

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

FORM 10-K

15, ANNUAL REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the fiscal year ended: December 31, 2017

OR

15, TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 333-149000

CPSM, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|-------------------------------------|
| Nevada | 98-0557091 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification) |

320 W Main Street, Lewisville, TX 75057
(Address of principal executive offices, including zip code)

(972) 221-1199
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to Section 12(g) of the Exchange Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 check mark if disclosure of delinquent filers pursuant to Item 405 of 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.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company.

| | | | |
|-------------------------|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. **The market value of the registrant's voting \$0.001 par value common stock held by non-affiliates of the registrant as of June 30, 2017 was approximately \$1,049,909 which is based on 17,498,489 shares of common stock held by non-affiliates and the price at which the common equity was sold on that date.**

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. **The number of shares outstanding of the registrant's only class of common stock, as of March 29, 2018 was 82,938,960 shares of its \$.001 par value common stock.**

DOCUMENTS INCORPORATED BY REFERENCE

None

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This report contains forward-looking statements. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. These forward-looking statements were based on various factors and were derived utilizing numerous assumptions and other factors that could cause our actual results to differ materially from those in the forward-looking statements. These factors include, but are not limited to, our ability to consummate the acquisition of an operating entity and/or assets, our ability to generate revenues and pay our operating expenses, our ability to raise capital as necessary, economic, political and market conditions and fluctuations, government and industry regulation, interest rate risk, U.S. and global competition, and other factors. Most of these factors are difficult to predict accurately and are generally beyond our control. You should consider the areas of risk described in connection with any forward-looking statements that may be made herein. Readers are cautioned not to place undue reliance on these forward-looking statements and readers should carefully review this report in its entirety. Except for our ongoing obligations to disclose material information under the Federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events. These forward-looking statements speak only as of the date of this report, and you should not rely on these statements without also considering the risks and uncertainties associated with these statements and our business.

PART I

ITEM 1. BUSINESS

General

We act as a holding company to aggregate synergistic pool industry service providers. Our wholly-owned subsidiaries, Custom Pool & Spa Mechanics, Inc. and Custom Pool Plastering are primarily engaged in the provision of full line pool and spa services specializing in pool maintenance and service, resurfacing, repairs, leak detection, renovations, decking and remodeling.

Subsidiaries

On September 11, 2014, we acquired all of the outstanding common shares of Custom Pool & Spa Mechanics, Inc., an entity engaged in the pool service business, from an entity controlled by Lawrence and Loreen Calarco, officers and directors of the Company, in exchange for 19,946,783 common shares of the Company. Custom Pool & Spa (www.custompoolmechanics.com) was incorporated in the State of Florida on October 10, 2003.

For accounting purposes, the transaction was accounted for as a reverse recapitalization. Reverse recapitalization accounting applies when a non-operating shell company (the Company) acquires a private operating company (Custom Pool & Spa Mechanics, Inc.) and the owners and management of the private operating company have actual or effective voting and operating control of the combined company. A reverse recapitalization is equivalent to the issuance of stock by the private operating company for the net monetary assets of the public shell corporation accompanied by a recapitalization with accounting similar to that resulting from a reverse acquisition, except that no goodwill or other intangible assets are recorded.

Custom Pool & Spa Mechanics, Inc. is based in Stuart, FL and owns 25 service vehicles. Custom Pool & Spa Mechanics, Inc. has approximately 40 employees and circa 1400 customer accounts. Custom Pool & Spa Mechanics, Inc. is the regional leader in size and, we believe, quality of services offered. The comprehensive scope of services and products permits us to meet the needs of our residential and commercial clients without having to outsource or make a referral.

On March 30, 2015, we incorporated our wholly owned subsidiary, Custom Pool Plastering (www.cpoolplastering.com) in the State of Florida. Custom Pool Plastering provides custom surfaces to pool environments. We have focused our prior pool resurfacing business within the newly created subsidiary and increased our marketing efforts.

Principal Products or Services

Custom Pool & Spa Mechanics, Inc. is a full service maintenance, service, repair and pool and spa design and build company. Custom Pool & Spa Mechanic's base line range of services includes: routine maintenance including water analysis and adjustment, debris removal, equipment preventative maintenance and repair.

Custom Pool & Spa Mechanics also provides the following services and products:

- pool resuleak detection and repair
- pool retilcustom design renovations and installations
 - coping replacement
 - salt systems:surfacing
- pool and tiki huts and outdoor kitchen installations
- pool & spa wireless capabilities

Custom Pool Plastering provides custom surfaces to pool environments and has its own custom built spray truck and serves the Martin, Palm Beach, St Lucie, Indian River, and Brevard counties.

Custom Pool Plastering's artisans are certified in all offered finishes including but not limited to Diamond Brite, Florida Stucco and River Rok. Custom colors are also available.

Prior Acquisition

On January 5, 2016, the Company closed the acquisition of Sundook Advanced Pool Services LLC (“Sundook”) and Lighthouse Pool Supply (“Lighthouse”). The Company acquired 100% of Sundook and Lighthouse and paid the Seller \$165,000 and 417,000 common shares of the Company valued at \$29,190 that are restricted per Rule 144. An additional \$25,000 was escrowed pending an audit of customer account retentions after thirty days, and that deposit is still in escrow. The acquisition expands the Company’s business presence in its primary market of Martin, St Lucie and Indian River counties, Florida. Sundook’s pool service routes are synergistic with the Company’s pool service routes and provide for more efficiency and better operating margins.

On March 18, 2016, the Company negotiated the final settlement for the acquisition of Sundook. Due to Sundook underperforming certain terms and warranties under the asset purchase agreement, the Company paid \$10,000 and Sundook surrendered the 417,000 shares of the Company’s stock.

On January 5, 2016, the Company issued 1,562,500 shares of the Series A Preferred Stock at \$0.08 per share for \$125,000 to Lawrence Calarco, and Loreen Calarco, officers and directors of the Company. The use of proceeds was to close the acquisition of Sundook.

Separately, also on March 18, 2016, the Company sold Lighthouse, the retail store acquired in the Sundook transaction, for \$17,500.

Revenue

Revenue is earned through fees charged for the pool and spa services. Fees charged will vary, depending upon the work involved. For plastering and resurfacing, revenue is earned under contract and the charges vary by each job depending on what level of work and materials are used. We do not anticipate that revenues will significantly increase until we are able to add additional personnel needed to continue our expansion in our primary market area.

Competition

The pool and spa industry has many competitors in our targeted market area. We will compete on the basis of price and quality of services against other small companies like ours, as well as large companies that have a similar business. Clients usually choose their service company by who they feel has the most experience in certain fields for which they have a particular need at the time, as well as price.

The vast majority of our competitors are small, one or two man operations that cater mainly to water quality and cleanliness. They lack the infrastructure and depth that we have developed. We compete by offering a larger range of services and by having a lower cost structure through volume discounts on supplies.

Marketing

Sales are generated primarily by customer referral and direct marketing to industry peers.

Markets

The primary market area includes Martin, Palm Beach, St Lucie, Indian River and Brevard counties, Florida.

Patents and Trademarks

We do not, at this time, have any patents or trademarks. However, we may, in the future, trademark certain logos that we have been using.

Governmental Regulations

Custom Pool & Spa Mechanics, Inc. is licensed in Martin County (# MCMR3703), Florida - State License (#CPC1458372), City of Port St. Lucie (#PLS*11057), St. Lucie County (#27473), liquid petroleum license (#LP28043) and is fully insured. Custom Pool Plastering is licensed by the State of Florida (#CPC1458730). Our business does not fall under any other government regulations.

Recent Developments

Sale of Common Stock of Majority Stockholders

On March 14, 2018, Lawrence and Loreen Calarco, officers and directors of the Company, the Lawrence & Loreen Calarco Family Trust and the Lawrence and Loreen Calarco Trust of June 3, 2014, majority stockholders controlled by Lawrence and Loreen Calarco, sold 51,711,571 common shares and 1,562,500 preferred shares to MAAB Global Limited, a non-affiliate of the Company, paid from Bruce Bent, officer and director of MAAB Global Limited's personal funds resulting in a change of control of the Company. The stock was transferred to MAAB Global Limited effective March 14, 2018. The 51,711,571 common shares and 1,562,500 preferred shares represent 62.35% and 100% of the currently issued and outstanding common and preferred stock of the registrant, respectively.

Resignation of Directors and Election of Directors

On March 14, 2018, Lawrence Calarco, Loreen Calarco and Charles Dargan II resigned as officers and directors of the Company. Additionally, on March 14, 2018, Jeffrey Michel and Randy Sofferman resigned as directors of the Company.

On March 14, 2018, Bruce Bent, age 62, was appointed as Chief Executive Officer and Director of the Company. He will stand for re-election at the next annual meeting of the shareholders. There are no material arrangements to which Mr. Bent is a party, and there is no family relationship between him and any other party connected to the registrant.

Sale of Custom Pool and Spa Mechanics, Inc. and Custom Pool Plastering, Inc.

The Company is in the process of negotiating the sale of Custom Pool and Spa Mechanics, Inc. and Custom Pool Plastering, Inc. to the Lawrence & Loreen Calarco Family Trust. The Company expects the transaction to be consummated in April 2018.

Current Negotiations

The Company, under new ownership, is currently negotiating with Confida Aerospace Ltd. and intends to enter into a Letter Agreement to assume all of the rights and obligations of Confida under an Asset Purchase Agreement dated January 18, 2018 by and between Infly Technology Ltd. and its principal shareholders (together "Infly") and Confida.

Under the Asset Purchase Agreement, Infly agreed to transfer, convey and assign to Confida all right, title and interest in and to the assets belonging to Infly and all books and records, studies, software, drawings, schematics and all ancillary information, rights, agreements and understandings Infly may have in respect of the operations of Infly. The Assets consist of PassengerDrone aircraft, hardware, software and firmware components, designs and trademarks.

The Company and Confida have agreed in principal that, as consideration for the assumption of its rights and obligations under the Asset Purchase Agreement, the Company shall issue Confida 10,000 preferred shares. Each preferred share shall be convertible into 1,333 common shares and 1,333 warrants. Each warrant shall be exercisable into one common share at an exercise price of \$.75. The warrants shall have an exercise period of five years.

Employees

As of March 29, 2018, we have 34 full-time employees for Custom Pool & Spa Mechanics and 10 full time employees for Custom Pool Plastering. We have no part-time employees.

ITEM 1A. RISK FACTORS

Not applicable to smaller reporting companies.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our current facilities are located at 320 W Main Street, Lewisville, TX 75057. The facilities have a total square footage of 200. The facilities are provided free of charge by an affiliate of the Company.

Until March 14, 2018, our corporate office was located at 2951 SE Waaler Street, Stuart, FL 34997. These facilities had a total square footage of 5,600. The facilities are owned by the Company, with a monthly mortgage payment of \$2,431.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASE OF EQUITY SECURITIES

There is a limited public trading market for the common stock. Our common stock is quoted on the OTC Market OTCQB under the symbol "SWMM", with quotations that commenced in October 2009; however, the market for common shares is extremely limited. No assurance can be given that the present limited market for our common stock will continue or will be maintained.

For any market that is maintained for our common stock, the resale of "restricted securities" pursuant to Rule 144 of the Commission by members of management or other persons may have a substantial adverse impact on any such public market. Present members of management have already satisfied the one-year holding period of Rule 144 for public sales of a large portion of their holdings in the Company thereunder.

A minimum holding period of six months is required for resales under Rule 144. In addition, affiliates of the Company must comply with certain other requirements, including publicly available information concerning the Company; limitations on the volume of "restricted securities" which can be sold in any 90-day period; the requirement of unsolicited broker's transactions; and the filing of a Notice of Sale on Form 144.

The following table sets forth the range of high and low sales prices for our common stock for each of the fiscal quarters for the past year as reported on the OTC Market Pink Sheets. These prices represent inter-dealer prices without adjustments for mark-up, markdown, or commission and do not necessarily reflect actual transactions

| Low (\$) | High (\$) | |
|--------------------|-----------|-------|
| March 31, 2016 | 0.10 | 0.065 |
| June 30, 2016 | 0.08 | 0.035 |
| September 30, 2016 | 0.04 | 0.035 |
| December 31, 2016 | 0.06 | 0.035 |
| March 31, 2017 | 0.0575 | 0.035 |
| June 30, 2017 | 0.10 | 0.035 |
| September 30, 2017 | 0.06 | 0.05 |
| December 31, 2017 | 0.06 | 0.006 |

Holders

As of March 29, 2018, we have approximately 34 shareholders of record of our common stock.

