

Peterson, Bette (COMM)

From: Robert Gippin <RGippin@rlbllp.com>
Sent: Wednesday, July 23, 2014 7:39 AM
To: Peterson, Bette (COMM)
Subject: Cornwell deficiency correction
Attachments: 2014 Deficiency Corrections and Exhibits.pdf; Deficiency filing submission 7-17-14.pdf

Bette, I appreciated the opportunity to speak with you just now. Attached is the Deficiency Correction that was filed on 7/17. I will look forward to speaking with Deb. And hopefully your phone system won't play any more tricks on you.

Thanks.

Bob Gippin

Robert M. Gippin
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STATE OF MINNESOTA
DEPARTMENT OF COMMERCE
SECURITIES SECTION

F-7425

The Cornwell Quality Tools Company
Cornwell or Cornwell Quality Tools

DEFICIENCY CORRECTIONS

The following Deficiencies cited in the Notification dated June 29, 2014, are corrected as follows, except as noted:

1. Accountants Consent dated July 14, 2014, attached as Exhibit 1.
2. Unaudited Balance Sheet and Financial Statement as of May 28, 2014, attached as Exhibit 2-A.

Amended Item 21 of FDD to include unaudited statements attached as Exhibit 2-B.

3. Item 20 accurately discloses that new franchises were entered into in Minnesota in 2012 and 2013. The activity occurred after the registration had expired, due to staff error. The circumstances have been further disclosed to the Section staff. Accordingly, no change to Item 20 has been made in response to the noted deficiency.
4. Item 11, FDD page 38, has been amended to provide information concerning the person in charge of training, attached as Exhibit 4.

ITEM 3. LITIGATION

1. Regulatory actions against Cornwell include the following matters:

In the Matter of Cornwell Quality Tools Company (Maryland Case No. 2010-0375) On November 3, 2010, Cornwell entered into a Consent Decree with the Securities Commissioner of Maryland to resolve issues arising from entering into franchise agreements in Maryland even though the renewal of Cornwell's registration in 2008 had not been approved and thus had expired. Cornwell paid a civil penalty of \$10,000.00, offered the rescission of franchises entered into after the registration expiration and has implemented procedures to reduce the risk of future violations.

In the Matter of The Cornwell Quality Tools Company (Minnesota Department of Commerce Case No. FR1400020) On August 19, 2014, a Consent Order was issued against Cornwell by the Commissioner of Commerce of Minnesota. The Order resolved issues arising from Cornwell's offering and entering into franchise agreements in Minnesota even though the renewal of Cornwell's registration in 2012 had not been submitted for approval and thus had expired. Cornwell paid a civil penalty of \$2,000.00, offered the rescission of franchises entered into after the registration expiration and implemented procedures to reduce the risk of future violations.

2. Litigation against Cornwell includes the following matters:

David Bachrach, et al. v. The Cornwell Quality Tools Company, Case No. 2010 01 0543 in the Court of Common Pleas of Summit County, Ohio, was filed on January 27, 2010. The Complaint was brought by eight former Cornwell dealers as individuals and as claimed representatives of the putative class of all former Cornwell dealers terminated within four years of the filing of the Complaint. The Complaint alleges various theories under which the Cornwell franchise is said to be fraudulent and violates Ohio statutes and common law. It seeks ordinary and punitive damages, not specified above the jurisdictional minimum of \$25,000, but which can reasonably be estimated to be extensive, if the plaintiffs are successful. The Court of Common Pleas ruled on June 6, 2010, that the case was not subject to arbitration. Cornwell appealed that ruling to the Court of Appeals for the Ninth District of Ohio, Case No. 25444, which reversed in Cornwell's favor on May 25, 2011. The Ohio Supreme Court declined jurisdiction of the matter on October 5, 2011. The Common Pleas Court accordingly entered a stay of the matter on October 24, 2011. Certain issues concerning arbitration are currently pending before the Courts, as set forth below. Cornwell intends to contest the allegations very vigorously, including but not limited to the class action claims and the attempt to bring the action outside arbitration.

