CUMBERLAND TECHNOLOGIES INC
Form 10-Q
August 14, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[Mark One]

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended June 30, 2001.

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 No. 0-19727

CUMBERLAND TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Florida	59-3094503
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)
4311 West Waters Avenue, Suite 501 Tampa, Florida	33614
(Address of principal executive office)	(Zip code)

(813) 885-2112
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and formal fiscal year, if changed since last report)

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 and (2) has been subject to such filing requirements for the past 90 days.

Yes [x] No [ ]

Applicable Only to Corporate Issuers

The number of shares of the Registrant's common stock, $.001 par value, outstanding as of August 14, 2001 was 5,597,244 shares.

CUMBERLAND TECHNOLOGIES, INC.

FORM 10-Q

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION FORM 10-Q
PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

CUMBERLAND TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

ASSETS

	June 30, 2001	December 31, 2000
Investments:		
Securities available-for-sale at fair value:		
Debt securities	$ 8,713,859	$ 7,553,010
Equity securities	--	2,716
Debt securities held-to-maturity at amortized cost (fair value, 2001 - $366,419 2000 - $1,227,130)	359,318	1,223,593
Mortgage loans on real estate, at unpaid principal	741,419	742,068
Short-term investments	433,993	433,993
Total investments	10,248,589	9,955,380
Cash and cash equivalents	959,276	693,778
Accrued investment income	190,115	185,011
Reinsurance recoverable	4,127,105	4,910,443
Accounts receivable:		
Nonaffiliate less allowance for doubtful accounts of $13,750	5,486,955	3,821,206
Affiliate	443,862	436,997
Income tax recoverable	235,388	167,588
Deferred income tax asset	175,234	175,234
Deferred policy acquisition costs	2,260,885	1,955,018
Intangibles, net	1,043,011	1,115,316
Other investment	605,161	582,532
Other assets	454,329	311,082
	$26,229,910	$24,309,585

See notes to condensed consolidated financial statements.

CUMBERLAND TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 2001	December 31, 2000
Policy liabilities and accruals:		
Loss and loss adjustment expenses	$ 4,010,023	$ 5,185,626
Unearned premiums	6,674,820	5,775,524
Ceded reinsurance payable	1,298,517	721,513
Derivative liability	1,004,087	--
Accounts payable and other liabilities	3,071,296	2,637,748
Debt:		
Nonaffiliate	945,890	1,102,683
Affiliate	1,000,000	1,000,000
Total liabilities	18,004,633	16,423,094
Stockholders' equity:		
Preferred stock, $.001 par value; 10,000,000 shares authorized, no shares issued	--	--
Common stock, $.001 par value; 10,000,000 shares authorized; 5,915,356 and 5,871,356 shares issued, respectively	5,916	5,872
Capital in excess of par value	7,270,316	7,264,860
Accumulated other comprehensive income	189,156	104,485
Retained earnings	1,023,608	774,993
	8,488,996	8,150,210
Less treasury stock, at cost, 318,612 shares	(263,719)	(263,719)
Total stockholders' equity	8,225,277	7,886,491
	$ 26,229,910	$ 24,309,585

See notes to condensed consolidated financial statements.

CUMBERLAND TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Six Months Ended June 30, 2001	2000
Revenue:		

Direct premiums earned	$ 6,958,863	$ 5,817,912
Reinsurance premiums assumed	1,531,775	1,214,056
Less reinsurance ceded	(2,231,004)	(1,523,602)
Net premium income	6,259,634	5,508,366
Net investment income	299,596	271,933
Net realized investment (losses) gains	(16,440)	270,067
Other income	1,073,073	904,030
Total revenue	7,615,863	6,954,396
Benefits and Expenses:		
Losses and loss adjustment expenses	1,831,741	1,406,219
Amortization of deferred policy acquisition costs	2,038,957	1,689,258
Operating expenses	3,293,745	2,552,812
Interest expense	87,979	103,611
Total expenses	7,252,422	5,751,900
Income before income tax expense	363,441	1,202,496
Income tax expense	114,826	402,091
Net income	$ 248,615	$ 800,405
Weighted average number of shares outstanding - basic	5,580,957	5,504,088
Net income per share - basic	$ 0.04	$ 0.15
Weighted average number of shares outstanding - diluted	5,650,457	5,585,088
Net income per share - diluted	$ 0.04	$ 0.14

See notes to condensed consolidated financial statements.

