800	118,800	118,800	118,800
500,000.....	79,550	118,800	118,800	118,800	118,800
400,000.....	63,551	96,787	118,800	118,800	118,800
300,000.....	47,555	72,461	97,367	118,800	118,800
200,000.....	31,559	48,135	64,711	81,288	97,864
100,000.....	15,563	23,809	32,055	40,302	48,548

</TABLE>

The present credited years of service for the officers listed in the above table are as follows: Daniel A. Cotter, 30 years; Paul F. Fee, 21 years; Robert A. Nolawski, 30 years; Kerry J. Kirby, 18 years, Daniel T. Burns, 13 years, and Steven J. Porter, 1 year.

There is no existing market for the Company's Common Stock and there is no expectation that any market will develop. There are no broad market or peer group indexes the Company believes would render meaningful comparisons. Accordingly, a performance graph of the Company's cumulative total shareholders return for the previous five years, with a performance indicator of the overall stock market for the Company's peer group, has not been prepared.

In fiscal year 1993 directors of the Company were each paid \$1,000 per month. The Chairman of the Board is paid \$1,000 per day to a maximum of \$104,000 per year, when serving in the capacity as Chairman.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

As of February 26, 1994, each of the directors of the Company was the beneficial owner of 10 shares of Class A Common Stock of the Company comprising .2% of such shares issued and outstanding. Other than Daniel A. Cotter, no executive officer owns any shares of Class A Common Stock.

The directors own in the aggregate approximately 1.5% of Class B Common Stock as of February 26, 1994. No executive officer owns any shares of Class B Common Stock.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The Company uses Galaxy Travel Agency, Inc., a company engaged in providing normal travel business services, for Company officers, directors, employees, and Members. Daniel A. Cotter and his brother each own a one-half interest of Galaxy Travel. The total bookings placed by the Company with Galaxy Travel in fiscal year 1993 were approximately \$2,300,000 and are estimated to be approximately the same in fiscal year 1994.

The Company believes the foregoing transactions are on no-less favorable terms to it than could have been obtained from an independent party.

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(A) 1. FINANCIAL STATEMENTS

The consolidated financial statements listed in the accompanying index (page F-1) to the consolidated financial statements are filed as part of this annual report.

2. FINANCIAL STATEMENT SCHEDULES

The consolidated financial statement schedules listed in the accompanying index (page F-1) to the consolidated financial statements are filed as part of this annual report.

3. EXHIBITS

The exhibits listed on the accompanying index to exhibits (pages E-1 and E-2) are filed as part of this annual report.

(B) REPORTS ON FORM 8-K

None.

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SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS ANNUAL REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

COTTER & COMPANY

By: /s/ KERRY J. KIRBY

Kerry J. Kirby,
Vice President, Secretary, Treasurer and
Chief Financial Officer

DATED: March 17, 1994

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS ANNUAL REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT AND IN THE CAPACITIES AND ON THE DATES INDICATED.

<TABLE> <CAPTION>	SIGNATURE	TITLE	DATE
<S>	/s/ DANIEL A. COTTER ----- Daniel A. Cotter	<C> President, Chief Executive Officer and Director	<C> March 17, 1994

/s/ STEVEN J. PORTER ----- Steven J. Porter	Executive Vice President and Chief Operating Officer	March 17, 1994
/s/ KERRY J. KIRBY ----- Kerry J. Kirby	Vice President, Secretary, Treasurer and Chief Financial Officer	March 17, 1994
/s/ JERRALD T. KABELIN ----- Jerrald T. Kabelin	Chairman of the Board and Director	March 17, 1994
/s/ KENNETH O. CAYCE, JR. ----- Kenneth O. Cayce, Jr.	Director	March 17, 1994
/s/ WILLIAM M. CLAYPOOL, III ----- William M. Claypool, III	Director	March 17, 1994
/s/ MICHAEL P. COLE ----- Michael P. Cole	Director	March 17, 1994
/s/ SAMUEL D. COSTA, JR. ----- Samuel D. Costa, Jr.	Director	March 17, 1994
/s/ LEONARD C. FARR ----- Leonard C. Farr	Director	March 17, 1994
/s/ WILLIAM M. HALTERMAN ----- William M. Halterman	Director	March 17, 1994
/s/ ARTHUR W. KETELSEN ----- Arthur W. Ketelsen	Director	March 17, 1994
/s/ LEWIS W. MOORE ----- Lewis W. Moore	Director	March 17, 1994
/s/ JEREMIAH J. O'CONNOR ----- Jeremiah J. O'Connor	Director	March 17, 1994
/s/ RICHARD L. SCHAEFER ----- Richard L. Schaefer	Director	March 17, 1994
/s/ ROBERT G. WATERS ----- Robert G. Waters	Director	March 17, 1994
/s/ JOHN M. WEST, JR. ----- John M. West, Jr.	Director	March 17, 1994
/s/ DONALD E. YEAGER ----- Donald E. Yeager	Director	March 17, 1994

</TABLE>

ITEM 14(A). INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND CONSOLIDATED FINANCIAL STATEMENT SCHEDULES.

<TABLE>

<CAPTION>

	PAGE(S)

<S>	<C>
Report of Independent Auditors.....	F-3
Consolidated Balance Sheet at January 1, 1994 and January 2, 1993.....	F-4; F-5
Consolidated Statement of Operations for each of the three years in the period ended January 1, 1994.....	F-6
Consolidated Statement of Cash Flows for each of the three years in the period ended January 1, 1994.....	F-7
Consolidated Statement of Capital Stock and Retained Earnings for each of the	

three years in the period ended January 1, 1994.....	F-8
Notes to Consolidated Financial Statements.....	F-9 to F-15
Consolidated Financial Statement Schedules for each of the three years in the period ended January 1, 1994:	
IV--Indebtedness of and to Related Parties--Not Current.....	F-16
V--Property, Plant and Equipment.....	F-17
VI--Accumulated Depreciation and Amortization of Property, Plant and Equipment.....	F-18
IX--Short-Term Borrowings.....	F-19

</TABLE>

All other schedules have been omitted because the required information is not applicable or is not material in amounts sufficient to require submission of the schedule or because the required information is included in the consolidated financial statements or the notes thereto.

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REPORT OF INDEPENDENT AUDITORS

To the Members and the Board of Directors
Cotter & Company

We have audited the accompanying consolidated balance sheets of Cotter & Company as of January 1, 1994 and January 2, 1993, and the related consolidated statements of operations, cash flows and capital stock and retained earnings for each of the three years in the period ended January 1, 1994. Our audits also included the consolidated financial statement schedules listed in the Index at item 14(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cotter & Company at January 1, 1994 and January 2, 1993, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 1, 1994 in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG

Chicago, Illinois
February 9, 1994

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COTTER & COMPANY

CONSOLIDATED BALANCE SHEET

ASSETS

<TABLE>
<CAPTION>

	JANUARY	JANUARY
	1,	2,
	1994	1993

	(000'S OMITTED)	
	<C>	<C>
<S>		
Current assets:		
Cash and cash equivalents.....	\$ 1,314	\$ 37,603
Accounts and notes receivable.....	276,585	254,401
Inventories.....	336,066	336,603
Prepaid expenses.....	6,969	10,330
	-----	-----
Total current assets.....	620,934	638,937
Properties owned, less accumulated depreciation.....	164,319	178,484
Properties under capital leases, less accumulated amortization.....	6,769	8,954
Other assets.....	11,506	6,997
	-----	-----
Total assets.....	\$803,528	\$833,372
	-----	-----
	-----	-----

</TABLE>

See Notes to Consolidated Financial Statements.

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COTTER & COMPANY

CONSOLIDATED BALANCE SHEET

LIABILITIES AND CAPITALIZATION

<TABLE>
<CAPTION>

	JANUARY 1, 1994	JANUARY 2, 1993
	(000'S OMITTED)	
	<C>	<C>
<S>		
Current liabilities:		
Accounts payable.....	\$ 255,216	\$ 300,925
Accrued expenses.....	38,926	39,367
Short-term borrowings.....	23,287	293
Current maturities of notes, long-term debt and lease obligations.....	61,685	49,582
Patronage dividend payable in cash.....	16,614	18,570
	-----	-----
Total current liabilities.....	395,728	408,737
Long-term debt.....	63,977	65,282
Obligations under capital leases.....	5,224	7,467
Capitalization:		
Promissory (subordinated) and instalment notes.....	217,996	235,695
Redeemable Class A common stock and partially paid subscriptions (Authorized 100,000 shares; issued and fully paid 65,880 and 68,080 shares).....	6,633	6,857
Redeemable Class B nonvoting common stock and paid-in capital (Authorized 2,000,000 shares; issued and fully paid 1,019,640 and 979,700 shares; issuable as partial payment of patronage dividends, 75,780 and 97,842 shares).....	110,773	108,982
Retained earnings.....	3,867	1,284
	-----	-----
Foreign currency translation adjustment.....	339,269 (670)	352,818 (932)
	-----	-----
Total capitalization.....	338,599	351,886
	-----	-----
Total liabilities and capitalization.....	\$ 803,528	\$ 833,372
	-----	-----
	-----	-----

</TABLE>

See Notes to Consolidated Financial Statements.

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COTTER & COMPANY

CONSOLIDATED STATEMENT OF OPERATIONS

<TABLE>

<CAPTION>

FOR THE YEARS ENDED

	JANUARY 1, 1994	JANUARY 2, 1993	DECEMBER 28, 1991
<S>	<C>	<C>	<C>
		(000'S OMITTED)	
Revenues.....	\$2,420,727	\$2,356,468	\$2,139,887
Cost and expenses:			
Cost of revenues.....	2,202,806	2,139,860	1,942,142
Warehouse, general and administrative.....	132,674	123,244	111,840
Interest paid to Members.....	24,458	25,716	26,006
Other interest expense.....	7,429	7,273	2,466
Gain on sale of properties owned.....	(5,985)	--	--
Other income, net.....	(260)	(643)	(2,145)
Income tax expense.....	2,582	389	153
	2,363,704	2,295,839	2,080,462
Net margins.....	\$ 57,023	\$ 60,629	\$ 59,425

</TABLE>

See Notes to Consolidated Financial Statements.

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COTTER & COMPANY

CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>
<CAPTION>

FOR THE YEARS ENDED

	JANUARY 1, 1994	JANUARY 2, 1993	DECEMBER 28, 1991
<S>	<C>	<C>	<C>
		(000'S OMITTED)	
Cash flows from operating activities:			
Net margins.....	\$ 57,023	\$ 60,629	\$ 59,425
Adjustments to reconcile net margins to cash and cash equivalents provided by (used for) operating activities:			
Depreciation and amortization.....	21,566	21,869	20,727
Provision for losses on accounts and notes receivable.....	4,057	4,447	5,417
Changes in operating assets and liabilities:			
Accounts and notes receivable.....	(38,605)	(29,798)	(30,043)
Inventories.....	183	(11,819)	(44,628)
Accounts payable.....	(45,070)	23,770	13,954
Accrued expenses.....	(1,143)	(6,221)	8,238
Other adjustments, net.....	(2,679)	(3,035)	(1,771)
Net cash and cash equivalents provided by (used for) operating activities.....	(4,668)	59,842	31,319
Cash flows used for investing activities:			
Additions to properties owned.....	(13,382)	(17,871)	(20,092)
Proceeds from sale of properties owned.....	13,999	682	1,250
Changes in other assets.....	(3,850)	(2,076)	894
Net cash and cash equivalents (used for) investing activities.....	(3,233)	(19,265)	(17,948)
Cash flows used for financing activities:			
Payment of annual patronage dividend.....	(18,570)	(18,423)	(16,978)
Payment of notes, long-term debt and lease obligations....	(32,730)	(18,776)	(25,231)
Proceeds from long-term borrowings.....	--	54,124	--
Increase (decrease) in short-term borrowings.....	23,059	(20,975)	12,000
Purchase of Class A common stock.....	(470)	(337)	(266)
Proceeds from sale of Class A common stock.....	323	352	328
Net cash and cash equivalents (used for) financing activities.....	(28,388)	(4,035)	(30,147)
Net increase (decrease) in cash and cash equivalents.....	(36,289)	36,542	(16,776)

Cash and cash equivalents at beginning of year.....	37,603	1,061	17,837
Cash and cash equivalents at end of year.....	\$ 1,314	\$ 37,603	\$ 1,061

</TABLE>

See Notes to Consolidated Financial Statements.

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COTTER & COMPANY

CONSOLIDATED STATEMENT OF CAPITAL STOCK AND RETAINED EARNINGS

FOR THE THREE YEARS ENDED JANUARY 1, 1994

<TABLE>
<CAPTION>

	COMMON STOCK, \$100 PAR VALUE			RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATION ADJUSTMENT
	CLASS A		CLASS B		
	ISSUED	SUBSCRIBED	ISSUED AND TO BE ISSUED		
	(000'S OMITTED)				
<S>	<C>	<C>	<C>	<C>	<C>
Balances at December 29, 1990.....	\$7,274	\$ 88	\$101,398	\$ 2,470	\$ --
Net margins.....				59,425	
Patronage dividend.....			8,095	(60,339)	
Stock issued for paid-up subscriptions...	363	(363)			
Stock subscriptions.....		336			
Stock purchased and retired.....	(621)		(5,342)		
Balances at December 28, 1991.....	7,016	61	104,151	1,556	--
Net margins.....				60,629	
Foreign currency translation adjustment.....					(932)
Patronage dividend.....			10,029	(60,901)	
Stock issued for paid-up subscriptions...	357	(357)			
Stock subscriptions.....		345			
Stock purchased and retired.....	(565)		(5,198)		
Balances at January 2, 1993.....	6,808	49	108,982	1,284	(932)
Net margins.....				57,023	
Foreign currency translation adjustment.....					262
Patronage dividend.....			7,686	(54,440)	
Stock issued for paid-up subscriptions...	312	(312)			
Stock subscriptions.....		308			
Stock purchased and retired.....	(532)		(5,895)		
Balances at January 1, 1994.....	\$6,588	\$ 45	\$110,773	\$ 3,867	\$ (670)

</TABLE>

Subscribed Class A common stock amounts are net of unpaid amounts of \$14,000 at January 1, 1994, \$27,000 at January 2, 1993 and December 28, 1991, and \$32,000 at December 29, 1990 (for 590, 760, 880, and 1,200 shares subscribed, respectively).

