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CUMBERLAND TECHNOLOGIES INC
Form 10-Q
May 30, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[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, 2003.

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

Indicate by check mark whether the registrant is an accelerated filer (as determined in Rule 12b-2 of the Exchange Act).

Yes No

Applicable Only to Corporate Issuers

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The number of shares of the Registrant's common stock, \$.001 par value, outstanding as of March 31, 2003 was 5,596,744 shares.

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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, 2003	December 31, 2002
	(unaudited)	
Investments:		
Debt securities available-for-sale at fair value	\$ 6,558,978	\$ 7,758,657
Debt securities held-to-maturity at amortized cost (fair value, 2003 - \$100,000 and 2002 - \$367,681)	100,000	359,898
Mortgage loans on real estate, at unpaid principal	677,004	716,413
Short-term investments	433,993	433,993
	-----	-----
Total investments	7,769,975	9,268,961
Cash and cash equivalents	--	593,259
Accrued investment income	105,364	123,894
Reinsurance recoverable	11,660,236	12,089,177
Accounts receivable:		
Nonaffiliate less allowance for doubtful accounts of \$134,323 and \$116,323 at March 31, 2003 and December 31, 2002, respectively	2,253,595	2,518,187
Income tax recoverable	1,008,208	1,073,686
Deferred income tax asset	472,100	401,738
Deferred policy acquisition costs	1,594,527	1,665,694
Intangibles, net	266,691	288,473
Goodwill	152,780	152,780
Other investment	690,284	700,124
Other assets	243,373	302,515
	-----	-----
	\$26,217,133	\$29,178,488
	=====	=====

See notes to condensed consolidated financial statements.

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CUMBERLAND TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31, 2003	December 31, 2002
	(unaudited)	
Policy liabilities and accruals:		
Loss and loss adjustment expense reserves	\$ 7,077,592	\$ 8,895,470
Derivative instruments	4,381,888	4,346,285
Unearned premiums	4,289,122	4,587,175
Ceded reinsurance payable	34,586	26,883
Accounts payable and other liabilities	3,072,506	3,775,924
Income tax payable	--	--
Long-term Debt:		
Nonaffiliate	437,417	455,417
Affiliate	604,055	604,055
Total liabilities	19,897,166	22,691,209
Stockholders' equity:		
Common stock, \$.001 par value; 10,000,000 shares authorized; 5,915,356 shares issued	5,916	5,916
Capital in excess of par value	7,270,316	7,270,316
Accumulated other comprehensive income	214,107	210,574
Accumulated deficit	(906,653)	(735,808)
	6,583,686	6,750,998
Less treasury stock, at cost, 318,112 shares .	(263,719)	(263,719)
Total stockholders' equity	6,319,967	6,487,279
Total liabilities and stockholders' equity	\$ 26,217,133	\$29,178,488

See notes to condensed consolidated financial statements.

CUMBERLAND TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

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	----- Three Months Ended March 31, 2003 2002 -----	
Revenue:		

Direct premiums earned	\$ 2,565,688	\$ 3,368,144
Reinsurance premiums earned	302,621	792,546
Less reinsurance ceded	(632,001)	(1,075,529)
	-----	-----
Net premium income	2,236,308	3,085,161
Net investment income	86,925	128,485
Net realized investment gains (losses)	6,068	(4,326)
Other income	560,876	602,564
	-----	-----
Total revenue	2,890,177	3,811,884
	-----	-----
Benefits and Expenses:		

Losses and loss adjustment expenses	954,588	1,649,696
Derivative expense	296,955	76,054
Amortization of deferred policy acquisition Costs	630,621	1,010,653
Operating expenses	1,253,952	1,475,363
Interest expense	12,081	17,553
	-----	-----
Total expenses	3,148,197	4,229,319
	-----	-----
Loss from operations before income tax benefit	(258,020)	(417,435)
Income tax benefit	(97,015)	(136,900)
	-----	-----
Net loss from operations	\$ (161,005)	\$ (280,535)
Equity (loss) income	(9,840)	14,813
	-----	-----
Net loss	\$ (170,845)	\$ (265,722)
	=====	=====
Weighted average shares outstanding - basic	5,596,744	5,597,244
	=====	=====
Net loss per share - basic	\$ (0.03)	(0.05)
	=====	=====
Weighted average shares outstanding - diluted	5,596,744	5,619,744
	=====	=====
Net loss per share - diluted	\$ (0.03)	\$ (0.05)
	=====	=====