CUMBERLAND TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended June 30, 2001	2000
Revenue:		
Direct premiums earned	$ 3,573,710	$ 3,093,281
Reinsurance premiums assumed	780,760	511,191
Less reinsurance ceded	(1,179,533)	(806,993)
Net premium income	3,174,937	2,797,479

Net investment income	143,662	132,363
Net realized investment (losses) gains	(16,440)	56,809
Other income	473,635	507,616
Total revenue	3,775,794	3,494,267
Benefits and Expenses:		
Losses and loss adjustment expenses	949,349	656,123
Amortization of deferred policy acquisition costs	942,336	802,775
Operating expenses	1,827,445	1,442,829
Interest expense	25,660	50,809
Total expenses	3,744,790	2,952,536
Income before income tax expense	31,004	541,731
Income tax expense	4,406	180,000
Net income	$ 26,598	$ 361,731
Weighted average number of shares outstanding - basic	5,597,244	5,510,782
Net income per share - basic	$ 0.01	$ 0.07
Weighted average number of share outstanding - diluted	5,666,744	5,594,582
Net income per share - diluted	$ 0.01	$ 0.06

See notes to condensed consolidated financial statements.

CUMBERLAND TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

	Common Shares		Capital in Excess of Par Value	Accumulated Other Comprehensive Income (Loss)	Retain Earnin (Accumu Defici
	Stock	Amount			
Balance at January 1, 2000	5,815,356	$ 5,816	$ 7,257,916	$ (40,897)	$ (26
Exercise of 56,000 shares under 1991 stock option plan	56,000	56	6,944		

Net increase in unrealized appreciation of available-for-sale securities, net of income tax				145,382	
Net income					1,04
Comprehensive income					
Balance at December 31, 2000 ..	5,871,356	5,872	7,264,860	104,485	77
Exercise of 44,000 shares under 1991 stock option plan............	44,000	44	5,456		
Net increase in unrealized appreciation of available-for-sale securities, net of income tax				84,671	
Net income					24
Comprehensive income					
Balance at June 30, 2001	5,915,356	$ 5,916	$ 7,270,316	$ 189,156	$ 1,02

See notes to condensed consolidated financial statements.

CUMBERLAND TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended June 30, 2001	2000
Operating activities:		
Net income	$ 248,615	$ 800,405
Adjustments to reconcile net income to cash provided by operating activities:		
Accretion of investment discounts	(16,729)	(4,586)
Policy acquisition costs amortized	2,038,957	1,689,258
Policy acquisition costs deferred	(2,344,824)	(2,051,278)
Amortization	72,305	79,131
Net realized losses (gains) on sales of investments	16,440	(270,067)
(Increase) decrease in:		
Accrued investment income	(5,104)	(118,699)

Reinsurance recoverable	783,338	(1,319,542)
Accounts receivable	(1,665,749)	(668,914)
Income tax recoverable	(67,800)	--
Other assets	(143,247)	2,915
Increase (decrease) in:		
Policy liabilities and accruals	(276,307)	1,115,220
Derivative liability	1,004,087	--
Ceded reinsurance payable	577,004	545,680
Accounts payable and other liabilities	433,548	400,372
Income tax payable	--	250,000
Net cash provided by operating activities	654,534	449,895
Investing activities:		
Securities available-for-sale:		
Purchases - fixed maturities	(1,228,810)	(6,218,716)
Proceed from sales - fixed maturities	154,912	3,098,991
Proceeds from investment settlement	--	228,874
Purchases - equities	--	354,956
Securities held-to-maturity:		
Purchases- fixed maturities	--	1,500,000
Maturities	865,000	--
Proceeds from mortgage loan	649	602
Purchase - short-term assets	--	(10,000)
Increase in other investment	(22,629)	(12,013)
Net cash used in investing activities	(230,878)	(1,057,306)
Financing activities:		
Payments on debt, affiliate and non-affiliate	(156,793)	(151,316)
Stock options exercised	5,500	7,000
Net change in advances from affiliates	(6,865)	(47,247)
Net cash used in financing activities	(158,158)	(191,563)
Increase (decrease) in cash and cash equivalents	265,498	(798,974)
Cash and cash equivalents, beginning of period	693,778	2,000,147
Cash and cash equivalents, end of period	$ 959,276	$ 1,201,173
Supplemental cash flows disclosure:		
Cash paid for interest	$ 27,611	$ 53,611
Cash paid for income taxes	$ 64,000	$ 144,650

