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CUMBERLAND TECHNOLOGIES INC  
Form 10-K  
April 01, 2002

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

FORM 10-K

[Mark One]

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 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 offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Name of each exchange on which registered
-----	-----
Common Stock	The NASDAQ Stock Market

Securities registered pursuant to Section 12(g) of the Act:

Common Stock  
-----  
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by a check mark if disclosure of delinquent files pursuant to Item 405

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Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this form 10-K. [x]

\$992,266

Aggregate market value of voting stock (Common Stock) held by nonaffiliates of the Registrant as of March 7, 2002

5,597,244 shares of Common Stock \$.001 par value

Number of shares of Common Stock outstanding as of March 7, 2002

Documents incorporated by reference: NONE

PART I

Item 1. Business

General

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 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"). Cumberland Technologies, Inc., ("the Company") is a holding company engaged through its subsidiaries, Cumberland Casualty & Surety Company ("CCS"), Surety Specialists, Inc. ("SSI"), The Surety Group, Inc. ("SG"), Associates Acquisition Corp. d/b/a Surety Associates ("SA") and Qualex Consulting Group, Inc. ("Qualex") in the delivery of specialty surety and insurance services. Surety services include underwriting surety bonds on a direct and assumed basis, surety consulting and the development of surety software. Insurance services include the underwriting of speciality and other liability insurance products. In addition, the Company conducts its business through a number of independent agencies which focus on selling and delivering surety insurance products to consumers. Because the need to advance technologically in the delivery of insurance products, the Company developed a software product called Bond-Pro(R). This patented surety issuance system increases the speed that surety agents deliver their products to the customer and financially report those transactions to the carrier, while reducing operating costs. The Company's business strategy is to continue the underwriting focus of each of its operating subsidiaries and to achieve growth through the expanded licensing of Bond-Pro(R).

CCS is a property and casualty insurance company that was incorporated in Texas on May 4, 1988 and redomesticated in Florida, on September 2, 1994. CCS is licensed in twenty-seven states, the District of Columbia, and Guam. It holds a

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certificate of authority from the United States Department of the Treasury, which qualifies CCS as an acceptable surety on Federal bonds. CCS is rated "B+" (Very Good) by A.M. Best.

CCS currently has applications for admission pending in various states. Most of these states have a lengthy applications process in which the admission filing must be updated with certain financial and nonfinancial information until the insurance department decides to approve an application. The insurance department is not restricted as to the amount of time it may take to approve an application. All applications are updated as new information becomes available and CCS is waiting for inquiries or actions by these pending states. Those states in which CCS has not yet applied for licensing generally require additional years of operating history or additional capital and surplus. Once CCS has met these requirements, it is anticipated that the applications for admission will be submitted accordingly. CCS is currently attempting to obtain additional state licenses in order to spread its risk of loss geographically and to increase its sales of direct surety and insurance products. Management believes that CCS can function profitably selling direct surety and insurance products in the states in which it is currently licensed.

SSI, a Florida corporation, formed in August 1988, SG, a Georgia corporation, and SA, a South Carolina corporation purchased by the Company in February and July 1995, respectively, are specialized surety agencies which operate as independent agencies. Each secures surety risks for small to medium size contractors as an agent and for other agents as a broker. SG and SA are also general lines insurance agencies. When acting as an agent, SSI, SG and SA receive a commission from the various insurance companies it represents, one of which is CCS. Agency commissions are based upon a percentage of premiums paid by the consumer. The commissions paid by CCS to SSI, SG and SA range from 35 to 40 percent.

In addition, SSI generates additional revenues through joint partnering agreements to pursue small to medium size contract and commercial surety business on a countrywide basis. The agreements allow SSI to solicit surety business in states in which CCS is not licensed thereby significantly increasing the Company's ability to geographically spread risk. CCS participates in both agreements underwriting risk through a retrocession treaty.

Qualex, a Florida corporation, formed in November 1994, provides claim and contracting consulting services to the surety and construction industries. CCS purchases claim consulting services from Qualex on a contract basis.

The percentages of gross revenue generated by the Company's subsidiaries for the year ended December 31, 2001 are as follows:

Subsidiary	Revenue Percentage
-----	-----
CCS.....	89%
Qualex.....	8%
SA.....	1%
SG.....	2%
	-----
	100%

The term "the Company" unless the context otherwise requires, refers to Cumberland Technologies, Inc. and its subsidiaries. The principal executive offices of the Company are located at 4311 West Waters Avenue, Suite 401, Tampa,

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Florida 33614. The Company's telephone number is (813) 885-2112, its facsimile number is (813) 885-6734 and its web site is [www.cumberlandtech.com](http://www.cumberlandtech.com).

### Surety Products

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CCS underwrites a wide variety of surety bonds for small to medium size surety accounts. CCS also assumes underwriting risk from other surety companies under various reinsurance arrangements. Contract surety bonds center primarily on performance and payment bonds issued for the construction industry. The bonds guarantee that a contractor will fulfill their obligations, with respect to performing the scope of work defined in the contract and fulfilling their financial obligations. CCS's typical bond is less than \$500,000 with aggregate ongoing work of \$1 million. These bonds are marketed through independent insurance agencies specializing in this type of coverage to general contractors, sub-contractors and specialty contractors.

Commercial surety bonds, which includes all non-contract surety bonds, numerous types of license and permit, miscellaneous and judicial bonds. The scope of each bond varies according to the law, locality, the nature of the guarantee, and the parties who have a right of action under the bond. The typical bond penalty ranges from \$5,000 to \$50,000 and is usually written on a volume basis.

### Insurance Products

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The Company's other liability insurance products include Registered Investment Advisors professional liability insurance and Notary Public Errors and Omission liability insurance. Both coverages are occurrence liability coverages, that insure against specific liability risks. Under the Registered Investment Advisors professional liability coverage, each endorsed account is limited to a maximum liability coverage of \$500,000. Due to the volatility in the marketplace, the Company has suspended marketing of this product effective September 2001. The Notary Public Errors and Omissions liability coverage is written with liability limits of \$7,500 to \$30,000 per policy.

On surety or insurance products sold directly by CCS, exposure to loss would be the penal amount of the bond, less any portion for which CCS has secured reinsurance. On reinsurance, CCS's exposure to loss would be limited by the amount of reinsurance provided. Reinsurance does not relieve an insurer of its liability to the policyholder for the full amount of the policy, however, the reinsurer is obligated to the insurer for the portion assumed by the reinsurer.

### Technology Product

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On October 1, 1996, CTI launched the development of a surety bond issuance system "Bond-Pro(R)." The Company received its federal copyright registration #TX4-542-729 effective March 29, 1997. The Company sees the implementation of the system as an integral part of its unique service affording it the ability to capture a larger share of the marketplace. This program encompasses the required functions an agency needs to run a full scale bond desk when implemented inside the agency structure. The software is designed to reduce the labor required to provide improved service. CCS offers its Bond-Pro(R) program to small and medium size agencies in order to produce premiums. The efficiencies gained in using the Bond-Pro(R) system enhances CCS's ability to increase premiums and to develop

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relationships which may not otherwise be possible due to competition for this class of business. While a small percentage of the industry offers issue and reporting systems for bonds, no other provider offers a fully integrated, multi-carrier production and processing system including management reporting.

### Underwriting -----

For the contract and commercial surety lines of business, the Company's underwriting philosophy provides for an individual analysis of the risk associated with each application, except for specific categories of miscellaneous bonds. In underwriting contract bonds, its approach focuses on the financial strength, experience and operating capacity of the contractor. In underwriting commercial surety, this approach focuses on the credit history and financial resources of the applicant.

The Company maintains control of the contract and commercial surety underwriting process through the use of authority limits for each underwriter and committee underwriting of larger risks. The Company may require collateral on contract bonds and occasionally, on other types of bonds based upon an assessment of the risk characteristics. The risk assessment includes evaluation of the financial strength of the contractor, the credit history of the contractor, work in progress and successful work experience. Collateral can consist of irrevocable letters of credit, certificates of deposit, cash, savings accounts and publicly traded securities. Both corporate and personal indemnification may be required in order to mitigate liability risk. The Company also targets various products in the commercial surety market which are characterized by relatively low risk exposure in small penal amounts. The underwriting criteria, including the extent of bonding authority granted to independent agents, will vary depending on the class of business and the type of bond. For example, relatively little underwriting information is typically required of certain low exposure risk such as notary bonds.

Other liability insurance applications are individually evaluated and the decision to write a particular risk is made by the Company's underwriting department. The underwriting department determines whether to write a particular risk after evaluating a number of factors based upon detailed objective underwriting standards relating to each class of business.

### Reinsurance -----

The Company's insurance subsidiary, in the ordinary course of business, cedes insurance to other insurance companies, to limit its exposure to loss, provide greater diversification of risk, and minimize aggregate exposures. Because the ceding of insurance does not discharge the primary liability of the original insurer, CCS places reinsurance with qualified carriers after conducting a detailed review of the nature of the obligation and a thorough assessment of the reinsurers credit qualifications and claims settlement performance and capabilities. The reinsurance coverage terms are tailored to the specific risk characteristics of the underlining products of the company.

For contract and commercial surety business, CCS entered into an excess of loss reinsurance agreement with Transatlantic Reinsurance Company (Transatlantic Treaty), which is rated A+ (Superior) by A.M. Best. Excess of loss reinsurance is a form of reinsurance, which indemnifies the ceding insurer up to an agreed amount against all or a portion of the amount of loss in excess of a specified retention. The Company cedes to Transatlantic Reinsurance Company on an excess

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of loss treaty 95% of the risk insured with a maximum exposure to the Company of \$235,000 per principal prior to June 30, 2001 and a maximum exposure of \$300,000 per principal effective July 1, 2001. Under the Transatlantic Treaty, the reinsurer automatically assumes the risk of losses on all contract surety bonds written and classified as surety in CCS's statutory annual statement and all miscellaneous surety bonds with penal sums over \$100,000 written and classified as surety in CCS's statutory annual statement.

For its liability line of registered investment advisor insurance, the Company has reduced its exposure on any one risk, through the purchase of a quota share agreement with Dorinco Reinsurance (Dorinco Treaty) which is rated A (Excellent) by A.M. Best. Under the Dorinco Treaty, CCS cedes 50% of its liability on all Registered Investment Advisor policies.

On a limited basis, CCS also assumes and cedes reinsurance through facultative and treaty agreements from other sureties. Management believes the loss of one of these customers or resources would not have a material impact on the operations of the Company. From October 1991 through May 1, 1997, CCS participated in a pooling agreement with various sureties, which specialized in writing contract surety. Effective to April 1, 1993, CCS assumed 25% of the business underwritten by the pooling agreement; 12.5% effective April 1, 1995 and 10% effective April 1, 1996. Effective April 1997, CCS elected not to participate in future business under the pooling agreement.

### Reserves -----

Reserves for losses and loss adjustment expenses are established based upon reported claims and historical industry loss development. The amount of loss reserves for reported claims is based on a case by case evaluation of the claim. Historical industry data is reviewed and consideration is given to the anticipated impact of various factors such as legal developments, economic conditions and the effects of inflation. Amounts are adjusted periodically to reflect these factors.

Reserve for losses and loss adjustment expenses are actuarial estimates of losses, including the related settlement costs. Management believes that the reserves for losses and loss adjustment expenses are adequate to cover the losses and loss adjustment expenses, including the cost of incurred but not reported losses.

During 2001, there were no material changes in the mix of business or types of risk assumed. However, the Company was effective in spreading the geographic mix of the business.

Current fluctuations in inflation have not had a material effect on the consolidated financial statements and there are no explicit provisions in the consolidated financial statements for the effects of inflation that may cause future changes in claim severity.

Other than certain classification differences, there are no material differences between statutory reserves and Generally Accepted Accounting Principle ("GAAP") reserves. CCS does not discount its loss reserves for financial reporting purposes.

### Environmental Claims -----

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The Company bonds several accounts that have incidental environmental exposure, with respect to which the Company provides limited contract bonding programs. In the commercial surety market, the Company provides bonds to corporations that are in the business of mining various minerals, establishing mitigation banks, or operating environmental facilities, and that are obligated to post financial assurance bonds that guarantee that property can be managed according to regulatory guidelines. While no environmental responsibility is overtly provided by commercial or contract bonds, some risk of environmental exposure may exist if the surety were to assume certain rights of ownership of the property in the completion of a defaulted project or through salvage recovery.

To date, the Company has not received any environmental claim notices, nor is management aware of any potential environmental claims.

### Investments

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Insurance company investment practices must comply with insurance laws and regulations. Generally, insurance laws and regulations prescribe the nature and quality of, and set limits on, various types of investments, which may be made by CCS.

CCS's investment portfolios generally are managed to maximize any tax advantages to the extent available while minimizing credit risk with investments concentrated in high quality, fixed income securities. CCS's portfolios are managed to provide diversification by limiting exposures to any one issue or issuer and to provide liquidity by investing in the public securities markets. Portfolios are structured to support CCS's operations and in consideration of the expected duration of liabilities and short-term cash needs.