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2003 (UNAUDITED) AND
FOR THE YEAR ENDED DECEMBER 31, 2002

	Common Shares		Capital in	Other	Ret
	Stock	Amount	Excess of	Comprehensive	Ea
	-----	-----	Par Value	Income	(Accu
	-----	-----	-----	-----	Def
Balance at January 1, 2002	5,915,356	5,916	7,270,316	70,729	833
Net unrealized appreciation of available-for-sale securities, net of income tax				139,845	
Net loss					(1,569)
Comprehensive loss	-----	-----	-----	-----	-----
Balance at December 31, 2002	5,915,356	5,916	7,270,316	210,574	(735)
Net increase in unrealized appreciation of available- for-sale securities, net of income tax				3,533	
Net loss					(170)
Comprehensive loss	-----	-----	-----	-----	-----
Balance at March 31, 2003	<u>5,915,356</u>	<u>\$ 5,916</u>	<u>\$ 7,270,316</u>	<u>\$214,107</u>	<u>\$ (906)</u>

See notes to condensed consolidated financial statements.

CUMBERLAND TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

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	----- Three Months Ended March 31, 2003 2002 -----	
Operating activities:		

Net loss	\$ (170,845)	\$ (265,722)
Adjustments to reconcile net loss to cash used in operating activities:		
Accretion of investment discounts and premiums.....	5,610	11,038
Policy acquisition costs amortized	630,621	1,010,653
Policy acquisition costs deferred	(559,454)	(1,019,504)
Amortization	21,782	21,782
Net realized (gain) loss on disposal of investments	(6,068)	4,326
(Increase) decrease in:		
Accrued investment income	18,530	(25,433)
Reinsurance recoverable	428,941	(136,074)
Accounts receivable	264,592	721,172
Income tax recoverable	65,478	(71,544)
Deferred income tax asset	(72,494)	--
Other investment	9,840	--
Other assets	59,142	30,371
Increase (decrease) in:		
Policy liabilities and accruals	(2,115,931)	(354,529)
Derivative liability	35,603	45,763
Ceded reinsurance payable	7,703	(1,200,352)
Accounts payable and other liabilities.	(703,418)	723,822
Income tax payable	--	(113,284)
	-----	-----
Net cash used in operating activities	(2,080,368)	(617,515)
	-----	-----
Investing activities:		

Securities available-for-sale:		
Purchases - fixed maturities	(692,572)	(2,871,982)
Proceeds from fixed maturities	1,898,272	996,875
Purchase of mortgage loan	--	(36,905)
Securities held-to-maturity:		
Proceeds from sales - debt securities	260,000	--
Net receipts on mortgage loans	39,409	429
	-----	-----
Net cash provided by (used in) investing activities.	1,505,109	(1,911,583)
	-----	-----
Financing activities:		

Payments on long-term debt	(18,000)	(142,523)
Net change in advances to affiliates	--	17,490
	-----	-----
Net cash used in financing activities	(18,000)	(125,033)
	-----	-----
Decrease in cash and cash equivalents	(593,259)	(2,654,131)
Cash and cash equivalents, beginning of period ..	593,259	2,654,131
	-----	-----
Cash and cash equivalents, end of period	\$ --	\$ --
	=====	=====
Supplemental cash flows disclosure:		

Cash paid for interest	\$ --	\$ 2,451
	-----	-----

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Cash paid for income taxes	\$	--	\$	47,928
	=====		=====	

See notes to condensed consolidated financial statements.

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2003 (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 wholly-owned 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. 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. Qualex Consulting Group, Inc. ("Qualex"), a Florida corporation formed in November 1994, provides claim and contracting consulting services.

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.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the

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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, 2003 are not necessarily indicative of the results that may be expected for any future quarters or the year ending December 31, 2003. For further information, refer to consolidated financial statements and notes thereto for the year ended December 31, 2002, included in the Company's Form 10-K as filed with the United States Securities and Exchange Commission on May 5, 2003.