Sales under Rule 144 are also subject to manner of sale provisions and notice requirements and to the availability of current public information about the Company. Under Rule 144(k), a person who has not been one of our affiliates at any time during the three months preceding a sale, and who has beneficially owned the shares proposed to be sold for at least six months, is entitled to sell shares without complying with the manner of sale, volume limitation or notice provisions of Rule 144.

Dividend Policy

As of the date of this annual report, we have not paid any dividends to shareholders. There are no restrictions which would limit our ability to pay dividends on common equity or that are likely to do so in the future. The Nevada Revised Statutes, however, do prohibit us from declaring dividends where, after giving effect to the distribution of the dividend; we would not be able to pay our debts as they become due in the usual course of business; or our total assets would be less than the sum of the total liabilities plus the amount that would be needed to satisfy the rights of shareholders who have preferential rights superior to those receiving the distribution

Recent Sales of Unregistered Securities

During the last three years, we issued the following securities:

- (a) 3/27/15 – 14,000,000 common shares to Lawrence and Loreen Calarco Trust of June 3, 2014 to correct stock issuable in exchange for stock of Custom Pool and Spa Mechanics, Inc.
- (b) 9-2-15 – 1,897,538 common shares to Sheffield Lane Associates, LLC for services.
- (c) 1/5/16 – 417,000 common shares to Sundook valued at \$29,190 (subsequently surrendered on 3/18/16)
- (d) 1/5/16 – 1,562,500 Series A preferred shares to Lawrence and Loreen Calarco for \$125,000.

The above issued common shares were issued to sophisticated investors under an exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended.

Securities Authorized for Issuance under Equity Compensation Plans

On May 27, 2015, we granted and approved 500,000 options each to Charles Dargan II, chief financial officer and a director and to Jeffrey Michel, a director. The stock options have a five-year maturity, vesting ratably over that period and an exercise price equal to the closing stock price on May 27, 2015 that was \$0.035 per share. The fair value of the options was calculated to be \$0.0265 per share using a Black Scholes model. The assumptions used in the model were 1.57% risk free rate using the 5-year constant maturity Treasury Rate, 113.19% stock volatility and 1,825 days (5 years) to maturity.

On August 23, 2016, we granted and approved 2,250,000 options to the Board of Directors as follows: 1,000,000 options to Lawrence Calarco, 750,000 options to Loreen Calarco, 250,000 options to Charles Dargan II and 250,000 options to Jeff Michel. The stock option grants had 50% of the options vesting immediately, with the balance vesting ratably over three years. The fair value of the options was calculated to be \$0.0163 per share using the Black Scholes model. The assumptions used in the model were 0.90% risk free rate using the three-year constant maturity Treasury rate, 64.88% stock volatility and a three year estimated maturity.

On March 14, 2018, the Company cancelled all 3,250,000 outstanding stock options under the 2014 Stock Awards Plan, with 1,500,000 of the stock options exchanged for two 10% Convertible Notes (“Notes”) with a six month maturity. The principal amount is \$25,000 each and there is no prepayment penalty. The Notes are convertible into the Company’s common stock based upon the average of the previous ten trading days’ closing price of the stock, at the maturity date of the Notes. Upon conversion of the notes, Bruce Bent or MAAB Global Limited shall have the option to purchase the common stock issued at a 5% discount to the average closing price of the stock over the previous 10 trading days. The option to purchase expires ten days after the issuance of the common stock.

Issuer Purchases of Equity Securities

We did not repurchase any of our common shares during the years ended December 31, 2017 or 2016.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Recent Events

Sale of Common Stock of Majority Stockholders

On March 14, 2018, Lawrence and Loreen Calarco, officers and directors of the Company, the Lawrence & Loreen Calarco Family Trust and the Lawrence and Loreen Calarco Trust of June 3, 2014, majority stockholders controlled by Lawrence and Loreen Calarco, sold 51,711,571 common shares and 1,562,500 preferred shares to MAAB Global Limited, a non-affiliate of the Company, paid from Bruce Bent, officer and director of MAAB Global Limited's personal funds resulting in a change of control of the Company. The stock was transferred to MAAB Global Limited effective March 14, 2018. The 51,711,571 common shares and 1,562,500 preferred shares represent 62.35% and 100% of the currently issued and outstanding common and preferred stock of the registrant, respectively.

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On March 14, 2018, Bruce Bent, age 62, was appointed as Chief Executive Officer and Director of the Company. He will stand for re-election at the next annual meeting of the shareholders. There are no material arrangements to which Mr. Bent is a party, and there is no family relationship between him and any other party connected to the registrant.

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Current Negotiations

The Company, under new ownership, is currently negotiating with Confida Aerospace Ltd. and intends to enter into a Letter Agreement to assume all of the rights and obligations of Confida under an Asset Purchase Agreement dated January 18, 2018 by and between Infly Technology Ltd. and its principal shareholders (together "Infly") and Confida.

Under the Asset Purchase Agreement, Infly agreed to transfer, convey and assign to Confida all right, title and interest in and to the assets belonging to Infly and all books and records, studies, software, drawings, schematics and all ancillary information, rights, agreements and understandings Infly may have in respect of the operations of Infly. The Assets consist of PassengerDrone aircraft, hardware, software and firmware components, designs and trademarks.

The Company and Confida have agreed in principal that, as consideration for the assumption of its rights and obligations under the Asset Purchase Agreement, the Company shall issue Confida 10,000 preferred shares. Each preferred share shall be convertible into 1,333 common shares and 1,333 warrants. Each warrant shall be exercisable into one common share at an exercise price of \$.75. The warrants shall have an exercise period of five years.

Overview

The Company is a full-service pool maintenance, resurfacing and repair company whose main service area is the Martin, Palm Beach, St. Lucie, Indian River and Brevard counties of Florida. The Company earns revenue by charging service fees in the pool service business and by payments under contracts in the pool resurfacing business. The Company manages its operating margins of the businesses by controlling personnel costs, chemical and material purchases and other service costs such as motor vehicle and insurance costs. Personnel are critical to the business since customers choose those companies who have the most experience and perform the service in a timely and professional manner.

The Company competes in its markets on the basis of price and the quality of the service. There are many pool service companies in the market and throughout Florida. However, this also presents an opportunity for the Company since many of its competitors are smaller and lack the infrastructure and depth of the Company. This allows the Company to compete through offering a larger range of services with a lower cost structure and to pursue growth opportunities either through internal growth or through opportunistic acquisitions.

Custom Pool & Spa Mechanics, Inc. has had pool resurfacing as part of its service offerings. The resurfacing work had been subcontracted to other pool resurfacing companies. In March 2015, the Company formed Custom Pool Plastering Inc. ("CPP") to provide its own pool resurfacing services. CPP has grown since its inception and after a small operating loss in 2015, it was profitable in 2016. CPP experienced a difficult fourth quarter of 2017 and ended the year with a net loss, as customers delayed pool resurfacing amid economic uncertainty. However, in the first quarter of 2018, the resurfacing business rebounded and CPP has significantly increased sales for pool resurfacing and refurbishment.

Plan of Operations

Management will expand the business as adequate working capital is provided through revenues. Our ability to maintain sufficient liquidity is dependent on our ability to maintain profitable operations or to raise additional capital. We have no anticipated timeline for obtaining additional financing or the expansion of our business. We will continue to keep our expenses as low as possible and keep our operations in line with available working capital.

Results of Operations

The Year Ended December 31, 2017 compared to The Year Ended December 31, 2017

For the years ended December 31, 2017 and 2016, we had revenues of \$5,097,018 and \$4,925,639 respectively, an increase of \$171,379 or 3%. The small increase is due to fluctuations in the customers served, some of which is the result of the impact from Hurricane Irma. Pool service contract pricing and pool resurfacing contract pricing have remained at the same level from period to period. Further, resurfacing customers delayed decisions to refurbish their pools in the fourth quarter due to economic uncertainty. In the first quarter of 2018, the resurfacing business rebounded.

Purchases and service costs were \$3,908,065 and \$3,759,590 respectively, for the years ended December 31, 2017 and 2016, an increase of \$148,475 or 4%. The slight increase is due to the slight increase in revenue from small fluctuations in customers served.

Revenues less purchases and service costs was \$1,188,953 and \$1,166,049 for the years ended December 31, 2017 and 2016, respectively produced a margin of 23% in 2017 and 24% in 2016. The relatively flat margin is largely due to small revenue fluctuations and stable pricing in labor and materials.

For the years ended December 31, 2017 and 2016, we had sales and marketing expenses of \$41,428 and \$64,199, respectively. This was an decrease of \$22,771 or 35% and is due largely to increased advertising and other marketing to support the move from the Palm City location to the Stuart location and for the grand opening of the new headquarters in 2016. Depending on the market and the Company's expansion plans, marketing expenses most likely will increase in the future.

General and administrative expenses for the years ended December 31, 2017 and 2016 were \$1,004,514 and \$837,578, respectively, an increase of \$166,936 or 20%. This is consistent with the increase in salaries and other compensation expenses, insurance costs and increases in legal, accounting and professional expenses.

Depreciation and amortization expense was \$143,145 and \$101,820 respectively, for the years ended December 31, 2017 and 2016, an increase of \$41,325 or 41%. This is due to the purchase of additional motor vehicles, and replacing older vehicles.

We had \$10,444 of other expense for the year ended December 31, 2017 versus other income of \$36,647 for the year ended December 31, 2017. The other expense in 2017 was mainly from interest expense offset somewhat by a gain on the sale of some motor vehicles. The other income in 2016 is largely due to the sale of the Palm City building, which produced a gain of \$60,292.

The total income tax benefit for 2017 was (\$26,490), an effective tax (benefit) rate of (250.4%) versus a total income tax expense for 2016 of \$65,901, an effective tax rate of 33.1%. The decline in income tax expense is mainly due to a pre-tax loss in 2017, as well as a small additional benefit due to the enactment of the Tax Cuts and Jobs Act of 2017.

We had a net income available to common stockholders of \$5,912 and \$123,918 for the years ended December 31, 2017 and 2016, respectively. The decrease in net income is due to relatively flat sales and operating margins, as well as increases in G&A compensation costs, insurance, legal, accounting and professional expenses and depreciation and amortization. In 2016, net income was boosted by the gain on the sale of the Palm City building.

Capital Resources and Liquidity

We are currently profitable and finance our business through operations and our line of credit. While 2017 was marginally profitable, largely because of delayed resurfacing contracts, the first quarter of 2018 has rebounded. Equity and debt financing was used to start the business, for purchases of motor vehicles and a commercial building that is our new headquarters, as well as for the acquisitions of a pool service company and pool service routes. Currently, we are not in any negotiations to acquire other businesses.

If the sale of Custom Pool & Spa Mechanics and Custom Pool Plastering is consummated, then the Company's cash requirement will decrease. If it isn't completed, then over the next twelve months, the cash requirement for operations is expected to be \$5,000,000. This requirement is expected to be funded through cash generated from operations, our line of credit and debt financings used for motor vehicles and other capital equipment purchases.

We have existing bank relationships and have had discussions with potential equity investors, however, there can be no assurance that we will be able to raise capital, if at all, upon terms acceptable to us.

We maintain a \$50,000 revolving line of credit with a regional bank. The line of credit has a ten-year maturity, but is due upon demand by the bank. The interest rate is currently 6.50%, and it is a floating rate, 2.0% over the Wall Street Journal Prime Rate Index. The outstanding balance as of December 31, 2017, and 2016, respectively, is \$12,782 and \$25,892. We are currently in compliance with the terms of the line of credit.

Until September 12, 2016, the Company had a long-term loan from Wells Fargo Bank which was guaranteed in case of default by the Company, by the Small Business Administration. The terms of the loan have a floating interest rate of 2.00% over the Wall Street Journal Prime Rate Index. The loan was secured by all of the assets of Custom Pool and by personal guaranties of Lawrence and Loreen Calarco. The Company paid off the loan on September 12, 2016 with the part of the proceeds from the sale of the prior headquarters office building in Palm City, FL.