See Notes to Consolidated Financial Statements.

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COTTER & COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1--DESCRIPTION OF BUSINESS AND ACCOUNTING POLICIES

Cotter & Company (the Company) is a member-owned wholesaler of hardware, variety and related merchandise. The Company also manufactures paint, paint

applicators, outdoor power equipment, heaters and hardware related products. The Company's goods and services are sold predominantly within the United States, primarily to retailers of hardware, variety and related lines, each of whom has purchased ten shares of the Company's Class A common stock on becoming a Member. The Company operates in a single industry as a member-owned wholesaler cooperative. In accordance with the Company's By-laws, the annual patronage dividend is paid to Members out of gross margins from operations and other patronage source income, after deduction for expenses and provisions authorized by the Board of Directors. The significant accounting policies of the Company are summarized below.

Consolidation. The consolidated financial statements include the accounts of the Company and all wholly-owned subsidiaries. In fiscal years 1992 and 1993, the consolidated financial statements also include the accounts of Cotter Canada Hardware and Variety Cooperative, Inc., a Canadian member-owned wholesaler of hardware, variety and related merchandise, in which the Company has a majority equity interest.

Capitalization. The Company's capital (Capitalization) is derived from redeemable Class A voting common stock and retained earnings, together with promissory (subordinated) notes and redeemable Class B nonvoting common stock issued in connection with the Company's annual patronage dividend. The By-laws provide for partially meeting the Company's capital requirements by payment of the year-end patronage dividend, of which at least twenty percent must be paid in cash, and the balance in promissory (subordinated) notes and redeemable \$100 par value Class B common stock.

Membership may be terminated without cause by either the Company or the Member on sixty days written notice. In the event membership is terminated, the Company undertakes to purchase, and the Member is required to sell to the Company, all of the Member's Class A common stock and Class B common stock at book value. Payment for the Class A common stock will be in cash. Payment for the Class B common stock will be a note payable in five equal annual instalments bearing interest at the same rate per annum as the promissory (subordinated) notes most recently issued as part of the Company's patronage dividend.

Cash equivalents. The Company classifies its temporary investments in highly liquid debt instruments, with an original maturity of three months or less, as cash equivalents. The carrying amount reported in the consolidated balance sheets for cash and cash equivalents approximates fair value.

Inventories. Inventories are stated at the lower of cost, determined on the "first-in, first-out" basis, or market.

Properties. Properties are recorded at cost. Depreciation and amortization are computed by using the straight-line method over the following estimated useful lives: buildings and improvements--10 to 40 years; machinery, warehouse and office equipment--5 to 10 years; transportation equipment--3 to 7 years; and leasehold improvements--the life of the lease without regard to options for renewal.

Income Taxes. The Company adopted Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," effective January 3, 1993. Under this standard, the liability method is used whereby deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities adjusting for the impact of tax credit carryforwards.

Retirement plans. The Company sponsors two noncontributory defined benefit retirement plans covering substantially all of its employees. Company contributions to union-sponsored defined contribution plans are

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

based on collectively bargained rates times hours worked. The Company's policy is to fund annually all tax-qualified plans to the extent deductible for income tax purposes.

Reporting year. The Company's reporting year-end is the Saturday closest to December 31.

NOTE 2--INVENTORIES

Inventories consisted of:

<TABLE>
<CAPTION>

JANUARY 1, 1994 JANUARY 2, 1993

(000'S OMITTED)

<S>	<C>	<C>
Manufacturing inventories:		
Raw materials.....	\$ 14,795	\$ 13,520
Work-in-process and finished goods.....	54,992	46,126
	-----	-----
	69,787	59,646
Merchandise inventories.....	266,279	276,957
	-----	-----
	\$ 336,066	\$ 336,603
	-----	-----

</TABLE>

NOTE 3--PROPERTIES

Properties owned or leased under capital leases consisted of:

<TABLE>
<CAPTION>

	JANUARY 1, 1994		JANUARY 2, 1993	
	OWNED	LEASED	OWNED	LEASED
	-----	-----	-----	-----
	(000'S OMITTED)			
<S>	<C>	<C>	<C>	<C>
Buildings and improvements.....	\$166,055	\$ --	\$171,479	\$ --
Machinery and warehouse equipment.....	76,330	--	77,591	--
Office equipment.....	55,191	--	50,408	--
Transportation equipment.....	18,778	15,337	16,297	15,337
	-----	-----	-----	-----
	316,354	15,337	315,775	15,337
Less accumulated depreciation and amortization.....	164,731	8,568	152,250	6,383
	-----	-----	-----	-----
	151,623	6,769	163,525	8,954
Land.....	12,696	--	14,959	--
	-----	-----	-----	-----
	\$164,319	\$ 6,769	\$178,484	\$ 8,954
	-----	-----	-----	-----

</TABLE>

NOTE 4--LONG-TERM DEBT AND BORROWING ARRANGEMENTS

Long-term debt consisted of:

<TABLE>
<CAPTION>

	JANUARY 1, 1994	JANUARY 2, 1993
	-----	-----
	(000'S OMITTED)	
<S>	<C>	<C>
Senior note at 8.60%.....	\$50,000	\$50,000
Term loan:		
7.75%.....	6,200	6,200
Canadian prime (5.50% and 7.25%).....	3,777	3,932
Industrial Revenue Bonds:		
5.94%.....	4,000	4,000
8.25%.....	1,150	2,950
	-----	-----
	65,127	67,082
Less amounts due within one year.....	1,150	1,800
	-----	-----
	\$63,977	\$65,282
	-----	-----

</TABLE>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

The proceeds from the 8.60% senior note were used for operations. Principal payments starting in 1995 are due in increasing amounts through maturity in 2007. Under the senior note agreement, the Company is required to meet certain financial ratios and covenants.

The two term loans relate to the Canadian acquisition and are due in 1997.

The 5.94% issuance of bonds relates to financing the expansion of a distribution center. On October 1, 1994 and every three-year period thereafter, the interest rate will be adjusted based on a bond index. These bonds may be redeemed at face value at either the option of the Company or the bondholders at

October 1, 1994 and every three-year period thereafter until maturity in 2003. The 8.25% issuance of bonds relates to financing the construction of a distribution center.

Total maturities of long-term debt for fiscal years 1994, 1995, 1996, 1997, 1998, and thereafter are \$1,150,000, \$1,000,000, \$2,000,000, \$12,977,000, \$4,000,000 and \$44,000,000 respectively.

In addition, the Company has various short-term lines of credit available under informal agreements with lending banks, cancelable by either party under specific circumstances, which amount to \$56,500,000 at January 1, 1994. There were \$23,287,000 borrowings under these agreements at January 1, 1994. The Company pays commitment fees for these lines.

The fair value of the 8.6% senior note was approximately \$54,375,000 and \$51,250,000 at January 1, 1994 and January 2, 1993, respectively. The fair value was estimated using discounted cash flow analyses, based on the Company's incremental borrowing rate for similar borrowings. The carrying amounts of the Company's other long term borrowings and short-term lines of credit approximate fair value.

NOTE 5--CAPITAL LEASES AND OTHER LEASE COMMITMENTS

Capitalized leases expire at various dates and generally provide for purchase options but not renewals. Purchase options provide for purchase prices at either fair market value or a stated value which is related to the lessor's book value at expiration of the lease term.

The following is a schedule of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments, as of January 1, 1994:

<TABLE>
<CAPTION>

FISCAL YEARS	(000'S OMITTED)
<S>	<C>
1994.....	\$ 2,545
1995.....	1,834
1996.....	1,485
1997.....	1,025
1998.....	751
1999.....	416

Net minimum lease payments.....	8,056
Less amount representing interest.....	589

Present value of net minimum lease payments.....	7,467
Less amounts due within one year.....	2,243

	\$ 5,224

</TABLE>

The Company also is committed under cancelable operating leases for certain transportation equipment which, in certain cases, also provide for contingent rental arrangements and purchase options. The Company made contingent rental payments relating to operating leases of \$575,000, \$616,000 and \$483,000 for fiscal years 1993, 1992 and 1991, respectively. Rental expense under operating leases for fiscal years 1993, 1992, and 1991 was \$7,536,000, \$6,850,000 and \$5,583,000, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

NOTE 6--CAPITALIZATION

Promissory (subordinated) and instalment notes consisted of:

<TABLE>
<CAPTION>

	JANUARY 1, 1994	JANUARY 2, 1993
	-----	-----
	(000'S OMITTED)	
<S>	<C>	<C>
Promissory (subordinated) notes--		
Due currently.....	\$ 51	\$ 56
Due on December 31, 1993--8%.....	--	24,734
Due on December 31, 1993--11%.....	--	18,393
Due on December 31, 1994--8 1/2%.....	26,173	26,739

Due on December 31, 1994--9 1/2%.....	30,321	31,548
Due on December 31, 1995--7 1/2%.....	21,324	22,686
Due on December 31, 1995--10%.....	36,257	38,259
Due on December 31, 1996--9 1/2%.....	28,930	30,324
Due on December 31, 1996--6%.....	27,187	--
Due on December 31, 1997--10%.....	18,138	24,668
Due on December 31, 1998--8%.....	29,266	30,090
Due on December 31, 1999--8% (issued 1993).....	27,827	28,863
Due on December 31, 2000--6 1/2% (to be issued).....	26,752	--
Instalment notes at interest rates of 8% to 10% with maturities through 1997.....	4,062	4,575
	-----	-----
	276,288	280,935
Less amounts due within one year.....	58,292	45,240
	-----	-----
	\$ 217,996	\$ 235,695
	-----	-----

</TABLE>

The promissory notes are issued principally in payment of the annual patronage dividend. Promissory notes are subordinated to indebtedness to banking institutions, trade creditors and other indebtedness of the Company as specified by its Board of Directors. Notes to be issued relate to the patronage dividend which is distributed after the end of the year. Prior experience indicates that the maturities of a substantial portion of the notes due within one year are extended, for a three year period, at interest rates substantially equivalent to competitive market rates of comparable instruments. The Company anticipates that this practice will continue.

Due to the uncertainty of the ultimate maturities of the promissory notes, management believes it is impracticable to estimate their fair value. The carrying amount of the instalment notes at January 1, 1994 and January 2, 1993 approximates fair value.

Total maturities of promissory and instalment notes for fiscal years 1994, 1995, 1996, 1997, 1998, and thereafter are \$58,292,000, \$58,826,000, \$56,812,000, \$18,513,000, \$29,266,000 and \$54,579,000, respectively.

NOTE 7--INCOME TAXES

Effective January 3, 1993, the Company adopted SFAS No. 109, "Accounting for Income Taxes" (See Note 1). As permitted under the new rules, prior years' financial statements have not been restated.

The cumulative effect of adopting SFAS No. 109 as of January 3, 1993 was not material to the consolidated financial statements of the Company.

At January 1, 1994, the Company has alternative minimum tax credit carryforwards of approximately \$1,000,000 which do not expire. The carryforwards are available to offset future federal tax liabilities.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

Significant components of the Company's deferred tax assets and liabilities as of January 1, 1994 resulted primarily from alternative minimum tax credit carryforwards and temporary differences between income tax and financial reporting for depreciation, vacation pay and contributions to fund retirement plans.