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2003 (UNAUDITED)

2. Summary of Significant Accounting Policies (continued)

Investments

The Company accounts for marketable securities in accordance with Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities."

Debt securities that the Company has both the positive intent and ability to hold to maturity are classified as "held-to-maturity" securities and are reported at amortized cost. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts from the date of purchase to maturity. Such amortization and accretion, which is calculated under the interest method, is included in investment income.

Marketable equity securities and debt securities not classified as "held-to-maturity" or "trading" are classified as "available-for-sale." Available-for-sale securities are reported at estimated fair value, with the unrealized gains and losses, net of any related income taxes, reported as a separate component of equity and of other comprehensive income (loss). Realized gains and losses and declines in value judged to be other-than-temporary are included in income. The cost of securities sold is based on the specific identification method. Interest and dividends on securities are included in investment income.

Short-term investments primarily include certificates of deposit having maturities of more than three months when purchased. These investments are reported at cost, which approximates fair value.

Investments in which the Company has a 20% - 50% ownership interest are accounted for using the equity method.

Cash Equivalents

The Company considers all highly liquid investments having a maturity of twelve months or less when purchased to be cash equivalents.

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Deferred Policy Acquisition Costs -----

To the extent recoverable from future policy revenues, the costs of acquiring new surety business, principally commissions, are deferred and amortized in a manner which charges each year's operations in direct proportion to the premium revenue recognized.

Intangibles -----

Intangible assets are stated at cost and principally represent purchased customer accounts and the excess of costs over the fair value of identifiable net assets acquired ("Goodwill").

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2003 (UNAUDITED)

2. Summary of Significant Accounting Policies (continued) -----

Intangibles (continued) -----

Purchased customer accounts, noncompete agreements, and purchased contract agreements are being 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.

In accordance with SFAS 142, "Goodwill and Other Intangible Assets", the Company discontinued the amortization of goodwill effective January 1, 2002. At March 31, 2003 and December 31, 2002, goodwill, net of accumulated amortization, was \$152,780.

In accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which became effective for the Company as of January 1, 2002, the Company periodically reviews the carrying value of long-lived assets to determine if impairment has occurred. Impairment losses, if any, are recorded in the period identified. Significant judgment is required to determine whether or not impairment has occurred. The determination is made by evaluating expected future undiscounted cash flows or the anticipated recoverability of costs incurred and, if necessary, determining the amount of the loss, if any, by evaluating the fair value of the assets.

At December 31, 2001, Goodwill and other long-lived assets that were capitalized in conjunction with the purchase of Associates Acquisition Corp., d/b/a Surety Associates were deemed impaired as such an impairment charge of \$437,418 was recorded in the consolidated statement of operations.

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Loss and Loss Adjustment Expenses

The liability for loss and loss adjustment expenses including incurred but not reported losses is based on the estimated ultimate cost of settling the claim using traditional paid and incurred loss development methods. 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 liabilities 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 loss and loss adjustment expenses is accrued when the related liability for unpaid losses 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 losses paid or in the process of settlement, such as internal costs of the claims function.

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2003 (UNAUDITED)

2. Summary of Significant Accounting Policies (continued)

Loss and Loss Adjustment Expenses (continued)

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.

Derivative Instruments

The Company adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" effective January 1, 2001. The Company identified one product that meets the definition of a derivative instrument as defined in SFAS No. 133. The policy is issued to registered investment advisors ("Advisors"), and insures losses suffered by the Advisors as a result of market declines on covered investment principal, provided that the Advisors have followed the investment guidelines required by the policy. The identified derivative was formerly 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 and on January 1, 2001 there was no cumulative effect of change in accounting principal due to the fact that the policy liability recorded for this policy at December 31, 2000 approximated the fair value of the derivative

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instrument at January 1, 2001. The fair value of the derivative instrument at March 31, 2003 and December 31, 2002 is \$4,381,888 and \$4,346,285, respectively. At March 31, 2003 and December 31, 2002 the fair value of the derivative instrument was determined by using a financial model that incorporates market data and other assumptions. Due to the volatility in the marketplace, the Company suspended marketing of this product effective September 2001. The Company is not involved in any hedging activities.