At both December 31, 2017 and 2016, the Company has a Promissory Note from a stockholder for \$89,378, which was incurred with the acquisition of the common shares of CPSM, Inc. The term of the promissory note is five years and the promissory note has an interest rate set at the 5 Year Treasury Note rate, currently set at 1.72% and which resets annually from June 3, 2014. The principal is due on the final maturity of June 3, 2019. We have accrued interest expense of \$5,321 and \$8,145 as of December 31, 2017, and 2016, respectively. The Company repaid a portion of the principal of the Note with part of the proceeds from the sale of the prior headquarters office building in Palm City, FL. We are in compliance with the provisions of this promissory note.

In December 2015, the Company authorized 50,000,000 shares of Series A Preferred Stock, with a \$0.0001 par value. The Series A Preferred has an 8% dividend paid quarterly, and is convertible into common stock at \$0.08 per common share. The Series A Preferred is senior to the common stock as to dividends, and any liquidation, dissolution or winding up of the Company. The Series A Preferred also has certain voting and registration rights.

In January 2016, the Company issued 1,562,500 shares of the Series A Preferred Stock to Lawrence and Loreen Calarco, officers and directors of the Company for \$125,000 in consideration. The Company has accrued \$20,000 in dividends on the Series A Preferred at December 31, 2017.

For the Year Ended December 31, 2017 compared to the Year Ended December 31, 2016

For the year ended December 31, 2017, we had a net income of \$15,912. We had the following adjustments to reconcile net income to cash flows from operating activities: an increase of \$143,145 due to depreciation and amortization, an increase of \$11,413 due to stock option compensation and an increase of \$3,890 due to deferred income tax expense.

We had the following changes in operating assets and liabilities: an increase of \$143,571 in accounts receivable, an increase of \$9,177 in amounts due from related party, an increase of \$32,023 due to inventory, an increase in prepaid expenses of \$21,366, an increase of \$46,237 in accounts payable and accrued expenses and a decrease in customer deposits of \$37,330.

As a result, we had net cash used in operating activities of \$22,870 for the year ended December 31, 2017 consistent with relatively flat sales and operating margins and delayed resurfacing contracts.

For the year ended December 31, 2016, we had a net income of \$133,198. We had the following adjustments to reconcile net income to cash flows from operating activities: an increase of \$101,820 due to depreciation and amortization, an increase of \$24,491 due to stock option compensation, an increase of \$37,393 due to deferred income tax expense and a decrease of \$60,292 due to the gain on the sale of the Palm City, FL building.

We had the following changes in operating assets and liabilities: a decrease of \$28,002 in accounts receivable, an increase of \$2,864 in amounts due from related party, an increase of \$46,921 due to inventory, an increase in prepaid expenses of \$3,564, an increase of \$7,962 in accounts payable and accrued expenses and a decrease in customer deposits of \$19,420.

As a result, we had net cash provided by operating activities of \$199,805 for the year ended December 31, 2016 consistent with the increase in pool servicing and pool plastering and resurfacing business and the acquisition of Sundook.

For the year ended December 31, 2017, we purchased \$10,131 of property and equipment. As a result, we had net cash used in investing activities of \$10,131 for the year ended December 31, 2017.

For the year ended December 31, 2016, we purchased \$90,689 of property and equipment. We received net proceeds of \$277,116 from the sale of the Palm City, FL building. We also made an additional deposit into escrow for the Sundook acquisition of \$17,810. Additionally, we sold purchased assets of \$17,500 and had a purchase price refund of \$15,000. As a result, we had net cash provided by investing activities of \$201,117 for the year ended December 31, 2016.

For the year ended December 31, 2017, we accrued a preferred stock dividend of \$10,000. We made payments on the bank line of credit of \$13,110. Additionally, we made payments on notes payable of \$101,550 and paid \$54,981 on the stockholder advance payable, completely repaying it. As a result, we had net cash used in financing activities of \$179,641 for the year ended December 31, 2017. We also received proceeds from notes payable of \$55,140, which was used in the purchase of motor vehicles.

For the year ended December 31, 2016, we accrued a preferred stock dividend of \$10,000 and received proceeds from the issuance of preferred stock of \$125,000. We received proceeds from the bank line of credit of \$5,466. Additionally, we made payments on notes payable of \$74,064, converted into preferred stock and paid \$132,326 on the stockholder advance payable, made payments on and as of September 12, 2016, paid off the SBA loan of \$192,290. We also paid down the Promissory Note – Stockholder by \$120,622. As a result, we had net cash used in financing activities of \$398,836 for the year ended December 31, 2016. We also received proceeds from notes payable of \$201,100, which was used in the purchase of motor vehicles.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of its Financial Condition and Results of Operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to the reported amounts of revenues and expenses and the valuation of our assets and contingencies. We believe our estimates and assumptions to be reasonable under the circumstances. However, actual results could differ from those estimates under different assumptions or conditions. Our financial statements are based on the assumption that we will continue as a going concern. If we are unable to continue as a going concern, we would experience additional losses from the write-down of assets.

Recent Accounting Pronouncements

In January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The ASU requires equity investments to be measured at fair value with changes in fair values recognized in net earnings, simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment and eliminates the requirement to disclose fair values, the methods and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost. The ASU also clarifies that the Company should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale debt securities in combination with the Company's other deferred tax assets. These amendments are effective for the Company beginning January 1, 2018. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-2, Leases (Topic 842) which will require lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with term of more than twelve months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. The new ASU will require both types of leases to be recognized on the balance sheet. The ASU also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The ASU is effective for fiscal years beginning after December 15, 2018 and for interim periods within those fiscal years. The Company is in the process of determining the effect of the ASU on its consolidated balance sheets and consolidated statements of income. Early application will be permitted for all organizations.

In March 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments in this update change existing guidance related to accounting for employee share-based payments affecting the income tax consequences of awards, classification of awards as equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual periods, with early adoption permitted. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing". The amendments in this Update affect the guidance in Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606), which we are required to apply for annual periods beginning after December 15, 2017. Management's analysis is that the new guidelines currently will not substantially impact our revenue presentation.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments in this update provide a more robust framework to use in determining when a set of assets and activities is a business. Because the current definition of a business is interpreted broadly and can be difficult to apply, stakeholders indicated that analyzing transactions is inefficient and costly and that the definition does not permit the use of reasonable judgment. The amendments provide more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, "Scope of Modification Accounting", to provide clarity and reduce both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, to change to the terms or conditions of a share-based payment award. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. An entity should account for the effects of a modification unless all the following are met: (1) the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification; (2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; (3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The current disclosure requirements in Topic 718 apply regardless of whether an entity is required to apply modification accounting under the amendments in this update. The amendments in this update become effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. An entity should apply the amendments in this update prospectively to an award modified on or after the adoption date. Management believes that the adoption of this standard will not have a material impact on its consolidated financial statements.

Off-Balance Sheet Arrangements

We had no material off-balance sheet arrangements as of December 31, 2017.

Contractual Obligations

The registrant has no material contractual obligations

The long term debt repayments are as follows:

| | 2018 | 2019 | 2020 | 2021 | 2022 | Thereafter | Total |
|-------------------------------|-----------------|------------------|-----------------|-----------------|-----------------|------------------|------------------|
| Notes Payable: | \$84,508 | \$66,826 | \$69,136 | \$61,220 | \$51,137 | \$312,445 | \$645,272 |
| Promissory Note - Stockholder | - | 89,378 | - | - | - | - | 89,378 |
| Total Repayments | <u>\$84,508</u> | <u>\$156,204</u> | <u>\$69,136</u> | <u>\$61,220</u> | <u>\$51,137</u> | <u>\$312,445</u> | <u>\$734,650</u> |

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company does not have any significant market risk exposures.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors
CPSM, Inc. and Subsidiaries
Stuart, Florida:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of CPSM, Inc. and Subsidiaries (the "Company"), as of December 31, 2017 and 2016 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, the Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

HACKER, JOHNSON & SMITH PA
We have served as the Company's auditor since 2014.
Tampa, Florida
March 29, 2018

CPSM, Inc. and Subsidiaries
Consolidated Balance Sheets

| | December 31, | |
|---|---------------------|---------------------|
| | 2017 | 2016 |
| Assets | | |
| Cash | \$ 217,422 | \$ 430,064 |
| Accounts Receivable, net of allowance for doubtful accounts of \$16,653 and \$16,181 at December 31, 2017 and 2016 | 273,086 | 129,515 |
| Due from Related Party | 12,041 | 2,864 |
| Inventory | 125,998 | 93,975 |
| Prepays | 24,930 | 3,564 |
| Deposits | 2,348 | 2,348 |
| Total Current Assets | 655,825 | 662,330 |
| Property and Equipment, Net | 934,343 | 962,946 |
| Intangible Assets, Net | 109,465 | 158,736 |
| Total Assets | \$ 1,699,633 | \$ 1,784,012 |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities | | |
| Accounts Payable and Accrued Liabilities | \$ 181,463 | \$ 135,226 |
| Stockholder Advance Payable | - | 54,981 |
| Bank Line of Credit | 12,782 | 25,892 |
| Notes Payable - Current | 84,508 | 69,491 |
| Customer Deposits | 37,678 | 75,008 |
| Total Current Liabilities | 316,431 | 360,598 |
| Long Term Liabilities | | |
| Notes Payable - Long Term | 560,764 | 622,191 |
| Deferred Tax Liability | 17,910 | 14,020 |
| Promissory Note - Stockholder | 89,378 | 89,378 |
| Total Liabilities | 984,483 | 1,086,187 |
| Commitments and Contingencies (Note 16) | | |
| Stockholders' Equity | | |
| Series A Convertible Preferred Stock, \$0.0001 par value, 50,000,000 Shares Authorized, 1,562,500 shares Issued and Outstanding at December 31, 2017 and 2016 | 156 | 156 |
| Common Stock, \$0.001 par value, 250,000,000 Shares Authorized, 82,938,960 Issued and Outstanding at December 31, 2017 and 2016 | 82,939 | 82,939 |
| Additional Paid-in Capital: | | |
| Preferred Stock | 124,844 | 124,844 |
| Common Stock | 229,744 | 218,331 |
| Retained Earnings | 277,467 | 271,555 |
| Total Stockholders' Equity | 715,150 | 697,825 |
| Total Liabilities and Stockholders' Equity | \$ 1,699,633 | \$ 1,784,012 |

The accompanying notes are an integral part of the consolidated financial statements.

CPSM, Inc. and Subsidiaries
Consolidated Statements of Income

| | Year Ended December 31, | |
|---|--------------------------------|-------------------|
| | 2017 | 2016 |
| Revenue | \$ 5,097,018 | \$ 4,925,639 |
| Costs and Expenses: | | |
| Cost of Services and Products Sold: | | |
| Purchases | 1,824,518 | 1,657,899 |
| Service Costs | 2,083,547 | 2,101,691 |
| Sales and Marketing | 41,428 | 64,199 |
| General and Administrative | 1,004,514 | 837,578 |
| Depreciation and Amortization | 143,145 | 101,820 |
| Total Costs and Expenses | 5,097,152 | 4,763,187 |
| (Loss) Income from Operations | (134) | 162,452 |
| Other Expense (Income) : | | |
| Interest Expense | 35,903 | 40,161 |
| Other Income | (25,459) | (16,516) |
| Gain on the Sale of Building | - | (60,292) |
| Total Other Expense (Income) | 10,444 | (36,647) |
| (Loss) Income Before Income Tax (Benefit) | (10,578) | 199,099 |
| Income Tax (Benefit) | | |
| Current | (22,600) | 28,508 |
| Deferred | (3,890) | 37,393 |
| Total Income Tax (Benefit) | (26,490) | 65,901 |
| Net Income | \$ 15,912 | \$ 133,198 |
| Less: Preferred Stock Dividends | 10,000 | 10,000 |
| Net Income Available to Common Stockholders | \$ 5,912 | \$ 123,198 |
| Net Earnings per Common Share: | | |
| Basic | \$ 0.00 | \$ 0.00 |
| Diluted | \$ 0.00 | \$ 0.00 |
| Weighted Average Number of Common Shares Outstanding - Basic | 82,938,960 | 83,042,924 |
| Weighted Average Number of Common Shares Outstanding - Diluted | 85,540,812 | 85,597,222 |

The accompanying notes are an integral part of the consolidated financial statements.

