Brownie's Marine Group, Inc
Form 10-Q/A
August 14, 2017

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q/A

(mark one)

[X] Quarterly Report Pursuant to Section 13 or 15(d) of Securities Exchange Act of 1934

For the quarterly period ended **June 30, 2017**

[ ] Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _______ to _______.

Commission File No. 333-99393

Brownie’s Marine Group, Inc.

(Name of Small Business Issuer in Its Charter)

Florida	**90-0226181**
(State or Other Jurisdiction of	(I.R.S. Employer

Incorporation or Organization) Identification No.)

3001 NW 25th Avenue, Suite 1, Pompano Beach, Florida	**33069**
(Address of Principal Executive Offices)	(Zip Code)

(954) 462-5570
(Issuer's Telephone Number, Including Area Code)

(Former Name, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its Corporate Website, in any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [X]
	Emerging growth company [ ]

If an emerging growth company, indicate by checkmark if the registrant has not elected to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 7(a)(2)(B) of the Securities Act: [ ]

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

There were 73,493,402 shares of common stock outstanding as of August 7, 2017.

EXPLANATORY NOTE

Brownies Marine Group is filing Amendment No. 1 to its Quarterly Report on Form 10-Q for the three and six months ended June 30, 2017 (“Amendment No. 1”) to amend the Quarterly Report which was originally filed with the Securities and Exchange Commission (the “SEC”) on August 14, 2017 (the “Original Quarter Report”). The purpose of this Amendment No. 1 is to amend certain information on reclassification of cost of goods sold and cost of goods sold – related parties in the condensed consolidated statement of operations and certain information on Note 7 to the financial statements.

Except as described above, no attempt has been made in this Amendment No. 1 to modify or update the other disclosures in the Original Quarterly Report. Amendment No. 1 continues to speak as of the date of the Original Quarterly Report, and Brownies Marine Group has not updated the disclosures contained therein to reflect any events which occurred at a date subsequent to the filing of the Original Quarterly Report. Accordingly, Amendment No. 1 should be read in conjunction with the Original Quarterly Report.

PART I

Item 1. Financial Statements

Financial Information

BROWNIE'S MARINE GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Current assets		
Cash	$108,319	$191,749
Accounts receivable, net of $23,000 and $18,000 allowance for doubtful accounts, respectively	6,161	1,026
Accounts receivable - related parties	100,093	68,239
Inventory	843,354	672,520
Prepaid expenses and other current assets	76,896	84,336
Total current assets	1,134,823	1,017,870
Property and equipment, net	39,066	56,908
Deferred tax asset, net - non-current	2,520	2,520
Other assets	6,649	6,649
Total assets	$1,183,058	$1,083,947
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable and accrued liabilities	$411,675	$323,578
Customer deposits and unearned revenue	101,864	31,577
Royalties payable - related parties	-	64,240
Other liabilities	139,428	176,614
Convertible debentures, net	312,743	312,743
Notes payable	3,040	6,133
Total current liabilities	968,750	914,885
Total liabilities	968,750	914,885

Commitments and contingencies		
Stockholders' deficit		
Preferred stock; $0.001 par value: 10,000,000 shares authorized; 425,000 issued and outstanding	425	425
Common stock; $0.0001 par value; 1,000,000,000 shares authorized; 73,493,402 and 68,906,212 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	7,349	6,890
Common stock payable; $0.0001 par value; 138,941 and 138,941 shares, respectively	14	14
Additional paid-in capital	8,855,626	8,792,782
Accumulated deficit	(8,649,106)	(8,631,049)
Total stockholders' deficit	214,308	169,062
Total liabilities and stockholders' deficit	$1,183,058	$1,083,947