See notes to condensed consolidated financial statements.

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

JUNE 30, 2001

1. Ownership and Organization

Cumberland Technologies, Inc. ("CTI" or the "Company") f/k/a Cumberland Holdings, Inc., a Florida corporation, was formed on November 18, 1991, to be a Holding company and a wholly-owned subsidiary of Kimmins Corp. ("KC"). Effective October 1, 1992, KC contributed all of the outstanding common stock of two of its other wholly-owned subsidiaries, Cumberland Casualty & Surety Company ("CCS") and Surety Specialists, Inc. ("SSI") to CTI. KC then distributed to its stockholders CTI's common stock on the basis of one share of common stock of CTI for each five shares of KC common stock and Class B common stock owned (the Distribution). Effective January 30, 1997, Cumberland Holdings, Inc. changed its name to Cumberland Technologies, Inc. CTI conducts its business through five subsidiaries. CCS, a Florida corporation formed in May 1988, provides underwriting for specialty surety and performance and payment bonds for contractors. The surety services provided include direct surety and to a lesser extent, assumed reinsurance. SSI, a Florida corporation formed in August 1988, is a general lines agency which operates as an independent agent. The Surety Group ("SG"), a Georgia corporation, and Associates Acquisition Corp. d/b/a Surety Associates ("SA"), a South Carolina corporation, purchased in February and July 1995, respectively, are general lines agencies which operate as independent agencies. Official Notary Service of Texas, Inc. ("ONS"), a Texas corporation formed in February 1994, is an inactive corporation. Qualex Consulting Group, Inc. ("Qualex"), a Florida corporation formed in November 1994, provides claim and contracting consulting services. CTI and its subsidiaries are referred to herein as the "Company."

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of CTI and its wholly owned subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

2. Summary of Significant Accounting Policies (continued)

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2001 are not necessarily indicative of the results that may be expected for any future quarters or the year ending December 31, 2001. For further information, refer to consolidated financial statements as of and for the years ended December 31, 2000 and 1999, included in the Company's Form 10-K for the year ended December 31, 2000 as filed with the United States Securities and Exchange Commission on April 17, 2001.

Reclassifications

Certain amounts in the 2000 financial statements have been reclassified to conform to the 2001 financial statement presentations.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Such estimates and assumptions could change in the future as more information becomes known which would affect the amounts reported and disclosed herein.

3. Earnings Per Share

Earnings per share for the three and six month periods June 30, 2001 and 2000 is based on the weighted average number of shares outstanding, adjusted for the dilutive effect of stock options.

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

4. Investments

The components of unrealized appreciation of investments recorded in stockholders' equity are as follows:

	June 30, 2001	December 31, 2000
Fixed maturities, net of income tax	$ 189,156	$ 126,607
Equities	--	(22,122)
Total unrealized appreciation, net of taxes	$ 189,156	$ 104,485

5. Income Taxes

The Company's provision for income taxes for the six-month periods ended June 30, 2001 and 2000 has been calculated using an effective rate of approximately 32% and 33%, respectively.