CPSM, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2017 and 2016

| | Preferred Stock | | Common Stock | | Additional Paid - In Capital | Additional Paid - In Capital | Retained Earnings | Total Stockholders' Equity |
|--|-----------------|--------|--------------|----------|------------------------------|------------------------------|-------------------|----------------------------|
| | Shares | Amount | Shares | Amount | Preferred | Common | | |
| Balance at December 31, 2015 | - | \$ - | 83,355,960 | \$83,356 | \$ - | \$ 218,423 | \$148,357 | \$ 450,136 |
| Issuance of Series A Preferred Stock | 1,562,500 | 156 | - | - | 124,844 | - | - | 125,000 |
| Settlement of Shares Issued in Acquisition | - | - | (417,000) | (417) | - | (24,583) | - | (25,000) |
| Preferred Stock Dividend | - | - | - | - | - | - | (10,000) | (10,000) |
| Stock Option Expense | - | - | - | - | - | 24,491 | - | 24,491 |
| Net Income | - | - | - | - | - | - | 133,198 | 133,198 |
| Balance at December 31, 2016 | 1,562,500 | 156 | 82,938,960 | 82,939 | 124,844 | 218,331 | 271,555 | 697,825 |
| Preferred Stock Dividend | - | - | - | - | - | - | (10,000) | (10,000) |
| Stock Option Expense | - | - | - | - | - | 11,413 | - | 11,413 |
| Net Income | - | - | - | - | - | - | 15,912 | 15,912 |
| Balance at December 31, 2017 | 1,562,500 | \$ 156 | 82,938,960 | \$82,939 | \$ 124,844 | \$ 229,744 | \$277,467 | \$ 715,150 |

The accompanying notes are an integral part of the consolidated financial statements.

CPSM, Inc. and Subsidiaries
Consolidated Statements of Cash Flow

| | Year Ended December 31, | |
|--|-------------------------|-------------------|
| | 2017 | 2016 |
| Cash Flow from Operating Activities: | | |
| Net Income | \$ 15,912 | \$ 133,198 |
| Adjustments to Reconcile Net Income to Net Cash (Used In) Provided By Operating Activities: | | |
| Depreciation and Amortization | 143,145 | 101,820 |
| Deferred Income Tax Expense | 3,890 | 37,393 |
| Non-cash Stock Option Compensation | 11,413 | 24,491 |
| Gain on Sale of Building and Motor Vehicles | - | (60,292) |
| Increase (Decrease) in Cash from change in: | | |
| Accounts Receivable | (143,571) | 28,002 |
| Due from Related Party | (9,177) | (2,864) |
| Inventory | (32,023) | (46,921) |
| Prepays | (21,366) | (3,564) |
| Accounts Payable and Accrued Expenses | 46,237 | 7,962 |
| Customer Deposits | (37,330) | (19,420) |
| Net Cash (Used In) Provided By Operating Activities | (22,870) | 199,805 |
| Cash Flow from Investing Activities: | | |
| Purchase of Property and Equipment | (10,131) | (90,689) |
| Net Proceeds from Sale of Building | - | 277,116 |
| Additional Deposit for Acquisition | - | (17,810) |
| Sale of Purchased Assets | - | 17,500 |
| Purchase Price Refund | - | 15,000 |
| Net Cash (Used in) Provided by Investing Activities | (10,131) | 201,117 |
| Cash Flow from Financing Activities: | | |
| Preferred Stock Dividend | (10,000) | (10,000) |
| Issuance of Preferred Stock | - | 125,000 |
| (Payment on) Proceeds from Bank Line of Credit | (13,110) | 5,466 |
| Payment on Notes Payable | (101,550) | (74,064) |
| Conversion/Payment on Stockholder Advance Payable | (54,981) | (132,326) |
| Payment on SBA Loan | - | (192,290) |
| Payment on Promissory Note - Stockholder | - | (120,622) |
| Net Cash Used in Financing Activities | (179,641) | (398,836) |
| Net (Decrease) Increase in Cash | \$ (212,642) | \$ 2,086 |
| Cash at the Beginning of the Year | \$ 430,064 | \$ 427,978 |
| Cash at the End of the Year | \$ 217,422 | \$ 430,064 |
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash Paid During the Year for: | | |
| Interest | \$ 32,737 | \$ 40,161 |
| Taxes | \$ 34,000 | \$ 49,000 |
| Supplemental Disclosures of Non-Cash Information: | | |
| Property and Equipment Acquired through Issuance of Notes Payable | \$ 55,140 | \$ 201,100 |
| Intangible Asset Acquired in Exchange for Deposit - Business Acquisition | \$ - | \$ 154,500 |
| Reduction in Deposit - Business Acquisition and Common Stock as a Result of Settlement of Shares Issued in Acquisition | \$ - | \$ 25,000 |

The accompanying notes are an integral part of the consolidated financial statements.

CPSM, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At December 31, 2017 And 2016 And For The Years Then Ended

NOTE 1 – NATURE OF OPERATIONS

CPSM, Inc. (“CPSM”) and its wholly-owned subsidiaries, Custom Pool and Spa Mechanics, Inc. (“Custom Pool”), and Custom Pool Plastering, Inc. (“CPP”) collectively (the “Company”) are primarily engaged in the provision of full line pool and spa services, specializing in pool maintenance and service, repairs, leak detection, renovations, decking and remodeling. The primary market area includes Martin, Palm Beach, St Lucie, Indian River and Brevard counties, Florida.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

Basis of Presentation

The accompanying consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles general accepted in the United States of America (“GAAP”).

Cash

All highly liquid investments with original maturities of three months or less or money market accounts held at financial institutions are considered to be cash. Substantially all of the cash is placed with one financial institution. From time to time during the year the cash accounts are exposed to credit loss for amounts in excess of insured limits of \$250,000 in the event of non-performance by the institution, however, it is not anticipated that there will be non-performance.

Allowance for uncollectible receivables

Management evaluates credit quality by evaluating the exposure to individual counterparties, and, where warranted, management also considers the credit rating or financial position, operating results and/or payment history of the counterparty. Management establishes an allowance for amounts for which collection is considered doubtful. Adjustments to previous assessments are recognized in income in the period in which they are determined. At December 31, 2017 and 2016, the allowance for uncollected receivables was \$16,653 and \$16,181, respectively.

CPSM, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At December 31, 2017 And 2016 And For The Years Then Ended

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventory consists principally of pool chemicals and resurfacing materials. Inventory has a short turnover cycle. It is valued at the lower of cost or market using the First-in, First-out method.

Property and Equipment

Land is stated at cost. Property and equipment are carried at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Land and building represent the newly acquired building in Stuart, Florida, which is the primary office of the Company. The equipment is largely comprised of computers and motor vehicles used in the pool service business.

Intangible Assets

Intangible assets consist primarily of customer lists and other purchased assets with a definite life, and these are amortized using the straight-line method over those estimated useful lives.

Amortization expense for the next five years and thereafter is as follows:

| Intangible Asset | 2018 | 2019 | 2020 | 2021 | 2022 | Thereafter |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Client List – Prior Acquisitions | \$4,943 | \$3,569 | \$2,283 | \$ - | \$ - | \$ - |
| Capitalized Costs | 1,687 | 1,687 | 1,687 | 1,687 | 1,687 | 13,394 |
| Client List - Sundook | 10,800 | 10,800 | 10,800 | 10,800 | 10,800 | 22,841 |
| Total | <u>\$17,430</u> | <u>\$16,056</u> | <u>\$14,770</u> | <u>\$12,487</u> | <u>\$12,487</u> | <u>\$36,235</u> |

Customer Deposits

The Company collects initial deposits from customers for pool resurfacing and remediation work and recognizes the revenue when the work is completed.

CPSM, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At December 31, 2017 And 2016 And For The Years Then Ended

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Revenue is recognized when the pool service is completed and the collectability is reasonably assured. For pool resurfacing and remediation work, revenue is recognized at the time of completion of the job.

Stock-Based Compensation

The Company accounts for stock-based compensation under the fair value recognition provisions of GAAP which requires the measurement and recognition of compensation for all stock-based awards made to employees and directors including stock options and restricted stock issuances based on estimated fair values.

In accordance with GAAP, the fair value of stock-based awards is generally recognized as compensation expense over the requisite service period, which is defined as the period during which an employee is required to provide service in exchange for an award. The Company uses a straight-line attribution method for all grants that include only a service condition. Compensation expense related to all awards is included in income.

Income Taxes

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of asset and liabilities.

Deferred tax assets and liabilities are determined based on the differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on deferred tax asset and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company accounts for uncertainties in income tax law under a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns as prescribed by GAAP. Under GAAP, the tax effects of a position are recognized only if it is “more-likely-than-not” to be sustained by the taxing authority as of the reporting date. If the tax position is not considered “more-likely-than-not” to be sustained, then no benefits of the position are recognized. Management believes there are no unrecognized tax benefits or uncertain tax positions as of December 31, 2017, and 2016.

The Company recognizes interest and penalties on income taxes as a component of income tax expense, should such an expense be realized.

CPSM, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At December 31, 2017 And 2016 And For The Years Then Ended

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basic and Diluted Net Earnings per Share

The Company computes earnings per share in accordance with “ASC-260”, “Earnings per Share” which requires presentation of both basic and diluted earnings per share on the face of the consolidated statements of operations. Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of outstanding common shares during the period. Diluted earnings per share gives effect to all dilutive potential common shares outstanding during the year, computed using the treasury stock method for outstanding stock options and the if converted method for preferred stock. Dilutive earnings per share excludes all potential common shares if their effect is anti-dilutive.

For the years ended December 31, 2017 and 2016, the basic and diluted earnings per share was computed as follows:

| | For the Year Ended December 31, 2017 | For the Year Ended December 31, 2016 |
|---|---|---|
| Net Income Available to Common Stockholders | \$ 5,912 | \$ 123,198 |
| Preferred Stock Dividends | 10,000 | 10,000 |
| Income Available to Common Stockholders and Assumed Conversions | <u>\$ 15,912</u> | <u>\$ 133,198</u> |
| Weighted Average Shares - Basic | 82,938,960 | 83,042,924 |
| Effective Dilutive Securities – Stock Options | 1,039,352 | 991,798 |
| Shares Issuable Upon Conversion of Preferred Stock | 1,562,500 | 1,562,500 |
| Weighted Average Shares - Diluted | 85,540,812 | 85,597,222 |
| Net Earnings Per Common Share: | | |
| Basic | <u>\$ 0.00</u> | <u>\$ 0.00</u> |
| Diluted | <u>\$ 0.00</u> | <u>\$ 0.00</u> |

CPSM, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement

Generally accepted accounting principles establishes a hierarchy to prioritize the inputs of valuation techniques used to measure fair value. The hierarchy gives the highest ranking to the fair values determined by using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). Observable inputs are those that market participants would use in pricing the assets based on market data obtained from sources independent of the Company.

Unobservable inputs reflect the Company's assumptions about inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The Company has determined the appropriate level of the hierarchy and applied it to its financial assets and liabilities. At December 31, 2017 and 2016 there were no assets or liabilities carried or measured at fair value.

Use of Estimates and Assumptions

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications of prior year amounts have been made to conform to the current year presentation.

NOTE 3 – RECENT ACCOUNTING PRONOUNCEMENTS

In January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The ASU requires equity investments to be measured at fair value with changes in fair values recognized in net earnings, simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment and eliminates the requirement to disclose fair values, the methods and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost. The ASU also clarifies that the Company should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale debt securities in combination with the Company's other deferred tax assets. These amendments are effective for the Company beginning January 1, 2018. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 – RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

In February 2016, the FASB issued ASU 2016-2, Leases (Topic 842) which will require lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with term of more than twelve months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. The new ASU will require both types of leases to be recognized on the balance sheet. The ASU also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The ASU is effective for fiscal years beginning after December 15, 2018 and for interim periods within those fiscal years. The Company is in the process of determining the effect of the ASU on its consolidated balance sheets and consolidated statements of income. Early application will be permitted for all organizations.

In March 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments in this update change existing guidance related to accounting for employee share-based payments affecting the income tax consequences of awards, classification of awards as equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual periods, with early adoption permitted. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing". The amendments in this Update affect the guidance in Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606), which we are required to apply for annual periods beginning after December 15, 2017. Management's analysis is that the new guidelines currently will not substantially impact our revenue presentation.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments in this update provide a more robust framework to use in determining when a set of assets and activities is a business. Because the current definition of a business is interpreted broadly and can be difficult to apply, stakeholders indicated that analyzing transactions is inefficient and costly and that the definition does not permit the use of reasonable judgment. The amendments provide more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 – RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

In May 2017, the FASB issued ASU 2017-09, “Scope of Modification Accounting”, to provide clarity and reduce both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, to change to the terms or conditions of a share-based payment award. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. An entity should account for the effects of a modification unless all the following are met: (1) the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification; (2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; (3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The current disclosure requirements in Topic 718 apply regardless of whether an entity is required to apply modification accounting under the amendments in this update. The amendments in this update become effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. An entity should apply the amendments in this update prospectively to an award modified on or after the adoption date. Management believes that the adoption of this standard will not have a material impact on its consolidated financial statements.