Significant components of the provision (benefit) for income taxes are as follows:

<TABLE>
<CAPTION>

	LIABILITY		
	METHOD	DEFERRED METHOD	
	FOR THE YEARS ENDED		
	JANUARY	JANUARY	DECEMBER
	1,	2,	28,
	1994	1993	1991
	-----	-----	-----
<S>	<C>	<C>	<C>
	(000'S OMITTED)		
Current:			
Federal.....	\$ 343	\$ 551	\$ 2,051
State.....	22	152	326
Foreign.....	237	122	--
	-----	-----	-----

Total current.....	602	825	2,377
Deferred:			
Federal.....	1,582	(497)	(2,051)
State.....	317	(14)	(173)
Foreign.....	81	75	--
Total deferred.....	1,980	(436)	(2,224)
	\$ 2,582	\$ 389	\$ 153

</TABLE>

The Company operates as a nonexempt cooperative and is allowed a deduction in determining its taxable income for amounts paid as patronage dividend based on margins from business done with or for Members. The reconciliation of income tax expense to income tax computed at the U.S. federal statutory tax rate of 35% in fiscal year 1993 and 34% in 1992 and 1991 is as follows:

<TABLE>
<CAPTION>

	LIABILITY METHOD		
	METHOD	DEFERRED METHOD	
	FOR THE YEARS ENDED		
	JANUARY 1, 1994	JANUARY 2, 1993	DECEMBER 28, 1991
<S>	<C>	<C>	<C>
		(000'S OMITTED)	
Tax at U.S. statutory rate.....	\$ 20,862	\$ 20,746	\$ 20,257
Effects of:			
Patronage dividend.....	(19,054)	(20,706)	(20,515)
State income taxes, net of federal tax benefit.....	220	91	101
Other, net.....	554	258	310
	\$ 2,582	\$ 389	\$ 153

</TABLE>

NOTE 8--CASH FLOW

The Company's noncash financing and investing activities in fiscal years 1992 and 1991 include acquisitions of transportation and warehouse equipment by entering into capital leases. In fiscal year 1992, ownership of a distribution center previously under capital lease was transferred to the Company. Also in fiscal year 1992, a wholly-owned subsidiary of the Company acquired certain assets, in part, by assuming debt. In fiscal year 1991, the Company acquired a new distribution center by assuming debt. These transactions aggregate \$12,527,000 and \$11,382,000 in fiscal years 1992 and 1991, respectively. In addition, the annual

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

patronage dividend and promissory (subordinated) note renewals relating to noncash operating and financing activities are as follows:

<TABLE>
<CAPTION>

	FOR THE YEARS ENDED		
	JANUARY 1, 1994	JANUARY 2, 1993	DECEMBER 28, 1991
	(000'S OMITTED)		
<S>	<C>	<C>	<C>
Patronage dividend payable in cash.....	\$ 16,614	\$ 18,570	\$ 18,423
Promissory (subordinated) notes.....	20,852	22,711	26,875
Class B nonvoting common stock.....	2,086	4,934	2,800
Instalment notes.....	2,939	2,485	2,996
Member indebtedness.....	11,949	12,201	9,245

	\$ 54,440	\$ 60,901	\$ 60,339
Promissory (subordinated) note renewals.....	\$ 27,187	\$ 22,686	\$ 26,328

</TABLE>

Cash paid for interest during fiscal years 1993, 1992 and 1991, totalled \$32,056,000, \$31,638,000 and \$28,668,000, respectively. Cash paid for income taxes during fiscal years 1993, 1992 and 1991 totalled \$1,387,000, \$1,771,000 and \$2,380,000, respectively.

NOTE 9--RETIREMENT PLANS

The components of net pension cost for the Company administered pension plans consisted of:

<TABLE>

<CAPTION>

	FOR THE YEARS ENDED		
	JANUARY 1, 1994	JANUARY 2, 1993	DECEMBER 28, 1991
	(000'S OMITTED)		
<S>	<C>	<C>	<C>
Income:			
Actual return on plan assets.....	\$ 7,486	\$ 2,856	\$ 10,202
Amortization of excess plan assets.....	920	920	920
	8,406	3,776	11,122
Expenses:			
Service cost-benefits earned during year.....	4,556	3,633	3,196
Interest on projected benefit obligation.....	6,266	5,738	5,314
Deferral of excess (deficiency) of actual over estimated return on plan assets.....	1,042	(3,060)	4,972
	11,864	6,311	13,482
Net pension cost.....	\$ 3,458	\$ 2,535	\$ 2,360

</TABLE>

The discount rate and the rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 7 1/2% and 4 1/2%, respectively, in fiscal year 1993 compared to 9% and 6%, respectively, in fiscal years 1992 and 1991. These changes in actuarial assumptions did not have a material impact on net pension cost for fiscal year 1993 and the Company does not anticipate that these changes will have a material impact on net pension cost in future years. In fiscal years 1993, 1992 and 1991, the expected long-term rate of return on assets was 9 1/2%.

Plan assets are composed primarily of corporate equity and debt securities. Benefits are based on years of service and the employee's compensation during the last ten years of employment, offset by a percentage of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

Social Security retirement benefits. Trusteed net assets and actuarially computed benefit obligations for the Company administered pension plans are presented below:

<TABLE>

<CAPTION>

	JANUARY 1, 1994	JANUARY 2, 1993
	(000'S OMITTED)	
<S>	<C>	<C>
Assets:		
Total plan assets at fair value.....	\$ 81,726	\$ 73,705
Obligations:		
Accumulated benefit obligation--		
Vested.....	\$ 55,605	\$ 41,382
Non-vested.....	8,704	5,039
Effect of projected compensation increases.....	24,110	21,863

Total obligations.....	88,419	68,284
Net excess assets (liabilities):		
Unrecognized--		
Unamortized excess assets at original date.....	9,563	10,483
Net actuarial gain (loss).....	(5,773)	5,706
Prior service costs.....	(6,170)	(6,836)
Recognized accrued pension cost.....	(4,313)	(3,932)
Total net excess assets (liabilities).....	(6,693)	5,421
Total obligations and net excess assets (liabilities).....	\$ 81,726	\$ 73,705

</TABLE>

The Company also participates in union-sponsored defined contribution plans. Pension costs related to these plans were \$702,000, \$556,000 and \$522,000 for fiscal years 1993, 1992 and 1991, respectively.

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COTTER & COMPANY

SCHEDULE IV - INDEBTEDNESS OF AND TO
RELATED PARTIES - NOT CURRENT

FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED JANUARY 1, 1994
(000'S OMITTED)

<TABLE>
<CAPTION>

NAME OF PERSON	INDEBTEDNESS OF (1)			INDEBTEDNESS TO (2)				
	BALANCE AT BEGINNING OF YEAR	ADDITIONS	DEDUCTIONS (3)	BALANCE AT END OF YEAR	BALANCE AT BEGINNING OF YEAR	ADDITIONS (4)	DEDUCTIONS (5)	BALANCE AT END OF YEAR
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Year ended January 1, 1994:								
Stockholder - Members	\$6,738	\$ 6,607	\$ 2,574	\$ 10,771	\$ 235,695	\$ 57,383	\$75,082	\$217,996
Year ended January 2, 1993:								
Stockholder - Members	\$5,071	\$ 3,939	\$ 2,272	\$ 6,738	\$ 235,289	\$ 54,435	\$54,029	\$235,695
Year ended December 28, 1991:								
Stockholder - Members	\$5,990	\$ 1,235	\$ 2,154	\$ 5,071	\$ 215,452	\$ 60,365	\$40,528	\$235,289

</TABLE>

(1) Consists of notes receivable.

(2) Consists of promissory (subordinated) notes and installment notes.

(3) Consists of amounts reclassified to current.

(4) Includes promissory notes to be issued in payment of patronage dividends of \$26,752, \$28,863 and \$30,707 in fiscal 1993, 1992 and 1991, respectively. Also includes installment notes related to the conversion of Class B stock of \$3,444, \$2,886 and \$3,330 in fiscal 1993, 1992 and 1991, respectively.

(5) Includes amounts reclassified to current of \$58,292, \$45,240 and \$35,406 in fiscal 1993, 1992 and 1991, respectively. Also includes amounts applied against member indebtedness of \$5,876, \$6,192 and \$3,763 in fiscal 1993, 1992 and 1991, respectively.

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COTTER & COMPANY

SCHEDULE V--PROPERTY, PLANT AND EQUIPMENT

FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED JANUARY 1, 1994
(000'S OMITTED)

OWNED

<TABLE>
<CAPTION>

CLASSIFICATION	BALANCE AT BEGINNING OF YEAR	ADDITIONS AT COST	RETIREMENTS AND TRADE-INS	OTHER CHANGES ADD (DEDUCT) DESCRIBE (A)	BALANCE AT END OF YEAR
<S>	<C>	<C>	<C>	<C>	<C>
Year ended January 1, 1994:					
Land.....	\$ 14,959	\$ 16	\$ 2,200	\$ (79)	\$ 12,696
Buildings and improvements.....	171,479	2,531	7,684	(271)	166,055
Machinery and warehouse equipment....	77,591	1,936	3,125	(72)	76,330
Office equipment.....	50,408	5,166	394	11	55,191
Transportation equipment.....	16,297	3,685	1,199	(5)	18,778
	\$ 330,734	\$13,334	\$ 14,602	\$ (416)	\$ 329,050
Year ended January 2, 1993:					
Land.....	\$ 12,948	\$ 2,067	\$ 56	\$ --	\$ 14,959
Buildings and improvements.....	159,984	11,692	197	--	171,479
Machinery and warehouse equipment....	74,343	4,696	1,448	--	77,591
Office equipment.....	46,410	6,200	2,202	--	50,408
Transportation equipment.....	14,877	2,286	866	--	16,297
	\$ 308,562	\$26,941	\$ 4,769	\$ --	\$ 330,734
Year ended December 28, 1991:					
Land.....	\$ 10,903	\$ 2,045	\$ --	\$ --	\$ 12,948
Buildings and improvements.....	146,918	13,233	167	--	159,984
Machinery and warehouse equipment....	69,044	5,299	--	--	74,343
Office equipment.....	40,127	7,625	1,342	--	46,410
Transportation equipment.....	15,171	1,172	1,466	--	14,877
	\$ 282,163	\$29,374	\$ 2,975	\$ --	\$ 308,562

</TABLE>

LEASED UNDER CAPITAL LEASES

<TABLE>
<CAPTION>

CLASSIFICATION	BALANCE AT BEGINNING OF YEAR	ADDITIONS AT COST	EXPIRATIONS OR TERMINATIONS	OTHER CHANGES ADD (DEDUCT) DESCRIBE	BALANCE AT END OF YEAR
<S>	<C>	<C>	<C>	<C>	<C>
Year ended January 1, 1994:					
Buildings and improvements.....	\$ --	\$ --	\$ --	\$ --	\$ --
Machinery and warehouse equipment....	--	--	--	--	--
Office equipment.....	--	--	--	--	--
Transportation equipment.....	15,337	--	--	--	15,337
	\$ 15,337	\$ --	\$ --	\$ --	\$ 15,337
Year ended January 2, 1993:					
Buildings and improvements.....	\$ 4,606	\$ --	\$ 4,606	\$ --	\$ --
Machinery and warehouse equipment....	--	--	--	--	--
Office equipment.....	--	--	--	--	--
Transportation equipment.....	11,912	3,425	--	--	15,337
	\$ 16,518	\$ 3,425	\$ 4,606	\$ --	\$ 15,337
Year ended December 28, 1991:					
Buildings and improvements.....	\$ 4,606	\$ --	\$ --	\$ --	\$ 4,606
Machinery and warehouse equipment....	1,277	--	1,277	--	--
Office equipment.....	72	--	72	--	--
Transportation equipment.....	12,082	2,100	2,270	--	11,912
	\$ 18,037	\$ 2,100	\$ 3,619	\$ --	\$ 16,518

</TABLE>

(a) Deductions are due to the effect of exchange rate changes on translating property, plant, and equipment of foreign subsidiaries in accordance with FASB Statement No. 52 "Foreign Currency Translation."

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COTTER & COMPANY

SCHEDULE VI--ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED JANUARY 1, 1994 (000'S OMITTED)

OWNED

<TABLE> <CAPTION>

Table with 6 columns: CLASSIFICATION, BALANCE AT BEGINNING OF YEAR, ADDITIONS CHARGED TO COST AND EXPENSES, RETIREMENTS AND TRADE-INS, OTHER CHANGES ADD (DEDUCT) DESCRIBE (A), BALANCE AT END OF YEAR. Rows include data for years ended January 1, 1994; January 2, 1993; and December 28, 1991, categorized by equipment type.

</TABLE>

LEASED UNDER CAPITAL LEASES

<TABLE> <CAPTION>

Table with 6 columns: CLASSIFICATION, BALANCE AT BEGINNING OF YEAR, ADDITIONS CHARGED TO COST AND EXPENSES, RETIREMENTS AND TRADE-INS, OTHER CHANGES ADD (DEDUCT) DESCRIBE, BALANCE AT END OF YEAR. Rows include data for years ended January 1, 1994; and January 2, 1993, categorized by equipment type.

	\$ 6,220	\$ 1,867	\$ 1,704	\$ --	\$ 6,383
Year ended December 28, 1991:					
Buildings and improvements.....	\$ 1,559	\$ 76	\$ --	\$ --	\$ 1,635
Machinery and warehouse equipment....	1,202	75	1,277	--	--
Office equipment.....	70	2	72	--	--
Transportation equipment.....	5,320	1,535	2,270	--	4,585
	\$ 8,151	\$ 1,688	\$ 3,619	\$ --	\$ 6,220

</TABLE>

(a) Deductions are due to the effect of exchange rate changes on translating property, plant, and equipment of foreign subsidiaries in accordance with FASB Statement No. 52 "Foreign Currency Translation."

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COTTER & COMPANY

SCHEDULE IX--SHORT-TERM BORROWINGS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED JANUARY 1, 1994
(000'S OMITTED)

<TABLE>
<CAPTION>

CATEGORY OF AGGREGATE SHORT-TERM BORROWINGS	BALANCE AT END OF YEAR (a)	WEIGHTED AVERAGE INTEREST RATE AT END OF YEAR (a)	MAXIMUM AMOUNT OUTSTANDING DURING THE YEAR	AVERAGE AMOUNT OUTSTANDING DURING THE YEAR	WEIGHTED AVERAGE INTEREST RATE DURING THE YEAR
<S>	<C>	<C>	<C>	<C>	<C>
Year ended January 1, 1994:					
Amounts payable to banks.....	\$ 23,287	3.53%	\$ 65,422	\$30,509	3.81%
Year ended January 2, 1993:					
Amounts payable to banks.....	\$ 293	7.25%	\$ 139,164	\$44,218	4.38%
Year ended December 28, 1991:					
Amounts payable to banks.....	\$ 21,282	5.92%	\$ 61,000	\$13,234	6.20%

</TABLE>

(a) For fiscal year 1992, the balance and weighted average interest rate at the end of the year is for borrowing by Cotter Canada Hardware and Variety Cooperative, Inc. for its Canadian operations.