6. Related Party Transactions

In 1988, CCS issued a surplus debenture to KC in exchange for $3,000,000 which bears interest at 10 percent per annum. Interest and principal payments are subject to approval by the Florida Department of Insurance. On April 1, 1997, CTI forgave $375,000 of its $3,000,000 surplus debenture due to CCS. As a result, CCS increased paid in capital by $375,000. On June 30, 1999, CTI forgave $576,266 of its $2,625,000 surplus debenture due from CCS. As a result, CCS increased paid-in capital to $1,000,000. As of June 30, 2001, no payments could be made under the terms of the debenture.

KC and SSI entered into an agreement with an independent contractor, AEC, on August 16, 1989 on a construction contract with the United States Navy (the "Navy"). Pursuant to this contract, the Company, as surety, executed and delivered to the Navy certain performance and payment bonds (the "Bonds"). At the time that the Bonds were issued, KC entered into an indemnification agreement with the Company, whereby KC indemnified the Company from any and all losses, costs, and expenses incurred related to the Bonds. In 1991, the Navy default and terminated AEC on the contract. The contract has been in litigation since the termination in 1991 generating a subrogation receivable in the amount of approximately $1,851,000 as of June 30, 2001 and December 31, 2000. In the event that the Company is unsuccessful in its litigation activities with the Navy, management of the Company believes that KC will reimburse the Company for the losses and expenses incurred related to the Bonds.

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

7. Notes Payable

Affiliate

Effective November 10, 1998, CTI entered into a $1,000,000 convertible term note agreement with TransCor Waste Services, Inc., a subsidiary of KC. The note is due November 10, 2001 and bears interest at 10%. The lender may convert the principal amount of the note or a portion thereof into a common stock at $3.00 per share subsequent to a six-month anniversary and prior to the maturity date.

Nonaffiliate

In connection with the acquisition of certain agencies during 1995, the Company entered into two notes payable with the agencies' previous owners. One note is due March 1, 2002 and bears interest at 8% through February 28, 2001 and 10% thereafter. Principal payments of $150,000 are due annually beginning March 1, 2000. The other is due June 30, 2010 and bears interest at 9%. Principal and interest payments of $11,104 are due monthly beginning April 1, 1997.

8. Intangibles

Intangible assets are stated at cost and principally represent purchased customer accounts, noncompete agreements, purchased contract agreements, and the excess of costs over the fair value of identifiable net assets acquired ("Goodwill"). Goodwill is amortized on a straight-line basis over 15 years and all other intangible assets are amortized on a straight-line basis over the related estimated lives and contract periods, which range from 3 to 15 years. Purchased customer accounts are records and files obtained from acquired businesses that contain information on insurance policies and the related insured parties that is essential to policy renewals.

The carrying value of Goodwill and other intangible assets are reviewed periodically for impairment. If this review indicates that the intangible assets will not be recoverable, as determined based on the undiscounted cash flows of the entity acquired over the remaining amortization period, the Company's carrying value of the Goodwill and other intangible assets will be reduced by the estimated shortfall of cash flows.

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

8. Intangibles (continued)

New Accounting Pronouncements

On June 29, 2001, Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" was approved by the Financial Accounting Standards Board (FASB). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Goodwill and certain intangible assets will remain on the balance sheet and not be amortized. On an annual basis, and when there is reason to suspect that their values have been diminished or impaired, these assets must be tested for impairment, and write-downs may be necessary. The Company is required to implement SFAS No. 141 on July 1, 2001.

On June 29, 2001, SFAS No. 142, "Goodwill and Other Intangible Assets" was approved by the FASB. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Amortization of goodwill, including goodwill recorded in past business combinations, will cease upon adoption of this statement. The Company is required to implement SFAS No. 142 on January 1, 2002 and it has not determined the impact, if any, that this statement will have on its consolidated financial position or results of operations.

9. Loss and Loss Adjustment Expenses

The liability for unpaid claims including incurred but not reported losses is based on the estimated ultimate cost of settling the claim (including the effects of inflation and other societal and economic factors), using past experience adjusted for current trends and any other factors that would modify past experience. These estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for loss and loss adjustment expenses are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are included in current operations. A liability for all costs expected to be incurred in connection with the settlement of unpaid claims (loss adjustment expense) is accrued when the related liability for unpaid loss is accrued. Loss adjustment expenses include costs associated directly with specific claims paid or in the process of settlement, such as legal and adjusters' fees. Loss adjustment expenses also include other costs that cannot be associated with specific claims but are related to claims paid or in the process of settlement, such as internal costs of the claims function.