NOTE 4 – CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and accounts receivable. The Company maintains its cash with high-credit quality financial institutions. At December 31, 2017 the Company did not have cash balances in excess of the federally insured limits. At December 31, 2016, the Company had cash balances in excess of federally insured limits in the amount of approximately \$180,064.

Accounts receivable are financial instruments that potentially expose the Company to concentration of credit risk. However, accounts receivable of \$273,086 and \$129,515 at December 31, 2017 and December 31, 2016, respectively are comprised of many pool service customer accounts, none of which are individually significant in size. The Company historically has collected substantially all of its receivables.

CPSM, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 5 – FAIR VALUE ESTIMATES

The Company measures financial instruments at fair value in accordance with ASC 820, which specifies a valuation hierarchy based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's own assumptions.

Management believes the carrying amounts of the Company's cash, accounts receivable, accounts payable as of December 31, 2017, and 2016 approximate their respective fair values because of the short-term nature of these instruments. The Company measures its line of credit, notes payable and loans in accordance with the hierarchy of fair value based on whether the inputs to those valuation techniques are observable or unobservable. The hierarchy is:

Level 1 – Quoted prices for identical instruments in active markets;

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

CPSM, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 5 – FAIR VALUE ESTIMATES (Continued)

The estimated fair value of the cash, line of credit, notes payable, and loans at December 31, 2017 and 2016, were as follows:

| | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Carrying Value |
|-------------------------------|---|--|--|-------------------|
| At December 31, 2017: | | | | |
| Assets | | | | |
| Cash | \$ 217,422 | \$ - | \$ - | \$217,422 |
| Liabilities | | | | |
| Bank Line of Credit | - | \$ 12,782 | - | \$ 12,782 |
| Notes Payable | - | \$ 574,317 | - | \$645,272 |
| Promissory Note – Stockholder | - | - | \$ 82,228 | \$ 89,378 |
| At December 31, 2016: | | | | |
| Assets | | | | |
| Cash | \$ 430,064 | - | - | \$430,064 |
| Liabilities | | | | |
| Bank Line of Credit | - | \$ 25,892 | - | \$ 25,892 |
| Notes Payable | - | \$ 691,682 | - | \$691,682 |
| Promissory Note - Stockholder | - | - | \$ 75,798 | \$ 89,378 |
| Stockholder Advance Payable | - | - | \$ 54,981 | \$ 54,981 |

CPSM, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At December 31, 2017 And 2016 And For The Years Then Ended

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consisted of:

| | December 31, 2017 | December 31, 2016 |
|-------------------------------------|----------------------|----------------------|
| Property & Equipment | | |
| Land | \$ 96,000 | \$ 96,000 |
| Buildings | 456,527 | 456,527 |
| Equipment | 18,600 | 18,600 |
| Motor Vehicles | 646,393 | 626,825 |
| Total, at Cost | \$ 1,217,520 | \$ 1,197,952 |
| Accumulated Depreciation | 283,177 | 235,006 |
| Net Property & Equipment | \$ 934,343 | \$ 962,946 |

Depreciation expense was \$93,874 and \$84,410 respectively in the years ended December 31, 2017 and 2016.

NOTE 7 – ACQUISITION OF SUNDOOK POOL SERVICES, LLC

On December 30, 2015, the Company made a deposit of \$(165,000) to acquire a pool servicing company, Sundook Advanced Pool Services LLC (“Sundook”), in Stuart, FL. Additionally, the Company issued 417,000 shares of restricted stock, valued at \$25,000. The transaction closed on January 5, 2016. The primary asset acquired consisted of customer list intangible assets valued at \$154,500 as well as a retail store valued at \$17,500. The fair value of the intangible assets acquired was determined using Level 3 inputs.

An additional \$25,000 was escrowed pending an audit of customer account retentions after thirty days. The acquisition expands the Company’s business presence in its primary market of Martin, St Lucie and Indian River counties, Florida. Sundook’s pool service routes are synergistic with the Company’s pool service routes and provide for more efficiency and better operating margins.

On March 18, 2016, the Company negotiated the final settlement for the acquisition of Sundook. Due to Sundook underperforming certain terms and warranties under the asset purchase agreement, the Company paid \$10,000 of the escrowed funds, and Sundook surrendered the 417,000 shares of the Company’s stock.

CPSM, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 7 – ACQUISITION OF SUNDOOK POOL SERVICES, LLC (Continued)

Separately, also on March 18, 2016, the Company sold the retail store acquired in the Sundook transaction for \$17,500.

The acquisition is not significant as defined by ASC 805, “Business Combinations”, and therefore no pro forma financial information is presented.

NOTE 8 – SALE OF PALM CITY, FL. BUILDING

In May 2016, the Company moved into its new office headquarter building in Stuart, FL. and made available for sale or lease, its old office building in Palm City, FL. The sale of the building was completed on September 12, 2016 for \$300,000 less settlement costs of \$22,884, resulting in a gain of \$60,292. The remaining proceeds were used to pay off the SBA Loan and to pay down the Promissory Note – Stockholders (See Note 12 “Long Term Loans”).

NOTE 9 – STOCKHOLDER ADVANCE PAYABLE

On September 26, 2017, the Company repaid the advance payable of \$54,981 from the Calarco Trust, beneficially owned by Lawrence Calarco, an officer and director of the Company and Loreen Calarco an officer and director of the Company. The advance payable was used for expenditures on behalf of Custom Pool. The terms of the advance payable were non-interest bearing and it was due on demand. The outstanding balance of the advance payable was \$54,981 at December 31, 2016.

NOTE 10 – BANK LINE OF CREDIT

The Company maintains a \$50,000 revolving line of credit with a regional bank. The line of credit has a ten-year maturity but is due upon demand by the bank. The interest rate is currently 6.50%, and it is a floating rate, 2.0% over the Wall Street Journal Prime Rate Index.

The outstanding balance as of December 31, 2017, and 2016, respectively is \$12,782 and \$25,892. The Company is currently in compliance with the terms of the line of credit.

CPSM, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 11 – NOTES PAYABLE

At December 31, 2017 and December 31, 2016, the Company has \$645,272 and \$691,682, respectively, in notes payable secured against the headquarters building and motor vehicles used in the pool services and pool plastering business. The outstanding balance of \$32,716 for the loan against the pool plastering pump truck is the largest of the motor vehicle loans. The interest rates on the vehicle loans range from 2.99% to 7.50% and the maturities range from three to five years. The Company is currently in compliance with the terms of the loans.

The note for the acquisition of the new building in Stuart, FL. has an outstanding balance of \$370,140 and \$384,034 at December 31, 2017 and 2016, respectively. The note carries an interest rate of 3.99% and matures in October 2025. The Company is current with all payments and terms of the note.

NOTE 12 – LONG TERM LOANS

Until September 12, 2016, the Company had a long-term loan from Wells Fargo Bank which was guaranteed in case of default by the Company, by the Small Business Administration. The terms of the loan have a floating interest rate of 2.00% over the Wall Street Journal Prime Rate Index. The loan was secured by all of the assets of Custom Pool and by personal guaranties of Lawrence and Loreen Calarco. The Company paid off the loan on September 12, 2016 with the part of the proceeds from the sale of the prior headquarters office building in Palm City, FL. (See Note 8 “Sale of Palm City, FL. Building”).

At both December 31, 2017 and 2016, the Company has a Promissory Note from a stockholder for \$89,378, which was incurred with the acquisition of the common stock of CPSM, Inc. The term of the Promissory Note is 5 years and the note has an interest rate set at the 5 Year Treasury Note rate, currently set at 1.72% and which resets annually on June 3. The principal is due on the final maturity of June 3, 2019. The Company has accrued interest expense of \$5,321 and \$8,145 as of December 31, 2017 and 2016, respectively. The Company repaid a portion of the principal of the Note with part of the proceeds from the sale of the prior headquarters office building in Palm City, FL. (See Note 8, “Sale of the Palm City, FL. Building”). The Company is in compliance with the provisions of this Note.

The long term debt repayments are as follows:

| | 2018 | 2019 | 2020 | 2021 | 2022 | Thereafter | Total |
|-------------------------------|----------|-----------|----------|----------|----------|------------|-----------|
| Notes Payable: | \$84,508 | \$66,826 | \$69,136 | \$61,220 | \$51,137 | \$312,445 | \$645,272 |
| Promissory Note - Stockholder | - | 89,378 | - | - | - | - | 89,378 |
| Total Repayments | \$84,508 | \$156,204 | \$69,136 | \$61,220 | \$51,137 | \$312,445 | \$734,650 |

CPSM, INC. AND SUBSIDIARIES
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NOTE 13 – INCOME TAX

As of December 31, 2017, the U.S. Federal and Florida income tax returns filed prior to 2014 are no longer subject to examination by the respective taxing authorities.

The differences between the statutory Federal income tax rate and the effective tax rate are summarized as follows for the years ended December 31, 2017 and 2016:

| | 2017 | | 2016 | |
|---|-------------------|-----------------|-----------------|--------------|
| Income Taxes (benefit) at Statutory Rate | \$(3,597) | (34.0%) | \$67,694 | 34.0% |
| Increase (Decrease) in Taxes Resulting From: | | | | |
| State Taxes, net of Federal Tax Benefit | (2,062) | (19.5) | 5,559 | 2.8 |
| Graduated Tax Rates | (10,016) | (94.7) | (8,430) | (4.2) |
| Reduction in Federal Income Tax Rate | (8,681) | (82.1) | - | - |
| Other, Net | (2,134) | (20.1) | 1,078 | 0.5 |
| Income Taxes | <u>\$(26,490)</u> | <u>(250.4%)</u> | <u>\$65,901</u> | <u>33.1%</u> |

On December 22, 2017, the "Tax Cuts and Jobs Act of 2017," or the Tax Act, was signed into law. The Tax Act, among other things, reduced the maximum statutory federal corporate income tax rate from 35% to 21% effective January 1, 2018. As a result of enactment of the Tax Act, the Company revalued its net deferred tax asset. This revaluation resulted in an additional benefit to the income tax provision of \$8,681 in 2017.

CPSM, INC. AND SUBSIDIARIES
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NOTE 13 – INCOME TAX (Continued)

Deferred income taxes primarily relate to differences between the amounts recorded for financial reporting purposes and the amounts recorded for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows as of December 31, 2017, and 2016:

| Deferred Income Tax Assets (Liabilities): | 2017 | 2016 |
|---|--------------------|--------------------|
| Organizational Costs | \$41,476 | \$66,847 |
| Stock Based Compensation | 9,902 | 10,407 |
| Allowance for Bad Debt | 4,221 | 6,089 |
| Depreciation | (74,910) | (90,792) |
| Other, Net | 1,401 | (6,571) |
| Deferred Income Tax Assets (Liabilities) | <u>\$ (17,910)</u> | <u>\$ (14,020)</u> |

NOTE 14 – PREFERRED STOCK

In December 2015, the Company authorized 50,000,000 shares of Series A Preferred Stock, with a \$0.0001 par value. The Series A Preferred has an 8% dividend paid quarterly, and is convertible into common stock at \$0.08 per common share. The Series A Preferred is senior to the common stock as to dividends, and any liquidation, dissolution or winding up of the Company. The Series A Preferred also has certain voting and registration rights.

In January 2016, the Company issued 1,562,500 shares of the Series A Preferred Stock to Lawrence and Loreen Calarco, officers and directors of the Company for \$125,000 in consideration. At the time of the issuance of the Series A Preferred, the closing stock price of the Company's common stock was \$0.07 per share and so there is not a beneficial conversion feature. The Series A Preferred is callable after six months at the option of the Company at the issue price. The Company has accrued \$20,000 and \$10,000 in dividends on the Series A Preferred at December 31, 2017 and 2016, respectively.