An Investment Committee of CCS's Board of Directors establishes investment policy and oversees the management of the portfolios.

### Marketing

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CCS principally markets its products in twenty-seven states, the District of Columbia and Guam in which it is licensed and indirectly in all other states through its joint partnering agreements with The St. Paul and Peerless Insurance Company. Its products are marketed primarily through SSI, SG, SA and independent agents and producers, including multi-line agents and brokers that specialize as surety specialists, many of whom are members of the National Association of Surety Bond Producers. CCS uses specialized general agencies to market its other liability insurance products.

### Competition

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The insurance industry is a highly competitive industry. There are numerous firms, particularly in the specialty surety markets, which compete for a limited volume of business. Competition is based upon price, service, products offered, and financial strength of the insurance company. There are a number of companies in the industry, which offer products similar to the Company's.

The Company competes in the small to medium size contract and commercial surety bond markets. Primary competitors include large multi-line companies, as well as small regional companies that specialize in the surety market. While the

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surety industry has experienced slow premium growth, competition has increased as a result of 10 years of profitable underwriting experience. This competition has typically manifested itself through reduced premium rates, and greater tolerance for relaxation of underwriting standards. Management believes such competition will continue.

The Company, while competitive in pricing and commission, believes that the availability of its proprietary Bond-Pro(R) surety issuance system, specialty underwriting, managerial experience and service are its primary competitive factors in the industry. To this end, the Company believes that its technology and specialization in underwriting niche surety markets will enable it to continue to compete effectively, even when challenged by the larger standard market companies.

### Regulation

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The Company's subsidiaries are subject to varying degrees of regulation and supervision in the jurisdictions in which they transact business under statutes, which delegate regulatory, supervisory, and administrative powers to State insurance regulators. In general, an insurer's state of domicile has principal responsibility for such regulation. It is designed generally to protect policy holders rather than investors and relates to matters such as the standards of solvency which must be maintained; the licensing of insurers and their agents; examination of the affairs of insurance companies, including periodic financial and market conduct examinations; the filing of annual and other reports, prepared on a statutory basis, on the financial condition of insurers or for other purposes; establishment and maintenance of reserves for unearned premiums and losses; and requirements regarding numerous other matters. Licensed or admitted insurers generally must file with the insurance regulators of such states, or have filed on its behalf, the premium rates and bond and policy forms used within each state. In some states, approval of such rates and forms must be received from the insurance regulators in advance of their use.

CCS is domiciled in Florida and licensed in 27 states, the District of Columbia and Guam. SSI, SG and SA are licensed in Florida, Georgia and South Carolina respectfully. CCS is also regulated by the United States Department of the Treasury as an acceptable surety for Federal bonds.

Holding company laws impose standards on certain transactions between registered insurers and their affiliates, which include, among other things, that the terms of the transactions be fair and reasonable and that the books, accounts and records of each party be maintained so as to clearly and accurately disclose the precise nature and details of the transactions. Holding company laws also generally require that any person or entity desiring to acquire more than a specified percentage (commonly 10%) of the Company's outstanding voting securities, is required first to obtain approval of the applicable state's insurance regulators.

The National Association of Insurance Commissioners ("NAIC") has adopted a risk-based capital ("RBC") model law for property and casualty companies. The RBC model law is intended to provide standards for calculating a variable regulatory capital requirement related to a company's current operations and its risk exposures (asset risk, underwriting risk, credit risk and off balance sheet risk). These standards are intended to serve as a diagnostic solvency tool for regulators that establishes uniform capital levels and specific authority levels for regulatory interventions when an insurer falls below minimum capital levels. The model laws specifies four distinct action levels at which a regulator can



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intervene with increasing degrees of authority over a domestic insurer as its financial conditions deteriorates. These RBC levels are based on the percentage of an insurers surplus to its calculated RBC. The company's RBC is required to be disclosed in its statutory annual statement. The RBC is not intended to be used as a rating or ranking tool nor is to be used in premium rate making or approval. The Company calculated its RBC requirements as of December 31, 2001 and met the standards under the NAIC guidelines.

### Controlling Shareholders

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Francis Williams, and KC (collectively "Majority Shareholder") owns 79.6% of the outstanding ordinary shares of the Company and collectively control the policies and affairs of the Company. Circumstances may arise in which the interest of the Majority Shareholder of the Company could be in conflict with the interest of the other holders of the common stock. In addition, the Majority Shareholder may have an interest in pursuing acquisitions, divestitures or other transaction that in their judgement, could enhance their equity investment, even though such transactions might involve risk to the other holders of the common stock.

### Employees

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On December 31, 2001, the Company had 47 employees. All are employed on a full-time basis. None of the Company's employees are union members or subject to collective bargaining agreements.

### Forward-looking Statements

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All statements, other than statements of historical facts, included or incorporated by reference in this Form 10-K 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, trends or similar expressions concerning matters that are not historical facts are forward looking statements. These statements are based on certain assumptions and analyses 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, including the risk factors discussed in this Form 10-K, Item 1 and 7A, and other factors, many of which are beyond the control of the Company, consequently, all of the

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forward-looking statements made in this Form 10-K are qualified by these cautionary statements and there can be no assurance that the actual results or developments 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. Properties

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The Company's operating subsidiaries rent or lease office space in the cities in which they are located. CCS and Qualex lease office space in Tampa, Florida from a company owned by Francis Williams, the Chairman of the Board of the Company, at a monthly rate of \$12,876, pursuant to a lease that was executed June 1, 1999 and is effective through May 31, 2009.

Management considers the rented and leased office facilities of its subsidiaries adequate for the current and anticipated future level of operations.

Item 3. Legal Proceedings

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CCS has been named in a class action lawsuit. The plaintiffs are clients of a registered investment advisor (the "Advisor") and have alleged that the Advisor, a registered broker-dealer, and certain other defendants (excluding CCS) were negligent or otherwise responsible for losses suffered by the plaintiffs resulting from embezzlement of the plaintiffs' investments by a third party. As a separate count in the lawsuit, the plaintiffs have also asserted claims against CCS based on a policy of insurance issued by CCS to the Advisor. The policy does not provide coverage for embezzlement, rather it insures losses caused by market declines, providing that the Advisor has followed the investment guidelines required by the policy. CCS denies the plaintiff's allegations, however, it cannot predict the outcome or the impact this action could have on CCS. CCS is vigorously defending this lawsuit and intends to move for summary judgment.

The Company and its subsidiaries are involved in various lawsuits arising in the ordinary course of its business operations as an insurer. Management does not believe that any of these lawsuits will have a material effect on the consolidated financial position, future operations or cash flows of the Company.

Item 4. Submission of Matters to a Vote of Security Holders

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None

Executive Officers of the Registrant

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All of the following persons are regarded as executive officers because of their responsibilities and duties as elected officers of the Company's subsidiaries. Other than Francis M. Williams and Joseph M. Williams (See Item 10), there are no family relationships between any of Company's executive officers and directors, and there are no arrangements or understandings between any of these officers and any other person pursuant to which the officer was selected as an officer.

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Position

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Name -----	Presently Held -----	Entity -----	Period of Service -----
Joseph M. Williams.....	President	CTI	06/1992 to date
Edward J. Edenfield, IV.....	President	CCS	05/1996 to date
	President	SSI	06/1997 to date
	President	SG	01/1998 to date
	President	SA	01/1998 to date
Carol S. Black.....	Secretary	CTI	06/1995 to date
	Secretary/Treasurer	CCS	06/1995 to date
	Secretary	SSI	08/1995 to date
	Secretary/Treasurer	Qualex	08/1995 to date
	Secretary	SG	08/1995 to date
	Secretary	SA	08/1995 to date
Edward A. Mackowiak.....	President	Qualex	11/1994 to date
Sam H. Newberry.....	Vice President	SG	01/1998 to date

### PART II

#### Item 5. Market for the Company's Common Equity and Related Stockholders Matters

The Company's common stock (symbol "CUMB") has been traded in the over-the-counter market since October 1, 1992. Effective December 16, 1996, the Company was approved and included in the trading on the Nasdaq SmallCap Market. High and Low bid prices were set forth in Quotation Market Sheets published by Nasdaq. The high and low bid prices for 2001 and 2000 were as follows:

	Bid Information			
	2001		2000	
	High	Low	High	Low
First Quarter.....	\$ 1 29/32	\$ 1 3/8	\$ 1 3/4	\$ 1 1/2
Second Quarter .....	1 1/10	1 1/10	1 7/8	1 23/32
Third Quarter .....	49/50	9/10	1 13/16	1 3/4
Fourth Quarter .....	19/20	19/20	2 1/2	2 1/2

As of March 15, 2002, there were 815 stockholders of record of the common stock. A number of such holders are brokers and other institutions holding shares in "street name" for more than one beneficial owner.

The Company recently received a letter from The Nasdaq Stock Market, Inc. to the effect that its shares failed to meet the Nasdaq SmallCap Market's minimum price requirement of \$1.00 per share for 30 consecutive trading days. The Company's share are subject to delisting unless prior to August 13, 2002, the shares close at \$1.00 or more for a minimum of 10 consecutive trading days. Nasdaq could require a longer period of compliance to avoid delisting. If the qualification requirements have not been met by the specified times, the shares will likely be delisted, in which case the Company's shares may be eligible to be traded on the Nasdaq Over-the Counter Bulletin Board, if a broker-dealer

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makes a market in them and requests that they be included, and subject to other conditions.

### Dividends

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The payment by the Company of dividends, if any, in the future is within the discretion of its Board of Directors and will depend upon the Company's earnings, capital requirements (including working capital needs), and other financial needs. The Company did not declare or pay dividends in 2001 and does not anticipate paying any dividends on the Company's Common Stock in the near future.

The future payment of dividends, if any, by CCS is within the discretion of its Board of Directors and will depend upon CCS's earnings, statutory limitations, capital requirements (including working capital needs) and financial condition, as well as other relevant factors. Applicable state laws and regulations restrict the payment of dividends by CCS to the extent of surplus profits less any dividends that have been paid in the preceding twelve months or net investment income for the year, whichever is less, unless CCS obtains prior approval from the insurance commissioner. CCS does not anticipate paying any dividends on CCS common stock in the near future.

### Item 6. Selected Financial Data

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The following selected financial data are taken from the Company's consolidated financial statements. The data should be read in conjunction with the accompanying consolidated financial statements and the related notes, Management's Discussion and Analysis and other financial information included in this Form 10-K.

	Year Ended		
	2001	2000	
	(In Thousands - e		
<b>Statement of Operations Data:</b>			
-----			
Net premium income .....	\$ 13,641	\$ 12,128	\$ 9
Net investment income .....	605	576	
Net realized capital gains (losses) .....	306	38	
Commission and other income .....	1,909	1,683	1
Total revenue .....	16,461	14,425	11
Benefits and expenses .....	16,034	12,416	10
Impairment of long-lived assets .....	437	--	
Interest expense .....	166	203	
Income (loss) from continuing operations before extraordinary item .....	(176)	1,806	1
Income tax (benefit) expense.....	(76)	764	
Extraordinary gain on restructuring of note, net of tax .....	158	--	
Net income(loss).....	58	1,042	1

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Income (loss) per common share - diluted..... \$ 0.01 \$ 0.19 \$

Year Ended  
-----  
2001 2000 1  
-----  
(In th

Assets Balance Sheet Data:  
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Investments .....	\$ 10,815	\$ 9,955	\$ 8,
Cash and cash equivalents .....	2,654	694	2,
Accrued investment income .....	154	185	
Accounts receivable .....	4,687	4,258	3,
Reinsurance recoverable .....	3,844	4,910	2,
Deferred policy acquisition costs .....	1,904	1,955	1,
Intangibles .....	534	1,115	1,
Other investment .....	641	583	
Deferred tax asset .....	499	175	
Income tax recoverable .....	-	168	
Other assets .....	372	311	
Total assets .....	\$ 26,104	\$24,309	\$20,

Policy Liabilities and Accruals:  
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Unearned premiums .....	\$ 5,583	\$ 5,775	\$ 4,
Losses and LAE .....	4,113	5,186	4,
Derivative instruments .....	1,979	--	
Ceded reinsurance and accounts payable .....	5,143	3,359	2,
Income tax payable .....	113	--	
Term note to affiliate .....	604	1,000	1,
Non affiliate debt .....	652	1,103	1,
Total liabilities .....	18,187	16,423	14,
Total stockholders' equity .....	\$ 7,917	\$ 7,886	\$ 6,

Item 7. Management's Discussion and Analysis of Financial Condition  
and Results of Operations  
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Critical Accounting Policies  
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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

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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:

The Company records valuation allowances to reduce the deferred tax assets to the amount that is more likely than not to be realized. While the Company considers taxable income in assessing the need for a valuation allowance, in the event the Company determines it would be able to realize its deferred tax assets in the future in excess of the net recorded amount, an adjustment would be made and income increased in the period of such determination. Likewise, in the event the Company determines it would not be able to realize all or part of its deferred tax assets in the future, an adjustment would be made and charged against income in the period of such determination.

The Company reviews long-lived assets, including goodwill and 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 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.