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

BROWNIE’S MARINE GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net revenues				
Net revenues	$287,189	$421,170	$575,006	$702,532
Net revenues - related parties	206,963	224,748	365,386	334,760
Total net revenues	494,152	645,918	940,392	1,037,292
Cost of net revenues				
Cost of net revenues	163,607	436,283	313,880	761,684
Cost of net revenues - related parties	180,453	-	269,328	-
Royalties expense - related parties	18,613	16,079	29,486	25,618
Total cost of net revenues	362,673	452,362	612,694	787,302
Gross profit	131,479	193,556	327,698	249,990
Operating expenses				
Selling, general and administrative	179,033	160,208	330,367	313,014
Research and development costs	642	63	1,205	1,415
Total operating expenses	179,675	160,271	331,572	314,429
Income (loss) from operations	(48,196)	33,285	(3,874)	(64,439)
Other (income) expense, net				
Other (income) expense, net	(216)	(150,703)	(1,207)	(270,944)
Interest expense	7,668	7,758	15,390	15,517
Interest expense - related parties	-	-	-	73
Total other (income) expense, net	7,452	(142,945)	14,183	(255,354)
Net (loss) Income before provision for income taxes	(55,648)	176,230	(18,057)	190,915
Income tax	-	-	-	-
Net (loss) Income	$(55,648)	$176,230	$(18,057)	$190,915
Basic income (loss) per common share	$(0.00)	$(0.01)	$(0.00)	$(0.01)
Diluted income (loss) per common share	$(0.00)	$(0.00)	$(0.00)	$(0.00)
Basic weighted average common shares outstanding	73,493,402	62,949,592	71,972,786	74,894,245
Diluted weighted average common shares outstanding	73,493,402	68,790,924	71,972,786	80,735,576

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

BROWNIE’S MARINE GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Six months ended June 30,	
	2017	2016
Cash flow from operating activities:		
Net (Loss) Income	$(18,057)	$190,915
Adjustments to reconcile net (loss) Income to net cash provided by operating activities:		
Depreciation	17,842	10,663
Amortization of leasehold improvements	-	7,296
Gain on cancellation of debt	-	(234,678)
Shares issued for interest expense	-	73
Shares issued for payroll compensation	-	1,339
Changes in operating assets and liabilities:	-	
Change in accounts receivable, net	(5,135)	50,321
Change in accounts receivable - related parties	(31,854)	(46,500)
Change in inventory	(170,834)	(14,890)
Change in prepaid expenses and other current assets	7,440	(43,687)
Change in other current assets - related parties	-	3,020
Change in accounts payable and accrued liabilities	88,097	75,408
Change in customer deposits and unearned revenue	70,287	5,937
Change in other liabilities	(37,186)	(20,304)
Change in royalties payable - related parties	(937)	8,608
Net cash used in operating activities	(80,337)	(6,479)
Cash flows from financing activities:		
Principal reduction on convertible debentures	-	(472)
Principal payments on notes and loans payable	-	(3,553)
Repayments of Notes Payable	(3,093)	-
Principal payments on note payable - related parties	-	(2,250)
Net cash used in financing activities	(3,093)	(6,275)
Net change in cash	(83,430)	(12,754)
Cash, beginning of period	191,749	141,822
Cash, end of period	$108,319	$129,068

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

4

BROWNIE'S MARINE GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

Supplemental disclosures of cash flow information:

	2017	2016
Supplemental information:		
Cash paid for interest	$—	$416
Cash paid for income taxes	$—	$—
Non cash investing and financing activities:		
Conversion of related party royalty payable	$63,303	$—
Conversion of accrued payroll to stock	$—	$1,345
Conversion of accrued interest on note payable - related party to stock	$—	$73
Gain on debt cancellation	$—	$234,678

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

BROWNIE’S MARINE GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of business and summary of significant accounting policies

Description of business – Brownie’s Marine Group, Inc., (hereinafter referred to as the “Company”, “we” or “BWMG”) designs, tests, manufactures and distributes recreational hookah diving, yacht based scuba air compressor and nitrox generation systems, and scuba and water safety products through its wholly owned subsidiary Trebor Industries, Inc. The Company sells its products both on a wholesale and retail basis, and does so from its headquarters and manufacturing facility in Pompano Beach, Florida. The Company does business as (dba) Brownie’s Third Lung, the dba name of Trebor Industries, Inc. The Company’s common stock is quoted on the OTC Markets (Pink) under the symbol “BWMG”.

Basis of Presentation – The financial statements of the Company have been prepared in accordance with the accounting principles generally accepted in the United States of America (“GAAP”). In the opinion of management all normal recurring adjustments considered necessary to give a fair presentation of operating results for the periods presented have been included.