CPSM, INC. AND SUBSIDIARIES
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NOTE 15 – 2014 STOCK AWARDS PLAN

In November 2014, the board of directors of the Company approved the adoptions of a Stock Awards Plan. The purpose is to provide a means through which the Company may attract, retain and motivate employees, directors and persons affiliated with the Company, including, but not limited to, non-employee consultants, and to provide a means whereby such persons can acquire and maintain stock ownership, thereby strengthening their concern for the welfare of the Company. A further purpose of the Plan is to provide such participants with additional incentive and reward opportunities designed to enhance the profitable growth and increase stockholder value of the Company. A total of 7,000,000 shares was authorized to be issued under the plan. For incentive stock options, at the grant date the stock options exercise price is required to be at least 110% of the fair value of the Company's common stock. The Plan permits the grants of common stock or options to purchase common stock. As plan administrator, the Board of Directors has sole discretion to set the price of the options. Further, the Board of Directors may amend or terminate the plan.

On May 27, 2015, the Board of Directors granted two individuals 500,000 options each. Additionally, on August 23, 2016, the Board of Directors granted four individuals 2,250,000 options in aggregate. The May 27, 2015 stock option grants have a five-year maturity, vesting ratably over that period. The August 23, 2016 stock option grants had 50% of the options vesting immediately, with the balance vesting ratably over three years. There are 3,750,000 shares available for issuance at December 31, 2017.

The August 23, 2016 and May 27, 2015 stock options were granted with the fair value estimated on the date of grant using the assumptions in the table below and the Black Scholes options pricing model:

| | 2016 | 2015 |
|---|----------|----------|
| Dividend Yield | - | - |
| Expected Volatility | 64.88% | 113.19% |
| Risk Free Interest Rate | 0.90% | 1.57% |
| Expected Life | 3 Years | 5 Years |
| Per Share Grant Date Fair Value of Options Issued | \$0.0163 | \$0.0265 |

The assumptions were based on the following: The Company's stock does not pay a dividend, expected volatility is a function of the historical daily changes in price of the Company's stock, the risk-free interest rate is the constant maturity of the 3 Year and 5 Year Treasury Note, respectively and the expected life is the maturity of the stock options since no options have been exercised or forfeited to date.

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NOTE 15 – 2014 STOCK AWARDS PLAN (Continued)

A summary of the stock option activity over the years ended December 31, 2017 and 2016 is as follows:

| | Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|------------------------------|----------------------|--|---|---------------------------------|
| Outstanding at Dec. 31, 2015 | 1,000,000 | \$ 0.035 | 4.4 years | - |
| Granted | <u>2,250,000</u> | \$0.0375 | 4.9 years | - |
| Outstanding at Dec. 31, 2016 | <u>3,250,000</u> | \$0.0367 | 4.3 Years | \$54,429 |
| Exercisable at Dec. 31, 2016 | <u>1,578,014</u> | \$ 0.037 | 4.3 Years | \$25,041 |
| Granted | - | - | - | - |
| Outstanding at Dec. 31, 2017 | <u>3,250,000</u> | \$0.0367 | 3.3 Years | \$56,125 |
| Exercisable at Dec. 31, 2017 | <u>2,153,014</u> | \$ 0.037 | 3.3 Years | \$36,823 |

The Company expensed \$11,413 and \$24,491 of stock option compensation for the years ended December 31, 2017 and 2016 respectively. Unrecognized compensation expense was \$24,106 and \$35,519 at December 31, 2017 and 2016, respectively.

NOTE 16 – COMMITMENTS AND CONTINGENCIES

The Company does not have any significant or long-term commitments. The Company is not currently subject to any litigation.

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NOTE 17 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of the filing of this Annual Report and management noted the following for disclosures.

Sale of Common Stock of Majority Stockholders

On March 14, 2018, Lawrence and Loreen Calarco, officers and directors of the Company, the Lawrence & Loreen Calarco Family Trust and the Lawrence and Loreen Calarco Trust of June 3, 2014, majority stockholders controlled by Lawrence and Loreen Calarco, sold 51,711,571 common shares and 1,562,500 preferred shares to MAAB Global Limited, a non-affiliate of the Company, paid from Bruce Bent, officer and director of MAAB Global Limited's personal funds resulting in a change of control of the Company. The stock was transferred to MAAB Global Limited effective March 14, 2018. The 51,711,571 common shares and 1,562,500 preferred shares represent 62.35% and 100% of the currently issued and outstanding common and preferred stock of the registrant, respectively.

Resignation of Directors and Election of Directors

On March 14, 2018, Lawrence Calarco, Loreen Calarco and Charles Dargan II resigned as officers and directors of the Company. Additionally, on March 14, 2018, Jeffrey Michel and Randy Sofferman resigned as directors of the Company.

On March 14, 2018, Bruce Bent, age 62, was appointed as Chief Executive Officer and Director of the Company. He will stand for re-election at the next annual meeting of the shareholders. There are no material arrangements to which Mr. Bent is a party, and there is no family relationship between him and any other party connected to the registrant.

Cancellation and Exchange of Stock Options

On March 14, 2018, the Company cancelled all 3,250,000 outstanding stock options under the 2014 Stock Awards Plan, with 1,500,000 of the stock options exchanged for two 10% Convertible Notes ("Notes") with a six month maturity. The principal amount is \$25,000 each and there is no prepayment penalty. The Notes are convertible into the Company's common stock based upon the average of the previous ten trading days' closing price of the stock, at the maturity date of the Notes. Upon conversion of the notes, Bruce Bent or MAAB Global Limited shall have the option to purchase the common stock issued at a 5% discount to the average closing price of the stock over the previous 10 trading days. The option to purchase expires ten days after the issuance of the common stock.

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NOTE 17 - SUBSEQUENT EVENTS (Continued)

Sale of Custom Pool and Spa Mechanics, Inc. and Custom Pool Plastering, Inc.

The Company is in the process of negotiating the sale of Custom Pool and Spa Mechanics, Inc. and Custom Pool Plastering, Inc. to the Lawrence & Loreen Calarco Family Trust. The Company expects the transaction to be consummated in April 2018.

Current Negotiations

The Company, under new ownership, is currently negotiating with Confida Aerospace Ltd. and intends to enter into a Letter Agreement to assume all of the rights and obligations of Confida under an Asset Purchase Agreement dated January 18, 2018 by and between Infly Technology Ltd. and its principal shareholders (together "Infly") and Confida.

Under the Asset Purchase Agreement, Infly agreed to transfer, convey and assign to Confida all right, title and interest in and to the assets belonging to Infly and all books and records, studies, software, drawings, schematics and all ancillary information, rights, agreements and understandings Infly may have in respect of the operations of Infly. The Assets consist of PassengerDrone aircraft, hardware, software and firmware components, designs and trademarks.

The Company and Confida have agreed in principal that, as consideration for the assumption of its rights and obligations under the Asset Purchase Agreement, the Company shall issue Confida 10,000 preferred shares. Each preferred share shall be convertible into 1,333 common shares and 1,333 warrants. Each warrant shall be exercisable into one common share at an exercise price of \$.75. The warrants shall have an exercise period of five years.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Controls and Procedures.

During the year ended December 31, 2017, there were no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation, under the supervision and with the participation of management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Annual Report.

Our procedures have been designed to ensure that the information relating to our company, including our consolidated subsidiaries, required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow for timely decisions regarding required disclosure. Based on this evaluation, our chief executive officer and chief financial officer concluded that as of the evaluation date our disclosure controls and procedures are effective.

It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Under the supervision and with the participation of our management, including our Chief Executive Officer and the Chief Financial Officer, we have established internal control procedures in accordance with the guidelines established in the 2013 Framework — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and through its evaluation of those internal control procedures, our management concluded that our internal controls over financial reporting are effective as of December 31, 2016.

This Annual Report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the SEC that permit the company to provide only management's report in this Annual Report.

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls or our internal control over financial reporting, or any system we design or implement in the future, will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Important Considerations:

The effectiveness of our disclosure controls and procedures and our internal control over financial reporting is subject to various inherent limitations, including cost limitations, judgments used in decision making, assumptions about the likelihood of future events, the soundness of our systems, the possibility of human error, and the risk of fraud. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions and the risk that the degree of compliance with policies or procedures may deteriorate over time. Because of these limitations, there can be no assurance that any system of disclosure controls and procedures or internal control over financial reporting will be successful in preventing all errors or fraud or in making all material information known in a timely manner to the appropriate levels of management.

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Identification of Directors and Executive Officers

The following table sets forth the names of all of our current executive officers and directors. These persons will serve until the next annual meeting of the stockholders or until their successors are elected or appointed and qualified, or their prior resignation or termination.

| Name | Positions Held | Date of Election or Designation |
|------------|----------------|---------------------------------|
| Bruce Bent | CEO, CFO | March 14, 2018 through present |
| | Director | March 14, 2018 through present |

Business Experience

Bruce Bent

Bruce Bent, age 62, was appointed as Chief Executive Officer and Director of the registrant on March 14, 2018. He will stand for re-election at the next annual meeting of the shareholders. From September 18, 2017 to present, Mr. Bent has acted as Chief Executive Officer and Director of MAAB Global Limited. Mr. Bent is President of Matthews Development (Alberta) Inc. a Canadian based project management company and is Chief Financial Officer of Matthews Acquisitions LLC, a holding company for the Matthews Group of Companies in the United States. Mr. Bent is Chairman and Director of Enerdynamic Hybrid Technologies Corp, a TSXV listed company.

Significant Employees

We have no significant employees who are not executive officers.

Family Relationships

None

Directorships

None

Involvement in Certain Legal Proceedings

During the past ten years, no director, promoter or control person:

- has filed a petition under federal bankruptcy laws or any state insolvency laws, nor had a receiver, fiscal agent or similar officer appointed by a court for the business or property of such person, or any partnership in which he was a general partner at or within two years before the time of such filing, or any corporation or business association of which he was an executive officer at or within two years before the time of such filing;
- was convicted in a criminal proceeding or named subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);
- was the subject of any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining him or her from or otherwise limiting the following activities:
- Acting as a futures commission merchant, introducing broker, commodity trading advisor, commodity pool operator, floor broker, leverage transaction merchant, any other person regulated by the Commodity Futures Trading Commission, or an associated person of any of the foregoing, or as an investment adviser, underwriter, broker or dealer in securities, or as an affiliated person, director or employee of any investment company, bank, savings and loan association or insurance company, or engaging in or continuing any conduct or practice in connection with such activity;
- Engaging in any type of business practice; or

- Engaging in any activity in connection with the purchase or sale of any security or commodity or in connection with any violation of Federal or State securities laws or Federal commodities laws;
- was the subject of any order, judgment or decree, not subsequently reverse, suspended or vacated, of any Federal or State authority barring, suspending or otherwise limiting for more than 60 days the right of such person to engage in any activity described in the preceding bullet point, or to be associated with persons engaged in any such activity;
- was found by a court of competent jurisdiction in a civil action or by the SEC to have violated any Federal or State securities law, and the judgment in such civil action or finding by the SEC has not been subsequently reversed, suspended, or vacated;
- was found by a court of competent jurisdiction in a civil action or by the Commodity Futures Trading Commission to have violated any Federal commodities law, and the judgment in such civil action or finding by the Commodity Futures Trading Commission has not been subsequently reversed, suspended or vacated;
- was the subject of, or a party to, any Federal or State judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of:
 - any Federal or State securities or commodities law or regulation; or
 - any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order; or
 - any law or regulation prohibiting mail or wire fraud in connection with any business activity; or
 - was the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, or any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act, or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

Promoters and control person

Not applicable.

Code of Ethics

We have adopted a Code of Ethics. We undertake to provide to any person, without charge, upon request, a copy of such Code of Ethics.

Corporate Governance

Nominating Committee

During the year ended December 31, 2017, there were no changes in the procedures by which security holders may recommend nominees to our board of directors. We do not presently have a nominating committee for members of its board of directors. Nominations are considered by the entire board.

Committees of the Board of Directors

We do not presently have a compensation or audit committee. Compensation and audit matters are considered by the entire board.

ITEM 11. EXECUTIVE COMPENSATION

Executive Compensation

The following table sets forth the compensation paid to officers and board of directors during the fiscal years ended December 31, 2017 and 2016. The table sets forth this information for salary, bonus, and certain other compensation to the board of directors and named executive officers for the past two fiscal years and includes all board of directors and officers as of December 31, 2017.