David Bachrach, et al. v. The Cornwell Quality Tools Company, Case No. 11 114 Y 01759 11 in the American Arbitration Association, was filed on October 21, 2011. The

Demand was brought by nine former Cornwell dealers as individuals and as claimed representatives of the putative class of all former Cornwell dealers terminated within four years of the filing of the Complaint in the Common Pleas case reported above, or subsequently. The Demand is substantively the same as the Complaint in the parallel matter described above. Cornwell intends to contest the allegations very vigorously, including but not limited to the attempt to assert the claims on behalf of a class. No hearings are scheduled. On April 10, 2012, the arbitration panel issued a clause construction award, finding that these claims can proceed in class arbitration, if a class should be certified. Cornwell brought a counterclaim in the Common Pleas Court case reported above on May 15, 2012, seeking to overturn the award. The Court vacated the preliminary injunction against class arbitration that it had issued and dismissed Cornwell's counterclaim on October 11, 2013. Cornwell timely appealed to the Ohio Ninth District Court of Appeals on October 16, 2013, where the matter remains pending.

The Court of Appeals denied Cornwell's motion for an injunction pending appeal on January 21, 2014. A status conference call was held with the arbitrators on April 10, 2014, to discuss if and how the matter should proceed.

David K. English, James B. Taylor, Philip J. Mack, Matthew R. Zimmerman, John E. Vassar, Vincent G. Zipparro, Mark McFee, Leonard Nedza, Kevin Lenerville, Richard Armstrong, Mark Johnson and Ron Brown v. Cornwell Quality Tools Company, (Case No. CV 2004-07-4058 in the Court of Common Pleas of Summit County, Ohio) On July 22, 2004, David K. English, a former dealer and special representative of Cornwell, filed the referenced complaint against the Company seeking unstated ordinary and punitive damages, attorney fees, costs and other relief, alleging deceptive trade practices, violations of Ohio's consumer sales practices act, Ohio's business opportunity statute, fraud, fraud in the inducement, consumer fraud, negligent misrepresentation, breach of contract, breach of fiduciary duty and for declaratory judgment that the arbitration provisions of his agreements with Cornwell are unenforceable. The other plaintiffs, all former dealers as well in Ohio and Illinois, subsequently joined the action, alleging the same claims. Cornwell filed motions to stay the proceedings pending arbitration, as to each of the plaintiffs. The Company's motions were granted by the trial court on March 8, 2005. The plaintiffs appealed the order granting the motions, but the order was affirmed in favor of the Company by the Court of Appeals for the Ninth Appellate District, on December 30, 2005, Case No. 22578. The plaintiffs filed a discretionary appeal to the Ohio Supreme Court on February 9, 2006, Case No. 2006-0303, which appeal was dismissed on April 26, 2006.

On October 6, 2006, Mr. English commenced the referenced arbitration (American Arbitration Association, Richard McQuade, Arbitrator, Case No. 53 114 Y 00651 06) setting out the same claims that were made in the Court of Common Pleas. The Company responded, denying all liability. The matter was tried on January 22-24, 2008, in Cleveland, Ohio. On February 13, 2008, an award was issued by the arbitrator in Cornwell's favor, dismissing the claims made by Mr. English and charging the costs of the arbitration evenly between the parties. On March 21, 2008, the Summit County Court of Common Pleas in Case No. CV-2004-07-4058, confirmed the award into a

judgment against Mr. English. The Court approved the award, and dismissed all of Mr. English's claims with prejudice. The parties subsequently entered into an out-of-court settlement agreement that included a lump sum monetary payment to Cornwell.

None of the other plaintiffs have commenced arbitration proceedings. The Company intends to contest such claims vigorously.

Cornwell Quality Tools Company v. Michael A. and Debbie Petric, American Arbitration Association Case (No. 53 118 00868 05) The Company commenced arbitration proceedings against Michael and Debbie Petric on December 1, 2005, seeking recovery of money due and owing. Counterclaims were made by the Petrics, broadly alleging breach of contract, misrepresentation, fraud and violations of the California statutes pertaining to franchises. A settlement agreement, including a dismissal of the counterclaims with prejudice, without any payment by the Company, was made on January 15, 2007. An arbitration award granting recovery to the Company and dismissing the counterclaims with prejudice was issued on February 19, 2007.