The condensed consolidated financial statements as of June 30, 2017 and for the three and six month periods ended June 30, 2017 and 2016 are unaudited and, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position as of June 30, 2017, and the results of operations for the three and six month periods ended June 30, 2017 and 2016, and the statements of cash flows for the six month periods ended June 30, 2017 and 2016. The condensed consolidated results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results to be expected for the entire year. The condensed consolidated balance sheet as of December 31, 2016 has been derived from the Company’s audited financial statements for the year ended December 31, 2016. While management of the Company believes that the disclosures presented are adequate to make the information not misleading, these condensed consolidated financial statements should be read in conjunction with our audited financial statements and the footnotes thereto for the fiscal year ended December 31, 2016 as filed with the Securities and Exchange Commission as part of the Company’s Form 10-K which was filed on April 17, 2017.

Definition of fiscal year – The Company’s fiscal year end is December 31.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications – Certain reclassifications have been made to the 2016 financial statement amounts and disclosures to conform to the 2017 financial statement presentation.

Going Concern – The accompanying condensed unaudited consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates realization of assets and the satisfaction of liabilities in the normal course of business for the twelve-month period following the date of these financial statements. Although with a minimal loss for the six months ended June 30, 2017, and profitable for the three years ended December 31, 2016, we have frequently incurred losses since 2009.

Because the Company does not expect that existing operational cash flow will be sufficient to fund presently anticipated operations, this raises substantial doubt about BWMG’s ability to continue as a going concern within one year from date the financial statements are issued. Therefore, the Company may need to raise additional funds and is currently exploring alternative sources of financing. BWMG has issued a number of convertible debentures in the past as an interim measure to finance working capital needs and may continue to raise additional capital through sale of restricted common stock or other securities, and obtaining some short term loans. The Company has previously paid for some legal and consulting services with restricted stock to maximize working capital and intends to continue this practice when possible. In addition, the Company continues to explore additional cost saving measures.

BROWNIE’S MARINE GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

If BWMG fails to raise additional funds when needed, or does not have sufficient cash flows from sales, it may be required to scale back or cease operations, liquidate assets and possibly seek bankruptcy protection. The accompanying condensed consolidated financial statements do not include any adjustments that may result from the outcome of this uncertainty.

Cash and equivalents – Only highly liquid investments with original maturities of 90 days or less are classified as cash and equivalents. These investments are stated at cost, which approximates market value.

Accounts receivable – Accounts receivable consist of amounts due from the sale of all of our products to wholesale and retail customers. The allowance for doubtful accounts is estimated based on historical customer experience and industry knowledge.

Inventory – Inventory is stated at the lower of cost or net realizable value. Cost is principally determined by using the average cost method that approximates the First-In, First-Out (FIFO) method of accounting for inventory. Inventory consists of raw materials as well as finished goods held for sale. The Company’s management monitors the inventory for excess and obsolete items and makes necessary valuation adjustments when indicated.

Property, equipment and leasehold improvements – Property, equipment and leasehold improvements are stated at cost less accumulated depreciation or amortization. Depreciation and amortization is provided principally on the straight-line method over the estimated useful lives of the assets or term of the lease, which are primarily 3 to 5 years. The cost of repairs and maintenance is charged to expense as incurred. Expenditures for property betterments and renewals are capitalized. Upon sale or other disposition of a depreciable asset, cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in other income (expense).

The Company periodically evaluates whether events and circumstances have occurred that may warrant revision of the estimated useful lives of fixed assets or whether the remaining balance of fixed assets should be evaluated for possible impairment. The Company uses an estimate of the related undiscounted cash flows over the remaining life of the fixed assets in measuring their recoverability.

Revenue recognition – Revenues from product sales are recognized when the Company's products are shipped or when service is rendered. Revenues from fixed-price contracts are recognized on the percentage-of-completion method, when applicable, measured by the percentage of cost incurred to date to estimated total cost of each contract. This method is used because management considers the percentage of cost incurred to date to estimated total cost to be the best available measure of progress on the contracts. As of June 30, 2017, and 2016, there were no ongoing contracts being accounted for using the percentage of completion method.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, and depreciation costs. General and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Change in job performance, job conditions, and estimated profitability may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Revenue and costs incurred for time and material projects are recognized as the work is performed.