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 December 31, 2001 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.

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

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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 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.

### Results of Operations

The following table sets forth, for the periods indicated, (i) summary financial data (in thousands), and (ii) the percentage change in the dollar amount for such items from period to period.

	Year Ended December 31,		
	2001	2000	1999
	(In thousands)		
Net premium income .....	\$ 13,641	\$ 12,128	\$ 9,618
Net investment income .....	604	576	333
Net realized investment gains .....	306	38	129
Other income .....	1,909	1,682	1,375
Losses and loss adjustment expenses .....	4,045	3,360	2,395
Derivative expense .....	1,061	--	--
Amortization of deferred acquisition costs .....	4,363	3,767	2,895
Operating expenses and interest .....	6,730	5,491	4,980
Impairment of long-lived assets .....	437	--	--
Income (loss) from continuing operations .....	(176)	1,806	1,185
Income tax (benefit) expense .....	(76)	764	37
Income (loss) before extraordinary item .....	(100)	1,042	1,148
Extraordinary gain on restructuring of note, net of tax .....	158	--	--
Net income.....	\$ 58	\$ 1,042	\$ 1,148

### Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

During the period ended December 31, 2001 and 2000, earned direct and assumed premium was \$18,253,687 and \$15,236,814, respectively. Overall earned premiums, net of ceded premiums increased 12.5% or \$1,513,363. The increase in earned premiums is a result of CCS's continued growth in the surety bond market. The following table represents the written and earned premium for CCS and the percentage of change for the years ended December 31, 2001 and 2000, respectively.

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	Written Premiums (000's)			Earned Premiums (000's)		
	2001	2000	% Change	2001	2000	%Change
Direct .....	\$ 13,867	\$ 13,775	.7%	\$14,465	\$ 12,756	13.4%
Assumed .....	4,194	2,393	75.3%	3,788	2,481	52.7%
Ceded .....	(4,654)	(3,510)	32.6%	(4,612)	(3,109)	48.3%
<b>Total .....</b>	<b>\$ 13,407</b>	<b>\$ 12,658</b>	<b>5.9%</b>	<b>\$13,641</b>	<b>\$ 12,128</b>	<b>12.5%</b>

During the years ended December 31, 2001 and 2000, net investment income earned was \$604,463 and \$576,406, respectively. The return on average invested assets was 6.01% for the year 2001 as compared to 6.28% for the year 2000. The slight decrease in the return is attributed to the decrease in overall interest rates. Net realized gains for the years ended December 31, 2001 and 2000 were \$305,461 and \$38,381, respectively. Net realized gains during 2001 are a result of gains on bond disposals of \$329,360 which is offset by losses of \$23,899 on stock disposals. Realized gains in year 2000 are attributed to stock disposals.

Other revenue consists primarily of commissions earned by subsidiary agencies and fee revenue earned by a subsidiary claim-consulting group. For the year ended December 31, 2001, other revenues increased by \$227,283 or 13.5%, which is primarily attributable to increased business by the Company's claim consulting subsidiary.

Loss and loss adjustment expenses including derivative expense was \$5,106,377 and \$3,360,358 for the years ended December 31, 2001 and 2000, respectively. The increase of \$1,746,019 or 52% is attributed to an increase in derivative expense and assumed claims expense when compared to the same period in the prior year. The increase on assumed claims is attributable to claims associated with the joint partnering agreement with SSI where CCS assumes a portion of the risk underwritten. The Company adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities on January 1, 2001. CCS identified one product that met the definition of a derivative instrument under SFAS No. 133, and recorded an additional \$1,060,799 in derivative expense during 2001. Derivative expenses represent additional charges recorded by CCS that are necessary to account for the derivative instrument at fair value. The fair value of the derivative instrument is calculated using a financial model, inclusive of certain assumptions and market data.

The following table reflects the 2001 activity for CCS as it pertains to earned premiums and incurred claims and derivative expense:

	Earned Premiums	Loss LAE and Derivative Expense	Ratio
Direct surety premiums, net .....	\$ 8,709,977	\$ 2,874,915	33.0%
Assumed surety premiums, net .....	3,788,443	1,170,663	30.9%
Other liability premiums, net .....	1,142,896	1,060,799	92.8%
<b>Total .....</b>	<b>\$13,641,316</b>	<b>\$ 5,106,377</b>	

During the year ended December 31, 2001 the net amortization of deferred policy acquisition costs were to \$4,362,721 as compared to \$3,767,107 for the year ended December 31, 2000. The acquisition costs represent 23.9% and 24.7% of



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the direct and assumed earned premiums for the years ended December 31, 2001 and 2000, respectively.

During the year ended December 31, 2001, operating expenses and taxes, licenses and fees (excluding income taxes) increased to \$6,563,919 from \$5,288,520 in 2000. The increase of \$1,275,399 or 24.1% is a result of increased salary and related expenses, actuarial and consulting fees associated with the derivative valuation, legal fees, travel and related expenses and other miscellaneous expenses. The Company began direct marketing in the surety bond market in 1997. Through 2001, the Company has produced approximately \$67 million in gross written premiums and \$52 million in premiums net of reinsurance. The increase in expenses is associated with the Company's continued expansion and administration costs.

In accordance with Statement of Financial Accounting Standard 121 ("SFAS 121"), 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 of December 31, 2001, and an asset impairment charge of \$437,418 was recorded.

Interest expense on non-affiliated debt is interest paid to the former owners of The Surety Group and Surety Associates on notes due to agencies the Company purchased in 1995. Interest on affiliated debt represents interest on a note payable to TransCor, a division of KC.

The Company incurred income tax (benefit) expense during 2001 and 2000 of \$(75,932) and \$764,390, respectively. The Company's effective tax rate for the 2001 is 26.7% and 42% for 2000.

### Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

Written direct and assumed premiums reached a record \$16,168,734 during 2000. Overall written premiums, net of ceded premiums, increased by \$2,160,885 or 20.6% when compared to the same period in 1999. Earned premiums increased by \$2,510,161 or 26.1% to \$12,127,953 for 2000 compared to \$9,617,792 for 1999. The increase in earned premiums resulted from CCS's continued growth in the direct surety bond market.

During 2000, premiums written by CCS increased as a result of the continued marketing direction of the Company, which is to penetrate the direct market while decreasing the volume of reinsurance premiums assumed through pooling agreements. CCS's reinsurance assumed premium is a result of quota share agreements whereby CCS assumes a portion of the premiums written by agencies contracted to produce business using The Company's Bond-Pro(R) issuance program. The increase in ceded premiums is correlated to the direct premium written and the association to excess of loss treaties on these premiums. The following table reflects the written premium activity, net of reinsurance ceded, for 2000 and 1999.

	Written Premiums		
	2000	1999	% Change
Direct .....	\$ 13,775,266	\$ 10,816,114	27.4%
Assumed .....	2,393,468	2,421,346	(1.2)%
Ceded .....	(3,510,537)	(2,740,148)	28.1%
	-----	-----	-----
Total .....	\$ 12,658,197	\$ 10,497,312	20.6%
	=====	=====	=====

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During the year ended December 31, 2000 and 1999, net investment income earned was \$576,406 and \$333,462, respectively. Net realized gains for the years ended December 31, 2000 and 1999 were \$38,381 and \$129,101, respectively. The increase in net investment income is attributed to a reallocation of investments from money market funds to the bond portfolio. Net realized gains includes other than temporary losses of \$231,686 from certain investments.

Other income consists primarily of commissions earned by subsidiary agencies and fee revenue earned by a subsidiary claims consulting group. For the year ended December 31, 2000, other revenues increased by \$307,249 or 22.3%, which is attributable to increased business by the Company's claim consulting subsidiary.

Losses and loss adjustment expenses increased to \$3,360,258 from \$2,394,532 for the year ended December 31, 2000 and 1999, respectively. The increase of \$965,726 or 40.3% is attributed to claims arising from increased direct writings. Losses as a percentage of earned premiums were 27.7% and 24.9% for the years ended December 31, 2000 and 1999, respectively. Direct incurred losses increased \$1,498,196 or 89.0% while losses under the assumed agreements decreased \$475,117 or 72.7% when comparing current year to prior year. The following tables reflects the 2000 activity as it pertains to earned premiums and incurred claims:

	----- Earned Premiums -----	Loss and LAE Expense Incurred -----	Ratio -----
Direct, net .....	\$ 9,647,241	\$ 3,182,274	33.0%
Assumed, net .....	2,480,712	178,084	7.2%
	-----	-----	-----
Total .....	\$12,127,953	\$ 3,360,358	27.7%
	=====	=====	=====

During the year ended December 31, 2000 the net amortization of deferred policy acquisitions costs increased to \$3,767,107 from \$2,895,834 for the year ended December 31, 1999. The increase is attributed to the increase in earned premiums.

During the year ended December 31, 2000, operating expenses and taxes, licenses and fees (excluding income taxes) increased to \$5,288,520 from \$4,766,101 in 1999. The increase of \$522,419 or 11% is a result of increased salary expense including bonuses, payroll taxes and employee benefits of \$617,066 and a decrease in general office expenses of \$94,647. The increase in salary and consulting expenses is attributable to the cost of additional personnel and results from the Company's growth.

Interest expense on non-affiliated debt is interest paid to the former owners of The Surety Group and Surety Associates on notes due to agencies the Company purchased in 1995.

The Company incurred income tax expenses during 2000 of \$764,390 as compared to \$36,686 during 1999. The income tax expense for the year ended December 31, 1999 includes the reversal of a valuation allowance of \$466,799.

### Liquidity and Capital Resources

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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 \$19,509,655 at December 31, 2001. 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 \$4,400,000.

At December 31, 2001, the Company's \$26,104,019 of total assets were distributed primarily as follows: 52.2 percent in cash and investments (including accrued investment income), 32.7 percent in receivables and reinsurance recoverables, 9.3 percent in intangibles and deferred policy acquisition costs, 1.9 percent in deferred income tax asset and 3.9 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 \$2,811,695, \$214,494 and \$1,965,077 for the years ended December 31, 2001, 2000 and 1999, respectively. In 2001 and 2000, the cash provided by operating activities was primarily attributed to an increase in policy liabilities and accruals. In 1999, the cash provided by operating activities was primarily attributable to increases in net income and accrued policy liabilities on claims and reinsurance.

Net cash used in investing activities was \$(630,772), \$(1,316,601) and \$(4,133,973) for the years ended December 31, 2001, 2000 and 1999, respectively. Investing activities consist primarily of purchases and sales of investments.

Net cash used in financing activities was \$(220,570), \$(204,262) and \$(33,308) for the years ended December 31, 2001, 2000 and 1999, respectively. Financing activities consist primarily of repayments on borrowings and advances to (from) affiliates during 2001, 2000 and 1999.

The following summarizes the Company's contractual cash obligations at December 31, 2001 and the effect such obligations are expected to have on its liquidity and cash flow in future periods.

	Payments Due by Period		
	Total	Less than 1 Year	Year
Contractual cash obligations: -----			
Operating leases .....	\$1,473	\$ 224	\$
Total contractual cash obligations .....	\$1,473	\$ 224	\$
	=====	=====	=

At December 31, 2001 and 2000, the Company did not have any other commercial commitments, such as guarantees or standby repurchase obligations, or

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any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

### Losses and Loss Adjustment Expenses

-----

The consolidated financial statements include the estimated liability for unpaid losses and loss adjustment expenses (LAE) of CCS. The liabilities for losses and LAE's are determined using case-basis evaluations and statistical projections and represent estimates of the ultimate net cost of all unpaid losses and LAE's incurred through the end of the period. These estimates are subject to the effect of trends in future claim severity and frequency. These estimates are continually reviewed and, as experience develops and new information becomes known, the liability is adjusted as necessary; such adjustments, if any, are included in current operations.

### Reconciliation of Liability for Losses and Loss Adjustment Expenses

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The following table provides a reconciliation of the beginning and ending liability balances, net of reinsurance recoverable, for 2001, 2000 and 1999 to the gross amounts reported in the Company's balance sheets:

	2001
Liability for losses and LAE, net of reinsurance recoverable on unpaid losses, at beginning of year .....	\$2,416,657
Incurred losses and LAE's claims, net of reinsurance, occurring during:	
Current year .....	4,982,148
Prior year .....	(936,570)
Total incurred losses, net of reinsurance .....	4,045,578
Losses and LAE payments for claims, net of reinsurance, occurring during:	
Current year .....	1,331,813
Prior years .....	1,017,190
Total payments .....	2,349,003
Liability for losses and LAE, net of reinsurance recoverable on unpaid losses, at end of year .....	4,113,232
Liability for derivative instrument at end of the year .....	--
Subrogation recoverables.....	--
Liability for losses and LAE, gross of reinsurance recoverables on unpaid losses, at end of year .....	\$ 4,113,232

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The Company experienced \$936,570, \$1,003,077 and \$416,000 in redundancies for losses and loss adjustment expenses in 2001, 2000 and 1999 respectively. The redundancies principally result from subrogation received on pooling agreement case base reserves and claims in prior years. 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 ("Navy"). At the time the bonds were issued by CCS as surety, KC entered into an indemnification agreement, whereby KC indemnified CCS from any and all losses, costs and expenses incurred related to the bonds. In 1991, the Navy defaulted and terminated AEC on the contract. The contract was subsequently litigated and CCS was unsuccessful in its litigation activities with the Navy. As a result, KC reimbursed CCS \$1,500,000 of the total subrogation recoverable of \$1,851,000 in November 2001 on the contract. CCS wrote off the remaining \$351,000 reinsurance recoverable as a charge to loss and loss adjustment expense and incurred an additional \$240,000 in legal fees during 2001.