The Company does not discount its reserves for losses and loss adjustment expenses. The Company writes primarily surety contracts which are of short duration.

The Company does not consider investment income in determining if a premium deficiency relating to short duration contracts exists.

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

10. Unearned Premiums

Unearned premiums are deferred and amortized on a pro-rated basis.

11. Reinsurance

The Company assumes and cedes reinsurance and participates in various pools. The financial statements reflect premiums, benefits and settlement expenses, and deferred policy acquisition costs, net of reinsurance ceded. Amounts recoverable from reinsurers are estimated in a manner consistent with the future policy benefit and claim liability associated with the reinsured policies.

Accounts recoverable from reinsurers for unpaid losses are presented as an asset in the accompanying consolidated financial statements.

12. Accounting for Derivatives

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, is effective for all fiscal years beginning after June 15, 2000. SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Under SFAS No. 133, certain contracts that were not formerly considered derivatives now meet the definition of a derivative. The Company identified one product that meets the definition of a derivative instrument as defined in SFAS No. 133. The policy provides coverage to the Registered Investment Advisor who writes insured's investing in mutual funds and other investment instruments. The loss on any policy is determined by a reduction below cost in the account of the insured over a five-year period. The identified derivative was accounted for as an insurance contract within the policy liabilities for loss and loss adjustment expenses account in the consolidated balance sheet prior to January 1, 2001.

Effective January 1, 2001 the Company adopted SFAS No. 133. The transition adjustment of $600,000 was reclassified from the policy liabilities for loss and loss adjustment expenses account to a liability for derivative instruments account on the condensed consolidated balance sheet at January 1, 2001. The increase in the derivative liability account in the amount of $404,087 is included in losses and loss adjustment expenses in the condensed consolidated statement of operations for the six-month period ended June 30, 2001.

Estimates and assumption were used in determining the valuation of derivative instruments. Such estimates and assumptions could change in the future as more information becomes known which would affect the amounts reported and disclosed herein.

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

13. Statutory Accounting Practices

CCS is domiciled in Florida and prepares its statutory-basis consolidated financial statements in accordance with accounting practices prescribed or permitted by the Florida Insurance Department. "Prescribed" statutory accounting practices include state laws, regulations, and general administrative rules, as well as a variety of publications of the National Association of Insurance Commissioners ("NAIC"). "Permitted" statutory accounting practices encompass all accounting practices that are not prescribed; such practices may differ from state to state, may differ from company to company within a state, and may change in the future. In 1998, the National Association of Insurance Commissioner adopted the Codification of Statutory Accounting Principles (Codification) for insurance companies. Codification, which is intended to standardize regulatory accounting and reporting for the insurance industry, is effective January 1, 2001. The Company implemented codification at January 1, 2001. On a statutory accounting basis, CCS's underwriting operations reported losses net of income taxes of $855,502 for the six months ended June 30, 2001 and income net of income taxes of $511,624 for the year ended December 31, 2000. Statutory surplus (shareholders' equity) of these operations was $6,011,205 as of June 30, 2001.

14. Comprehensive Income

Comprehensive income is defined as any change in equity from transactions and other events originating from nonowner sources. In the Company's case, those changes are principally comprised of reported net income and changes in the unrealized appreciation and depreciation of the Company's available-for-sale securities. SFAS No. 130 requires that the Company report all components of comprehensive income. The following summaries present the components of comprehensive income for the six months ended June 30, 2001 and June 30, 2000, respectively.