SUMMARY COMPENSATION TABLE

| Name and Principal Position | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$) | Option Awards (\$) | Non-Equity Incentive Plan Compensation (\$) | Nonqualified Deferred Compensation Earnings (\$) | All Other Compensation (\$) | Total (\$) |
|--|------|-------------|------------|-------------------|--------------------|---|--|-----------------------------|------------|
| (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) | (j) |
| Lawrence Calarco(1) | 2017 | 208,000 | 10,000 | 0 | 0 | 0 | 0 | 0 | 218,000 |
| Former CEO, Former Director | 2016 | 182,000 | 0 | 0 | 16,300 | 0 | 0 | 0 | 198,300 |
| Charles Dargan II | 2017 | 25,000 | 0 | 0 | 0 | 0 | 0 | 0 | 25,000 |
| Former CFO, Former Director, Former Principal Accounting Officer | 2016 | 25,000 | 0 | 0 | 4,075 | 0 | 0 | 0 | 29,075 |
| Loreen Calarco(1) | 2017 | 78,000 | 10,000 | 0 | 0 | 0 | 0 | 0 | 88,000 |
| Former COO, Former Director | 2016 | 78,000 | 0 | 0 | 12,225 | 0 | 0 | 0 | 90,225 |

(1) All salary amounts paid were made through our wholly-owned subsidiary, Custom Pool & Spa Mechanics, Inc.

Except for such compensation and as indicated above, no cash compensation, deferred compensation, pension benefits or long-term incentive plan awards were issued or granted to our management during the fiscal years indicated above. Further, no member of management has been granted any option or stock appreciation rights except as indicated below; accordingly, no tables relating to such items have been included within this Item.

To date, Lawrence and Loreen Calarco have not received any quarterly profits bonus payments, or other quarterly equity awards.

2014 Stock Awards Plan

In November 2014, our board of directors approved the adoption of a Stock Awards Plan. The purpose is to provide a means through which we may attract, retain and motivate employees, directors and persons affiliated with us, including, but not limited to, non-employee consultants, and to provide a means whereby such persons can acquire and maintain stock ownership, thereby strengthening their concern for the welfare of the Company. A further purpose of the Plan is to provide such participants with additional incentive and reward opportunities designed to enhance the profitable growth and increase our stockholder value. A total of 7,000,000 shares were authorized to be issued under the plan. For incentive stock options, at the grant date the stock options exercise price is required to be at least 110% of the fair value of our common stock.

The Plan permits the grants of common stock or options to purchase common stock. As plan administrator, the board of directors has sole discretion to set the price of the options. Further, the board of directors may amend or terminate the plan.

On May 27, 2015, we granted and approved 500,000 options each to Charles Dargan II, chief financial officer and a director and to Jeffrey Michel, a director. The stock options have a five-year maturity, vesting ratably over that period and an exercise price equal to the closing stock price on May 27, 2015 that was \$0.035 per share. The fair value of the options were calculated to be \$0.0265 per share using a Black Scholes model. The assumptions used in the model were 1.57% risk free rate using the 5-year constant maturity Treasury Rate, 113.19% stock volatility and 1,825 days (5 years) to maturity.

On August 23, 2016 we granted and approved 2,250,000 options to the Board of Directors as follows: 1,000,000 options to Lawrence Calarco, 750,000 options to Loreen Calarco, 250,000 options to Charles Dargan II and 250,000 options to Jeff Michel. The stock option grants had 50% of the options vesting immediately, with the balance vesting ratably over three years. The fair value of the options was calculated to be \$0.0163 per share using the Black Scholes model. The assumptions used in the model were 0.90% risk free rate using the three-year constant maturity Treasury rate, 64.88% stock volatility and a three year estimated maturity.

On March 14, 2018, the Company cancelled all 3,250,000 outstanding stock options under the 2014 Stock Awards Plan, with 1,500,000 of the stock options exchanged for two 10% Convertible Notes ("Notes") with a six month maturity. The principal amount is \$25,000 each and there is no prepayment penalty. The Notes are convertible into the Company's common stock based upon the average of the previous ten trading days' closing price of the stock, at the maturity date of the Notes. Upon conversion of the notes, Bruce Bent or MAAB Global Limited shall have the option to purchase the common stock issued at a 5% discount to the average closing price of the stock over the previous 10 trading days. The option to purchase expires ten days after the issuance of the common stock.

Employment Contracts and Termination of Employment and Change-in-Control arrangements.

On May 1, 2014, Custom Pool & Spa, our wholly owned subsidiary, entered into an employment agreement with Lawrence Calarco, our former chief executive officer. Under this agreement, Mr. Calarco will operate as the chairman of the board and chief executive officer through April 30, 2019. Mr. Calarco received a salary of \$3,500 per week for the remainder of 2014, and receives \$182,000 annually through the remainder of the term of the agreement, subject to review by the board of directors. In addition, Custom Pool & Spa will pay up to \$10,000 annually to be used toward the payment of the premium of a disability insurance policy covering Mr. Calarco.

Mr. Calarco is entitled to a quarterly profits bonus equal to 0.5% of the net pre-tax earnings of Custom Pool & Spa should the net pre-tax earnings be equal to or greater than 15% but less than 20% of gross revenues, 1% of the net pre-tax earnings should the net pre-tax earnings be equal to or greater than 20% but less than 25% of gross revenues, 2% of the net pre-tax earnings should the net pre-tax earnings be equal to or greater than 25% but less than 35% of gross revenues, or 3% of net pre-tax earnings should the net pre-tax earnings be equal to or greater than 35% of gross revenues. This bonus shall only be payable while Mr. Calarco is an employee of Custom Pool & Spa on the last day of the respective quarter for which such profit bonuses are being calculated.

Mr. Calarco is entitled to annual stock options in an amount equal to 1.5% of net pre-tax earnings if net pre-tax earnings are equal to or greater than 14% but less than 20% of gross revenues, 3% of net pre-tax earnings if net pre-tax earnings are equal to or greater than 20% but less than 25% of gross revenues, 6% of net pre-tax earnings if net pre-tax earnings are equal to or greater than 25% but less than 35% of gross revenues, or 3% of net pre-tax earnings if net pre-tax earnings are equal to or greater than 35% of gross revenues.

Mr. Calarco may be terminated at any time for cause due to any of the following events: 1) breach of the employment agreement, 2) gross negligence by Mr. Calarco that results in material damage to Custom Pool & Spa, 3) willful violation of corporate rules and regulations, 4) fraud, embezzlement, or other criminal conduct, or 5) committing an act of moral turpitude that results in material damage to Custom Pool & Spa. In addition, Mr. Calarco may terminate his employment at any time by giving 45 days advance notice of such termination.

On May 1, 2014, Custom Pool & Spa entered into an employment agreement with Loreen Calarco, our former chief operating officer. Under this agreement, Mrs. Calarco will operate as a director and as chief operating officer through April 30, 2019. Mrs. Calarco received a salary of \$1,500 per week for the remainder of 2014, and will receive \$78,000 annually through the remainder of the term of the agreement, subject to review by the board of directors. In addition, Custom Pool & Spa will pay up to \$10,000 annually to be used toward the payment of the premium of a disability insurance policy covering Mrs. Calarco.

Mrs. Calarco is entitled to a quarterly profits bonus equal to 0.5% of the net pre-tax earnings should the net pre-tax earnings be equal to or greater than 15% but less than 20% of gross revenues, 1% of the net pre-tax earnings should the net pre-tax earnings be equal to or greater than 20% but less than 25% of gross revenues, 2% of the net pre-tax earnings should the net pre-tax earnings be equal to or greater than 25% but less than 35% of gross revenues, or 3% of net pre-tax earnings should the net pre-tax earnings be equal to or greater than 35% of gross revenues. This bonus shall only be payable while Mrs. Calarco is an employee of Custom Pool & Spa on the last day of the respective quarter for which such profit bonuses are being calculated.

Mrs. Calarco is entitled to annual stock options in an amount equal to 1.5% of net pre-tax earnings if net pre-tax earnings are equal to or greater than 14% but less than 20% of gross revenues, 3% of net pre-tax earnings if net pre-tax earnings are equal to or greater than 20% but less than 25% of gross revenues, 6% of net pre-tax earnings if net pre-tax earnings are equal to or greater than 25% but less than 35% of gross revenues, or 3% of net pre-tax earnings if net pre-tax earnings are equal to or greater than 35% of gross revenues.

Mrs. Calarco may be terminated at any time for cause due to any of the following events: 1) breach of the employment agreement, 2) gross negligence by Mrs. Calarco that results in material damage to Custom Pool & Spa, 3) willful violation of the corporate rules and regulations, 4) fraud, embezzlement, or other criminal conduct, or 5) committing an act of moral turpitude that results in material damage to Custom Pool & Spa. In addition, Mrs. Calarco may terminate her employment at any time by giving 45 days advance notice of such termination.

On February 1, 2015, we entered into an engagement agreement with CFO 911, an entity that provides accounting, financial and operational services to engage Charles K. Dargan II to act as our chief financial officer. The term of the engagement is for one year commencing February 1, 2015. Mr. Dargan II receives \$6,250 per quarter. Additionally, Mr. Dargan II received 500,000 stock options as described below.

Compensation of Directors

On May 27, 2015, we granted and approved 500,000 options each to Charles Dargan II, our former chief financial officer and director and to Jeffrey Michel, our former director. The stock options have a five-year maturity, vesting ratably over that period and an exercise price equal to the closing stock price on May 27, 2015 that was \$0.035 per share. On August 23, 2016 we granted and approved 2,250,000 options to the Board of Directors as follows: 1,000,000 options to Lawrence Calarco, 750,000 options to Loreen Calarco, 250,000 options to Charles Dargan II and 250,000 options to Jeff Michel. The stock option grants had 50% of the options vesting immediately, with the balance vesting ratably over three years. The fair value of the options was calculated to be \$0.0163 per share using the Black Scholes model. The assumptions used in the model were 0.90% risk free rate using the three-year constant maturity Treasury rate, 64.88% stock volatility and a three year estimated maturity.

On March 14, 2018, the Company cancelled all 3,250,000 outstanding stock options under the 2014 Stock Awards Plan, with 1,500,000 of the stock options exchanged for two 10% Convertible Notes ("Notes") with a six month maturity. The principal amount is \$25,000 each and there is no prepayment penalty. The Notes are convertible into the Company's common stock based upon the average of the previous ten trading days' closing price of the stock, at the maturity date of the Notes. Upon conversion of the notes, Bruce Bent or MAAB Global Limited shall have the option to purchase the common stock issued at a 5% discount to the average closing price of the stock over the previous 10 trading days. The option to purchase expires ten days after the issuance of the common stock.

Limitation on Liability and Indemnification

We are a Nevada corporation. The Nevada Revised Statutes provides that the articles of incorporation of a Nevada corporation may contain a provision eliminating or limiting the personal liability of a director to the corporation or its shareholders for monetary damages for breach of fiduciary duty as a director, except that any such provision may not eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to the corporation or its shareholders, (ii) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) acts specified in Section 78 (concerning unlawful distributions), or (iv) any transaction from

which a director directly or indirectly derived an improper personal benefit. Our articles of incorporation contain a provision eliminating the personal liability of our directors or our shareholders for monetary damages to the fullest extent provided by the NRS.

The NRS provides that a Nevada corporation must indemnify a person who was wholly successful, on the merits or otherwise, in defense of any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative and whether formal or informal, in which he or she was a party because the person is or was a director, against reasonable expenses incurred by him or her in connection with the proceeding, unless such indemnity is limited by the corporation's articles of incorporation. Our articles of incorporation do not contain any such limitation.

The NRS provides that a Nevada corporation may indemnify a person made a party to a proceeding because the person is or was a director against any obligation incurred with respect to a proceeding to pay a judgment, settlement, penalty, fine (including an excise tax assessed with respect to an employee benefit plan) or reasonable expenses incurred in the proceeding if the person conducted himself or herself in good faith and the person reasonably believed, in the case of conduct in an official capacity with the corporation, that the person's conduct was in the corporation's best interests and, in all other cases, his or her conduct was at least not opposed to the corporation's best interests and, with respect to any criminal proceedings, the person had no reasonable cause to believe that his or her conduct was unlawful. Our articles of incorporation and bylaws allow for such indemnification. A corporation may not indemnify a director in connection with any proceeding by or in the right of the corporation in which the director was adjudged liable to the corporation or, in connection with any other proceeding charging that the director derived an improper personal benefit, whether or not involving actions in an official capacity, in which proceeding the director was judged liable on the basis that he or she derived an improper personal benefit. Any indemnification permitted in connection with a proceeding by or in the right of the corporation is limited to reasonable expenses incurred in connection with such proceeding.