The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. While anticipated price increases due to inflation are considered in estimating the ultimate claim costs, the increase in average severities of claims is caused by a number of factors. Future average severities are projected based on historical trends adjusted for anticipated changes in underwriting standards, policy provisions, and general economic trends. These anticipated trends are monitored based on actual development and are modified if necessary.

The differences between the December 31, 2001 liability for losses and LAE reported in the accompanying consolidated financial statements in accordance with generally accepted accounting principles ("GAAP") and that reported in the annual statement filed with the state insurance departments in accordance with statutory accounting practices ("SAP") are as follows:

Liability for losses and LAE on a SAP basis	
(which is net of reinsurance recoverables on unpaid losses and LAE) .....	\$ 5,091,080
Subrogation recoverable .....	1,001,043
Derivative instrument .....	(1,978,891)
	-----
Liability for losses and LAE, as reported in the accompanying GAAP basis consolidated financial statements .....	\$ 4,113,232
	=====

### Analysis of Loss and Loss Adjustment Expense Development

---

The following table represents the development of the statutory liability for unpaid losses and LAE, net of reinsurance, for 1994 through 2001 (in thousands).

	1994	1995	1996	1997	1998
	-----	-----	-----	-----	-----
Liability for losses and loss					

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adjustment expenses, net of reinsurance .....	\$ 1,625	\$ 1,053	\$ 595	\$ 1,393	\$ 1,680
Liability re-estimated as of:					
One year later .....	1,384	1,716	644	1,710	1,264
Two years later .....	1,420	1,815	1,013	1,711	655
Three years later .....	1,631	2,049	1,121	1,237	996
Four years later .....	1,726	2,036	818	1,686	--
Five years later .....	1,625	1,721	1,159	--	--
Six years later .....	1,328	2,083	--	--	--
Seven years later .....	1,640	--	--	--	--
	-----	-----	-----	-----	-----
Cumulative (deficiency) redundancy .....	\$ (15)	\$ (1,030)	\$ (564)	\$ (293)	\$ 684
	=====	=====	=====	=====	=====
	1994	1995	1996	1997	1998
	-----	-----	-----	-----	-----
Cumulative amount of liability, net of reinsurance recoverables, paid through:					
One year later .....	\$ 1,643	\$ 1,334	\$ 563	\$ 1,802	\$ 2,155
	=====	=====	=====	=====	=====
Two years later .....	\$ 2,316	\$ 2,186	\$ 1,631	\$ 2,856	\$ 1,878
	=====	=====	=====	=====	=====
Three years later .....	\$ 2,164	\$ 2,997	\$ 2,466	\$ 2,575	\$ 488
	=====	=====	=====	=====	=====
Four years later .....	\$ 2,875	\$ 3,506	\$ 2,336	\$ 1,345	\$ --
	=====	=====	=====	=====	=====
Five years later .....	\$ 3,230	\$ 3,360	\$ 929	\$ --	\$ --
	=====	=====	=====	=====	=====
Six years later .....	\$ 3,062	\$ 1,903	\$ --	\$ --	\$ --
	=====	=====	=====	=====	=====
Seven years later .....	\$ 1,572	\$ --	\$ --	\$ --	\$ --
	=====	=====	=====	=====	=====

Effect of Inflation

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Inflation has not had a material impact upon the Company's operations for the last three years.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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Interest Rate Sensitivity

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The following tables present principal maturity cash flows and related weighted average interest rates by expected maturity as of December 31, 2001 and 2000:

2001 Expected Maturity

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	2002	2003	2004	2005	2006
(In thousands)					
<b>Assets</b>					
-----					
Debt securities available for sale ...	\$ 502	\$ 3,424	\$ 1,140	\$ 1,757	\$ 1,071
Average interest rate .....	6.4%	5.3%	5.8%	6.7%	5.8%
Debt securities held to maturity .....	--	260	100	--	--
Average interest rate .....	--	5.5%	5.5	--	--
Mortgage loans .....	2	2	2	2	2
Average interest rate .....	7.5%	7.5%	7.5%	7.5%	7.5
Short-term investments .....	434	--	--	--	--
Average interest rate .....	5.3%	--	--	--	--
<b>Liabilities</b>					
-----					
Debt including current					
portion .....	\$ 729	\$ 72	\$ 72	\$ 72	\$ 72
Average interest rate .....	8.1%	6.3%	6.3%	6.3%	6.3%

2000 Expected Maturity

	2001	2002	2003	2004	2005
(In thousands)					
<b>Assets</b>					
-----					
Debt securities available for sale .....	\$ 498	\$ 504	\$ 2,410	\$ 2,051	\$ 1,152
Average interest rate .....	5.5%	6.4%	5.9%	6.2%	7.3
Debt securities held to maturity .....	865	--	259	100	--
Average interest rate .....	6.3%	--	5.5	5.5%	--
Mortgage loans .....	701	1	2	2	2
Average interest rate .....	.5%	7.5%	7.5%	7.5%	7.5
Short-term investments .....	434	--	--	--	--
Average interest rate .....	5.5%	--	--	--	--
<b>Liabilities</b>					
-----					
Debt including current					
portion .....	\$ 1,184	\$ 189	\$ 70	\$ 77	\$ 84

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Average interest rate .....	9.0%	7.7%	8.6%	8.5%	8.4%
-----------------------------	------	------	------	------	------

The operations of the Company are subject to risk resulting from interest rate fluctuations to the extent that there is a difference between the amount of the Company's interest-earning assets and the amount of interest-bearing liabilities that are prepaid/withdrawn, mature or reprice in specified periods. The principal objective of the Company's asset/liability management activities is to provide maximum levels of net interest income while maintaining acceptable levels of interest rate and liquidity risk and facilitating the funding needs of the Company.

Due to the limited nature and duration of claims, generally one to two years, the Company maintains a portfolio with a yield that approximates the money market interest rate scenario.

Additionally, the Company's exposure to rapid changes in interest rates is partially mitigated because most of the Company's interest-earning assets and interest-bearing liabilities being written are at fixed rates.

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 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. Under the Registered Investment Advisors professional liability coverage, each endorsed account is limited to a maximum liability coverage of \$500,000. Due to the volatility in the marketplace, the Company has suspended marketing of this product effective September 2001.

In July 2001, Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets" were 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. 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. The Company has not evaluated the effect, if any, that the adoption of SFAS 142 will have on the Company's consolidated financial statements.

In August 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations ("SFAS 143"). SFAS 143 provides accounting and reporting standards related to obligations associated with the retirement of tangible long-lived assets. SFAS 143 is effective on January 1, 2003, however, earlier application is encouraged. The Company has not evaluated the effect, if any, that the adoption of SFAS 143 will have on the Company's consolidated financial statements.

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS 144"). SFAS 144 provides



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accounting and reporting standards for the impairment or disposal of long-lived assets. SFAS 144 supersedes SFAS 121 but retains SFAS 121's fundamental provisions for (a) recognition/measurement of impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. SFAS 144 also supersedes the accounting/reporting provisions of Accounting Principles Board Opinion No. 30 ("APB 30") for segments of a business to be disposed of but retains APB 30's requirement to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of or is classified as held for sale. SFAS 144 is effective January 1, 2002, however, earlier application is encouraged. The Company adopted SFAS 144 effective January 1, 2002, and the adoption of this statement had no impact on the financial condition, results of operations, or cash flows of the Company.

### Item 8. Consolidated financial statements and Supplementary Data

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The consolidated financial statements of the Company required by this Item are listed in Item 14(a) (1) and (2) and are submitted as a separate section of this report.

The following information presents unaudited quarterly operating results for the Company for 2001 and 2000. The data has been prepared by the Company on a basis consistent with the Consolidated Financial Statements included elsewhere in this Form 10-K, and include all adjustments, consisting of normal recurring accruals that the Company considers necessary for a fair presentation thereof.

(In thousands, except per share data)	12/31 01	9/30 01	6/30 01	3/31 01	1
-----	-----	-----	-----	-----	-----
Revenue .....	\$ 4,632	\$ 4,213	\$ 3,776	\$ 3,840	\$
Benefit related expenses .....	2,710	2,889	1,891	1,980	
Operating and other expenses .....	2,129	1,656	1,854	1,528	
	-----	-----	-----	-----	-----
Total expenses .....	4,839	4,545	3,745	3,508	
	-----	-----	-----	-----	-----
(Loss) income from continuing operations .....	(207)	(332)	31	332	
Income tax (benefit) expense .....	(59)	(131)	4	110	
	-----	-----	-----	-----	-----
(Loss) income before extraordinary item .....	(148)	(201)	27	222	
Extraordinary item net of taxes .....	158	--	--	--	
	-----	-----	-----	-----	-----
Net income (loss) .....	\$ 10	\$ (201)	\$ 27	\$ 222	\$
	=====	=====	=====	=====	=====
Weighted average number of shares outstanding - basic .....	5,589	5,597	5,597	5,564	
	=====	=====	=====	=====	=====
Net income (loss) per share - basic .....	\$ 0.01	\$ (0.04)	\$ 0.01	\$ 0.04	\$
	=====	=====	=====	=====	=====
Weighted average number of shares outstanding - diluted .....	5,612	5,667	5,667	5,564	
	=====	=====	=====	=====	=====
Net income (loss) per share -					

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diluted ..... \$ 0.01 \$ (0.04) \$ 0.01 \$ 0.04 \$  
 =====

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure  
 -----

On January 3, 2000, the Company filed a Form 8-K to register its change in certifying accountant.

Item 10. Directors and Executive Officers of the Registrant  
 -----

The current directors and executive officers of the Company are as follows:

Name	Age	Position
----	---	-----
Francis M. Williams	60	Chairman of the Board of Directors
Joseph M. Williams	45	President and Treasurer
Andrew J. Cohen	48	Director
R. Donald Finn	58	Director
Edward J. Edenfield IV	44	President, CCS

All Directors of the Company hold office until the next annual meeting of stockholders and the election and qualification of their successors. Officers of the Company are elected annually by the Board of Directors and hold office at the discretion of the Board.

Set forth below is information regarding the directors and executive officers of the Company:

Francis M. Williams has been Chairman of the Board of the Company since its inception and, until June 1992, was President of the Company. In addition, Mr. Williams has been Chairman of the Board and Director of CCS and SSI from inception and President and Chairman of the Board of KC since its inception in 1979. Prior to November 1988, Mr. Williams was the Chairman of the Board and Chief Executive Officer of Kimmins Corp. and its predecessors and sole owner of K Management Corp. From June 1981 until January 1988, Mr. Williams was the Chairman of the Board of Directors of College Venture Equity Corp., a small business investment company; and since June 1981, he has been Chairman of the Board, Director, and sole stockholder of Kimmins Coffee Service, Inc., an office coffee service company. Mr. Williams has also been a director of the National Association of Demolition Contractors and a member of the executive committee of the Tampa Bay International Trade Council.

Joseph M. Williams has served as the Treasurer and President of the Company since June 1992. He also served as Vice President and Secretary of the Company from its inception on November 18, 1991 through June 1992. Mr. Williams served as a member of the Board of Directors of the Company from November 18, 1991 through February 24, 1997. In addition, Mr. Williams has been the Secretary and Treasurer of Kimmins Corp. since October 1988 and a member of the Board of Directors of CCS since 1988. He held the position of President of CCS from 1991 through August of 1996. From 1989 through 1990 he held the position of Secretary and Treasurer of CCS and from 1991 through 1994 served as Treasurer of CCS. Mr. Williams has been employed by the Company and Kimmins Corp. in various capacities since 1994. From January 1982 to December 1983, he was managing partner of Williams and Grana, a firm engaged in public accounting. From January

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1978 to December 1981, Mr. Williams was employed as a senior tax accountant with Price Waterhouse & Company. Joseph M. Williams is the nephew of Francis M. Williams.

Edward J. Edenfield, IV is the President and Chief Operating Officer of CCS. Mr. Edenfield joined CCS in May of 1996 as Chief Operating Officer, and was promoted to President in September of 1996. He brings over sixteen (16) years of management experience in the insurance industry, specializing in contract and miscellaneous surety bonds. Prior to his involvement with CCS, Mr. Edenfield had various management and senior management positions in the insurance industry. Mr. Edenfield began his career in 1980 with Continental Insurance Company in their New York home office. Within the last five years prior to CCS, Mr. Edenfield has held the position of Assistant Vice President in charge of surety at Meadowbrook Insurance Group from August 1995 to May 1996; Vice President in charge of underwriting at Universal Surety of America from October 1994 to August 1995; Vice President in charge of underwriting at American Bonding Company from January 1992 to September 1994, and Assistant Secretary in charge of treaty and facultative reinsurance from March 1992 to December 1992. Mr. Edenfield completed his bachelor's degree in Business Administration with an emphasis in Economics from Lycoming College. Mr. Edenfield is presently a Board Member of The American Surety Association, and is involved in the National Association of Independent Sureties, as well as being a member of the National Association of Surety Bond Producers. Mr. Edenfield is responsible for administration and finance of the insurance operations at CCS.