	Consolidated Statements of Comprehensive Income	
	Six Months Ended June 30,	
	2001	2000
Net income	$ 248,615	$ 800,405
Other comprehensive income:		
Unrealized appreciation of available-for-sale securities arising during period	81,955	104,228
Less: reclassification adjustment for losses included in net income	(2,716)	270,067
Comprehensive income	$ 333,286	$ 634,566

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Forward-looking Statement Disclosure

All statements, other than statements of historical facts, included or incorporated by reference in this Form 10-Q which address activities, events or developments which the Company expects or anticipates will or may occur in the future, including statements regarding the Company's competitive position, changes in business strategy or plans, the availability and price of reinsurance, the Company's ability to pass on price increases, plans to install the Bond-Pro(R) program in independent insurance agencies, the impact of insurance laws and regulation, the availability of financing, reliance on-key management personnel, ability to manage growth, the Company's expectations regarding the adequacy of current financing arrangements, product demand and market growth, and other statements regarding future plans and strategies, anticipated events or trends similar expressions concerning matters that are not historical facts are forward-looking statements. These statements are based on certain assumptions and analysis made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments as well as factors it believes are appropriate in the circumstances. However, whether actual results and developments will conform with the Company's expectations and predictions is subject to a number of risks and uncertainties which could cause actual results to differ significantly and materially from past results and from the Company's expectations. All of the forward-looking statements made in this Form 10-Q are qualified by these cautionary statements and there can be no assurance that the actual results or development anticipated by the Company will be realized or, even if substantially realized that they will have the expected consequences to or effects on the Company or its business or operations.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

LIQUIDITY AND CAPITAL RESOURCES

The capacity of a surety company to underwrite insurance and reinsurance is based on maintaining liquidity and capital resources sufficient to pay claims and expenses as they become due. Based on standards established by the National Association of Insurance Commissioners (NAIC) and promulgated by the Florida Department of Insurance, the Company is permitted to write net premiums up to an amount equal to three times its statutory surplus, or approximately $16,300,000 at December 31, 2000. Statutory guidelines impose an additional limitation on increasing net written premiums to no more than 33% of prior year's net written premiums. Under these guidelines, the Company could increase net written premiums by approximately $4,200,000 in the year 2001 subject to risk-based capital limitations.

At June 30, 2001, $26,229,910 of the Company's total assets calculated based on accounting principles generally accepted in the United States of America were comprised as follows: 43 percent in cash and investments (including accrued investment income), 38 percent in receivables and reinsurance recoverables, 13 percent in intangibles and deferred policy acquisition costs and 6 percent in other assets.

The Company follows investment guidelines that are intended to provide an acceptable return on investment while maintaining sufficient liquidity to meet its obligations.

Net cash provided by operating activities was $654,534 and $449,895 for the six months ended June 30, 2001 and 2000, respectively. Net cash provided by operating activities is primarily attributed to a decrease in reinsurance recoverable and an increase in derivative liability, which are offset by an increase in accounts receivable and a decrease in policy liabilities and accruals.

Net cash used in investing activities was $230,878 and $1,057,306 for the six months ended June 30, 2001, and 2000, respectively. Investing activities consist of purchases, sales, and maturities of investments.

As of June 30, 2001 the Company had sufficient capital resources to fund foreseeable future requirements.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

COMPARISON OF SIX MONTHS ENDED JUNE 30, 2001 AND 2000

During the six months ended June 30, 2001, net premium income totaled $6,259,634 representing a net increase of 14 percent from that of the same period in 2000 ($5,508,366). The increase is attributed to the underwriting of small and medium size surety bonds and specialty insurance services. During the six months of 2001 as compared to the same period in 2000, direct premiums earned increased $1,140,951 or 20%; assumed premiums increased $317,719 or 26% and ceded premiums increased $707,402 or 46%. Ceded premiums increase as the volume of direct and assumed premiums increased based on their relationship under the Company's reinsurance treaties.

Net investment income for the first six months of 2001 remained consistent when compared to the same period of 2000. The realized loss of $16,440 in 2001 is attributed to the write-off of an equity security and is offset by realized gains on the disposal of fixed maturities. Other income increased by $169,043 during the six months of 2001 when compared to the same period of 2000. The increase in other income is attributable to the Company's claims consulting subsidiary growth.