Cornwell Quality Tools Company v. Justin Gray, American Arbitration Association Case (No. 53 118 00800 06) and Chancery Court of Tipton County, Tennessee (No. 26012) The Company commenced arbitration proceedings against Justin Gray on December 15, 2006, seeking recovery of money due and owing. Mr. Gray did not file a Counterclaim in the arbitration proceeding. The arbitration hearing was set for May 9, 2008.

On April 25, 2008, Mr. Gray filed an action for declaratory judgment and request for an injunction to stay the arbitration proceedings in the Chancery Court of Tipton County. The parties entered into an out-of-court settlement agreement on May 23, 2008. Under the agreement, Cornwell paid nothing and received a lump sum monetary payment from Mr. Gray. All proceedings were dismissed with prejudice.

Cornwell Quality Tools Company v. Barnes, American Arbitration Association Case No. 53 114 E 00759 10, was filed by Cornwell against Geoffrey L. and Michelle R. Barnes on September 9, 2010, seeking recovery of amounts owed on account. Mr. and Mrs. Barnes counterclaimed on October 18, 2010, seeking damages of \$75,000.00 for wrongful termination. The matter was held in abeyance because of Mr. Barnes' health issues and then was terminated by the AAA on October 5, 2012, when neither party paid the additional fees required to continue the matter. Mr. and Mrs. Barnes subsequently sought bankruptcy protection. Cornwell intends to contest the counterclaim very vigorously, if it is ever revived.

Salzgeber v. Cornwell Tools, Taylor County, Wisconsin Circuit Court Case No. 12SC351, was filed by Nicholas A. Salzgeber on September 7, 2012, seeking recovery of damages of \$15,000.00 arising from allegations concerning the termination of his dealership and the replevin of secured collateral by Cornwell. By agreement of the parties, the matter was stayed for arbitration. Cornwell then commenced American

Arbitration Association Case No. 53 114 E 00406 12, seeking to recover damages from Mr. Salzgeber on his account and for attorney fees arising from the replevin. Mr. Salzgeber failed to counterclaim in the arbitration to assert the allegations he had made in his lawsuit and the time for doing so has passed. A hearing was held in the arbitration on March 8, 2013, resulting in an award for Cornwell. Cornwell intends to contest Mr. Salzgeber's allegations very vigorously, if they are presented in any forum.

3. Collection suits brought by Cornwell against former franchisees in the last fiscal year for payment for tools sold to the former franchisees by Cornwell:

Cornwell Quality Tools Company v. Anthony S. Aman and Anita Aman, American Arbitration Association case filed 10/01/2013 (No. 53 114 E 000318 13)

Cornwell Quality Tools Company v. Robert A. Bayless, American Arbitration Association case filed 01/01/2013 (No. 53 114 E 000013 13); Ohio Court of Common Pleas case filed on June 11, 2013 (No. CV-2013-06-2884); District Court of Oregon case filed on September 17, 2013 (No. CV-13090186)

Cornwell Quality Tools Company v. James C. Baird and Jug City Tools, LLC, American Arbitration Association case filed 10/01/2013 (No. 53 114 E 000314 13)

Cornwell Quality Tools Company v. James R. Brown and Janis N. Brown, American Arbitration Association case filed November 1, 2012 (No. 53 114 E 000465 12); Ohio Court of Common Pleas case filed on April 12, 2013 (No. CV-2013-04-1967); Circuit Court of Florida case filed on December 17, 2013 (No. 2013CA-006315-0000-00)

Cornwell Quality Tools Company v. Keith R. Bush and KB Enterprise, American Arbitration Association case filed 10/01/2013 (No. 53 114 E 000315 13)

Cornwell Quality Tools Company v. Bradley J. Cargile, American Arbitration Association case filed January 17, 2013 (No. 53 114 E 00015 13); Ohio Court of Common Pleas case filed on November 5, 2013 (No. CV-2013-05-2543)

Cornwell Quality Tools Company v. Aaron Carrillo and Kim Carrillo, American Arbitration Association case filed January 1, 2012 (No. 52 114 E 000048 12); Ohio Court of Common Pleas case filed July 10, 2012 (No. CV-2012-07-3990); New Mexico District Court case filed on January 31, 2013 (No. D-202-CV-2013-00497)