Andrew J. Cohen was elected as a Director to the Company's Board effective February 24, 1997. Currently Co-President and Chief Executive Officer of ABC Capital Corp., an investment management firm based in Tampa, Florida and also acts as Co-Chairman on their Board of Directors. In addition, Mr. Cohen is President of Albany Associates, Inc., a Tampa based management consulting firm. From June of 1972 through 1997, Mr. Cohen was co-President of ABC Fabric of Tampa, Inc. which was the fourth largest private retail fabric company in the United States. Mr. Cohen brings both national marketing and corporate management experiences to the Company.

R. Donald Finn was elected as a Director to the Company's Board effective September 9, 1999. For more than the last five years, Mr. Finn has been a partner in the law firm of Gibson, McAskill & Crosby, located in Buffalo, New York, where Mr. Finn has practiced law for more than the last 25 years.

### Beneficial Ownership Reporting Compliance

-----

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than 10 percent of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission ("SEC"). Officers, directors, and greater than 10 percent stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file. Based solely on the Company's review of the copies of such forms received by it, or written representations from certain reporting persons that no Form 5 was required for those persons, the Company believes that, during the year ended December 31, 2001 all filing requirements applicable to its officers, directors, and greater than 10 percent beneficial owners were complied with.

### Item 11. Executive Compensation and Other Information

-----

#### Summary Compensation Table

-----

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The following table provides certain summary information concerning compensation paid or accrued by the Company and its subsidiaries to and on behalf of the Company's President and CCS's President for each of the three years in the period ended December 31, 2001:

Name and Principal Position -----	Year ----	Salary -----	Bonu ----
Joseph M. Williams .....	2001	\$125,000	\$ 50
President and Treasurer .....	2000	\$ 95,000	\$ 64
CTI .....	1999	\$ 95,000	\$ 60
Edward J. Edenfield, IV .....	2001	\$115,000	\$ 25
President and CEO, CCS .....	2000	\$115,000	\$ 50
	1999	\$115,000	\$ 35

(1) Represents the Company's contribution to the employee's account of the Company's 401(k) Plan and premiums paid by the Company for term life insurance and long-term disability. These plans, subject to the terms and conditions of each plan, are available to all employees.

### Aggregate Option Exercises in 2001 and December 31, 2001 Option Values

The following table shows information concerning options held by the officers shown in the Summary Compensation Table at the end of 2001. Mr. Joseph M. Williams exercised 56,000 and 44,000 options in 2001 and 2000, respectively.

Name ----	Shares Acquired on Exercise (#) -----	Value Realized (\$)(1) -----	Number of Underl Unexerc Options/S Year-E (#) Exer Unexerc
Joseph M. Williams .....	56,000	\$82,500	0/0
Edward J. Edenfield, IV .....	--	\$ --	24,0

(1) Value realized is calculated using the Company's closing stock price on the

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date of exercise, March 8, 2001, per share, less the exercise price for such shares.

- (2) Value is calculated using the Company's closing stock price on December 31, 2001, per share, less the exercise price for such shares.

### Compensation Committee Interlocks and Insider Participation

---

There is no compensation committee of the Company's Board of Directors or other committee of the Board performing equivalent functions. The person who performs the equivalent function is Francis M. Williams, Chairman of the Board. Francis Williams serves as an executive officer and director of Kimmins Corp. of which Joseph Williams is also an executive officer.

### Compensation of Directors

---

During the year ended December 31, 2001, the Company paid Francis M. Williams an annual fee of \$75,000 as Chairman of the Board. All non-officer Directors received an annual fee of \$5,000. Directors are reimbursed for all out-of-pocket expenses incurred in attending Board of Directors and committee meetings.

### Board Compensation Committee Report on Executive Compensation

---

There is no formal compensation committee of the Board of Directors or other committee of the Board performing equivalent functions. As noted above, compensation is determined by Francis M. Williams, Chairman of the Board of the Company under the direction of the Board of Directors. There is no formal compensation policy for the Chief Executive Officer of the Company. Compensation of the Chief Executive Officer, which primarily consists of salary, is based generally on performance and the Company's resources. Compensation for Mr. Joseph Williams has been fixed annually each year by the Chairman of the Board. Mr. Joseph Williams' compensation is not subject to any employment contract.

### Item 12. Security Ownership of Certain Beneficial Owners and Management

---

#### Common Stock Ownership of Certain Beneficial Owners and Management

---

The following table sets forth the number of shares of the Company's Common Stock beneficially owned as of December 31, 2001 by (i) persons known by the Company to own more than 5 percent of the Company's outstanding Common Stock, (ii) each director and officer of the Company, and (iii) all directors and executive officers of the Company as a group:

Name and Address of Beneficial Owner (1) (2)	Amount and Nature of Beneficial Ownership of Common Stock	Percent of Issued and Outstanding Common Stock
Francis M. Williams	3,826,541 (3)	68.4%
Joseph M. Williams	360,493 (4)	6.4%
R. Donald Finn	7,131 (5)	.1%
Andrew J. Cohen	47,590 (6)	.9%
Edward J. Edenfield IV	24,000 (7)	.4%
Kimmins Corp.	1,723,290	30.8%

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All directors and executive officers as a group (five persons) 4,894,565 87.5%

- (1) The address of all officers and Directors of the Company listed above are in care of the Company at 4311 West Waters Avenue, Suite 401, Tampa, Florida 33614.
- (2) The Company believes that the persons named in the table have sole voting and investment power with respect to all shares of common stock beneficially owned by them, unless otherwise noted.
- (3) Includes 2,508,621 shares owned by Mr. Francis Williams; 1,094,480 shares allocated to Mr. Williams based on his 63.5% ownership in Kimmins Corp., 29,345 shares owned by Mr. Williams' wife; 22,748 shares held by Mr. Williams as trustee for his wife and children; 18,296 shares held by Mr. Williams as custodian under the New York Uniform Gifts to Minors Act for his Children; and 153,050 held by various Real Estate Partnerships of which Mr. Williams is 100 percent Owner. Mr. Williams owns 63.5% of the outstanding common stock of Kimmins Corp. and is its Chairman and Chief Executive Officer.
- (4) Includes 133,500 shares owned by Mr. Joseph M. Williams; 1,010 shares held by Mr. Williams as trustee for his children; 219 shares held by the KC 401(K) Plan and ESOP of which Mr. Williams is fully vested. Also includes 205,764 shares held by KC's 401(K) Plan, Profit Participation Plan and ESOP, options to acquire 20,000 shares of the Company's Common Stock held by the ESOP, of which Mr. Williams is a trustee; Mr. Williams disclaims beneficial ownership of these shares.
- (5) Includes 2,131 shares owned by Mr. R. Donald Finn and options to acquire 5,000 shares of the Company's common stock.
- (6) Includes 72,540 shares owned by C&C Properties a partnership in which Mr. Cohen has a 50% ownership, 6,320 shares held in trust for Mr. Cohen's minor children and options to acquire 5,000 shares of the Company's common stock.
- (7) Includes options to acquire 24,000 shares of the Company's Common stock.

### Item 13. Certain Relationships and Related Transactions

#### Surplus Debentures/Term Note

In 1988, CCS issued a surplus debenture to KC in exchange for \$3,000,000 which bears interest at 10 percent per annum. In 1992, the debenture due to KC from CCS was assigned to CTI. 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. As of December 31, 1999, no payments could be made under the terms of the debenture. On June 30, 1999, CTI forgave \$576,266 of its \$2,625,000 surplus debenture due to CCS. As a result, CCS increased paid-in-capital to \$1,000,000 from \$423,734. As of December 31, 2001, no payments could be made under the terms of the debenture.

Effective November 10, 1988, the Company entered into a \$1,000,000 convertible term note agreement with TransCor Waste Services, Inc., a subsidiary of KC. The note, originally due November 10, 2001, has been extended to November 10, 2002. The annual rate of interest is equal to one half of one percent per

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annum in excess of the stated interest rate established by the Bank of America. The average interest rate for 2001 was 8.6%. On December 26, 2001, the Company made a principal note payment of \$395,945 reducing the note to \$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 close of business on the maturity date.

CCS writes surety bonds for KC and its affiliates. Revenues attributable to transactions with KC and its affiliates were \$88, \$4,413 and \$10,342 for the years ended December 31, 2001, 2000 and 1999, respectively. Qualex performs consulting services for KC and affiliates. Revenue attributable to transaction with affiliates were \$121,089, \$171,292 and \$117,075 for years ended December 31, 2001, 2000 and 1999, respectively.

Item 14. Exhibits, Consolidated financial statements,  
Schedules, and Reports on Form 8-K

-----

(a) The following documents are filed as part of this Annual Report on Form 10-K

1. Consolidated Financial Statements

- Independent Auditors' Report
- Consolidated Balance Sheets at December 31, 2001 and 2000
- Consolidated Statements of Operations for each of the three years in the period ended December 31, 2001.
- Consolidated Statements of Stockholders' Equity for each of the three years in the period ended December 31, 2001.
- Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2001.
- Notes to Consolidated Financial Statements

2. Financial Statement Schedule

Schedule II - Condensed Financial Information of Registrant

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

3. The following documents are filed as exhibits to this Annual Report on Form 10-K:

- 3(a) - Articles of Incorporation\*
- 3(b) - Bylaws\*
- 10(a) - Lease agreement with Cumberland Properties, Inc.\*
- 10(c) - 1991 Stock Option Plan\*
- 11 - Statement Re: Computation of Earnings Per Share
- 22 - Subsidiary list
- 23 - Consent of Deloitte & Touche LLP

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

(b) Reports on Form 8-K - None

(c) Exhibits - The response to this portion of Item 14 is submitted as a separate section of this report.

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(d) Financial Statement Schedules - The response to this portion of Item 14 is submitted as a separate section of this report.

SIGNATURES  
-----

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunder duly authorized.

CUMBERLAND TECHNOLOGIES, INC.  
-----

Date: April 1, 2002 By: /s/ Joseph M. Williams  
-----  
Joseph M. Williams, President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: April 1, 2002 By: /s/ Joseph M. Williams  
-----  
Joseph M. Williams, President

Date: April 1, 2002 By: /s/ Francis M. Williams  
-----  
Francis M. Williams, Chairman of the Board

Date: April 1, 2002 By: /s/ R. Donald Finn  
-----  
R. Donald Finn, Director

Date: April 1, 2002 By: /s/ Andrew J. Cohen  
-----  
Andrew J. Cohen, Director

Date: April 1, 2002 By: /s/ Carol S. Black  
-----  
Carol S. Black, Secretary  
(Principal Financial and Accounting Officer)



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Item 14(a), (c) and (d)

List of Consolidated Financial Statements

Consolidated Financial Statement Schedules and Exhibits

Year Ended December 31, 2001

Cumberland Technologies, Inc.

Tampa, Florida

CUMBERLAND TECHNOLOGIES, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS,  
FINANCIAL STATEMENT SCHEDULES AND EXHIBITS

The following consolidated financial statements of Cumberland Technologies, Inc. are included herein:

	Page
	----
Independent Auditors' Report.....	34
Consolidated Balance Sheets at December 31, 2001 and 2000 .....	35-36
Consolidated Statements of Operations for each of the three years in the period ended December 31, 2001 .....	37
Consolidated Statements of Stockholders' Equity for each of the three years in the period ended December 31, 2001 .....	38
Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2001 .....	39
Notes to Consolidated Financial Statements .....	40
The following financial statement schedule is filed as part of this report:	
Schedule II - Condensed Financial Information of Registrant .....	61

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

INDEPENDENT AUDITORS' REPORT  
-----

To the Board of Directors of  
Cumberland Technologies, Inc.

We have audited the accompanying consolidated balance sheets of Cumberland Technologies, Inc. and subsidiaries (the "Company") as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. Our audits also included the financial statement schedule listed in the Index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2001 and 2000 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statement, in 2001, the Company changed its method for accounting for derivatives.