The average amount outstanding for fiscal years 1993, 1992, and 1991 was computed by averaging the daily balances during the fiscal year. The weighted average interest rates were computed by dividing interest expense by the average amount outstanding.

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INDEX TO EXHIBITS

<TABLE>
<CAPTION>

EXHIBITS ENCLOSED	DESCRIPTION
<S>	<C>
3-A	Amended and Restated Certificate of Incorporation of Cotter & Company dated May 10, 1993.
3-B	By-Laws of Cotter & Company as amended and restated through June 1, 1993.
21	Subsidiaries.

</TABLE>

<TABLE>
<CAPTION>
EXHIBITS

INCORPORATED
BY REFERENCE

<S>	<C>
4-A	Article Fourth of the Certificate of Incorporation of the Company, setting forth the designations and the powers, preferences and rights, and the qualifications, limitations and restrictions of the Class A Common Stock and Class B Common Stock of the Company. Article Twelfth of the Certificate of Incorporation of the Company, setting forth certain limitations on the rights of shareholders to bring an action against directors for breach of the duty of care. Incorporated by reference -- Exhibit 3-A to the Company's Form 10-K Annual Report for the year ended January 1, 1994.
4-B	Articles VI, VII, VIII, IX and XI of the By-Laws of the Company relating to: certain qualifications, limitations and restrictions on the Common Stock of the Company; the Member agreement between the Company and its shareholders; the payment of patronage dividends; dividends; qualifying shares; and valuation of Class B Common Stock of the Company issued as part of the annual patronage dividend. Incorporated by reference -- Exhibit 3-B to the Company's Form 10-K Annual Report for the year ended January 1, 1994.
4-C	Specimen certificate of Class A Common Stock. Incorporated by reference -- Exhibit 4-A to Registration Statement on Form S-2 (No. 2-82836).
4-D	Specimen certificate of Class B Common Stock. Incorporated by reference -- Exhibit 4-B to Registration Statement on Form S-2 (No. 2-82836).
4-E	Promissory (Subordinated) Note form effective for the year-ending December 31, 1986 and thereafter. Incorporated by reference -- Exhibit 4-H to Registration Statement on Form S-2 (No. 33-20960).
4-F	Instalment Note form. Incorporated by reference -- Exhibit 4-F to Registration Statement on Form S-2 (No. 2-82836).
4-G	Copy of Note Agreement with Prudential Insurance Company of America dated April 13, 1992 securing 8.60% Senior Notes in the principal sum of \$50,000,000 with a maturity date of April 1, 2007. Incorporated by reference -- Exhibit 4-J to Post-Effective Amendment No. 2 to Registration Statement on Form S-2 (No. 33-39477).
10-A	Form of "Retail Member Agreement with Cotter & Company" between the Company and its Members that offer primarily hardware, variety merchandise and related items. Incorporated by reference -- Exhibit 10-C to Post-Effective Amendment No. 2 to Registration Statement on Form S-2 (No. 33-39477).
10-B	Current form of "Subscription to Shares of Cotter & Company". Incorporated by reference -- Exhibit 10-H to Registration Statement on Form S-2 (No. 2-82836).
10-C	Cotter & Company Pension Plan, amended and restated as of January 1, 1989. Incorporated by reference -- Exhibit 10-D to Post-Effective Amendment No. 2 to Registration Statement on Form S-2 (No. 33-39477).

</TABLE>

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<TABLE>
<CAPTION>
EXHIBITS
INCORPORATED
BY REFERENCE

<S>	<C>
10-D	Cotter & Company Employees' Savings and Compensation Deferral Plan, amended and restated as of July 1, 1992. Incorporated by reference -- Exhibit 10-E to Post-Effective Amendment No. 2 to Registration Statement on Form S-2 (No. 33-39477).
10-E	Supplemental Retirement Plan between Cotter & Company and selected executives of the Company dated December 30, 1988. Incorporated by reference -- Exhibit 10-V to Post-Effective Amendment No. 1 to Registration Statement on Form S-2 (No. 33-20960).
10-F	First Amendment to Supplemental Retirement Plan between Cotter & Company and selected executives of the Company. Incorporated by reference -- Exhibit 10-Q to Post-Effective Amendment No. 1 to Registration Statement on Form S-2 (No. 33-39477).
10-G	Annual Incentive Compensation Program and Long-Term Incentive Compensation Program between Cotter & Company and selected executives of the Company. Incorporated by reference -- filed as Exhibits A and B to Exhibit 10-N to Registration Statement on Form S-2 (No. 33-39477).

10-H Employment Agreement between Cotter & Company and Daniel A. Cotter dated October 15, 1984. Incorporated by reference -- Exhibit 10-N to Post-Effective Amendment No. 2 to Registration Statement on Form S-2 (No. 2-82836).

10-I Amendment No. 1 to Employment Agreement between Cotter & Company and Daniel A. Cotter dated October 15, 1984 effective January 1, 1991. Incorporated by reference -- Exhibit 10-N to Registration Statement on Form S-2 (No. 33-39477).

</TABLE>

<TABLE>
<CAPTION>

SUPPLEMENTAL
INFORMATION

<S>	<C>
(a)	Notice of Annual Meeting of Stockholders on April 5, 1994.
(b)	Proxy solicited by the Board of Directors.
(c)	Cotter & Company Consolidated Financial Statements. (Included herein in response to Item 8.)

</TABLE>

State of Delaware

OFFICE OF THE SECRETARY OF STATE

I, WILLIAM T. QUILLEN, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF RESTATED CERTIFICATE OF INCORPORATION OF "COTTER & COMPANY" FILED IN THIS OFFICE ON THE TWENTY-FIFTH DAY OF MAY, A.D. 1993, AT 10 O'CLOCK A.M.

A CERTIFIED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO NEW CASTLE COUNTY RECORDER OF DEED FOR RECORDING.

/s/ WILLIAM T. QUILLEN

William T. Quillen, Secretary of State

AUTHENTICATION: *3911802
DATE: 05/25/1993

Amended and Restated
CERTIFICATE OF INCORPORATION
of
COTTER & COMPANY

FIRST. The name of the Corporation is

COTTER & COMPANY

The Corporation filed its original Certificate of Incorporation on January 14, 1953.

SECOND. Its principal office in the State of Delaware is located at No. 1209 Orange Street in the City of Wilmington, County of New Castle. The name and address of its resident agent is The Corporation Trust Company, 1209 Orange Street, Wilmington, Delaware.

THIRD. The Corporation shall be organized and operated on a cooperative basis for the benefit of the holders of shares of its Class A Common Stock (who are its Members). The nature of the business, or objects or purposes to be transacted, promoted or carried on are:

1. To manufacture, purchase or otherwise acquire, invest in, own, mortgage, pledge, sell, assign and transfer or otherwise dispose of and trade and deal in and deal with goods, wares and merchandise and personal property of every class and description, including, but not limited to:

- (a) hardware, goods, tools and related products;
- (b) building materials and related products;
- (c) paints and paint sundries and related products;
- (d) crafts and related products;
- (e) sporting goods and related products;
- (f) farming, home and garden maintenance supplies and related products;
- (g) automotive and related products;
- (h) variety, houseware goods, appliances and related products; and
- (i) musical instruments and related products.

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2. To engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

3. To acquire, hold, use, sell, assign, lease, grant licenses in respect of, mortgage and otherwise deal in and dispose of letters patent of the United States or any other foreign country, patent rights, licenses and privileges, inventions, improvements and processes, copyrights, trademarks and trade names incident to or useful in connection with any business of this Corporation.

4. To acquire the capital stock, bonds or other evidences of indebtedness, secured or unsecured, of any other corporation and to acquire the goodwill, rights, assets and property and to undertake and assume all or any part of the obligations or liabilities of any other corporation, firm, association or person.

5. To acquire by purchase, subscription or otherwise, and to receive, hold, own, guarantee, sell, assign, exchange, transfer, mortgage, pledge or otherwise dispose of or deal in and with any of the shares of the capital stock, or any voting trust certificates in respect of the shares of capital stock, scrip, warrants, rights, bonds, debentures, notes, trust receipts and other securities, obligations, choses in action and evidences of indebtedness or interest issued or created by any corporations, joint stock companies, syndicates, associations, firms, trusts or persons, public or private, or by the government of the United States of America, or by any foreign government, or by any state, territory, province, municipality or other political subdivision or by any governmental agency, and as owner thereof to possess and exercise all the rights, powers and privileges of ownership, including the right to execute consents and vote thereon, and to do any and all acts and things necessary or advisable for the preservation, protection, improvement and enhancement in value thereof.

6. To enter into, make and perform contracts of every kind and

description with any person, firm, association, corporation, municipality, county, state, body politic or government or colony or dependency thereof.

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7. To borrow or raise moneys for any of the purposes of the Corporation and, from time to time without limit as to amount, to draw, make, accept, endorse, execute and issue promissory notes, drafts, bills of exchange, warrants, bonds, debentures and other negotiable or non-negotiable instruments and evidences of indebtedness, and to secure the payment of any thereof and of the interest thereon by mortgage upon or pledge, conveyance or assignment in trust of the whole or any part of the property of the Corporation, whether at the time owned or thereafter acquired, and to sell, pledge or otherwise dispose of such bonds or other obligations of the Corporation for its corporate purposes.

8. To purchase, hold, sell and transfer the shares of its own capital stock; provided it shall not use its funds or property for the purchase of its own shares of capital stock when such use would cause any impairment of its capital except as otherwise permitted by law, and provided further that shares of its own capital stock belonging to it shall not be voted upon directly or indirectly.

9. To have one or more offices, to carry on all or any of its operations and business and without restriction or limit as to amount to purchase or otherwise acquire, hold, own, mortgage, sell, convey, or otherwise deal in or dispose of real and personal property of every class and description in any of the states, districts, territories or colonies of the United States, and in any and all foreign countries, subject to the laws of such state, district, territory, colony or country.

10. In general, to carry on any other business in connection with the foregoing, including but not limited to, to purchase, sell and otherwise deal in display material, catalogs, circulars and other printed material and advertising media, and to have and exercise all the powers conferred by the laws of the State of Delaware upon corporations formed under the General Corporation Law of the State of Delaware, and to do any or all of the things hereinbefore set forth to the same extent as natural persons might or could do.

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The objects and purposes specified in the foregoing clauses shall, except where otherwise expressed, be in nowise limited or restricted by reference to, or inference from, the terms of any other clause in this Certificate of Incorporation, but the objects and purposes specified in each of the foregoing clauses of this article shall be regarded as independent objects and purposes.

FOURTH. The total number of shares of all classes of Common Stock which this Corporation shall have the authority to issue is 2,100,000, consisting of:

100,000 shares of Class A Common Stock, \$100 par value; and
2,000,000 shares of Class B Common Stock, \$100 par value.

The designations and the powers, preferences and rights, and the qualifications, limitations and restrictions of the Class A Common Stock and the Class B Common Stock are as follows:

1. Only the Class A Common Stock shall have voting rights. The holder of record of each outstanding share of Class A Common Stock shall be entitled to one vote on each matter submitted to a vote at a meeting of stockholders. In all elections for directors, every holder of record of Class A Common Stock shall be entitled to as many votes as shall equal the number of its shares of Class A Common Stock multiplied by the number of directors to be elected, and may cast all of such votes for a single director or may distribute them among the number to be voted for, or any two or more of them, as such holder may see fit, which right, when exercised, shall be termed "cumulative voting."

2. Except as hereinabove provided with respect to voting rights, neither of the two classes of common stock shall be entitled to any preference or priority over the other. No dividend shall be declared or paid unless at the same rate per share on both classes of common stock at the same time, and in the event of the dissolution, liquidation or winding up of the Corporation, the shares of Class A Common Stock and Class B Common Stock shall be entitled to the same amounts per share without preference or priority of one class over the other.

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3. The Corporation shall have a lien upon the shares of Class A Common Stock and Class B Common Stock registered in the name of any stockholder and upon any dividends payable on such shares, to secure the payment of any indebtedness due to the Corporation from such stockholder. The Corporation shall not be required to transfer upon its records the shares of Class A Common Stock or Class B Common Stock of such stockholder or to pay any dividends declared on any such shares until such indebtedness shall have been fully paid, and the Corporation shall have the right to apply the dividends declared from time to time upon the stock of such stockholder to the liquidation, in whole or in part, of the said indebtedness. If the Corporation shall exercise its option as hereinafter in these articles provided to repurchase shares of Class A Common Stock or Class B Common Stock owned by a stockholder who is then indebted to the Corporation, it shall have the right to offset the stockholder's indebtedness against the purchase price of such shares.

4. No shares of Class A Common Stock shall be issued or sold except in such units and under such circumstances as will assure that every holder of Class A Common Stock shall own an identical number of said shares. The number of shares of Class A Common Stock which shall comprise a unit of ownership shall be fixed from time to time by the Board of Directors or in the By-Laws. No shares of Class B Common Stock shall be issued or sold except to persons who are, at the time of such issuance, holders of shares of Class A Common Stock.

