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CUMBERLAND TECHNOLOGIES INC
Form 10-Q/A
July 30, 2001

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

AMENDMENT NO. 1

FORM 10-Q/A

[Mark One]

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended March 31, 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 No

Applicable Only to Insurers Involved in Bankruptcy Proceedings During the Preceding Five Years

Indicate by a check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities

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Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes [x] No []

Applicable Only to Corporate Issuers

The number of shares of the Registrant's common stock, \$.001 par value, outstanding as of March 31, 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

ASSETS

	March 31, 2001	December 31, 2000

	(unaudited)	
Investments:		

Securities available-for-sale at fair value:		
Debt securities	\$ 7,945,741	\$ 7,553,010
Equity securities	4,197	2,716
Debt securities held-to-maturity at amortized cost (fair value, 2001 - \$1,232,013 2000 - \$1,227,130)	1,224,214	1,223,593
Mortgage loans on real estate, at unpaid principal	741,747	742,068
Short-term investments	433,993	433,993
	-----	-----
Total investments	10,349,892	9,955,380
Cash and cash equivalents	1,195,347	693,778
Accrued investment income	120,628	185,011
Reinsurance recoverable	4,208,726	4,910,443
Accounts receivable:		

Nonaffiliate less allowance for doubtful accounts of \$13,750	4,250,930	3,821,206
Affiliate	437,636	436,997
Income tax recoverable	186,588	167,588
Deferred income tax asset	175,234	175,234
Deferred policy acquisition costs	2,073,219	1,955,018
Intangibles, net	1,079,163	1,115,316
Other investment	595,496	582,532
Other assets	360,248	311,082
	-----	-----
	\$25,033,107	\$24,309,585
	=====	=====

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See notes to condensed consolidated financial statements.

CUMBERLAND TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31, 2001	December 31, 2000
	(unaudited)	
Policy liabilities and accruals:		
Loss and loss adjustment expenses	\$ 4,694,374	\$ 5,185,626
Unearned premiums	6,047,266	5,775,524
Ceded reinsurance payable	638,631	721,513
Derivative liability	944,034	--
Accounts payable and other liabilities	2,726,488	2,637,748
Debt:		
Nonaffiliate	963,885	1,102,683
Affiliate	1,000,000	1,000,000
Total liabilities	17,014,678	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	8,906	104,485
Retained earnings	997,010	774,993
	8,282,148	8,150,210
Less treasury stock, at cost, 318,112 shares .	(263,719)	(263,719)
Total stockholders' equity	8,018,429	7,886,491
	\$ 25,033,107	\$ 24,309,585
	=====	=====

See notes to condensed consolidated financial statements.

CUMBERLAND TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

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Income (Loss)	(Accumulated Deficit)	Treasury Stock	Stockholders' Stock Equity	Amount	Value
-----	-----	-----	-----	-----	-----
Balance at January 1, 2000	(40,897)	\$ (266,756)	5,815,356	\$ 5,816	\$ 7,257,916
		\$ (263,719)	\$6,692,360		
Exercise of 56,000 shares under 1991 stock option plan			56,000	56	6,944
			7,000		
Net increase in unrealized depreciation of available-for-sale securities, net of income tax					
145,382			145,382		
Net income	1,041,749		1,041,749		

Comprehensive income			1,187,131		

Balance at December 31, 2000	104,485	774,993	5,871,356	5,872	7,264,860
		(263,719)	7,886,491		
Exercise of 44,000 shares under 1991 stock option plan			44,000	44	5,456
			5,500		
Net decrease in unrealized appreciation of available-for-sale securities, net of income tax	(95,579)		(95,579)		
Net income	222,017		222,017		

Comprehensive income			126,438		

Balance at March 31, 2001	8,906	\$ 997,010	5,915,356	\$ 5,916	\$ 7,270,316
		\$ (263,719)	\$8,018,429		
			=====		
			=====		

See notes to condensed consolidated financial statements.

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	=====	=====
Supplemental cash flows disclosure:		

Cash paid for interest	\$ 24,498	\$ 52,802
	-----	-----
Cash paid for income taxes	\$ --	\$ 144,650
	=====	=====

See notes to condensed consolidated financial statements.

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2001
(UNAUDITED)

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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance 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 months ended March 31, 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 and notes thereto 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 and accompanying notes. 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 months ended March 31, 2001 and 2000 is based on the weighted average number of shares outstanding, adjusted for the dilutive effect of stock options, and is the same on both a basic and fully diluted basis.