/s/ DELOITTE & TOUCHE LLP  
Tampa, Florida

March 25, 2002

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CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31,	
	2001	2000
Investments:		
-----		
Securities available-for-sale at fair value:		
Debt securities .....	\$ 9,339,353	\$ 7,553,010
Equity securities .....	--	2,716
Debt securities held-to-maturity at amortized cost (fair value, 2001 - \$374,436; 2000 - \$1,227,130) .....	359,475	1,223,593
Mortgage loans on real estate, at unpaid principal .....	681,790	742,068
Short-term investments .....	433,993	433,993
	-----	-----
Total investments .....	10,814,611	9,955,380
Cash and cash equivalents .....	2,654,131	693,778
Accrued investment income .....	154,527	185,011
Reinsurance recoverable .....	3,844,034	4,910,443
Accounts receivable:		
-----		
Nonaffiliate less allowance for doubtful accounts of \$40,289 and \$13,750, respectively .....	4,615,327	3,821,206
Affiliate .....	72,201	436,997
Income tax recoverable .....	--	167,588
Deferred tax asset .....	499,145	175,234
Deferred policy acquisition costs .....	1,903,547	1,955,018
Intangibles, net .....	533,731	1,115,316
Other investment .....	640,872	582,532
Other assets .....	371,893	311,082
	-----	-----
	\$26,104,019	\$24,309,585
	=====	=====

See notes to consolidated financial statements.

CUMBERLAND TECHNOLOGIES, INC.

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

December 31,

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	2001	2000
	-----	
Policy liabilities and accruals:		
-----		
Loss and loss adjustment expenses .....	\$ 4,113,232	\$5,185,626
Derivative instruments .....	1,978,891	--
Unearned premiums .....	5,582,640	5,775,524
Ceded reinsurance payable .....	1,755,105	721,513
Accounts payable and other liabilities .....	3,388,269	2,637,748
Income tax payable .....	113,284	--
Debt:		
----		
Nonaffiliate .....	651,940	1,102,683
Affiliate .....	604,055	1,000,000
	-----	
Total liabilities .....	18,187,416	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 .....	70,729	104,485
Retained earnings .....	833,361	774,993
	-----	
	8,180,322	8,150,210
Less treasury stock, at cost, 318,612 shares at December 31, 2001 and 2000 .....	(263,719)	(263,719)
	-----	
Total stockholders' equity .....	7,916,603	7,886,491
	-----	
	\$ 26,104,019	\$ 24,309,585
	=====	

See notes to consolidated financial statements.

CUMBERLAND TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years
	-----
	2001
	-----
Revenue:	
-----	
Direct premiums earned .....	\$ 14,465,244

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Assumed premiums earned .....	3,788,443
Less ceded premiums .....	(4,612,371)
	-----
Net premium income .....	13,641,316
Net investment income .....	604,463
Net realized investment gains .....	305,461
Commission income .....	413,422
Other income:	
Affiliate .....	121,089
Nonaffiliate .....	1,374,916
	-----
Total revenue .....	16,460,667
	-----
Benefits and Expenses:	
	-----
Losses and loss adjustment expenses .....	4,045,578
Derivative expense .....	1,060,799
Amortization of deferred policy acquisition costs .....	4,362,721
Operating expenses .....	6,563,919
Impairment of long-lived assets .....	437,418
Interest expense:	
Affiliate .....	69,198
Nonaffiliate .....	97,208
	-----
Total expenses .....	16,636,841
	-----
(Loss) income from continuing operations .....	(176,174)
Income tax (benefit) expense .....	(75,932)
	-----
(Loss) income before extraordinary item .....	(100,242)
Extraordinary gain on restructuring of note, (net of income tax) .....	158,610
	-----
Net income .....	\$ 58,368
	=====
Income per basic share:	
	-----
Income (loss) before extraordinary gain .....	\$ (0.02)
Extraordinary gain .....	0.03
	-----
Net income .....	\$ 0.01
	=====
Weighted average shares outstanding - basic .....	5,589,167
Income per diluted share:	
	-----
Income (loss) before extraordinary gain .....	\$ (0.02)
Extraordinary gain .....	0.03
	-----
Net income .....	\$ 0.01
	=====
Weighted average shares outstanding - diluted .....	5,611,667
	=====

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See notes to consolidated financial statements.

CUMBERLAND TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001

	Common Shares		Capital in	Accumulated	(Ac
	-----	-----	Excess of	Other	D
	Stock	Amount	Par Value	Comprehensive	R
	-----	-----	-----	Income	E
				(Loss)	
				-----	-----
Balance at January 1, 1999 .....	5,763,070	\$ 5,763	\$ 7,212,941	\$ (190,929)	\$ (
Exercise of 52,286 shares under 1991 stock option plan .....	52,286	53	44,975		
Net unrealized appreciation of available-for-sale securities, net of income tax .....				150,032	
Net income .....					
Comprehensive income .....					
Balance at December 31, 1999 ....	5,815,356	5,816	7,257,916	(40,897)	
Exercise of 56,000 shares under 1991 stock option plan .....	56,000	56	6,944		
Net unrealized appreciation of available-for-sale securities, net of income tax .....				145,382	
Net income .....					
Comprehensive income .....					
Balance at December 31, 2000 ....	5,871,356	5,872	7,264,860	104,485	
Exercise of 44,000 shares under 1991 stock option plan .....	44,000	44	5,456		
Net unrealized depreciation					

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of available-for-sale securities, net of income tax .....					(33,756)
Net income .....					
Comprehensive income.....					
Balance at December 31, 2001 ....	5,915,356	\$ 5,916	\$ 7,270,316	\$ 70,729	\$
	=====	=====	=====	=====	=====

See notes to consolidated financial statements.

CUMBERLAND TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended	
	2001	
Operating activities:		
Net income .....	\$	58,368
Adjustments to reconcile net income to cash provided by operating activities:		
Extraordinary gain on restructuring of note payable .....		(158,610)
Accretion of investment discounts .....		(15,094)
Policy acquisition costs amortized .....		4,362,721
Policy acquisition costs deferred .....		(4,311,250)
Amortization .....		144,267
Impairment of long-lived assets.....		437,318
Net realized gains on sales of investments .....		(305,461)
Provision (recoveries) for bad debts .....		--
(Increase) decrease in:		
Accrued investment income .....		30,484
Reinsurance recoverable .....		1,066,409
Accounts receivable .....		(794,121)
Income tax recoverable .....		167,588
Deferred income tax asset .....		(421,123)
Other assets .....		(60,811)
Increase (decrease) in:		
Policy liabilities and accruals .....		(347,186)
Derivative liability .....		1,060,799
Ceded reinsurance payable .....		1,033,592

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Accounts payable and other liabilities .....	750,521
Income tax payable .....	113,284
	-----
Net cash provided by operating activities .....	2,811,695
	-----
Investing activities:	
-----	
Securities available-for-sale:	
Purchases - debt securities.....	(6,405,825)
Proceed from sales - debt securities. ....	4,907,176
Proceed from sales - equities .....	939
Proceeds from investment settlement .....	--
Securities held-to-maturity:	
Purchases- debt securities. ....	--
Proceeds from maturities .....	865,000
Net payments on (purchases of) - mortgage loans.....	60,278
Other investment .....	(58,340)
Purchases of short-term investments .....	--
	-----
Net cash used in investing activities .....	(630,772)
Financing activities:	
-----	
Payments on debt, affiliate and non-affiliate .....	(590,866)
Stock options exercised .....	5,500
Net change in advances to (from) affiliates .....	364,796
	-----
Net cash used in financing activities .....	(220,570)
	-----
Increase (decrease) in cash and cash equivalents .....	1,960,353
Cash and cash equivalents, beginning of year .....	693,778
	-----
Cash and cash equivalents, end of year .....	\$ 2,654,131
	=====
Supplemental cash flows disclosure:	
-----	
Cash paid for interest .....	\$ 33,834
	-----
Cash paid for income taxes .....	\$ 164,909
	=====

See notes to consolidated financial statements.

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

### 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



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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 consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America which, as to the subsidiary insurance company, differ from statutory accounting practices prescribed or permitted by regulatory authorities. The significant accounting policies followed by CTI and subsidiaries that materially affect the consolidated financial statements are summarized in this note.

#### Investments

-----

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

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

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

-----

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

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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. The Company's proportionate share of income (losses) generated by an investee accounted for under the equity method of \$53,621, \$19,997, and (\$203,255) for the years ended December 31, 2001, 2000 and 1999, respectively, are included in income.

### Cash Equivalents -----

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

### 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"). 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. Goodwill is being amortized on a straight-line basis over 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.

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

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

The carrying value of Goodwill and other intangible assets will be reviewed if circumstances suggest that they may be impaired. 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 intangibles is reduced to fair value. The amount of Goodwill impairment, if any, is measured based on projected discounted future results using a discount rate reflecting the Company's average cost of funds.

In accordance with Statement of Financial Accounting Standard 121 ("SFAS 121"), 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 of December 31, 2001 and an asset impairment charge of \$437,418 was recorded.

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.

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.

Unearned Premiums  
-----

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

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

2. Summary of Significant Accounting Policies (continued)

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.

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.

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

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

The Company has recorded a deferred income tax asset of \$499,145 and \$175,234 at December 31, 2001 and 2000, 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.

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 22,500, 113,500 and 134,500 outstanding stock options at December 31, 2001, 2000 and 1999, respectively, had no effect on the results of the calculations of earnings per share. Additionally, 47,000 outstanding stock options at December 31, 2001 were antidilutive.

Business Concentration  
-----

The majority of the Company's business relates to surety and performance bonds for contractors. Accordingly, the occurrence of adverse economic conditions in the contracting business could have a material adverse effect on the Company's business although no such conditions have been encountered in the past. The Company only requires collateral from surety bond customers if the customer meets 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.

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.

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

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

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### New Accounting Standards

-----

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 consolidated balance sheet and on January 1, 2002, 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, 2001 approximated the fair value of the derivative instrument at January 1, 2002. The fair value of the derivative instrument at December 31, 2001 is \$1,978,891. The change in the fair value of the derivative instrument for the year ended December 31, 2001 is \$1,060,799. The Company is not involved in any hedging activities. At December 31, 2001 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.

In July 2001, Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets" were 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. 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. The Company has not evaluated the effect, if any, that the adoption of SFAS 142 will have on the Company's consolidated financial statements.

In August 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations ("SFAS 143"). SFAS 143 provides accounting and reporting standards related to obligations associated with the retirement of tangible long-lived assets. SFAS 143 is effective on January 1, 2003, however, earlier application is encouraged. The Company has not evaluated the effect, if any, that the adoption of SFAS 143 will have on the Company's consolidated financial statements.

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

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

-----

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### New Accounting Standards -----

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS 144"). SFAS 144 provides accounting and reporting standards for the impairment or disposal of long-lived assets. SFAS 144 supersedes SFAS 121 but retains SFAS 121's fundamental provisions for (a) recognition/measurement of impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. SFAS 144 also supersedes the accounting/reporting provisions of Accounting Principles Board Opinion No. 30 ("APB 30") for segments of a business to be disposed of but retains APB 30's requirement to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of or is classified as held for sale. SFAS 144 is effective January 1, 2002, however, earlier application is encouraged. The Company adopted SFAS 144 effective January 1, 2002, and the adoption of this statement had no impact on the financial condition, results of operations, or cash flows of the Company.

### Reclassifications -----

Certain amounts in the 2000 and 1999 consolidated financial statements have been reclassified to conform to the 2001 consolidated financial statement presentation.

### 3. Related Party Transactions -----

CTI and its subsidiaries have entered into transactions with KC and companies affiliated through common ownership. CCS writes surety bonds for KC and its affiliates. Revenues attributable to surety bonds with KC and its affiliates were \$88, \$4,413 and \$10,342 for the years ended December 31, 2001, 2000 and 1999, respectively. Qualex performs consulting services for KC and affiliates. Other income from affiliates in the accompanying consolidated statements of operations consist primarily of consulting services provided to KC.

Affiliate accounts receivable represents funds advanced and joint expenses that have not yet been reimbursed from KC and its affiliates. These receivables are paid periodically and no interest is charged on the outstanding balances which are payable on demand.

The Company's operating subsidiaries rent or lease office space in the cities in which they are located. CCS and Qualex lease office space in Tampa, Florida from a company owned by Francis Williams, the Chairman of the Board of the Company, at a monthly rate of \$12,876, pursuant to a lease that was executed June 1, 1999 and is effective through May 31, 2009.

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

### 3. Related Party Transactions (continued) -----

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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 ("Navy"). At the time the bonds were issued by CCS as surety, KC entered into an indemnification agreement, whereby KC indemnified CCS from any and all losses, costs and expenses incurred related to the bonds. In 1991, the Navy defaulted and terminated AEC on the contract. The contract was subsequently litigated and CCS was unsuccessful in its litigation activities with the Navy. As a result, KC reimbursed CCS \$1,500,000 of the total subrogation recoverable of \$1,851,000 in November 2001 on the contract. CCS wrote off the remaining \$351,000 reinsurance recoverable as a charge to loss and loss adjustment expense and incurred an additional \$240,000 in legal fees during 2001.