5. Except as provided in Paragraph 4 of this Article FOURTH, no holder of any class of stock of the Corporation shall have any preemptive or preferential right to subscribe to or purchase any shares of stock of the

Corporation or shares or securities of any kind, either convertible into or evidencing the right to purchase any shares of stock of the Corporation, other than such thereof, if any, as the Board of Directors in its discretion may from time to time determine.

6. Whenever, for any reason, any stockholder shall desire to dispose of any shares of Class A Common Stock or Class B Common Stock of the Corporation (whether by sale, transfer, assignment, gift or in

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any other manner), or whenever any stockholder shall die or shall suffer any other event by which any of such shares are voluntarily or involuntarily transferred by operation of law or otherwise, the Corporation shall have an option to purchase all shares of Class A Common Stock and Class B Common Stock owned by such stockholder, at the price, and upon the conditions, hereinafter stated. Such option may be exercised by the Corporation at any time within ninety (90) days following the date upon which the Corporation receives from the stockholder written notice of such stockholders' desire to dispose of any of the shares owned by the stockholder or within ninety (90) days following the receipt by the Corporation, from any party in interest, of written notice of the death of the stockholder or other fact giving rise to voluntary or involuntary transfer of any of the shares. The price to be paid by the Corporation upon exercise of its option to purchase such shares shall be an amount equal to the book value thereof; such purchase shall proceed upon such other terms and conditions as may be specified in the By-Laws.

Any disposition or attempted disposition of the shares of Class A Common Stock or Class B Common Stock of the Corporation, voluntary or involuntary, by operation of law or otherwise, shall be null and void and no such disposition or attempted disposition shall entitle any person to have any of said shares transferred on the books of the Corporation or to claim or assert any of the rights of a stockholder of the Corporation, unless the Corporation shall have been afforded a proper opportunity to exercise its option for the purchase of said shares as hereinbefore provided and shall have failed to exercise its option within the time limited.

Nothing hereinbefore contained shall restrict the right of any stockholder:

(a) to pledge (or otherwise subject to a lien) any of the shares of Class A Common Stock or Class B Common Stock of the Corporation in a bona fide transaction as security for a debt or other obligation of the stockholder, or affect the rights which the pledgee or lienholder would otherwise have with respect to

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said shares; provided, however, that if the pledge or lien shall be foreclosed and the stockholder shall cease to be the owner of said shares, such foreclosure shall be deemed to be an involuntary transfer of the shares and the Corporation shall thereupon have the option to purchase the shares hereinabove provided which shall be exercisable within ninety (90) days after receipt of written notice of the fact of

foreclosure; or

(b) to sell or otherwise dispose of all or any part of the shares of Class B Common Stock (but not of Class A Common Stock) to a person who is then the holder of shares of Class A Common Stock of the Corporation.

Should the Corporation fail or decline to exercise its option and a disposition be consummated, the stock shall be subject to all and the same rights and restrictions (including, without limitation the option set forth herein and any call or similar rights of the Corporation as may be set forth herein, in the By-Laws or elsewhere) in the hands of the new holder as in the hands of the former holder.

7. The Corporation may be obligated or have the option to purchase or redeem its stock and stockholders may be obligated or have the right to sell their stock to the Corporation at a price not to be lower than the lower of book value or par value in such circumstances and upon terms and conditions as may be specified in the By-Laws from time to time; provided, however, that the stockholders shall approve any such provision in the By-Laws. Without limiting the generality of the preceding sentence of this Paragraph 7 of ARTICLE FOURTH or compelling inclusion of any provision in the By-Laws, such right or obligation may be granted with respect to situations where the business relationship of a stockholder and the Corporation terminates.

8. As used in these articles:

(a) The term "person" shall mean and include any individual, group or association of individuals however organized, corporation, and any other natural or artificial

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entity. The term "stockholder" shall mean any person, so defined, who is a stockholder of the Corporation.

(b) The term "book value" as applied to any shares of Class A Common Stock or Class B Common Stock shall mean the value, determined in accordance with generally accepted accounting principles, of such shares as shown by the last available year-end balance sheet of the Corporation, reported on by the Corporation's certified public accountants, after eliminating therefrom all value for goodwill, other intangible assets and that portion of retained earnings that has been specifically appropriated by the Board of Directors.

FIFTH. The minimum amount of capital with which the Corporation will commence business is One Thousand Dollars (\$1,000.00).

SIXTH. The Corporation is to have perpetual existence.

SEVENTH. The private property of the stockholders of the Corporation shall not

be subject to the payment of corporate debts to any extent whatever.

EIGHTH. In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized:

To make, alter, amend or repeal the By-Laws of the Corporation.

To authorize and cause to be executed mortgages and liens upon the real and personal property of the Corporation.

To set apart out of any of the funds of the Corporation available for dividends a reserve or reserves for any purpose specified in the By-Laws and to abolish any such reserve in the manner in which it was created.

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By resolution or resolutions passed by a majority of the whole board, to designate one or more committees, each committee to consist of three or more of the directors of the Corporation, which, to the extent provided in said resolution or resolutions or in the By-Laws of the Corporation, shall have and may exercise the powers of the Board of Directors in the management of the business and affairs of the Corporation, and may have power to authorize the seal of the Corporation to be affixed to all papers which may require it. Such committee or committees shall have such name or names as may be stated in the By-Laws of the Corporation or as may be determined from time to time by resolution adopted by the Board of Directors. A majority of the members of any such committee may determine its action and fix the time and place of its meetings unless the Board of Directors shall otherwise provide. The Board of Directors shall have power at any time to fill vacancies in, to change the membership of, or to dissolve any committee.

When and as authorized by the affirmative vote of the holders of a majority of the Common Stock issued and outstanding given at a stockholders' meeting duly called for that purpose, or when authorized by the written consent of the holders of a majority of the voting stock issued and outstanding, to sell, lease or exchange all of the property and assets of the Corporation, including its goodwill and its corporate franchises, upon such terms and conditions and for such consideration, which may be in whole or in part shares of stock in, and/or other securities of, any other corporation or corporations, as its Board of Directors shall deem expedient and for the best interests of the Corporation.

NINTH. Meetings of stockholders may be held outside the State of Delaware, if the By-Laws so provide. The books of the Corporation may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the By-Laws of the Corporation. Elections of directors need not be by ballot unless the By-Laws of the Corporation shall so provide.

TENTH. The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

ELEVENTH. The business of the Corporation shall be managed by a Board of Directors, the number of which shall be such as from time to time shall be fixed by, or in the manner provided in, the By-Laws, but in no case shall the number be less than three. The directors may be divided into one, two or three classes as may be provided in the By-Laws or in resolutions from time to time adopted by the stockholders at any annual meeting or at any special meeting held for that purpose; the term of office of those of the first class to expire at the annual meeting next ensuing; of the second class one year thereafter; of the third class two years thereafter, and at each annual election held after such classification and election, directors shall be chosen for a full term, as the case may be, to succeed those whose term expires.

TWELFTH:

(a) A director of the Corporation shall not be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the Delaware General Corporation Law as the same exists or may hereafter be amended.

(b) The Corporation shall indemnify, in accordance with and to the full extent permitted by the Delaware General Corporation Law as the same exists or may hereafter be amended, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (including, without limitation, an action by or in the right of the Corporation), by reason of the fact that such person is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director,

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officer, employee or agent of another Corporation, partnership, joint venture, trust or other enterprise, against any liability or expense actually and reasonably incurred by such person in respect thereof. Such indemnification shall not be deemed exclusive of any other right of such director, officer or employee to indemnification provided by law or otherwise.

(c) Any repeal or modification of the foregoing paragraphs shall not adversely affect any right or protection of any person thereunder with respect to any act or omission occurring prior to or at the time of such repeal or modification.

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3. THIS RESTATED CERTIFICATE OF INCORPORATION was duly

adopted and declared advisable by the Board of Directors of the Corporation and was approved by the stockholders of the Corporation pursuant to the provisions of Section 242 and Section 245 of the General Corporation Law of the State of Delaware at an annual meeting of the stockholders called and held on April 6, 1993 upon notice in accordance with the provisions of Section 222 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, said Cotter & Company has caused its corporate seal to be hereunto affixed and this certificate to be signed by Daniel A. Cotter, its President, and attested by Kerry J. Kirby, its Secretary, this 10th day of May, 1993.

Cotter & Company

By:/s/ DANIEL A. COTTER

Daniel A. Cotter
President

Attest:

/s/ KERRY J. KIRBY

Secretary

STATE OF ILLINOIS)
)
COUNTY OF COOK)

BE IT REMEMBERED, that on this 10th day of May, 1993, personally came before me, Notary Public in and for the County and State aforesaid, Daniel A. Cotter, President of Cotter & Company, a Corporation of the State of Delaware, and he duly executed said certificate before me and acknowledged the said certificate to be his act and deed and the act and deed of said Corporation and the facts stated herein are true; and that the seal affixed to said Certificate and attested by Kerry J. Kirby, the Secretary of said Corporation is the common or corporate seal of said Corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and seal of office this day and here above written.

/s/ ESTELA FLORES
Notary Public

COTTER & COMPANY

COTTER & COMPANY (herein the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY:

1. The original Certificate of Incorporation for Cotter & Company was filed on January 14, 1953.

2. The Certificate of Incorporation of Cotter & Company, as heretofore amended, is hereby further amended and restated as follows:

BY-LAWS

of

COTTER & COMPANY

BY-LAWS

OF

COTTER & COMPANY

as amended and restated through June 1, 1993

ARTICLE I

OFFICES

SECTION 1. OFFICE IN DELAWARE. The registered office of the Corporation in the State of Delaware shall be located at No. 1209 Orange Street in the City of Wilmington, County of New Castle.

SECTION 2. ADDITIONAL OFFICES. The principal office of the Corporation in the State of Illinois shall be located at 2740 North Clybourn Avenue in the City of Chicago, County of Cook. The Corporation may have such other office or offices within or without the State of Illinois as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE II

MEETINGS OF STOCKHOLDERS

SECTION 1. PLACE OF MEETINGS. All meetings of the Stockholders for the election of directors shall be held at such location, within or without the State of Delaware, as the Board of Directors may from time to time designate. Meetings of Stockholders for any other purpose may be held at such place, within or without the State of Delaware, and time as shall be stated in the notice of the meeting, or in a duly executed waiver of notice thereof.

SECTION 2. DATE OF ANNUAL MEETING. An annual meeting of Stockholders shall be held on the first Tuesday of April in each year, if not a legal holiday, and if a legal holiday, then on the next secular day following, at which the Stockholders shall elect by ballot a Board of Directors and transact such other business as may properly be brought before the meeting.

SECTION 3. NOTICE OF ANNUAL MEETING. Written notice of the annual meeting

shall be served upon or mailed to each Stockholder entitled to vote thereat at such address as appears on the books of the Corporation, at least ten (10) days prior to the meeting.

SECTION 4. LIST OF STOCKHOLDERS. At least ten (10) days before every election of directors, a complete list of the Stockholders entitled to vote at said election, arranged in alphabetical order, with the address of each and the number of voting shares held by each, shall be prepared by the secretary. Such list shall be open at the place where the election is to be held for said ten (10) days to the examination of any Stockholder, and shall be produced and kept at the time and place of election during the whole time thereof, and subject to the inspection of any Stockholder who may be present.

SECTION 5. SPECIAL MEETINGS. Special meetings of the Stockholders, for any purpose or purposes, unless otherwise prescribed by statute or by Certificate of Incorporation, may be called by the chairman of the board with the approval of a majority of the Board of Directors, or may be called by the president, and shall be called by the president, or secretary at the request in writing of a majority of the Board of Directors, or at the request in writing of Stockholders owning at least ten percent (10%) of the shares of voting stock of the Corporation issued and outstanding and entitled to vote. Such request shall state the purpose or purposes of the proposed meeting.

SECTION 6. NOTICE OF SPECIAL MEETINGS. Notice of a special meeting of Stockholders, stating the time and place and object thereof, shall be served upon or mailed, at least twenty (20) days before such meeting, to each Stockholder entitled to vote thereat at such address as appears on the books of the Corporation.

SECTION 7. BUSINESS AT SPECIAL MEETINGS. Business transacted at all special meetings shall be confined to the objects stated in the call.

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SECTION 8. QUORUM; ADJOURNMENTS. The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall be requisite and shall constitute a quorum at all meetings of the Stockholders for the transaction of business, except as otherwise provided by statute, by the Certificate of Incorporation or by these By-Laws. If, however, a quorum shall not be present or represented at any meeting of the Stockholders, the Stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented any business may be transacted which might have been transacted at the meeting as originally called. When a quorum is present or represented at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which by express provision of the statutes or of the Certificate of Incorporation or of these By-Laws a different vote is required, in which case such express provision shall govern and control the decision of such question.

SECTION 9. VOTING; PRE-EMPTIVE RIGHTS. At any meeting of the Stockholders every Stockholder of record having the right to vote shall be entitled to vote in person, or by proxy appointed by an instrument in writing subscribed by such Stockholder and bearing a date not more than three years prior to said meeting, unless said instrument provides for a longer period. In all elections of directors every Class A Common Stockholder shall be entitled to as many votes as shall equal the number of its Class A Common Shares multiplied by the number of directors to be elected, and may cast all of such votes for a single director or may distribute them among the number to be voted for, or any two or more of them, as such Stockholder may see fit, which right, when exercised, shall be termed "cumulative voting."