Cornwell Quality Tools Company v. Daniel and Belinda Chapman, American Arbitration Association case filed 08/01/2013 (No. 53 114 E 000244 13); Ohio Court of Common Pleas case filed on December 16, 2013 (No. CV-2013-12-5854)

Cornwell Quality Tools Company v. Brett L. Christiansen, American Arbitration Association case filed 08/01/2013 (No. 53 114 E 000246 13); Ohio Court of Common Pleas case filed on December 10, 2013 (No. CV-2013-12-5749)

Cornwell Quality Tools Company v. James J. Cleary and Deborah S. Cleary, American Arbitration Association case filed November 1, 2012 (No. 53 114 E 000462 12); Ohio Court of Common Pleas case filed on May 2, 2013 (No. CV-2013-2267); District of Texas case filed on May 30, 2013 (No. 13-51416)

Cornwell Quality Tools Company v. Joseph C. Cote, American Arbitration Association case filed June 3, 2013 (No. 53 114 E 00171 13); Ohio Court of Common Pleas case filed on November 5, 2013 (No. CV-2013-11-5237)

Cornwell Quality Tools Company v. Herman H. Deimler, III, Herman H. Deimler, II, and Anna Deimler, American Arbitration Association case filed 12/01/2013 (No. 53 114 E 000413 13)

Cornwell Quality Tools Company v. Anthony Delgado and Ana I. Melendez, American Arbitration Association case filed 10/01/2013 (No. 53 114 E 000360 13)

Cornwell Quality Tools Company v. Victor Desa and Lena M. Desa, American Arbitration Association case filed 10/01/2013 (No. 53 114 E 000359 13)

Cornwell Quality Tools Company v. Bobby Lee Duke, American Arbitration Association case filed August 7, 2013 (No. 53 114 E 00247 13); Ohio Court of Common Pleas case filed on December 10, 2013 (No. CV-2013-12-5747)

Cornwell Quality Tools Company v. Blake K. Frazier, American Arbitration Association case filed 10/01/2013 (No. 53 114 E 000343 13)

Cornwell Quality Tools Company v. Clyde Funk and Belinda Funk, American Arbitration Association Case filed February 1, 2012 (No. 53 114 E 000092 12); Ohio Court of Common Pleas filed on August 14, 2012 (CV 2012 08 4642); Superior Court of California case filed on February 14, 2013 (No. 12N01637)

Cornwell Quality Tools Company v. Bill and Paula Gibbs, American Arbitration Association case filed 12/01/2013 (No. 53 114 E 000412 13)

Cornwell Quality Tools Company v. Daniel Grenig, American Arbitration Association case filed May 1, 2012 (No. 53 114 E 000179 12); Ohio Court of Common Pleas case filed October 9, 2012 (CV-2012-10-5636)

Cornwell Quality Tools Company v. Dewayne Hudson, Inc., American Arbitration Association case filed 10/01/2013 (No. 53 114 E 000320 13)

Cornwell Quality Tools Company v. Jerry Hurley and Wendi K.G. Hurley, American Arbitration Association case filed February 1, 2012 (No. 53 114 E 000098 12); Ohio Common Pleas Court case filed July 5, 2012 (CV-2012-07-3934); Superior Court of California case filed on June 20, 2013 (30 2013 00639315-CU-EN-CJC)

Cornwell Quality Tools Company v. Richard L. Jackson, American Arbitration Association case filed 08/01/2013 (No. 53 114 E 000248 13); Ohio Court of Common Pleas case filed on December 19, 2013 (No. CV-2013-12-5907)

Cornwell Quality Tools Company v. Michael B. Kearney, American Arbitration Association case filed July 1, 2012 (No. 53 114 E 000296 12); Ohio Court of Common Pleas case filed December 14, 2012 (CV-2012-12-6785); Circuit Court of Wisconsin case filed on March 18, 2013 (13 FJ 0003)

Cornwell Quality Tools Company v. Dora V. Lopez and Tony M. Lopez, Jr., American Arbitration Association case filed 12/01/2013 (No. 53 114 E 000411 13)