### 4. Investments

The Company's investments in available-for-sale securities and held-to-maturity securities are summarized as follows:

	Amortized Cost	Gross Unrealized Gains
	-----	-----
Available-for-sale securities at December 31, 2001:		
Debt securities:		
U.S. Government bonds .....	\$5,304,913	\$ 48,83
State and municipal bonds .....	546,547	--
Industrial and miscellaneous bonds .....	3,354,093	125,06
	-----	-----
Total debt securities .....	\$9,205,553	\$ 173,90
	=====	=====
Held-to-maturity securities at December 31, 2001:		
Debt securities:		
U.S. Government bonds .....	\$ 359,475	\$ 14,96
	=====	=====
Available-for-sale securities at December 31, 2000:		
Debt securities:		
U.S. Government bonds .....	\$4,916,126	\$ 153,44
State and municipal bonds .....	546,488	--
Industrial and miscellaneous bonds .....	1,900,751	69,79
	-----	-----
Total debt securities .....	7,363,365	223,24
Equity securities .....	24,838	--
	-----	-----
Total .....	\$7,388,203	\$ 223,24
	=====	=====
Held-to-maturity securities at December 31, 2000:		
Debt securities:		
U.S. Government bonds .....	\$1,223,593	\$ 4,00
	=====	=====



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CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

4. Investments (continued)  
-----

The amortized cost and fair value of the Company's investments in debt securities, segregated by available-for-sale and held-to-maturity, at December 31, 2001 are summarized, by stated maturity, as follows:

Maturity -----	Available-for-Sale -----	
	Amortized Cost -----	Fair Value -----
Due in one year or less .....	\$ 499,906	\$ 501,875
Due after one year through five years .....	7,281,003	7,392,056
Due after five years through ten years .....	928,097	968,332
Due after twenty years .....	496,547	477,090
	-----	-----
	\$9,205,553	\$9,339,353
	=====	=====

The Company held no investments in any person or its affiliates (excluding obligations of the U.S. Government or its agencies) which exceeded 10 percent of stockholders' equity at the end of the respective year.

At December 31, 2001 and 2000, the Company had \$3.3 million and \$3.1 million, respectively, in restricted investments (debt securities and short-term investments). Restricted investments primarily represent funds held as collateral in connection with reinsurance trust agreements and funds held as required under statutory regulations by state insurance departments.

Net investment income for the Company is comprised of the following:

	Year ended ----- 2001 -----
Debt and equity securities .....	\$ 573,345
Mortgage loans on real estate .....	3,289
Short-term investments, including cash and cash equivalents .....	77,203

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	-----
	653,837
Less investment expenses .....	(49,374)
	-----
Net investment income .....	\$ 604,463
	=====
Realized gains (losses) on available-for-sale securities:	
Debt securities - gains .....	\$ 329,360
Equity securities - gains .....	--
Equity securities - losses .....	(23,899)
	-----
Net realized investment gains .....	\$ 305,461
	=====

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

4. Investments (continued)

Net realized investment gains for the year ended December 31, 2000 includes other-than-temporary losses of \$231,686 from certain investments.

5. Fair Value of Financial Instruments

The carrying amounts and fair values of the Company's financial instruments at December 31, 2001 and 2000 are as follows:

	December 31, 2001	
	-----	-----
	Carrying Amount	Fair Value
	-----	-----
<b>Assets:</b>		
-----		
Cash and cash equivalents, including short-term investments .....	\$3,088,124	\$3,088,124
Investments .....	9,698,828	9,713,758
Mortgage loans on real estate .....	681,790	681,790
Accounts receivable .....	4,687,528	4,687,528
Reinsurance recoverable .....	3,844,034	3,844,034
<b>Liabilities:</b>		
-----		
Debt .....	1,255,995	1,255,995
Ceded reinsurance payable .....	1,755,105	1,755,105
Derivative instrument.....	1,978,891	1,978,891
	-----	-----
	December 31, 2000	
	-----	-----
	Carrying Amount	Fair Value
	-----	-----
<b>Assets:</b>		

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-----		
Cash and cash equivalents, including short-term investments .....	\$1,127,771	\$1,127,771
Investments .....	8,779,319	8,782,856
Mortgage loans on real estate.....	742,068	742,068
Accounts receivable .....	4,258,203	4,258,203
Reinsurance recoverable .....	4,910,443	4,910,443

Liabilities:

-----		
Debt .....	2,102,683	2,025,897
Ceded reinsurance payable .....	721,513	721,513

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

5. Fair Value of Financial Instruments (continued)

-----

Cash and cash equivalents, short-term investments, mortgage loans on real estate, accounts receivable, reinsurance recoverable and ceded reinsurance payable: The carrying amount reported in the consolidated balance sheet approximates fair value.

Investments: Fair values for debt securities are based on quoted market prices and are recognized in the consolidated balance sheet for available-for-sale securities. The fair values for equity securities are based on quoted market prices and are recognized in the consolidated balance sheet.

Debt: Fair value of debt is based on discounted expected future cash flows, using risk rates currently available for debt with similar terms and remaining maturities.

6. Intangibles

-----

Intangibles are comprised of the following:

	As of December 31,	
	2001	2000
	-----	
Deferred state admission costs .....	\$ 227,171	\$ 227,171
Customer lists and acquisition costs .....	567,163	1,084,041
Product development .....	262,194	262,194
Goodwill .....	280,623	926,661
	-----	-----
	1,337,151	2,500,067
Accumulated amortization .....	803,420	1,384,751
	-----	-----
Total .....	\$ 533,731	\$1,115,316
	=====	=====

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Amortization expense amounted to \$144,267 in 2001, \$151,319 in 2000 and \$188,890 in 1999.

### 7. Other Investment

-----

The Company has a 30 percent investment in Global Solutions Insurance Services, Inc. ("GSIS"), an agency located in California that issues cargo insurance and customs bonds, which is accounted for under the equity method.

Summarized unaudited financial information of GSIS is as follows:

### CUMBERLAND TECHNOLOGIES, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

### 7. Other Investment (continued)

-----

	Year ended December 31,		
	2001	2000	1999
Revenues .....	\$ 600,530	\$ 417,972	\$ 227,652
Net income (loss) .....	178,738	66,655	(677,516)

  

	As of December 31,	
	2001	2000
Current assets .....	\$1,034,572	\$ 732,669
Non-current assets .....	250,955	76,180
Current liabilities .....	726,402	386,633
Non-current liabilities .....	1,607,555	1,607,555

### 8. Reserve for Losses and Loss Adjustment Expenses

-----

The following table provides a reconciliation of the beginning and ending liability balances, net of reinsurance recoverables, for the years ended December 31, 2001, 2000 and 1999, to the gross amounts reported in the Company's consolidated balance sheets:

	2001
Liability for losses and LAE, net of reinsurance recoverable on unpaid losses, at beginning of year .....	\$ 2,416,657

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-----	
Incurred losses and LAE's claims, net of reinsurance, occurring during:	
Current year .....	4,982,148
Prior year .....	(936,570)
-----	
Total incurred losses, net of reinsurance .....	4,045,578
Losses and LAE payments for claims, net of reinsurance, occurring during:	
Current year .....	1,331,813
Prior years .....	1,017,190
-----	
Total payments .....	2,349,003
Liability for losses and LAE, net of reinsurance recoverable on unpaid losses, at end of year .....	4,113,232
Liability for derivative instrument at end of the year .....	--
Subrogation recoverables .....	--
-----	
Liability for losses and LAE, gross of reinsurance recoverables on unpaid losses, at end of year .....	\$ 4,113,232
=====	

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

8. Reserve for Losses and Loss Adjustment Expenses (continued)

-----

The Company experienced \$936,570, \$1,003,077 and \$416,000 in redundancies for losses and loss adjustment expenses in 2001, 2000 and 1999 respectively. The redundancies principally result from subrogation received on pooling agreement case base reserves and claims in prior years.

The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. While anticipated price increases due to inflation are considered in estimating the ultimate claim costs, the increase in average severities of claims is caused by a number of factors. Future average severities are projected based on historical trends adjusted for anticipated changes in underwriting standards, policy provisions, and general economic trends. These anticipated trends are monitored based on actual development and are modified if necessary.

9. Income Taxes

-----

Income tax (benefit) expense consists of the following:

	December 31,		
	-----		
	2001	2000	1999
	-----		

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Current:

Federal .....	\$ 294,737	\$ 595,707	\$ 283,252
State .....	50,453	101,973	58,417
Total current .....	345,190	697,680	341,669

Deferred:

Federal .....	(276,568)	56,960	(260,407)
State .....	(47,342)	9,750	(44,576)
Total deferred .....	(323,910)	66,710	(304,983)
Total provision .....	\$ 21,280	\$ 764,390	\$ 36,686

The provision is reported as follows:

	December 31,		
	2001	2000	1999
(Benefit) for (loss) from continuing operations .....	\$ (75,932)	\$ 764,390	\$ 36,686
Expense for extraordinary gain on restructuring of note .....	97,212	--	--
Total income tax expense .....	\$ 21,280	764,390	36,686

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

9. Income Taxes (continued)

A reconciliation of the statutory federal income tax rate with the Company's effective income tax rate is as follows:

	December 31,		
	2001	2000	1999
Statutory federal rate .....	34.00%	34.00%	34.00%
State income taxes .....	3.63	3.63	0.78
Tax exempt income .....	(11.04)	(.49)	0.00
Change in valuation allowance .....	--	--	(35.30)
Nondeductible expenses .....	.13	1.52	0.46

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Miscellaneous .....	--	3.66	3.16
	-----	-----	-----
Effective tax rate .....	26.72%	42.32%	3.10%
	=====	=====	=====

The following summarizes the effect of deferred income taxes items and their impact of "temporary differences" between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. Temporary differences and carry-forwards which give rise to deferred income tax assets and liabilities are as follows:

	December 31,		
	2001	2000	1999
	-----	-----	-----
Deferred income tax liabilities:			
-----			
Deferred acquisition costs ...	\$ (716,305)	\$ (735,673)	\$ (632,564)
State income taxes .....	--	--	(15,156)
Unrealized gain on investments	(63,039)	(63,039)	(12,603)
	-----	-----	-----
Total deferred tax liabilities	(779,344)	(798,712)	(660,323)
	-----	-----	-----
Deferred income tax assets:			
-----			
Basis difference in fixed assets .....	--	17,139	17,990
Basis difference in investments .....	120,766	300,261	96,201
Reserve discounting .....	442,163	102,537	33,112
Unearned premiums .....	333,791	351,420	605,246
Amortization .....	279,455	100,275	105,358
Surplus notes .....	102,314	102,314	107,399
	-----	-----	-----
Total deferred tax assets ....	1,278,489	973,946	965,306
	-----	-----	-----
Net deferred tax asset .....	\$ 449,145	\$ 175,234	\$ 304,983
	=====	=====	=====

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

10. Debt

Debt as of December 31, consists of the following:

	2001	2000
	-----	-----
Affiliate:		
-----		

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Convertible note payable due November 10, 2002 .....	\$ 604,055	\$1,000,000
Nonaffiliate: -----		
Note payable due March 1, 2002 .....	124,523	249,109
Note payable due June 30, 2010 .....	527,417	853,574
	-----	-----
	\$1,255,995	\$2,102,683
	=====	=====

Convertible Note Payable to Affiliate  
-----

Effective November 10, 1988, the Company entered into a \$1,000,000 convertible term note agreement with TransCor Waste Services, Inc., a subsidiary of KC. The note, originally due November 10, 2001, has been extended to November 10, 2002. The annual rate of interest is equal to one half of one percent per annum in excess of the stated interest rate established by the Bank of America. The average interest rate for 2001 was 8.6%. On December 26, 2001, the Company made a principal note payment of \$395,945 reducing the note to \$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 close of business on the maturity date.

Notes Payable to Nonaffiliates  
-----

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 \$125,000 are due annually beginning March 1, 2000. The other note is due June 30, 2010 and bears interest 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 March 31, 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 interest rate was reduced to zero, and principal payments became payable at \$6,000 per month. The modification of the terms of the note resulted in an extraordinary gain of \$158,610 (net of deferred income taxes of \$97,212). Payments totaling \$113,312 including a lump sum payment of \$50,000 were made during 2001.

Interest incurred in 2001, 2000 and 1999 for term notes due nonaffiliates was \$97,208, \$102,760 and \$114,027, respectively.

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

10. Debt (continued)  
-----

Maturities of affiliate and non-affiliate notes payable are as follows:

-----  
Year Ending  
December 31,



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2002	\$	728,578
2003		72,000
2004		72,000
2005		72,000
2006		72,000
Thereafter		239,417

11. Employee Benefit Plan  
-----

On April 1, 1996, CTI adopted a defined contribution 401(k) plan covering substantially all employees. Under the plan, the Company makes contributions equal to one percent of the participant's compensation, not to exceed six percent of the participant's annual deferrals. The Company's contributions to the plan totaled \$33,502, \$24,311, and \$22,730 in 2001, 2000 and 1999, respectively.

12. Stock Option Plan  
-----

During the fiscal year ended December 31, 1999, the Company registered the 1991 Stock Option Plan. (the"Plan"). The Company applies APB Opinion No. 25 and related interpretations in accounting for the Plan. Accordingly, no compensation cost has been recognized for the Plan. Had compensation cost been determined based on the fair market value at the grant dates for awards under the Plan consistent with the method of FASB Statement No.123, the effect on the Company's net income and earnings per share would have been immaterial.