Except as provided in Article FOURTH of the Certificate of Incorporation, no holder of any class of stock of the Corporation shall have any pre-emptive or preferential right to subscribe to or purchase any shares of stock of the Corporation or shares or securities of any kind, either convertible into or evidencing the right to purchase any shares of stock of the Corporation, other than such thereof, if any, as the Board of Directors in its discretion may from time to time determine.

SECTION 10. INFORMAL ACTION OF STOCKHOLDERS. Whenever the vote of Stockholders at a meeting thereof is required or permitted to be taken in connection with any corporate action by any provisions of the statutes or of the Certificate of Incorporation or of these By-Laws, the meeting and vote of Stockholders may be dispensed with if all the Stockholders who would have been entitled to vote upon the action if such meeting were held shall consent in writing to such corporate action being taken.

ARTICLE III DIRECTORS

SECTION 1. NUMBER; TERM. The number of directors which shall constitute the whole board shall be not less than nine nor more than fifteen. The directors shall be divided into three classes, each class to consist, as nearly as may be, of one-third of the number of directors then constituting the whole board. Within the limits above specified, the number of directors shall be determined by resolution of the Board of Directors. The directors shall be elected at the annual meeting of the Stockholders to serve for a term of three years, except as provided in section 4 of this ARTICLE, so that the term of office of one class of directors shall expire in each year, and each director shall hold office for the term elected and until a successor shall be elected and shall qualify, except in the event of death, resignation, disqualification or removal of a director where termination shall be immediate. Except in the case of executive officers of the Corporation, no person first elected or first appointed to the Board of Directors on or after July 1, 1984 shall be eligible to be elected or appointed as a director at any time if such person has already served as a director for three elected terms of three years. The third elected term of three years shall not be considered as served if at any time during that third term a director is elected and serves as chairman of the board. Any period of time for which a director has served in such capacity to fill an

unexpired term created by a vacancy on the board prior to being elected to a three- year term as a director shall not be taken into consideration in determining the maximum period for which such person is eligible to serve as a director. An executive officer of the Corporation shall be eligible for election or re-election or appointment as a director at any time without regard to the period of time during which such executive officer has previously served as a director.

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SECTION 2. CHAIRMAN OF THE BOARD. The Board of Directors, by majority vote, shall annually elect a chairman of the board. Each chairman elect's term shall commence as the first order of business at the meeting of the Board of Directors immediately following the annual Stockholders' meeting, and the presiding chairman's term shall end at that time. The chairman of the board shall preside at all meetings of the Stockholders and directors and shall be ex-officio a member of all standing committees. The chairman shall consult with the Corporation's officers on matters of concern, particularly when such matters arise in periods between meetings of the Board of Directors, and in general shall perform all duties incident to the position of chairman of the board and such other duties as may be prescribed by the Board of Directors from time to time. A chairman shall serve a maximum of three full terms, except that in unusual circumstances the Board of Directors may by twelve votes of directors present at a meeting, or, if less than twelve directors are in office or are present, by unanimous vote of those present elect a board member to a fourth term as chairman.

SECTION 3. PLACE OF MEETINGS. The directors may hold meetings and to the extent permitted by law keep the books of the Corporation outside of Delaware, at such places as they may from time to time determine.

SECTION 4. VACANCIES. If any vacancies occur in the Board of Directors, caused by death, resignation, retirement, disqualification or removal from office of any directors or otherwise, or any new directorship is created by any increase in the authorized number of directors, a majority of the directors then in office, though less than a quorum, may choose a successor or successors, or fill the newly created directorship and the directors so chosen shall hold office until the next annual election of directors and until their successors shall be duly elected and qualified, unless sooner displaced.

SECTION 5. GENERAL POWERS. The property and business of the Corporation shall be managed by its Board of Directors which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation or by these By-Laws directed or required to be exercised or done by the Stockholders.

SECTION 6. HONORARY DIRECTORS. The Board of Directors may from time to time by two-thirds majority vote and in recognition of distinguished and meritorious service tendered to the Corporation, elect to the office of honorary director any Stockholders or former directors of the Corporation. The term of office of an honorary director shall be for a period of three years, provided, however, that such term shall expire immediately in the event such honorary director shall cease to be a Stockholder of the Corporation. Persons holding the office of honorary director shall, during their respective terms of office, be privileged to attend meetings of the Board of Directors for the purpose of making their advice and counsel available to the board in the management of the affairs of the Corporation, but honorary directors shall not be entitled to vote or have any other duties or responsibilities of directors of the Corporation.

SECTION 7. FIRST MEETING. The first meeting of each newly elected board shall be held at such time and place either within or without the State of Delaware as shall be fixed by the vote of the Stockholders at the annual meeting and no notice of such meeting shall be necessary to the newly elected directors in order legally to constitute the meeting, provided a quorum shall be present, or they may meet at such place and time as shall be fixed by the consent in writing of all the directors.

SECTION 8. REGULAR MEETING. Regular meetings of the board may be held without notice at such time and place either within or without the State of Delaware as shall from time to time be determined by the board.

SECTION 9. SPECIAL MEETINGS. Special meetings of the board may be called by the chairman or the president or any three (3) directors on five (5) days' notice to each director, either personally, by telephone, by any electronic communication, or by mail. Special meetings shall be called by the chairman or the president or secretary in like manner and with like notice on the written request of four (4) directors. Special board meetings may take place by any means through which all participating directors can hear each other, when properly called.

SECTION 10. QUORUM. At all meetings of the board a majority of the directors then in office and entitled to vote shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, except as may be

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otherwise specifically provided by statute or by the Certificate of Incorporation or by these By-Laws. If a quorum shall not be present at any meeting of directors the directors present thereat may adjourn the meeting from

time to time, without notice other than announcement at the meeting, until a quorum shall be present.

SECTION 11. AGENDAS AND MINUTES. Agendas for all regular meetings shall be mailed at least ten (10) days before the date of each such meeting. Any director wishing to put an item on the agenda should have it in the chairman's office fifteen (15) days before the meeting. Minutes of each meeting of the Board of Directors shall be mailed to all directors and officers no later than twenty-one (21) days following such meeting. They shall be attested to by the chairman and the secretary.

SECTION 12. COMPENSATION. Directors shall not receive any stated salary for their services as directors, but, by resolution of the board a fixed fee and expenses of attendance may be allowed; provided that nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

SECTION 13. COMMITTEES. The Board of Directors may by resolution or resolutions passed by a majority of the entire board designate one or more committees, each committee to consist of three or more of the directors of the Corporation, which, to the extent provided in said resolution or resolutions, shall have and may exercise the powers of the Board of Directors in the management of the business and affairs of the Corporation, and may have power to authorize the seal of the Corporation to be affixed to all papers which may require it. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board of Directors. A majority of the members of any such committee may determine its action and fix the time and place of its meetings unless the Board of Directors shall otherwise provide. The Board of Directors shall have power at any time to fill vacancies in, to change the Membership of, or to dissolve any committee. Each committee shall keep regular minutes of its meetings and report the same to the Board of Directors when required.

ARTICLE IV NOTICES

SECTION 1. FORM; DELIVERY. Whenever under the provisions of the statutes or of the Certificate of Incorporation or of these By-Laws notice is required to be given to any director or Stockholder, it shall not be construed to mean personal notice, but such notice may be given in writing, by telephone, by any electronic communication, or by mail addressed to such director or Stockholder at such address as appears on the books of the Corporation, and such notice shall be deemed to be given at the time when the same shall be thus delivered, conveyed by telephone call, entered into the electronic process or mailed.

SECTION 2. WAIVER. Whenever any notice is required to be given under the provisions of the statutes or of the Certificate of Incorporation or of these By-Laws, a waiver thereof in writing signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

ARTICLE V
OFFICERS

SECTION 1. OFFICERS. The officers of the Corporation shall be chosen by the directors and shall be a president, a vice president, a secretary and a treasurer. The Board of Directors may also choose additional vice presidents and one or more assistant secretaries and assistant treasurers. Two or more offices may be held by the same person, except that where the offices of president and secretary are held by the same person, such person shall not hold any other office.

SECTION 2. APPOINTMENT OF OFFICERS. The Board of Directors at its first meeting after each annual meeting of Stockholders shall choose a president, and one or more vice presidents, a secretary and a treasurer, none of whom need be a member of the board.

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SECTION 3. OTHER OFFICERS AND AGENTS. The board may appoint such other officers as it shall deem necessary, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the board.

SECTION 4. SALARIES. The salaries of all officers of the Corporation under contract shall be fixed by the Board of Directors.

SECTION 5. TENURE AND REMOVAL. The officers of the Corporation shall hold office until their successors are chosen and qualify in their stead. Any officer elected or appointed by the Board of Directors may be removed at any time by the affirmative vote of a majority of the entire Board of Directors, with or without cause, and without prejudice to any of such officer's contract rights. If the office of any officer becomes vacant for any reason, the vacancy shall be filled by the Board of Directors.

SECTION 6. PRESIDENT. The president shall perform all duties incident to the office of president and such other duties as shall from time to time be assigned to him by the Board of Directors. The president shall exercise all the powers and discharge all the duties of the chairman of the board during the latter's absence or inability to act. The president shall have power to sign certificates for shares of the Corporation, any deeds, mortgages, bonds, contracts, or other instruments which the Board of Directors has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of the Corporation.

SECTION 7. VICE PRESIDENTS. The vice presidents in the order of their

seniority shall, in the absence or disability of the president, perform the duties and exercise the powers of the president, and shall perform such other duties as the Board of Directors shall prescribe.

SECTION 8. SECRETARY. The secretary shall attend all sessions of the board and all meetings of the Stockholders and record all votes and the minutes of all proceedings in a book to be kept for that purpose. The secretary shall give, or cause to be given, notice of all meetings of the Stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors, or president, under whose supervision the secretary shall act. The secretary shall keep in safe custody the seal of the Corporation and, when authorized, affix the same to any instrument requiring it and, when so affixed, it shall be attested by the signature of the secretary or treasurer, or an assistant secretary.

SECTION 9. ASSISTANT SECRETARIES. The assistant secretaries in order of their seniority shall, in the absence or disability of the secretary, perform the duties and exercise the powers of the secretary and shall perform such other duties as the Board of Directors shall prescribe.

SECTION 10. TREASURER. The treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designate by the Board of Directors.

The treasurer shall disburse the funds of the Corporation as may be ordered by the board, taking proper vouchers for such disbursements, and shall render to the president and directors, at the regular meetings of the board, or whenever they may require it, an account of all transactions as treasurer and of the financial condition of the Corporation.

If required by the Board of Directors, the treasurer shall give the Corporation a bond (which shall be renewed every six years) in such sum and with such surety or sureties as shall be satisfactory to the board for the faithful performance of the duties of office and for the restoration to the Corporation, in case of the treasurer's death, resignation, retirement or removal from office, of all books, papers, checks, money and other property of whatever kind in the treasurer's possession or control belonging to the Corporation.

SECTION 11. ASSISTANT TREASURERS. The assistant treasurers in the order of their seniority shall, in the absence or disability of the treasurer, perform the duties and exercise the powers of the treasurer and shall perform such other duties as the Board of Directors shall prescribe.

ARTICLE VI
CERTIFICATES OF STOCK AND CERTAIN QUALIFICATIONS,
LIMITATIONS AND RESTRICTIONS OF CAPITAL STOCK

SECTION 1. STOCK CERTIFICATES. The certificates of stock of the Corporation shall be consecutively numbered and shall be entered on the books of the Corporation as they are issued. They shall exhibit the holder's name and number of shares and shall be signed by the chairman of the board, the president or a vice president and the treasurer or an assistant treasurer or the secretary or an assistant secretary. The designations, preferences and relative, participating, optional or other special rights of each class of stock and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificates which the Corporation shall issue to represent such class of stock. If any stock certificate is signed (1) by a transfer agent or an assistant transfer agent or (2) by a transfer clerk acting on behalf of the Corporation and a registrar, the signature of any such officer may be by facsimile.

SECTION 2. LOST CERTIFICATES. The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost or destroyed certificate or certificates, or the owner's legal representative, to advertise the same in such manner as it shall require and/or give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost or destroyed.

SECTION 3. TRANSFER OF SHARES. Subject to the qualifications, limitations and restrictions set forth in the Certificate of Incorporation and these By-Laws, upon surrender to the Corporation, or the transfer agent of the Corporation, of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

SECTION 4. CLOSING OF TRANSFER BOOKS. The Board of Directors shall have power to close the stock transfer books of the Corporation for a period not exceeding fifty (50) days preceding the date of any meeting of Stockholders or the date for payment of any dividend or the date for the allotment of rights or the date when any change or conversion or exchange of capital stock shall go into effect or for a period of not exceeding fifty (50) days in connection with obtaining the consent of Stockholders for any purpose; provided, however, that in lieu of closing the stock transfer books as aforesaid, the Board of Directors may fix in advance a date, not exceeding fifty (50) days preceding the date of any meeting of Stockholders or the date for the payment of any dividend or the date

for the allotment of rights or the date when any change or conversion or exchange of capital stock shall go into effect or a date in connection with obtaining such consent, as a record date for the determination of the Stockholders entitled to notice of, and to vote at, any such meeting, and any adjournment thereof, or entitled to receive payment of any such dividend, or to any such allotment or rights, or to exercise the rights in respect of any such change, conversion or exchange of capital stock, or to give such consent, and in such case such Stockholders and only such Stockholders as shall be Stockholders of record on the date so fixed shall be entitled to such notice of, and to vote at such meeting and any adjournment thereof, to receive payment of such dividend, to receive such allotment of rights, to exercise such rights, or to give such consent, as the case may be, notwithstanding any transfer of any stock on the books of the Corporation after any such record date fixed as aforesaid.