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:

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	Three Months Ended March 31, 2001	Twelve Months Ended December 31, 2000
	-----	-----
Fixed maturities, net of income tax	\$ 29,547	\$ 126,607
Equities	(20,641)	(22,122)
	-----	-----
Total change in unrealized appreciation, net of income taxes	\$ 8,906	\$ 104,485
	=====	=====

5. Income Taxes

The Company's provision for income taxes for the quarters ended March 31, 2001 and 2000 has been calculated using an effective rate of approximately 33%.

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 March 31, 2001 and December 31, 2000, 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 \$1,851,490 and \$1,851,000 as of March 31, 2001 and December 31, 2000, respectively. 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

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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 and it has not determined the impact, if any, that this statement will have on its

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consolidated financial position or results of operations.

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 liability for loss and loss adjustment expenses is 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.

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

12. Accounting for Derivative Instruments

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 for periods 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 \$344,034 is included in losses and loss adjustment expenses in the condensed consolidated statement of operations for the three months period ended March 31, 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

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Company implemented codification at January 1, 2001. On a statutory accounting basis, CCS's underwriting operations reported income net of taxes of (\$191,483) for the three months ended March 31, 2001 and \$511,624 for the year ended December 31, 2000. Statutory surplus (shareholders' equity) of these operations was \$5,586,139 and \$5,441,336 as of March 31, 2001 and December 31, 2000, respectively.

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, other than net income, for the three months ended March 31, 2001 and March 31, 2000, respectively.

	Consolidated Statements of Comprehensive Income	
	Three Months Ended March 31,	
	2001	2000
Net income	\$ 222,017	\$ 438,674
Other comprehensive income:		
Unrealized (depreciation) appreciation of available-for-sale securities arising during period	(95,579)	38,007
Less: reclassification adjustment for gains included in net income	--	213,308
	\$ 126,438	\$ 263,373

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

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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.

Explanatory Note

This amendment to Form 10-Q has been filed to reflect that the Company has received the independent valuation report of the value of the derivative instruments described in Note 12 to the financial statements. The valuation report indicated a fair value that is consistent with the Company's previously reported financial results, and the Company's results of operations did not require any adjustment.

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 March 31, 2001, \$25,033,107 of the Company's total assets calculated based on generally accepted accounting principles were comprised as follows: 47 percent in cash and investments (including accrued investment income), 36 percent in receivables and reinsurance recoverables, 13 percent in intangibles and deferred policy acquisition costs and 4 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 \$1,129,582 and \$47,474 for the three months ended March 31, 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.

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Net cash (used in) provided by investing activities was (\$494,076) and \$54,216 for the three months ended March 31, 2001, and 2000, respectively. Investing activities consist of purchases, sales, and maturities of investments.

As of March 31, 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 THREE MONTHS ENDED MARCH 31, 2001 AND 2000

During the three months ended March 31, 2001, net premium income totaled \$3,084,697 representing a net increase of 14 percent from that of the same period in 2000 (\$2,710,887). The increase is attributed to the marketing direction of the Company, which is to penetrate the direct market while decreasing the volume of reinsurance premiums assumed through Pooling Agreements. During the first three months of 2001 as compared to the same period in 2000, direct premiums earned increased \$660,522 or 24%; assumed premiums increased \$48,150 or 7% and ceded premiums increased \$334,862 or 47%. 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 quarter of 2001 remained consistent when compared to the same period of 2000. Other income increased by \$203,024 during the first three months of 2001 when compared to the same period of 2000. The increase is attributable to the Company's consulting subsidiary earnings.

During the three months ended March 31, 2001, loss and loss adjustment expenses were \$882,392 as compared to \$750,096, 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 \$132,296 is consistent with the increase in net premium income.

During the three months ended March 31, 2001, amortization of deferred policy acquisition costs was \$1,096,621 as compared to \$886,483 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 \$356,317 or 32% for the three months ended March 31, 2001 when compared to the same period in 2000. The increase is 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 three months ending March 31, 2001 and 2000 were calculated using effective rates of approximately 33%.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES

ABOUT MARKET RISK

The Company had approximately \$10.3 million of investments as of March 31, 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 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

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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: July 30, 2001

By: /s/ Joseph M. Williams

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

Date: July 30, 2001

By: /s/ Carol S. Black

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