The NRS, unless otherwise provided in the articles of incorporation, a Nevada corporation may indemnify an officer, employee, fiduciary, or agent of the corporation to the same extent as a director and may indemnify such a person who is not a director to a greater extent, if not inconsistent with public policy and if provided for by its bylaws, general or specific action of its board of directors or shareholders, or contract. Our articles of incorporation provide for indemnification of directors, officers, employees, fiduciaries and agents of the Company to the full extent permitted by Nevada law.

Our articles of incorporation also provide that we may purchase and maintain insurance on behalf of any person who is or was a director or officer of the Company or who is or was serving at the request of the Company as a director, officer or agent of another enterprise against any liability asserted against him or her and incurred by him or her in any such capacity or arising out of his or her status as such, whether or not we would have the power to indemnify him or her against such liability.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth, as of March 29, 2018, the number and percentage of our outstanding common shares owned by (i) each person known to us to beneficially own more than 5% of its outstanding common stock, (ii) each director, (iii) each named executive officer and significant employee, and (iv) all officers and directors as a group.

| Name and Address of Stockholder | Shares | % Owned |
|---|---------------------|---------|
| Bruce Bent (1) 320 W Main Street Lewisville, TX 75057 | 51,711,571 indirect | 62.35% |
| Officers and Directors as a Group (1 persons) | 51,711,571 indirect | 62.35% |
| Lawrence & Loreen Calarco (2) 5021 SW Saint Creek Drive Palm City, FL 34990 | 13,728,900 indirect | 16.55% |

Based on 82,938,960 common shares outstanding as of March 29, 2018.

- (1) Bruce Bent, our sole officer and director, controls these shares through MAAB Global Limited, a non-affiliate of the registrant of which he is officer and director.
- (2) Lawrence and Loreen Calarco, former officers and directors of the Company, are husband and wife, and control these shares through the Lawrence & Loreen Calarco Family Trust.

Changes in Control

There are no present arrangements or pledges of our securities that may result in a change in control of the Company.

Securities Authorized for Issuance under Equity Compensation Plans

On May 27, 2015, we granted and approved 500,000 options each to Charles Dargan II, chief financial officer and a director and to Jeffrey Michel, a director. The stock options have a five-year maturity, vesting ratably over that period and an exercise price equal to the closing stock price on May 27, 2015 that was \$0.035 per share. The fair value of the options were calculated to be \$0.0265 per share using a Black Scholes model. The assumptions used in the model were 1.57% risk free rate using the 5-year constant maturity Treasury Rate, 113.19% stock volatility and 1,825 days (5 years) to maturity.

On August 23, 2016, we granted and approved 2,250,000 options to the Board of Directors as follows: 1,000,000 options to Lawrence Calarco, 750,000 options to Loreen Calarco, 250,000 options to Charles Dargan II and 250,000 options to Jeff Michel. The stock option grants had 50% of the options vesting immediately, with the balance vesting ratably over three years. The fair value of the options was calculated to be \$0.0163 per share using the Black Scholes model. The assumptions used in the model were 0.90% risk free rate using the three-year constant maturity Treasury rate, 64.88% stock volatility and a 3 year estimated maturity.

On March 14, 2018, the Company cancelled all 3,250,000 outstanding stock options under the 2014 Stock Awards Plan, with 1,500,000 of the stock options exchanged for two 10% Convertible Notes with a six month maturity. The principal amount is \$25,000 each and there is no prepayment penalty. The Notes are convertible into the Company's common stock based upon the average of the previous ten trading days' closing price of the stock, at the maturity date of the Notes. Upon conversion of the notes, Bruce Bent or MAAB Global Limited shall have the option to purchase the common stock issued at a 5% discount to the average closing price of the stock over the previous 10 trading days. The option to purchase expires ten days after the issuance of the common stock.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Transactions with Related Persons

Except as indicated below, there were no material transactions, or series of similar transactions, during our last two fiscal years, or any currently proposed transactions, or series of similar transactions, to which we or any of our subsidiaries was or is to be a party, in which the amount involved exceeded the lesser of \$120,000 or one percent of the average of our total assets at year-end for such fiscal years and in which any director, executive officer or any security holder who is known to us to own of record or beneficially more than five percent of any class of our common stock, or any member of the immediate family of any of the foregoing persons, had an interest.

On September 11, 2014, we acquired all of the outstanding common shares of Custom Pool & Spa, an entity engaged in the pool service business, in exchange for 19,446,783 of our common shares. Custom Pool & Spa was controlled by the Lawrence and Loreen Calarco Trust, beneficially owned by Lawrence and Loreen Calarco, former officers and directors of the Company.

At December 31, 2017 and 2016, we had an advance payable of \$54,981 and \$132,326 and respectively, from the Lawrence and Loreen Calarco Trust. The advance payable was used for expenditures on behalf of Custom Pool & Spa. The terms of the advance payable are non-interest bearing and it is due on demand.

At both December 31, 2017 and 2016, the Company has a Promissory Note from Lawrence Calarco, a former officer and director for \$89,378, which was incurred with the acquisition of the common stock of CPSM, Inc. The term of the Promissory Note is five years and the note has an interest rate set at the Five Year Treasury Note rate, currently set at 1.72% and which resets annually on June 3. The principal is due on the final maturity of June 3, 2019. The Company has accrued interest expense of \$5,321 and \$8,145 as of December 31, 2017 and 2016, respectively. The Company repaid a portion of the principal of the Note with part of the proceeds from the sale of the prior headquarters office building in Palm City, Fl. (See Note 9, "Sale of the Palm City, Fl. Building"). The Company is in compliance with the provisions of this Note.

On May 27, 2015, the Board of Directors granted two individuals 500,000 options each. Additionally, on August 23, 2016, the Board of Directors granted four individuals 2,250,000 options in aggregate. After issuance of the stock options, there are 3,750,000 shares available for issuance at September 30, 2016. The May 27, 2015 stock option grants have a five-year maturity, vesting ratably over that period.

On January 5, 2016, the Company issued 1,562,500 shares of the Series A Preferred Stock at \$0.08 per share for \$125,000 to Lawrence Calarco and Loreen Calarco, former officers and directors of the Company. The use of proceeds was to close the acquisition of Sundook. The Series A Preferred Stock is convertible into the Company's common stock at \$0.08 per share. At the time of the issuance of the Series A Preferred, the closing stock price of the Company's common stock was \$0.07 per share and so there is not a beneficial conversion feature. The Series A Preferred is callable after six months at the option of the Company at the issue price.

On August 23, 2016, the Company granted and approved 2,250,00 options to the Board of Directors at that time as follows: 1,000,000 options to Lawrence Calarco, 750,000 options to Loreen Calarco, 250,000 options to Charles Dargan II and 250,000 options to Jeff Michel. The stock option grants had 50% of the options vesting immediately, with the balance vesting ratably over three years.

On March 14, 2018, the Company cancelled all 3,250,000 outstanding stock options under the 2014 Stock Awards Plan, with 1,500,000 of the stock options exchanged for two 10% Convertible Notes with a six month maturity. The principal amount is \$25,000 each and there is no prepayment penalty. The Notes are convertible into the Company's common stock based upon the average of the previous ten trading days' closing price of the stock, at the maturity date of the Notes. Upon conversion of the notes, Bruce Bent or MAAB Global Limited shall have the option to purchase the common stock issued at a 5% discount to the average closing price of the stock over the previous 10 trading days. The option to purchase expires ten days after the issuance of the common stock.

Promoters and Certain Control Persons

Except as indicated under the heading "Transactions with Related Persons" above, there have been no transactions since the beginning of our last fiscal year, or any currently proposed transaction in which we were or are to be a participant and the amount involved exceeds the lesser of \$120,000 or one percent of the average of our total assets at year-end for the last three completed fiscal years.

Director Independence

Our current sole director is not independent.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Audit Fees

We have incurred fees and expenses from Hacker, Johnson & Smith PA of \$50,000 and \$50,000, respectively, for the 2017 and 2016 fiscal years. Fees included work completed for our annual audit and for the review of our

financial statements included in our Forms 10-Q and 10-K. The fees in 2017 and 2016 included \$5,000 related to Form 10K. The fees for 2017 included \$5,000 for each quarterly review.

Tax Fees

We have incurred fees of \$5,500 and \$5,500, respectively, for the 2017 and 2016 fiscal years for professional services rendered for tax compliance, tax advice, and tax planning.

All Other Fees

The Board of Directors, acting as the Audit Committee considered whether, and determined that, the auditor's provision of non-audit services was compatible with maintaining the auditor's independence. All of the services described above for fiscal years 2017 and 2016 were approved by the Board of Directors pursuant to its policies and procedures. We intend to continue using Hacker, Johnson & Smith PA solely for audit and audit-related services, tax consultation and tax compliance services, and, as needed, for due diligence in acquisitions.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) List of Financial statements included in Part II hereof

Report of Independent Registered Public Accounting Firm

Balance Sheets:

December 31, 2017 and 2016

Statements of Income:

For the years ended December 31, 2017 and 2016

Statements of Stockholders' Equity

For the years ended December 31, 2017 and 2016

Statements of Cash Flows:

For the years ended December 31, 2017 and 2016

Notes to Financial Statements

For the years ended December 31, 2017 and 2016

(a)(2) List of Financial Statement schedules included in Part IV hereof: None

(a)(3) Exhibits

The following exhibits are included herewith:

Exhibits

~~1~~[Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)

~~2~~[Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)

~~3~~[XBRL Taxonomy Extension Schema Document](#)

~~4~~[XBRL Taxonomy Extension Calculation Linkbase Document](#)

~~5~~[XBRL Taxonomy Extension Definition Linkbase Document](#)

~~6~~[XBRL Taxonomy Extension Label Linkbase Document](#)

~~7~~[XBRL Taxonomy Extension Presentation Linkbase Document](#)

*XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections. (Incorporated by reference to the 10-K filed March 31, 2014)

Following are a list of exhibits which we previously filed in other reports which we filed with the SEC, including the Exhibit No., description of the exhibit and the identity of the Report where the exhibit was filed.

| EXHIBIT DESCRIPTION | FILED WITH |
|--|-------------------|
| A (a) Articles of Incorporation 11-13-15 dated March 27, 2007 | Form S-1 |
| A (b) Amendment to Articles of Incorporation 11-13-15 dated May 1, 2009 | Form S-1 |
| A (c) Amendment to Articles of Incorporation Form S-1 dated September 16, 2011 | |
| A (d) Amendment to Articles of Incorporation Form S-1 dated January 31, 2014 | |
| A (e) Amendment to Articles of Incorporation 11-13-15 dated July 3, 2014 | Form S-1 |
| B 11-13-15 Bylaws | Form S-1 |
| C 11-13-15 Code of Ethics policy | Form S-1 |
| D 11-13-15 Man Insurance Policy | |
| 11-13-15 dated July 15, 2015 | Form S-1 |
| E Employment Agreement by and between Custom Pool & Spa Mechanics, Inc. and 11-13-15 Larry Calarco dated May 1, 2014 | Form S-1 |
| E Employment Agreement by and between Custom Pool & Spa Mechanics, Inc. and A 11-13-15 Loreen Calarco dated May 1, 2014 | Form S-1 |
| F Agreement by and between CPSM, Inc. and 11-13-15 CFO 911 dated February 18, 2015 | Form S-1 |
| G Contract re: Whaler Street 11-13-15 dated August 2, 2015 | Form S-1 |
| H Promissory note between Custom Pool & Spa Mechanics, Inc. and Lawrence Calarco 11-13-15 dated June 3, 2014 | Form S-1/A |
| I Asset Purchase Agreement between CPSM, Inc. and Sundook Advanced Pool Services LLC 3-30-16 dated 1/5/2016 | Form 10-K |
| J 10-16 Mutual General Release Agreement | Form 10-K |

SIGNATURES

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

M. Bruce Bent

Bruce Bent

Chief Executive Officer

Chief Financial Officer

Director

302 CERTIFICATION

I, Bruce Bent, certify that:

1. I have reviewed this annual report on Form 10-K of CPSM, Inc.;
 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
 4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report, our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
 5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
-

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

Date: March 29, 2018

/s/Bruce Bent
Bruce Bent
Chief Executive Officer
Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of CPSM, Inc. (the "Company") on Form 10-K for the year ended December 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bruce Bent, Chief Executive Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/Bruce Bent

Bruce Bent
Chief Executive Officer
Chief Financial Officer

March 29, 2018