SECTION 5. REGISTERED STOCKHOLDERS. The Corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

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SECTION 6. REDEMPTION OF STOCK.

(A) MANDATORY REDEMPTION. Upon termination of a Member Agreement (as referred to in ARTICLE VII hereof) for any reason whatsoever, the Stockholder shall sell to the Corporation and the Corporation shall redeem from the Stockholder all of its Stockholder's capital stock in the Corporation for the book value thereof upon the terms and conditions set forth in section 7 of this ARTICLE VI.

(B) OPTIONAL REDEMPTION BY BOARD. Whenever the Board of Directors shall by the affirmative vote of two-thirds or more of the directors then in office decide that it is in the best interests of the Corporation that any Stockholder shall cease to be associated with the Corporation in that capacity, the Corporation shall have the right, upon written demand addressed to such Stockholder at the address as shown on the books of the Corporation, to purchase all (but not less than all) of such Stockholder's shares of capital stock of the Corporation at a price equal to the book value of the capital stock.

(C) NOTICE OF REPURCHASE RIGHTS. The right or obligation of purchase or redemption hereby reserved to the Corporation may be stated in the subscription agreement under which the Corporation's stock is sold, in the

Member Agreement and on any stock certificates.

(D) REPURCHASE RIGHTS NOT EXCLUSIVE. The right or obligation of purchase or redemption provided for in this section 6 of ARTICLE VI of the By-Laws is in addition to, and not in derogation of, the rights reserved to the Corporation by the provisions of ARTICLE FOURTH of the Certificate of Incorporation and any other rights to repurchase, redeem or otherwise acquire its stock that the Corporation may now have or ever obtain.

SECTION 7. MECHANICS, TERMS AND CONDITIONS OF REDEMPTION. Any purchase or redemption of shares of stock of this Corporation made pursuant to these By-Laws or the Certificate of Incorporation, unless expressly provided otherwise, shall proceed as follows:

(A) TERMINATION OF RIGHTS AND PRIVILEGES AS STOCKHOLDER. Upon the effective date of the termination of a Member Agreement or upon the date of exercise of any option to repurchase or redeem stock or upon such other date set by these By-Laws, the Certificate of Incorporation, or the Member and this Corporation, whichever shall be appropriate in the circumstances, all of this Corporation's stock owned by such Stockholder (hereinafter referred to as "Terminated Stockholder") shall be deemed to be and shall be and become the property of this Corporation; from and after such date all rights and privileges incident to the ownership of the shares (including but not limited to the right to dividends thereon) shall cease, except only the right to receive the purchase price (as hereinafter provided) plus a sum equal to any dividends declared but unpaid at said date and accrued Patronage Dividends for the relevant year or portion thereof (to be paid in the manner provided for payment of all Patronage Dividends) all without interest and subject to the Corporation's liens and right of setoff. The Terminated Stockholder shall promptly remit any certificates duly endorsed in blank or with stock powers.

(B) PAYMENT OF REDEMPTION PRICE. Immediately upon receipt of properly endorsed certificates representing all of a Terminated Stockholder's stock of the Corporation, the Corporation shall remit the redemption price to the Terminated Stockholder in the following manner:

(i) Cash equal to the book value of Terminated Stockholder's Class A Common Stock reduced by the amount of any lien or setoff to which the Corporation may be entitled; and

(ii) A note in face amount equal to the book value of Terminated Stockholder's Class B Common Stock. The note shall be payable in five (5) equal annual installments of principal, the first of which shall be due on the December 31 next following termination of the Terminated Stockholder's rights and privileges as a Stockholder (as provided in section 7(a) of this Article VI) and shall bear interest payable with the installments of principal from the date of the note at the rate per annum borne by the issue of this Corporation's Promissory (Subordinated) Notes distributed as Patronage Dividends most recently distributed prior to the date of the note. The note shall be dated as of the date upon which the

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provided in section 7(a) of this Article VI) and shall be subject to the right of setoff in favor of the Corporation as provided in Article VII, section 4.

(C) LEGAL AVAILABILITY OF FUNDS. Should the funds of the Corporation legally available for such purpose be insufficient for immediate payment of all or any part of the redemption price, an agreement for purchase and sale of the stock shall be executed by the Corporation and the Terminated Stockholder pursuant to which the Corporation shall unqualifiedly undertake to pay all or the balance, as the case may be, of the redemption price as soon as funds are legally available for that purpose and further that no dividends or Patronage Dividends shall be declared and paid or set apart for payment to Members until after payment to the Terminated Stockholder of the full purchase price for such stock.

(D) BOOK VALUE. The term "book value" as applied to any shares of Class A Common Stock or Class B Common Stock shall mean the value, determined in accordance with generally accepted accounting principles, of such shares as shown by the last available year-end balance sheet of the Corporation, reported on by the Corporation's certified public accountants, after eliminating therefrom all value for goodwill, other intangible assets and that portion of retained earnings that has been specifically appropriated by the Board of Directors.

(E) HARDSHIP. Notwithstanding the provisions of Paragraph 7(b) of this Article VI, the Board of Directors in its discretion and with due regard for the financial condition and requirements of the Corporation, may authorize and cause payment in cash for all or part of the redemption price which would otherwise be paid by a note if the Board of Directors determines that the prescribed method of payment imposes an undue hardship upon the Terminated Stockholder. The Board of Directors may implement this provision by adopting hardship guidelines and delegating authority to an officer or officers.

(F) LIEN ON STOCK AND NOTES. The Corporation shall have a lien on, and a right of setoff against, any stock or notes, including those issued as Patronage Dividend and against any cash portion of such Patronage Dividend which is in excess of twenty percent (20%) of the overall patronage dividend payable in any year for such indebtedness of the Terminated Stockholder to the Corporation as may, for whatever cause, exist. In the event that the Corporation initiates proceedings to recover amounts due it by the Terminated Stockholder, the Corporation shall be entitled to the recovery of all associated costs, interest and reasonable attorney's fees.

ARTICLE VII
MEMBER AGREEMENTS

SECTION 1. CORPORATE PURPOSE. The Corporation shall be organized and operated on a cooperative basis for the benefit of the holders of shares of its Class A Common Stock (who are its Members).

SECTION 2. GENERAL TERMS. As a condition of Membership every prospective Member shall enter into a contract (the "Member Agreement") with this Corporation that shall contain such terms, conditions and agreements as the officers of this Corporation shall deem necessary or desirable or as shall be required hereunder, pursuant to the Certificate of Incorporation or these By-Laws, or pursuant to direction of the Board of Directors. The Member Agreement shall not be assignable, or transferable, in any manner whatsoever, without the express written consent of the Corporation and shall contain, without limitation, the following terms and provisions:

(a) An express consent by the Member to the tax treatment and effects specified in section 2(b) of Article VIII hereof;

(b) A requirement that Member establishes and maintains a retail store in which to sell merchandise;

(c) A requirement that the Member notify the Corporation in writing immediately upon any change in business name, form of organization (proprietorship, partnership, corporation or whatever), ownership or control;

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(d) A requirement that the Member purchase qualifying shares of the Corporation (as referred to in Article XI of these By-Laws) pursuant to a subscription agreement; and

(e) Automatic modification of the Member Agreement upon notice by the Corporation to the Member of any relevant changes in the Certificate of Incorporation or By-Laws or current form of Member Agreement approved by a two-thirds vote of the Board of Directors then in office.

SECTION 3. IMMEDIATE TERMINATION FOR BREACH OF MEMBER AGREEMENT. The president or a vice president of the Corporation shall have the right to immediately terminate any Member Agreement existing between the Corporation and any Member by written notice to the Member, in the event and at the time or after the Member becomes insolvent, commits any act of bankruptcy, files a voluntary petition in bankruptcy, is adjudicated a bankrupt or breaches any obligation or condition under the Member Agreement, which breach is not cured

within ten (10) days after the Member's receipt of written notice of such breach from the Corporation.

SECTION 4. OTHER TERMINATION. In addition to other methods of terminating the Member Agreement (together with any ancillary agreements between the Corporation and the Member) between a Member and the Corporation, any such agreement may be terminated as follows:

(A) BY MEMBER. Such Agreement may be terminated unilaterally by a Member upon sixty (60) days written notice mailed to any executive officer of the Corporation at the Corporation's principal office.

(B) BY CORPORATION. Such Agreement may be terminated unilaterally by the Corporation upon sixty (60) days written notice mailed to the Member at the address shown on the books of the Corporation; provided, however, that such termination by the Corporation shall occur after affirmative vote of two-thirds or more of the directors then in office that such termination is in the best interest of the Corporation. Without limiting the generality of the foregoing, the following events shall be deemed to create situations in which it is prima facie in the best interests of the Corporation to terminate such agreement:

(i) death or incapacity of an individual Member;

(ii) change in the nature or composition of Membership of a sole proprietorship, partnership, joint venture or corporate Member; and

(iii) change in control or management of a corporate or partnership Member.

In the event a Member changes a sole proprietorship, partnership or joint venture to a corporate form, where the Corporation has agreed to accept the corporate successor-in-interest as a Member, then the Member shall sell, transfer or otherwise assign to such successor-in-interest all shares of stock of this Corporation owned by such Member. Such shares shall remain subject to the Corporation's liens and right of setoff and all other rights provided for in the Certificate of Incorporation and the By-Laws.

SECTION 5. MECHANICS OF SETOFF. Notes issued by the Corporation, whether issued incidental to the distribution of Patronage Dividend or to the redemption of Class B Common Stock, shall provide that if the Corporation exercises its right of setoff, the value of the note to be setoff against the holder's indebtedness to the Corporation or one of its subsidiaries shall be determined at the time of setoff as follows: The Corporation shall have the right to discount the note to its then current cash value, which shall be in the lesser of the face amount of the note or the yield to maturity of the note as discounted at a rate per annum equal to the prime rate at the time of setoff at the Harris Trust and Savings Bank, Chicago, Illinois, plus two percentage points.

ARTICLE VIII

PATRONAGE DIVIDENDS

SECTION 1. PAYMENT OF PATRONAGE DIVIDENDS. The Corporation shall distribute Patronage Dividends to Members annually on the basis of the volume of and margins applicable to merchandise and/or services

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purchased by each Member, which equal the excess (if any) of gross margins from business done with or for Members, after deducting therefrom the following:

(a) Expenses directly or indirectly related to such business;

(b) Such reasonable reserves for necessary corporate purposes as may from time to time be provided by the Board of Directors for depreciation and obsolescence, state and federal taxes, bad debts, casualty losses, insurance and other corporate and operating charges and expenses, all established and computed in accordance with generally accepted accounting principles;

(c) Such reasonable reserves for working capital necessary for the operation of the Corporation and for deficits arising from such operation, (including deficits from business other than business done with or for Members).

Any amount set aside for reserves shall first be set aside from net earnings, if any, of the Corporation from business other than business done with or for Members, and only the excess shall be deducted from gross margins from business done with or for Members in the computation described above.

The amounts set aside for reserves in any year from gross margins of the Corporation from business done with or for Members shall be allocated, to the extent possible, to Members on the books of the Corporation on a patronage basis for that year, or, in lieu thereof, the books or records of the Corporation shall afford a means of doing so at any time, so that in the event of a distribution of amounts formerly carried in reserves each Member may receive, to the extent possible, Member's pro rata share thereof.

SECTION 2.

(A) METHOD AND TIMING OF PAYMENT. The Patronage Dividend to which Stockholder-Members ("Members") become entitled for each fiscal year shall be distributed no later than the fifteenth day of the ninth month following such fiscal year. The Board of Directors may, in its discretion, determine to pay Patronage Dividends either all in a form that will be treated as a deductible qualified written notice of allocation within the meaning of section 1388(c) of

the Internal Revenue Code of 1986, as amended (hereinafter referred to as the "IRC"), all in a form that will be treated as a nonqualified written notice of allocation within the meaning of section 1388(d) of the IRC, or part in qualified form and part in nonqualified form. At least twenty percent (20%) of any qualified payment of Patronage Dividends shall be paid in cash. Subject to this limitation with respect to qualified distributions, the Board of Directors may decide that the balance of any Patronage Dividend, be paid in whole or in part, in cash, property, Class B Common Stock, promissory notes or other evidences of indebtedness, or in any other form of written notice of allocation (within the meaning of section 1388(b) of the IRC).

(B) TAX TREATMENT OF PATRONAGE DIVIDEND BY MEMBERS. Each person who is a Member of the Corporation on the effective date of this section 2(b) of this ARTICLE VIII of the By-Laws and continues as a Member after such date and each person who becomes a Member of the Corporation after such effective date shall, by such act alone, consent and be deemed to have consented that the amount of any distributions with respect to the Member's patronage which are made in written notices of allocation (as defined in section 1388 of the IRC) and which are received by the Member from the Corporation, will be taken into account by the Member at their stated dollar amounts in the manner provided in section 1385(a) of the IRC in the taxable year in which such written notices of allocation are received by the Member. This consent, however, shall not extend to written notices of allocation received by the Member as part of a nonqualified payment of patronage which clearly indicate on their face that they are nonqualified. By way of illustration, the term "written notice of allocation" shall include such items as the Promissory (Subordinated) Notes, the shares of Class B Common Stock, a notice or statement that such securities have been deposited with a bank or other qualified agent on behalf of the Member, a notice of credit to the account of the Member on the books of the Corporation (against stock subscription or any other indebtedness as the Corporation may elect) and such other forms of notice as the Board of Directors may determine, distributed by the Corporation in payment, or part payment of the Patronage Dividends. The stated dollar amount of the Promissory (Subordinated) Notes is the principal amount thereof and the stated dollar amount of the shares of Class B Common Stock is the book value thereof.