Unearned Premiums

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

Reinsurance

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

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2003 (UNAUDITED)

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Premiums earned on direct insurance and assumed reinsurance are recognized on a pro-rata basis over the period of risk. Commission income, which is earned on ceded premiums and premiums written for other third party insurance carriers, is recognized at the effective date of the bonds issued. Other income, consisting primarily of consulting fees, is recognized when the negotiated services are provided.

Stock-Based Compensation

The Company has adopted only the pro forma disclosure provisions of Statement No. 123, Accounting for Stock-Based Compensation ("SFAS No. 123"). SFAS No. 123 encourages, but does not require companies to record at fair value compensation cost for stock-based employee compensation plans. The Company accounts for equity-based compensation arrangements in accordance with the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Intrinsic value is the amount by which the market price of the underlying stock exceeds the exercise price of the stock option or award on the measurement date, generally the date of grant.

Income Taxes

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company has recorded a deferred income tax asset of \$472,100 and \$401,738 at March 31, 2003 and December 31, 2002, respectively. Realization of the asset is dependent on generating sufficient taxable income in future years. Although realization is not assured, management believes it is more likely than not that all of the deferred income tax asset will be realized.

The Company files a consolidated tax return that includes all of its subsidiaries.

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2003 (UNAUDITED)

2. Summary of Significant Accounting Policies (continued)

Earnings Per Share

The Company computes and discloses earnings (loss) per share in accordance with the provisions of Statement of Financial Accounting Standards No. 128, Earnings Per Share. The 39,500 and 54,700 outstanding stock options at March 31, 2003 and 2002, respectively, had an immaterial effect on the results of the calculations of earnings per share.

Business Concentration

The majority of the Company's business relates to surety bonds, which provide performance and payment bonds for individual and commercial contractors, and market performance products, which provide specific liability coverage for professional services rendered by registered investment advisors. Accordingly, the occurrence of adverse economic conditions could have a material adverse effect on the Company's business, although for surety bonds, no such conditions have been encountered in the Company's past experience. For surety bonding, the Company requires collateral from surety bond customers if the customer fails to meet between 80 percent to 99 percent of the Company's underwriting criteria. Customers that fail to meet at least 80 percent of the requirements are denied surety bonding.

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Use of Estimates

The preparation of the 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.

New Accounting Standards

The Financial Accounting Standards Board ("FASB") recently issued the following SFAS's, and the Company is currently determining the impact that these standards will have on its financial statements.

In August 2001, the FASB issued SFAS 143, "Accounting for Asset Retirement Obligations". SFAS 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it occurred. The standard is effective for fiscal years beginning after June 15, 2002.

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2003 (UNAUDITED)

2. Summary of Significant Accounting Policies (continued)

New Accounting Standards (continued)

In June 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". SFAS No. 146 requires costs associated with exit or disposal activities to be recognized when the costs are incurred, rather than at a date of commitment to an exit or disposal.

Reclassifications

Certain amounts in the 2002 consolidated financial statements have been reclassified to conform to the 2003 consolidated financial statement presentation.

3. Related Party Transactions

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In 1988, CCS issued a surplus debenture to KC in exchange for \$3,000,000 which bore interest at 10 percent per annum. Interest and principal payments were 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. At January 1, 2003, CTI forgave the \$2,048,734 balance of the surplus note increasing CCS's paid in capital to \$3,048,734.

On March 8, 2002, Cumberland purchased a residential mortgage from Francis M. Williams. Mr. Williams is Chairman of the Board of the Company. The principal balance on the loan was \$36,906. Interest accrued through the date of acquisition was \$129 at an annual interest rate of 7.5%. No prior liens exist related to taxes, assessments or other similar charges.

4. Investments

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

	March 31, 2003	December 31, 2002
	-----	-----
Fixed maturities, net of income tax	\$ 214,107	\$ 210,574
	=====	=====

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2003 (UNAUDITED)

5. Income Taxes

The Company has recorded a deferred income tax asset of \$472,100 and \$401,738 at March 31, 2003 and December 31, 2002, respectively.

The Company's provision for income taxes for the period ended March 31, 2003 and 2002 has been calculated using an effective rate of approximately 37.6% and 34%, respectively.