Cornwell Quality Tools Company v. Gary M. MacLeod, American Arbitration Association case filed November 1, 2012 (No. 53 114 E 000466 12); Ohio Court of Common Pleas case filed on April 24, 2013 (No. CV-2013-04-2155); District Court of New Mexico case filed on September 30, 2013 (No. D-202-CV-2013-06616)

Cornwell Quality Tools Company v. Mark and Cheryl McElrath, American Arbitration Association case filed 09/01/2013 (No. 53 114 E 000295 13)

Cornwell Quality Tools Company v. Raymond S. McMaster, American Arbitration Association case filed May 2, 2012 (No. 53 114 E 00182 12); Ohio Court of Common Pleas case filed on January 8, 2013 (No. CV-2013-01-0149); District Court of Oregon case filed on July 5, 2013 (No. CV13070100)

Cornwell Quality Tools Company v. Douglas S. Olson and Linda L. Olson, American Arbitration Association case filed 01/01/2013 (No. 53 114 E 000010 13); Ohio Court of Common Pleas case filed on May 29, 2013 (No. 2013 05 2665); District Court of Minnesota case filed on September 23, 2013 (No. 70-CV-13-18081)

Cornwell Quality Tools Company v. Joshua D. Parth, American Arbitration Association case filed 10/01/2013 (No. 53 114 E 000319 13)

Cornwell Quality Tools Company v. Charles K. Patterson, Allie Patterson and Patterson Tools, American Arbitration Association case filed 12/01/2013 (No. 53 114 E 000414 13)

Cornwell Quality Tools Company v. Ryan Peterson and Ann Peterson, American Arbitration Association case filed 08/01/2013 (No. 53 114 E 000245 13); Ohio Court of Common Pleas case filed on December 16, 2013 (No. CV-2013-12-5852).

Cornwell Quality Tools Company v. James M. Polimeno, American Arbitration Association case filed May 1, 2012 (No. 53 114 E 000178 12); Ohio Court of Common Pleas case filed October 9, 2012 (CV-2012-10-5635); Superior Court of Massachusetts case filed on May 15, 2013 (No. WOCV2013-00309A)

Cornwell Quality Tools Company v. Kenneth R. Roberts, Jr. and Roberts Tools Dist., LLC American Arbitration Association case filed 10/01/2013 (No. 53 114 E 000317 13)

Cornwell Quality Tools Company v. Nicholas A. Salzgeber, American Arbitration Association case filed October 1, 2012 (No. 53 114 E 000406 12); Circuit Court of Wisconsin case filed on July 18, 2012 (12 CV 84); District Court of Wisconsin case filed on August 27, 2013 (1:13-14261-cjf)

Cornwell Quality Tools Company v. Manuel A. Santillanes, Valerie Santillanes, and Gotcha Tools, American Arbitration Association case filed 08/01/2013 (No. 53 114 E 000243 13)

Cornwell Quality Tools Company v. Brian and Angela Schlichter, American Arbitration Association case filed 01/01/2013 (No. 53 114 E 000012 13); Circuit Court of Washington case filed on April 15, 2013 (2013-LM-6)

Cornwell Quality Tools Company v. Marcus J. Sedberry, Shawn L. O'Quinn and M&S Tool Sales, American Arbitration Association case filed 10/01/2013 (No. 53 114 E 000 13)

Cornwell Quality Tools Company v. Jason Syphers and Sharon Syphers, American Arbitration Association case filed February 1, 2012 (No. 53 114 E 000090 12); Ohio Court of Common Pleas case filed August 7, 2012 (CV-2012-08-4523); Circuit Court of Oregon case filed on February 8, 2013 (No. 13P10131)

Cornwell Quality Tools Company v. Douglas S. Thomson, American Arbitration Association case filed 10/01/2013 (No. 53 114 E 000316 13); Ohio Court of Common Pleas case filed on September 10, 2013 (No. CV-2013-09-4326); District of Arizona Court case filed on November 27, 2013 (No. 2:13-bk-20652-RJH)

Cornwell Quality Tools Company v. Jonathan M. Trawinski, American Arbitration Association case filed January 17, 2013 (No. 53 114 E 00011 13); Ohio Court of Common Pleas case filed on May 30, 2013 (No. CV-2013-05-2692); Superior Court of California case filed on October 29, 2013 (No. CIV 524972)