During the six months ended June 30, 2001, loss and loss adjustment expenses were $1,831,741 as compared to $1,406,219, for the same period of 2000. Incurred loss and loss adjustment expenses represent the net reserve increase after deduction of paid claims and fluctuates based on premiums written and earned as well as claims incurred and paid. The increase of $425,522 is consistent with the increase in net premium income.

During the six months ended June 30, 2001, amortization of deferred policy acquisition costs was $2,038,957 as compared to $1,689,258 for the same period in 2000. The amortization of deferred policy acquisition costs increase is attributed to the increase in premiums written and earned.

Operating expenses increased by $740,933 or 29% for the six months ended June 30, 2001 when compared to the same period in 2000. The increase is primarily attributed to increases in salary expenses and legal fees associated with the Company's growth.

Interest expense is attributed to the interest on notes payable to affiliates.

Income taxes in the six months ended June 30, 2001 and 2000 were calculated using effective rates of approximately 32% and 33%, respectively.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

COMPARISON OF THREE MONTHS ENDED JUNE 30, 2001 AND 2000

During the three months ended June 30, 2001, net premium income totaled $3,174,937 representing a net increase of 13 percent from that of the same period in 2000 ($2,797,479). During the three months ending June 30, 2001 as compared to the same period during 2000, direct premiums earned increased $480,429 or 16%; assumed premiums increased $269,569 or 53% and ceded premiums increased $372,540 or 46%. Ceded premiums increase as the volume of direct and assumed premiums increase based on their relationship under the Company's reinsurance treaties.

Net investment income for the three months ending June 30, 2001 remained consistent when compared to the same period of 2000. Other income decreased by $33,981 or 7% during the three months ended June 30, 2001 when compared to the same period of 2000.

During the three months ended June 30, 2001, loss and loss adjustment expenses were $949,349 as compared to $656,123, for the same period of 2000. Incurred loss and loss adjustment expenses represent the net reserve increase after deduction of paid claims and fluctuates based on premiums written and earned as well as claims incurred and paid. The increase of $293,226 is attributed to increasing certain factors in calculating reserves.

During the three months ended June 30, 2001, amortization of deferred policy acquisition costs was $942,336 as compared to $802,775 for the same period in 2000. The amortization of deferred policy acquisition costs increase is attributed to the increase in premiums written and earned.

Operating expenses increased by $384,616 or 27% for the three months ended June 30, 2001 when compared to the same period in 2000. The increase is attributed to increases in salary expenses, legal fees and other office expenditures associated with the Company's growth.

Interest expense is attributed to the interest on notes payable to affiliates.

Income taxes in the three months ended June 30, 2001 and 2000 was calculated using an effective rate of approximately 14% and 33%, respectively. The 2001 tax rate is lower due to the decrease in taxable income for the three months ended June 30, 2001.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company had approximately $10.2 million of investments as of June 30, 2001. These investments largely consist of state government obligations and have either variable rates of interest or stated interest rates ranging from 4.75% to 8.5%. The Company's investments are exposed to certain market risks inherent with such assets. These risks are mitigated by the Company's policy of investing in securities with high credit ratings and investing through major financial institutions with high credit ratings.

The Company has notes payable of approximately $2 million at an average interest rate of 8.5%. The terms of the note agreements are such that pre-payment of such debt may not be advantageous to the Company in the event that funds may not be available to the Company at a lower rate of interest.

PART II - OTHER INFORMATION

Item 1. Legal proceedings

None

Item 2. Changes in securities

None

Item 3. Defaults upon senior securities

None

Item 4. Submission of matters to a vote of security holders

None

Item 5. Other Information

None

Item 6. Exhibits and reports on Form 8-K

(a) None

(b) No reports on Form 8-K were filed during the quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CUMBERLAND TECHNOLOGIES, INC.

Date: August 14, 2001

By: /s/ Joseph M. Williams

Joseph M. Williams
President and Chief Executive Officer
(Principle Executive Officer)

Date: August 14, 2001

By: /s/ Carol S. Black

Carol S. Black
Secretary and Chief Financial Officer
(Principle Accounting and Financial Officer)