6. Debt

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, 2003 and bears interest equal to one half of one percent per annum in excess of the stated interest rate established by the Bank of America. On December 26, 2001, the Company made a principal note payment of \$395,495 reducing the outstanding balance on the note to

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\$604,055. The lender may convert the principal amount of the note or a portion thereof into 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 was due March 1, 2002 bearing interest at 8% through February 28, 2001 and 10% thereafter. Principal payments of \$125,000 are due annually beginning March 1, 2000. On March 1, 2002, a final payment of \$125,000 was made on the note due March 1, 2002. The other note is due June 30, 2010 and bears interest at 9%. Principal payments of \$40,000 were due annually for three years beginning January 5, 1996. Payments of \$11,104 including principal and interest were paid monthly from April 1, 1997 through June 30, 2001. On December 3, 2001, SA reached an agreement with the holder on this note payable, whereby the terms of the note were modified, such that the effective interest rate was 6%, and principal payments became payable at \$6,000 per month.

7. 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.

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2003 (UNAUDITED)

8. Statutory Accounting Practices -----

CCS is domiciled in Florida and prepares its statutory-basis 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 NAIC 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

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codification at January 1, 2001. On a statutory accounting basis, CCS reported losses net of income taxes of (\$379,485) for the three months ended March 31, 2003. Statutory surplus (shareholders' equity) of these operations was \$4,355,414 and \$4,734,899 as of March 31, 2003 and December 31, 2002, respectively.

9. Comprehensive Loss

Comprehensive loss is defined as any change in equity from transactions and other events originating from nonowner sources. The Company's comprehensive income is comprised of reported net loss and changes in the unrealized appreciation of available-for-sale securities. The following summarizes the components of comprehensive loss:

	Consolidated Statements of Comprehensive Loss	
	Three Months Ended March 31,	
	2003	2002
Net loss	\$(170,845)	\$(265,722)
Other comprehensive income:		
Unrealized appreciation (depreciation) of available-for-sale securities arising during period, net of income tax	9,601	(89,123)
Reclassification adjustment for (gains) losses included in net income, net of income tax	(6,068)	10,140
Comprehensive loss	\$(167,312)	\$(344,705)

CUMBERLAND TECHNOLOGIES, INC.

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

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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. These risks and uncertainties include, but are not limited to, changes in the market value of the Company's investments, increases in the Company's liability under derivative securities, losses on claims in excess of the Company's liability for loss and loss adjustment expenses, competition in the insurance industry, inability to recover from reinsurers for unpaid losses, unanticipated losses from litigation, the effects of new or existing government regulations, and the impact of new accounting pronouncements. 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 Financial Services, the Company is permitted to write net premiums up to an amount equal to three times its statutory surplus, or approximately \$14,200,000 at December 31, 2003. 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 \$4,114,000 in the year 2003 subject to risk-based capital limitations.

At March 31, 2003, \$217,133 of the Company's total assets calculated based on accounting principles generally accepted in the United States of America were comprised as follows: 30 percent in cash and investments (including accrued investment income), 53 percent in receivables and reinsurance recoverables, 6 percent in income tax recoverable and deferred income tax asset, 8 percent in intangibles and deferred policy acquisition costs and 3 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 used in operating activities was \$2,080,368 and \$617,515 for the three months ended March 31, 2003 and 2002, respectively. Net cash used in operating activities for the period ended March 31, 2003 and 2002 is primarily attributed to a decrease in policy liabilities and accruals, taxes recoverable and is a result of claim payments.

Net cash provided by (used in) investing activities was \$1,505,109 and (\$1,911,583) for the three months ended March 31, 2003 and 2002, respectively. Investing activities consist of purchases, sales, and maturities of investments.

Net cash used in financing activities was \$18,000 and \$125,033 for the

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three months ended March 31, 2003 and 2002, respectively. Financing activities consist primarily of payments on long-term debt.

It is anticipated that the liquidity requirements of the Company will be met primarily by funds generated from operations. The principal sources of operating cash flows are premiums, investment income, and sales and maturities of investments. The Company believes that total invested assets, including cash and short-term investments, are sufficient in the aggregate and have suitably scheduled maturities to satisfy all policy claims and other operating liabilities.