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SECTION 3. ISSUANCE OF CLASS B COMMON STOCK. In order to ensure the Corporation's opportunity for healthy growth and expansion and in order to meet the corresponding needs for additional working capital the following plan for the investment by Members of part of the Patronage Dividend shall, subject to modification or termination by the Board of Directors, be in effect:

(A) ANNUAL ISSUANCE. With respect to the Patronage Dividend payable for each fiscal year, the Corporation may pay each Member a portion of

such Patronage Dividend, not to exceed two percent (2%) of Member's net purchases (computed to the nearest multiple of \$100) from the Corporation during such fiscal year, in shares of Class B Common Stock of the Corporation at the book value thereof; provided, however, that at least twenty percent (20%) of such Member's Patronage Dividend shall be paid in money or by qualified check.

SECTION 4. PROMISSORY (SUBORDINATED) NOTES. Subject only to the payment of at least twenty percent (20%) of each Member's annual Patronage Dividend in cash and distribution of Class B Common Stock as provided in section 3 of this ARTICLE VIII, the Corporation may pay each Member all or any portion of the annual Patronage Dividend in Promissory (Subordinated) Notes which shall bear interest at the rate from time to time fixed by the Board of Directors and shall mature at the time fixed by the Board of Directors not later than seven (7) years from the date of issuance. The Promissory (Subordinated) Notes so issued may be subordinated to any liabilities or obligations of the Corporation, existing, contingent or created after date of issuance. The Corporation shall have a lien upon and a right of setoff against any said Promissory (Subordinated) Notes issued to a Member to secure payment of any indebtedness due the Corporation or any of its subsidiaries by the Member; such lien and right are in addition to and not in lieu of any rights the Corporation may have to collect indebtedness due it as the Board of Directors may specify at the issuance of any series of such Notes.

SECTION 5. HARDSHIP. If, upon application by a Member, the Board of Directors shall determine that payment of such Member's Patronage Dividend for any year by the method herein provided or prescribed by the Board of Directors imposed an undue hardship upon such Member, the Board of Directors, in its discretion and with due regard for the financial condition and requirements of the Corporation, may authorize and cause the payment of all or any additional part of such Patronage Dividends in cash. The Board of Directors may implement this provision by adopting hardship guidelines and delegating authority to an officer or officers.

ARTICLE IX GENERAL PROVISIONS

SECTION 1. DIVIDENDS. Dividends upon the capital stock of the Corporation, subject to the provisions of the Certificate of Incorporation, may be declared out of gross margins of the Corporation, other than gross margins from business done with or for Members, after deducting therefrom all expenses directly or indirectly allocable thereto, by the Board of Directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, property, Promissory (Subordinated) Notes, or shares of the capital stock, subject to the provisions of the Certificate of Incorporation.

SECTION 2. ANNUAL STATEMENT. The Board of Directors shall present at each annual meeting and when called for by vote of the Stockholders at any special meeting of the Stockholders, a full and clear statement of the business and conditions of the Corporation.

SECTION 3. CHECKS. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such person or persons as the Board of Directors may from time to time designate.

SECTION 4. FISCAL YEAR. The fiscal year shall begin the first Sunday closest to December 31, whether that day falls in December or in January.

SECTION 5. SEAL. The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the words "Corporate Seal, Delaware." Said seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

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ARTICLE X
BY-LAW AMENDMENTS

SECTION 1. BY-LAW AMENDMENTS. These By-Laws may be altered or repealed at any annual meeting of the Stockholders or at any special meeting of the Stockholders at which a quorum is present or represented, provided notice of the proposed alteration or repeal be contained in the notice of such special meeting, by the affirmative vote of a majority of the Board of Directors at any regular meeting of the board or at any special meeting of the board if notice of the proposed alteration or repeal be contained in the notice of such special meeting; provided, however, that no change of time or place of the meeting for the election of directors shall be made within sixty (60) days next before the day on which such meeting is to be held, and that in case of any change of such time or place, notice thereof shall be given to each Stockholder in person or by letter mailed to the Stockholder's last known post office address at least twenty (20) days before the meeting is held.

ARTICLE XI
QUALIFYING SHARES OF CAPITAL STOCK

SECTION 1. QUALIFYING SHARES. The unit ownership of Class A Common Stock shall consist of ten (10) shares and no person shall be deemed to be a Stockholder of the Corporation or shall exercise any of the rights of a Stockholder until such person has become the holder of record of ten (10) fully paid and nonassessable shares of said Class A Common Stock, \$100 par value.

ARTICLE XII
INDEMNIFICATION OF DIRECTORS, OFFICERS AND EMPLOYEES

SECTION 1. INDEMNIFICATION.

(a) The Corporation shall indemnify any person who was or is a

party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, or investigative (other than an action by or in the right of the Corporation) by reason of the fact that such person is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses for which such person has not otherwise been reimbursed (including attorneys' fees, judgments, fines and amounts paid in settlement) actually and reasonably incurred by such person in connection with such action, suit or proceeding, if such person acted in good faith and in a manner which was reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe that the conduct in question was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which was reasonably believed to be in or not opposed to the best interest of the Corporation, and, with respect to any criminal action or proceeding had reasonable cause to believe that the conduct in question was unlawful.

(b) The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that such person is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses for which such person has not otherwise been reimbursed (including attorneys' fees and amounts paid in settlement) actually and reasonably incurred by such person in connection with the defense or settlement of such suit or action if such person acted in good faith and in a manner which was reasonably believed to be in or not opposed to the best interests of the Corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of such person's duty to the Corporation unless and only to the extent that the Court of Chancery of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such

person is fairly and reasonably entitled to indemnification for such expenses which the Court of Chancery of Delaware or such other court shall deem proper.

(c) To the extent that a director, officer, employee or agent of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Paragraphs 1(a) or (b) of this Article, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees), actually and reasonably incurred by such person in connection therewith.

(d) Any indemnification under Paragraphs 1(a) or (b) of this Article (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because such person has met the applicable standard of conduct set forth in such Paragraphs 1(a) or (b) of this Article. Such determination shall be made (i) by the Board of Directors by a majority vote of a quorum, consisting of directors who were not parties to such action, suit or proceeding, or (ii) if such a quorum is not obtainable, and a quorum of disinterested directors so directs, by independent legal counsel in written opinion, or (iii) by the Stockholders.

(e) Expenses incurred by defending a civil or criminal action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding as authorized by the Board of Directors in the specific case upon receipt of an undertaking by or on behalf of the director, officer, employee or agent to repay such amount unless it shall ultimately be determined that he is entitled to be indemnified by the Corporation.

(f) The indemnification provided in this Article shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any by-law, agreement, vote of Stockholders or disinterested directors or otherwise, or of any other indemnification which may be granted to any person apart from this Article, both as to action in its official capacity and as to action in another capacity while holding office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

SECTION 2. INSURANCE. The Corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against and incurred by such person in any such capacity, or arising out of its status as such, whether or not the Corporation would have the power to indemnify such person against such liability under the provisions of this Article.

Subsidiaries of Registrant

The registrant owns 100% of the issued and outstanding Capital Stock of Cotter Information Services, Inc., Cotter Real Estate Agency, Inc., Cotter Acceptance Co., Inc., Cotter Insurance Agency, Inc., Cotter Trucking, Inc., Wheeler Manufacturing Co., and Atlas Power Equipment Company, all Illinois corporations, and indirectly through Cotter Acceptance, Co., 100% of the issued and outstanding Capital Stock of Warner True Value Hardware, Inc. The accounts of these subsidiaries have been consolidated with the registrant's at January 1, 1994 and January 2, 1993.

In January 1992, the registrant formed a new Canadian subsidiary, Cotter Canada Hardware & Variety Company, Inc., owning 100% of the issued and outstanding Capital Stock. Indirectly, through this subsidiary, the registrant owns 100% of the issued and outstanding Preferred Stock of the newly formed Canadian cooperative, Cotter Canada Hardware and Variety Cooperative, Inc.

COTTER & COMPANY
2740 North Clybourn Avenue
Chicago, Illinois 60614

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

April 5, 1994

TO THE STOCKHOLDERS OF COTTER & COMPANY:

The Annual Meeting of Stockholders of COTTER & COMPANY, a Delaware Corporation, will be held at its Distribution Center located at 14900 U.S. Highway 71, Kansas City, Missouri 64147, on Tuesday, April 5, 1994, at the hour of 10:00 in the morning, local time, for the following purposes:

1. To elect five Directors to serve for a term of three years and until the election and qualification of their respective successors;
2. To approve the appointment of Ernst & Young, independent public accountants, as auditors of the Company for fiscal year 1994; and
3. To consider and act upon such further business as may properly come before the meeting or any adjournments thereof.

Election of Directors. The Nominating Committee and the Board of Directors have nominated for election five (5) nominees listed below, each to hold office for a term of three (3) years and until his successor is elected and qualified:

William M. Claypool, III
Jerrald T. Kabelin
Robert J. Ladner

Lewis W. Moore
Robert G. Waters

The shares represented by the Proxy solicited by the Board of Directors will be voted in favor of the election of the above-named nominees unless authority is expressly withheld.

The Board of Directors knows of no reason why any nominee for director will be unable to serve if elected. If any nominee shall become unavailable for

election, it is intended that such shares shall be voted for the election of a substitute nominee selected by the persons named in the enclosed Proxy.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE NOMINEES PRESENTED.

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Appointment of Independent Public Accountants. The Board recommends that you vote FOR the approval of the appointment of Ernst & Young, independent public accountants, as auditors for the Company for the fiscal year ending December 31, 1994. The Proxy solicited by the Board will be voted in favor of the approval of Ernst & Young to serve as auditors for the Company for fiscal year 1994 unless a contrary decision is made by the Stockholders.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF THE APPOINTMENT OF ERNST & YOUNG AS AUDITORS FOR THE COMPANY FOR FISCAL YEAR 1994.

Only holders of record of the Class A Stock of the Company at the close of business on February 26, 1994, will be entitled to notice of and to vote at said meeting. The Proxy solicited by the Board will be voted in favor of all proposals unless a contrary decision is made by the Stockholders, and of all other matters to come before the meeting, or any adjournments thereof, in the discretion of the Proxies therein.

STOCKHOLDERS WHO DO NOT EXPECT TO BE PRESENT AT THE ANNUAL MEETING IN PERSON ARE ASKED TO SIGN, DATE, AND RETURN THE ENCLOSED PROXY TO THE COMPANY IN THE ENCLOSED, STAMPED ENVELOPE, ADDRESSED TO COTTER & COMPANY, P.O. BOX 7931, ELK GROVE VILLAGE, IL 60009-9921.

YOUR VOTE IS IMPORTANT

YOU ARE URGED TO SIGN, DATE, AND RETURN YOUR PROXY WITHOUT DELAY, TO INSURE ITS ARRIVAL IN TIME FOR THE MEETING. THIS WILL ENSURE THE PRESENCE OF A QUORUM AT THE MEETING.

By Order of the Board of Directors

/s/ KERRY J. KIRBY

Kerry J. Kirby
Secretary

Chicago, Illinois

Date of Mailing: March 7, 1994

COTTER & COMPANY
 2740 N. Clybourn
 Chicago, IL 60614

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints Michael P. Cole; Samuel D. Costa, Jr.; and Leonard C. Farr, and each of them, as Proxies, with full power of substitution, and hereby authorizes them to represent and to vote, as designated below, all shares of Class A Common Stock of Cotter & Company held of record by the undersigned on February 26, 1994, at the Annual Meeting of Stockholders to be held on Tuesday, April 5, 1994, at the Company's Distribution Center located at 14900 U.S. Highway 71, Kansas City, Missouri 64147, at 10:00 a.m., local time, and at any adjournments thereof.

DARKEN INSIDE OVALS ONLY

THE BOARD RECOMMENDS A VOTE FOR ALL OF THE FOLLOWING PROPOSALS.

<TABLE>

<CAPTION>

	FOR	AGAINST	ABSTAIN
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<S>	<C>	<C>	<C>
1.* ELECTION OF DIRECTORS For all nominees listed below (except as marked to the contrary below). To withhold authority to vote for all nominees listed below vote to abstain.			
2. Proposal to approve the appointment of Ernst & Young, independent public accountants, as auditors of the Company for the fiscal year 1994.			

In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the meeting, or any adjournments thereof.

* William M. Claypool, III; Jerrald T. Kabelin; Robert J. Ladner; Lewis W. Moore; and Robert G. Waters for a term of three years. To withhold authority to vote for any individual nominee, write that nominee's name on the space provided.

This Proxy when properly executed will be voted in the manner directed herein by the undersigned stockholder. If no direction is made, this Proxy will be voted for Proposals 1 and 2.

Please sign exactly as your name appears on your Class A Common Stock certificate. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person.

A copy of the Company's 10-K Annual Report is available upon request.

PLEASE MARK, SIGN, DATE, AND RETURN THIS PROXY BALLOT PROMPTLY USING THE ENCLOSED ENVELOPE.

</TABLE>

x _____
Signature required for validation Date