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model. The following weighted-average assumptions were used for the grant for the year ended December 31, 1998; dividend yield of 0%, risk free interest rate of 5.40%, expected life of 10 years and volatility of 99.98%. The following weighted-average assumptions were used for grants for the year ended December 31, 2000; dividend yield of 0%, risk free interest rates of 6.54%, and 6.31%, expected lives of 10 years and volatility of 80.59%.

Options granted under this plan have a term of ten years and vest ratably over a four year period immediately following the grant date. The following table summarizes all stock option transaction for the years ended December 31, 2001, 2000 and 1999:

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

12. Stock Option Plan (continued)  
-----

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	2001		
	Shares	Weighted-Average Exercise Price	Shares
Outstanding at beginning of year .....	113,500	\$ .42	134,000
Grants .....	--	\$ --	39,000
Exercised .....	(44,000)	\$ .125	(56,000)
Forfeited .....	--	\$ --	(4,000)
Outstanding at end of year.....	69,500	\$ 1.38	113,000
Exercisable at end of year.....	45,300	\$ 1.28	79,000
Weighted-average fair value of options granted during the year	\$ --	\$ --	

The proceeds from the exercise of stock options include certain income tax benefits, which are included in capital in excess of par value.

The following table summarizes information about stock options at December 31, 2001:

Range of Exercise Prices	Options Outstanding		
	Number Outstanding at December 31, 2001	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
\$ .75 - 1.00 .....	22,500	6 years	\$ .78
\$1.56 .....	37,000	9 years	\$ 1.52
\$2.25 .....	10,000	8 years	\$ 2.25
	69,500		

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CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

## 13. Preferred Stock

-----

CTI is authorized to issue 10,000,000 shares of preferred stock, \$.001 par value, with such rights and privileges as determined by the Board of Directors. The preferred stock shall be issued at such times and for such consideration as determined by the Board of Directors. No shares have been issued as of December 31, 2001.

## 14. Reinsurance

-----

CCS assumes reinsurance premiums through a program whereby its subsidiary, SSI has contracted through two joint partnering agreements (St. Paul Fire and Marine Group, f/k/a United States Fidelity and Guaranty Company and Peerless Insurance Company) to pursue small to medium size contract and commercial surety business in states in which CCS is not licensed. CCS participates in the underwriting risk through a retrocession treaty with Transatlantic Reinsurance Company.

Effective October 1, 1996, CCS entered into a quota share agreement with First Indemnity of America Insurance Company ("FIA") whereby all of the premiums written through a shared underwriting office are subject to this treaty. The Company assumes 50% of the premiums written by FIA and cedes 50% of the premiums written by CCS.

CCS assumed reinsurance primarily from a pooling agreement which expired in April, 1997 for which CCS assumed 10 percent of the risk with a maximum exposure to CCS of \$125,000 per bond. CCS is still receiving residual revenues from a pooling agreement for which CCS assumed 25 percent and 20 percent of the risk with a maximum exposure to CCS of \$125,000 and \$600,000 per bond, respectively.

The Company cedes to Transatlantic Reinsurance Company on an excess of loss treaty 95% of the risk insured with a maximum exposure to the Company of \$235,000 per principal prior to June 30, 2001 and a maximum exposure of \$300,000 per principal effective July 1, 2001. Transatlantic Reinsurance Company is rated A+ by A.M. Best. For its liability line of registered investment advisor insurance, the Company has reduced its exposure on any one risk, with a purchase of a quota share agreement with Dorinco Reinsurance (Dorinco Treaty) which is rated A (Excellent) by A.M. Best. Under the Dorinco Treaty, CCS cedes 50% of its liability on all registered investment advisor policies, which have an aggregate net liability limit of \$500,000 per endorsement. The Company continues to have exposure to risk for reinsurance ceded in the event that the reinsurer is unable to meet its obligation under the reinsurance agreement in force. Reinsurance does not relieve an insurer of its liability to policyholders, however, the reinsurer is obligated to the insurer for the portion assumed by such reinsurer.

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CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

## 14. Reinsurance (continued)

Gross and net written premiums in 2001, 2000 and 1999 are summarized as follows:

	2001		2000	
	Written	Earned	Written	Earned
Direct premiums .....	\$ 13,866,876	\$ 14,465,244	13,775,266	\$ 12,756,102
Assumed premiums .....	4,193,927	3,788,443	2,393,468	2,480,712
Ceded premiums .....	(4,653,722)	(4,612,371)	(3,510,537)	(3,108,861)
Net premiums .....	\$ 13,407,081	\$ 13,641,316	\$ 12,658,197	\$ 12,127,953

Loss and loss adjustment expenses in 2001, 2000, and 1999 are summarized as follows:

	2001	2000	1999
Direct .....	\$ 5,361,119	\$ 6,301,778	\$ 3,932,278
Assumed .....	1,217,945	680,032	714,117
Ceded .....	(2,533,486)	(3,621,452)	(2,251,863)
Net losses and loss adjustment expenses .....	\$ 4,045,578	\$ 3,360,358	\$ 2,394,532

The Company reported premiums paid in advance and reinsurance recoverables on paid losses, of \$3,844,034 and \$4,910,443 at December 31, 2001 and 2000, respectively.

## 15. Commitments and Contingencies

The Company leases certain office space and equipment under noncancelable operating leases. Rent expense was \$241,158, \$222,983 and \$178,429 for the years ended December 31, 2001, 2000 and 1999, respectively. Minimum future rental and lease commitments as of December 31, 2001 for all noncancelable operating leases

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with an initial or remaining term of over one year are as follows:

Year Ending December 31,		
2002	\$	223,823
2003		225,803
2004		213,150
2005		197,587
2006		195,315
Thereafter		417,628

### CUMBERLAND TECHNOLOGIES, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

#### 15. Commitments and Contingencies (continued)

CCS has been named in a class action lawsuit. The plaintiffs are clients of a registered investment advisor (the "Advisor") and have alleged that the Advisor, a registered broker-dealer, and certain other defendants (excluding CCS) were negligent or otherwise responsible for losses suffered by the plaintiffs resulting from embezzlement of the plaintiffs' investments by a third party. As a separate count in the lawsuit, the plaintiffs have also asserted claims against CCS based on a policy of insurance issued by CCS to the Advisor. The policy does not provide coverage for embezzlement, rather it insures losses caused by market declines, providing that the Advisor has followed the investment guidelines required by the policy. CCS denies the plaintiffs' allegations, however, it cannot predict the outcome or the impact this action could have on CCS. CCS is vigorously defending this lawsuit and intends to move for summary judgment.

The Company and its subsidiaries are involved in various lawsuits arising in the ordinary course of its business operations as an insurer. Management does not believe that any of these lawsuits will have a material effect on the consolidated financial position, future operations or cash flows of the Company.

#### 16. Statutory Accounting Practices and Regulatory Requirements

Statutory capital and surplus and net income as reported to the domiciliary state insurance department in accordance with its prescribed or permitted statutory accounting practices for CCS is summarized as follows:

	Year Ended December 31,		
	2001	2000	1999
Statutory capital and surplus .....	\$6,503,218	\$5,441,336	\$5,106,241
Statutory net income .....	105,513	511,624	675,975

CCS is domiciled in Florida and prepares its statutory-basis financial statements in accordance with accounting practices prescribed or permitted by

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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 effect on CCS's statutory financial statements for the implementation of Codification is an additional \$453,187 of surplus as of December 31, 2001. This change in accounting principle is shown in the capital and surplus section of the statutory financial statements as a "cumulative change in accounting principle."

CUMBERLAND TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

16. Statutory Accounting Practices and Regulatory Requirements (continued)

-----  
Under applicable state insurance statutes, CCS must maintain minimum capital and surplus of \$3,000,000 (as of December 31, 2001). In addition, under applicable state laws and regulations, CCS is restricted from paying dividends to the extent of surplus profits less any dividends that have been paid in the preceding twelve months or net investment income for the year, whichever is less, unless the Company obtains prior approval from the Florida Department of Insurance. As of December 31, 2001, no dividends from CCS are available for payment to CTI without the prior approval of the Department of Insurance. The more significant variances between statutory reporting and generally accepted accounting principles are deferred policy acquisition costs and nonadmitted assets. Insurance regulations dictate expensing commissions. Nonadmitted assets represent non-liquid assets and are excluded from the statutory statement of admitted assets, liabilities and capital and surplus.

17. Comprehensive Income

-----  
Comprehensive income 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 income and changes in the unrealized appreciation of available-for-sale securities. The following summarizes the components of comprehensive income:

Consolidated  
For the

-----  
2001  
-----

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Net income .....	\$ 58,368
Other comprehensive (loss) income, net of income tax:	
Unrealized appreciation of available-for- sale securities arising during the year.....	164,988
Less: reclassification adjustment for gains included in net income .....	198,744
	-----
Comprehensive income .....	\$ 24,612
	=====

SCHEDULE II - CONDENSED FINANCIAL INFORMATION OF REGISTRANT

CUMBERLAND TECHNOLOGIES, INC.

Condensed Balance Sheets	December 31,	
	2001	2000
-----	-----	-----
Assets:		
-----		
Investment in wholly-owned subsidiaries .....	\$6,301,161	\$6,957,172
Other assets .....	1,973	2,699
Other investments .....	640,872	582,532
Deferred income tax asset .....	499,145	175,234
Income tax recoverable .....	--	167,588
Surplus debenture receivable from subsidiary .....	2,048,734	2,048,734
	-----	-----
	\$9,491,885	\$9,933,959
	=====	=====
Liabilities:		
-----		
Accounts payable to affiliates .....	\$1,450,710	\$2,005,911
Income tax payable .....	113,284	--
Accounts payable .....	11,288	41,557
	-----	-----
	\$1,575,282	2,047,468
	-----	-----
Stockholders' equity:		
-----		
Common stock .....	5,916	5,872
Other stockholders' equity .....	7,910,687	7,880,619
	-----	-----
	\$7,916,603	7,886,491
	-----	-----
	\$9,491,885	\$9,933,959

=====

	Ye
	-----
	2001
	-----
Condensed Statements of Operations	
-----	
Revenue:	
-----	
Management fees from wholly-	
owned subsidiaries .....	\$ 533,332
	-----
	533,332
	-----
Costs and expenses:	
-----	
Selling and administrative	
expenses .....	175,161
Interest expense to affiliates .....	69,198
	-----
	244,359
	-----
Income before income taxes	
and equity in net income (loss)	
of subsidiaries .....	288,973
Income tax (benefit) expense .....	109,116
Equity in income (loss) of	
subsidiaries .....	(121,489)
	-----
Net income .....	\$ 58,368
	=====

SCHEDULE II - CONDENSED FINANCIAL INFORMATION  
OF REGISTRANT (CONTINUED)

CUMBERLAND TECHNOLOGIES, INC.

Supplemental Schedule of Noncash Investing and Financing Activities

-----

The Company operates through its wholly-owned subsidiaries and all operating activities have been funded by its subsidiaries.

Notes to Condensed Financial Statements

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1. Organization and summary of significant accounting policies

-----

Organization - Cumberland Technologies, Inc. ("CTI" or "the Company"), a



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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 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"). CTI conducts its business through its subsidiaries, CCS, SSI, Surety Group, Inc. ("SG"), Surety Associates ("SA"), and Qualex Consulting Group, Inc. ("Qualex") CCS, a Florida corporation formed in May 1988, provides performance and payment bonds for contractors and miscellaneous surety bonds to federal and local government agencies. The surety services provided include direct surety and, to a lesser extent, reinsurance. SSI, a Florida corporation formed in August 1988, is a general lines agency which operates as an independent agent. SG, a Georgia corporation, and Associates Acquisition Corp. d/b/a Surety Associates, a South Carolina corporation, purchased by the Company in February and July 1995, respectively, are general lines insurance agencies which operate as independent agencies. Qualex, a Florida corporation formed in November 1995, provides claim and contracting consulting services.

For the years ended December 31, 2001, 2000 and 1999, CTI charged its subsidiaries, excluding CCS, a management fee.

2. Basis of Presentation - In the parent-company-only financial statements, the Company's investment in subsidiaries is stated at cost plus equity in undistributed earnings of subsidiaries since the date of acquisition. The Company's share of net income (loss) of its subsidiaries is included in income using the equity method. Parent-company-only financial statements should be read in conjunction with the Company's consolidated financial statements.

Investment in subsidiaries includes the net unrealized appreciation (depreciation) in available-for-sale securities held by CCS, of \$70,729 and \$104,485 as of December 31, 2001 and 2000, respectively. These amounts have been included in the CTI "other stockholders' equity" amounts.

### SCHEDULE II - CONDENSED FINANCIAL INFORMATION OF REGISTRANT (CONTINUED)

#### CUMBERLAND TECHNOLOGIES, INC.

#### 3. Surplus Debenture Receivable from Subsidiary

-----

In 1988, CCS issued a surplus debenture to KC in exchange for \$3,000,000 which bears interest at 10 percent per annum. In 1992, the debenture due to KC from CCS was assigned to CTI. 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 from 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 well as future interest. As a result, CCS increased paid-in-capital to \$1,000,000. As of December 31, 2001, no payments could be made under the terms of the debenture.