As of March 31, 2003, the Company believes that it has sufficient capital resources to fund its present capital requirements.

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

Management of the Company is considering a possible "going private" transaction, which might involve a reverse stock split or a stock repurchase program. Any such transaction would be reviewed and approved by the Board of Directors of the Company prior to completion, and may require shareholder approval. The actual amount of funds needed to implement a transaction is not known, but management believes that it would not have a material impact on the financial condition of the Company. However, any such transaction may have the effect of enabling the Company to terminate the registration of its common stock, and its reporting obligations, under the Securities Exchange Act of 1934.

Critical Accounting Policies

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions.

The Company believes the following accounting policies are the most critical since these policies require significant judgment or involve complex estimations that are important to the portrayal of the Company's financial condition and operating results:

Asset Impairment

The Company reviews long-lived assets, including certain identifiable intangibles, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Upon determination that the carrying value of the asset is impaired, the Company would record an impairment charge or loss. Future adverse changes in market conditions or poor

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operating results of the underlying investment could result in losses or an inability to recover the carrying value of the investment that may not be reflected therein; and therefore, might require the Company to record an impairment charge in the future.

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

Critical Accounting Policies (continued)

Derivatives

Statement of Financial Accounting Standard No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS No.133") 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 may now meet the definition of a derivative. The Company adopted SFAS No. 133 effective January 1, 2001. The Company identified one product that meets the definition of a derivative instrument as defined in SFAS No. 133. The identified derivative was formerly accounted for as an insurance contract within the policy liabilities for loss and loss adjustment expenses account in the consolidated balance sheet. At March 31, 2003 and December 31, 2002 the fair value of the derivative instrument has been determined by using a financial model that incorporates market data and other assumptions. Due to the volatility in the marketplace, the Company has suspended marketing of this product effective September 2001.

Reserves for Unpaid Losses and Adjustment Expenses

The liability for loss and loss adjustment expenses including incurred but not reported losses is based on the estimated ultimate cost of settling the claim using traditional paid and incurred loss development methods. 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 liabilities 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 loss and loss adjustment expenses 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 losses paid or in the process of settlement, such as internal costs of the claims function. The Company does not discount its liability 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.

Reinsurance

The Company assumes and cedes insurance with other insurers and reinsurers to limit maximum loss, provide greater diversification of risk and minimize exposure on larger risks. Premiums and loss and loss adjustment expenses that are ceded under reinsurance arrangements reduce the respective revenues and expenses. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy and are reported as reinsurance recoverable.

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

Critical Accounting Policies (continued)

Income Taxes

The Company accounts for income taxes under the liability method. Under the liability method, deferred income taxes are established for the future tax effects of temporary differences between the tax and financial reporting bases of assets and liabilities using currently enacted tax rates. Such temporary differences primarily relate to certain insurance liabilities, deferred policy acquisition costs and intangible assets. The effect on deferred income taxes of a change in tax rates is recognized in income in the period of enactment. A valuation allowance to reduce deferred income tax assets is established when deemed appropriate.

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

RESULTS OF OPERATIONS

COMPARISON OF THREE MONTHS ENDED MARCH 31, 2003 AND 2002

Direct, assumed and ceded premiums for the first quarter of 2003 decreased \$848,853 or 28% when compared to the same period in 2002. The decrease is attributed to the Company's marketing decision to write small to medium size bonds and the discontinuance of assuming premiums under a former reinsurance program. Net premium income for the period ended March 31, 2003 and 2002, was \$2,236,308 and \$3,085,161, respectively.

Net investment income for the three months ended March 31, 2003 decreased by \$41,560 when compared to the same period in 2002. The decrease is attributed to a decrease in bond holdings and an overall decrease in interest rates earned

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on the bond and money market portfolio. Other income decreased by \$44,688 or 7% when compared to the same period of 2002 and is attributed to the Company's claims consulting subsidiary loss of revenue (\$21,278), and subsidiary agencies loss of commission income (\$20,410).

During the three months ended March 31, 2003, loss and loss adjustment expenses decreased by \$695,108 when compared to the same period in 2002. The decrease is attributed to a decline in incurred losses and loss adjustment expenses on direct and assumed business.