Cornwell Quality Tools Company v. Michael Todd Urton, American Arbitration Association case filed November 28, 2012 (No. 53 114 E 00463 12); Ohio Court of Common Pleas case filed on May 21, 2013 (No. CV-2013-05-2544); District Court of Texas case filed on October 24, 2013 (No. 2013019751)

Cornwell Quality Tools Company v. Andrew W. White and Robert E. White, American Arbitration Association case filed 12/01/2013 (No. 53 114 E 000428 13)

Cornwell Quality Tools Company v. Charles F. Williams and Trena D. Williams, American Arbitration Association case filed December 1, 2012 (No. 53 114 E 000490

12); Ohio Court of Common Pleas case filed on May 29, 2013 (No. CV-2013-05-2666); District Court of Idaho case filed on January 30, 2014 (No. CV-2014-0000052

Cornwell Quality Tools Company v. Brian D. Wright and Nicholas C. Hyden, Guarantor,
American Arbitration Association case filed November 1, 2012 (No. 53 114 E 000464
12); Ohio Court of Common Pleas case filed on May 2, 2013 (No. CV-2013-05-2266);
County Court, State of Texas case filed on December 23, 2013 (No. CC17207)

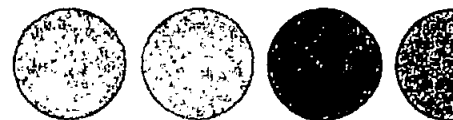
4. Trademark Suits No trademark litigation is required to be disclosed in this
Item.

Other than these actions, no other litigation is required to be disclosed in this Item.

EXHIBIT 1



CARING PEOPLE. SHAPING FUTURES.



CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We consent to the inclusion in the Cornwell Quality Tools Company Minnesota Franchise Disclosure Document dated March 24, 2014, of the reports of our audits of Cornwell for the years ending December 31, 2010, 2011, 2012 and 2013.

Brinkman, Coak. Seabli & Co.

July 14, 2014

EXHIBIT 2-A

Cornwell Quality Tools Co.
Balance Sheet

	As Of 05/28/14	As Of 05/22/13	Variance Amount	Percent
----- ASSETS -----				
CURRENT ASSETS				
Cash	\$2,205,157.89	(\$172,627.63)	\$2,377,785.52	-1377.41%
Accounts Receivable	8,580,411.83	8,446,577.01	133,834.82	1.58%
Current Portion Wholesale NR	1,469,756.04	1,299,046.15	170,709.89	13.14%
Current Portion - TC NR	13,721,486.05	12,171,278.91	1,550,207.14	12.74%
Current Portion Deferred TC Revenue	(1,743,570.44)	(1,540,854.45)	(202,715.99)	13.16%
Inventories	10,310,216.81	8,725,578.45	1,584,638.36	18.16%
LIFO Reserve	(2,238,122.00)	(2,092,116.00)	(146,006.00)	6.98%
Prepaid Expenses	733,889.90	753,363.23	(19,473.33)	-2.58%
Deferred Income Tax Benefit	2,304,000.00	2,030,000.00	274,000.00	13.50%
Total Current Assets	35,343,226.08	29,620,245.67	5,722,980.41	19.32%
PROPERTY, PLANT AND EQUIPMENT				
Land	11,949.00	11,949.00	0.00	0.00%
Buildings and Equipment	8,596,993.69	8,342,004.27	254,989.42	3.06%
Total at Cost	8,608,942.69	8,353,953.27	254,989.42	3.05%
Accumulated Depreciation	(7,620,902.69)	(7,403,191.49)	(217,711.20)	2.94%
Total Prop, Plant & Equip	988,040.00	950,761.78	37,278.22	3.92%
OTHER ASSETS				
Non Current Notes Rec-Wholesale	5,367,221.40	5,850,406.07	(483,184.67)	-8.26%
Non Current Notes Rec - Special Re	324,583.68	260,278.10	64,305.58	24.71%
Non Current Notes Rec - TC	19,875,209.49	16,955,634.01	2,919,575.48	17.22%
Non Current Deferred TC Revenue	(1,466,682.29)	(1,254,360.98)	(212,321.31)	16.93%
Cash Value Officer's Life Insurance	639,527.00	607,611.00	31,916.00	5.25%
LT Deferred Income Tax Benefit	717,000.00	699,000.00	18,000.00	2.58%
Total Other Assets	25,456,859.28	23,118,568.20	2,338,291.08	10.11%
Total Assets	61,788,125.36	53,689,575.65	8,098,549.71	15.08%
----- LIABILITIES AND SHARHOLDERS' EQUITY -----				
CURRENT LIABILITIES				
Accounts Payable	5,371,886.97	6,119,357.03	(747,470.06)	-12.21%
Accrued Expenses	1,932,115.30	1,883,914.91	48,200.39	2.56%
Accrued Taxes	61,734.43	96,612.40	(34,877.97)	-36.10%
Federal Inc Tax Payable	771,000.02	349,700.02	421,300.00	120.47%
Total Current Liabilities	8,136,736.72	8,449,584.36	(312,847.64)	-3.70%
LONG TERM LIABILITIES				
Long Term Debt	240,000.00	320,000.00	(80,000.00)	-25.00%
Deferred Compensation	1,350,516.63	1,327,272.48	23,244.15	1.75%
Total Long Term Liabilities	1,590,516.63	1,647,272.48	(56,755.85)	-3.45%
SHAREHOLDERS' EQUITY				
Common Stock, Voting & Non Voting	106,350.00	106,350.00	0.00	0.00%
Paid In Capital	534,687.00	408,486.00	126,201.00	30.89%
Treasury Stock	(1,004,244.00)	(1,174,341.00)	170,097.00	-14.48%
Retained Earnings	52,424,079.01	44,252,223.81	8,171,855.20	18.47%
Total Shareholders' Equity	52,060,872.01	43,592,718.81	8,468,153.20	19.43%
Total Liab. and Equity	61,788,125.36	53,689,575.65	8,098,549.71	15.08%

Cornwell Quality Tools Co.
Consolidated Income Statement
Current Month and Year to Date
For the Five Months Ending

	May 2014		Year to Date 2014		Year to Date 2013	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Gross Sales	\$9,066,392.07	105.55%	\$51,317,119.55	105.52%	\$43,707,273.35	105.79%
Returns-Hardline	(16,793.30)	-0.20%	(96,797.69)	-0.20%	(67,982.16)	-0.16%
Returns-Allied	(90,310.33)	-1.05%	(457,726.91)	-0.94%	(334,653.23)	-0.81%
Returns -Total	(107,103.63)	-1.25%	(554,524.60)	-1.14%	(402,635.39)	-0.97%
Allowances-Hardline	(136,072.92)	-1.58%	(817,013.37)	-1.68%	(745,740.15)	-1.80%
Allowances-Allied	(233,609.32)	-2.72%	(1,312,903.49)	-2.70%	(1,242,323.48)	-3.01%
Allowances-Total	(369,682.24)	-4.30%	(2,129,916.86)	-4.38%	(1,988,063.63)	-4.81%
Net Sales	\$8,589,606.20	100.00%	\$48,632,678.09	100.00%	\$41,316,574.33	100.00%
Less:						
Freight Out	288,391.27	3.36%	1,578,215.53	3.25%	1,591,413.05	3.85%
Dealer Hardline Recruiting Incentive	0.00	0.00%	8,274.00	0.02%	0.00	0.00%
Dealer Weekly Volume Incentive	213,987.45	2.49%	977,604.42	2.01%	655,144.89	1.59%
Tool Box Recruiting Incentive	20,742.00	0.24%	75,651.00	0.16%	90,449.99	0.22%
Converttee Dealer Incentive	0.00	0.00%	5,000.00	0.01%	0.00	0.00%
Special Rep Incentive	14,583.32	0.17%	65,416.60	0.13%	60,139.08	0.15%
Cash Discount Earned	(37,536.74)	-0.44%	(219,868.75)	-0.45%	(144,670.96)	-0.35%
Cash Discount Allowed	188.52	0.00%	653.17	0.00%	5,039.54	0.01%
Total	\$500,355.82	5.83%	\$2,490,945.97	5.12%	\$2,257,515.59	5.46%
Adjusted Net Sales	\$8,089,250.38	94.17%	\$46,141,732.12	94.88%	\$39,059,058.74	94.54%
Less : Cost of Goods Sold	5,469,927.60	63.68%	31,763,829.43	65.31%	27,129,436.42	65.66%
Gross Margin on Sales	\$2,619,322.78	30.49%	\$14,377,902.69	29.56%	\$11,929,622.32	28.87%
Expenses:						
Shipping	135,467.83	1.58%	767,549.98	1.58%	787,833.65	1.91%
Selling	921,885.34	10.73%	4,841,004.14	9.95%	4,342,017.12	10.51%
Administrative	544,283.68	6.34%	2,774,477.80	5.70%	2,719,864.30	6.58%
Total Expenses	\$1,601,636.85	18.65%	\$8,383,031.92	17.24%	\$7,849,715.07	19.00%
Income (Loss) from Operations	\$1,017,685.93	11.85%	\$5,994,870.77	12.33%	\$4,079,907.25	9.87%
Other Income and Expense	(142,071.92)	-1.65%	(969,144.88)	-1.99%	(778,485.81)	-1.88%
Tech Credit	220,266.75	2.56%	963,423.83	1.98%	464,999.93	1.13%
Net Income (Loss) Before Tax	\$1,095,880.76	12.76%	\$5,989,149.72	12.32%	\$3,766,421.37	9.12%
Provision for Fed. Inc. Tax	370,900.00	4.32%	2,064,000.00	4.24%	1,273,700.00	3.08%
Net Income	\$724,980.76	8.44%	\$3,925,149.72	8.07%	\$2,492,721.37	6.03%