During the three months ended March 31, 2003, derivative expense increased by \$220,901 when compared to the same period in 2002. The change is attributed to an increase in the liability for derivative valuation as a result of market value fluctuations.

During the three months ended March 31, 2003, amortization of deferred policy acquisition costs was \$630,621 as compared to \$1,010,653 for the same period in 2002. The amortization of deferred policy acquisition costs is 28% and 33% of earned premiums for the three months ended March 31, 2003 and 2002, respectively.

Operating expenses for the three months ended March 31, 2003 when compared to the same period in 2002 decreased by \$221,411 or 15%. The decrease is attributed to downsizing operations based on the revised marketing plan.

The decrease in interest expense for the three months ended March 31, 2003 is due to a decrease in the interest rate on the long-term debt.

Income taxes in the three months ended March 31, 2003 and 2002 were calculated using an effective rate of 37.6% and 34%, respectively.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company had approximately \$7.8 million of investments as of March 31, 2003. These investments largely consist of government obligations and have either variable rates of interest or stated interest rates ranging from 3.5% to 8.5%. The Company's investments are exposed to certain market risks inherent with such assets. The risk of defaults is 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 \$1.1 million at an average interest rate of 8.6%.

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 may now meet the definition of a derivative. The Company adopted SFAS No. 133 effective January 1, 2001. The Company identified one product that meets the definition of a derivative instrument as defined in SFAS No. 133. The policy is issued to registered investment advisors ("Advisors"), and insures losses suffered by the Advisors as a result of market declines on covered investment principal, provided that the Advisors have followed the investment guidelines required by the policy. The identified derivative was formerly accounted for as an insurance contract within the policy liabilities for loss and loss adjustment expenses account in the

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consolidated balance sheet prior to January 1, 2001. There was no cumulative effect of change in accounting principal due to the fact that the policy liability recorded for this policy at December 31, 2000 approximated the fair value of the derivative instrument at January 1, 2001. The fair value of the derivative instrument at March 31, 2003 and December 31, 2002 is \$4,381,888 and \$4,346,285, respectively. The Company is not involved in any hedging activities. At March 31, 2003 and December 31, 2002 the fair value of the derivative instrument has been determined by using a financial model that incorporates market data and other assumptions. Due to the volatility in the marketplace, the Company suspended marketing of this product effective September 2001. The value of the derivative liability increases in proportion to the volatility in the marketplace.

Item 4. CONTROLS AND PROCEDURES

With the participation of management, the Company's chief executive officer and chief financial officer evaluated the Company's disclosure controls and procedures within 90 days of the filing date of this quarterly report. Based upon this evaluation, the chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures are effective in ensuring that material information required to be disclosed is included in the reports that it files with the Securities and Exchange Commission.

There were no significant changes in the Company's internal controls or, to the knowledge of the management of the Company, in other factors that could significantly affect these controls subsequent to the evaluation date.

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

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None

Item 6. Exhibits and reports on Form 8-K

(a) The following documents are filed as exhibits to this Quarterly Report on Form 10-Q:

3(a) Articles of Incorporation*

3(b) Bylaws*

99.1 Contribution of Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Contribution of Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.

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

* Incorporated by referenced to the same exhibit number filed with the Registrant's Registration Statement on Form 10 (File No. 0-19727).

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: May 30, 2003

By: /s/ Joseph M. Williams

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

Date: May 30, 2003

By: /s/ Carol S. Black

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

CUMBERLAND TECHNOLOGIES, INC.

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CERTIFICATION FOR QUARTERLY REPORT ON FORM 10-Q

I Joseph M. Williams, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cumberland Technologies, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrants other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosures controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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Date: May 30, 2003

By: /s/ Joseph M. Williams

Joseph M. Williams
President and Treasurer

CUMBERLAND TECHNOLOGIES, INC.

CERTIFICATION FOR QUARTERLY REPORT ON FORM 10-Q

I Carol S. Black, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cumberland Technologies, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrants other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosures controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's

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ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 30, 2003

By: /s/ Carol S. Black

Carol S. Black
Secretary and Chief Financial Officer