EXHIBIT 2-B

ITEM 21. FINANCIAL STATEMENTS

Attached to this Disclosure Document as Exhibit A, are the following financial statements of Cornwell, that show at least the franchisor's balance sheet for the previous three fiscal year-ends before the Disclosure Document issuance date and statements of operations, stockholders equity and cash-flows for each of the franchisor's previous three fiscal years, as well as unaudited financial information as of May 28, 2014:

1. The audited financial statements of Cornwell Quality Tools Company an Ohio corporation, for the fiscal years ended December 31, 2013, 2012 and 2011.
2. The unaudited financial statements of Cornwell Quality Tools Company an Ohio corporation, for the fiscal year beginning January 1, 2014, through May 28, 2014.

EXHIBIT 3
(Omitted)

EXHIBIT 4

Order Form Review	.10	1.00	Corporate Training Room/On Truck
Special Orders	.10	1.50	Corporate Training Room/On Truck
Deferred Billing	.10	.50	Corporate Training Room/On Truck
CBX Account	.10	.50	Corporate Training Room/On Truck
Time Payment Reserve Account	.10	2.00	Corporate Training Room/On Truck
Volume Discount	.20	1.00	Corporate Training Room/On Truck
Checking In Orders	.10	2.00	Corporate Training Room/On Truck
Shipping Orders	.10	1.00	Corporate Training Room/On Truck
Shipping Damage	.10	1.00	Corporate Training Room/On Truck
Dealer Business System (DBS)	1.00	1.00	Corporate Training Room/On Truck
	40.00	80.00	

A. Training classes are held once or twice a month at Cornwell's corporate headquarters in Wadsworth, Ohio.

B. Instructional materials consist of New Dealer Training Guide. Cornwell's New Dealer Training Instructors have 56 years of experience in the mobile tool business including 16½ years with Cornwell. The person in charge of training is David R. Columbus, 8191 Leatherman Rd., Wadsworth, OH 44281., D.O.B. 08/18/1955.

Tool Industry work experience:

8/1979 – 3/1982	Snap-on Tools Dealer
3/1982 – 9/1986	Matco Tools Distributor
2/1990 – 7/2002	Cornwell Tools District Manager (New England)
8/2002 – 11/2010	Cornwell Tools Eastern Region/Eastern Division Manager
12/2010 – Present	Cornwell Tools National Sales Manager

C. There is no charge to you for the training. You must, however, pay your own travel and living expenses to receive the training.

D. You must attend the training and complete it to Cornwell's satisfaction, even if you are a converted dealer from another company. You must complete the training before commencing your dealership, at the earliest time it is offered after you are approved to be a Cornwell dealer.