Product development costs – Product development expenditures are charged to expenses as incurred.

Advertising and marketing costs – The Company expenses the costs of producing advertisements and marketing material at the time production occurs, and expenses the costs of communicating advertisements and participating in trade shows in the period in which occur. Advertising and trade show expense incurred for the three months ended June 30, 2017 and 2016, totaled $11,970 and $1,240, respectively. Advertising and trade show expense incurred for the six months ended June 30, 2017 and 2016, was $13,127 and $3,237, respectively.

BROWNIE'S MARINE GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Research and development costs – The Company accounts for research and development costs in accordance with the Accounting Standards Codification subtopic 730-10, *Research and Development* ("ASC 730-10"). Under ASC 730-10, all research and development costs must be charged to expense as incurred. Accordingly, internal research and development costs are expensed as incurred. Third-party research and developments costs are expensed when the contracted work has been performed or as milestone results have been achieved. Company-sponsored research and development costs related to both present and future products are expensed in the period incurred. During the three month periods ending June 30, 2017 and 2016 the Company incurred $642 and $63, respectively, of expenses related to research and development costs. During the six month periods ending June 30, 2017 and 2016 the Company incurred $1,205 and $1,415, respectively, of expenses related to research and development costs.

Customer deposits and returns policy – The Company takes a minimum 50% deposit against custom and large tankfill systems prior to ordering and/or building the systems. The remaining balance due is payable upon delivery, shipment, or installation of the system. There is no provision for cancellation of custom orders once the deposit is accepted, nor return of the custom ordered product. Additionally, returns of all other merchandise are subject to a 15% restocking fee as stated on each sales invoice. The Company provides our customers with an industry standard one year warranty on systems sold. Historically, the cost of our warranty policy has been immaterial and no reserve has been established.

Income taxes – The Company accounts for its income taxes under the assets and liabilities method, which requires recognition of deferred tax assets and liabilities for future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company records net deferred tax assets to the extent the Company believes these assets will more likely than not be realized. In making such determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations. A valuation allowance is established against deferred tax assets that do not meet the criteria for recognition. In the event the Company were to determine that it would be able to realize deferred income tax assets in the future in excess of their net recorded amount, they would make an adjustment to the valuation allowance which would reduce the provision for income taxes.

The Company follows the accounting guidance which provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized initially and in subsequent periods. Also included is guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Comprehensive income – The Company has no components of other comprehensive income. Accordingly, net income equals comprehensive income for all periods presented.

Stock-based compensation – The Company accounts for all compensation related to stock, options or warrants using a fair value based method whereby compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. The Company uses the Black-Scholes valuation model to calculate the fair value of options and warrants issued to both employees and non-employees. Stock issued for compensation is valued on the effective date of the agreement in accordance with generally accepted accounting principles, which includes determination of the fair value of the share-based transaction. The fair value is determined through use of the quoted stock price.

Beneficial conversion features on convertible debentures – The fair value of the stock upon which beneficial conversion feature (BCF) computations, as applicable, was determined through use of the quoted stock price.

Fair value of financial instruments – Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. An entity is required to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

BROWNIE’S MARINE GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Level 1 - Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

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

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. An investment’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes “observable” requires significant judgment by the Company. Management considers observable data to be market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, provided by multiple, independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the Company’s perceived risk of that investment.

At June 30, 2017, and December 31, 2016, the carrying amount of cash, accounts receivable, accounts receivable – related parties, customer deposits and unearned revenue, royalties payable – related parties, other liabilities, notes payable, and accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments.

Earnings per common share – Basic earnings per share exclude any dilutive effects of options, warrants and convertible securities. Basic earnings per share are computed using the weighted-average number of outstanding common shares during the applicable period. Diluted earnings per share is computed using the weighted average number of common and dilutive and common stock equivalent shares, if any, outstanding during the period. Common stock equivalent shares are excluded from the computation if their effect is antidilutive. Potentially dilutive shares excluded in dilutive earnings per share totaled 50,807,948 for the six months ended June 30, 2017 as the effect was anti-dilutive.

New accounting pronouncements – In April 2016, the FASB issued ASU No. 2016-15, *"Classification of Certain Cash Receipts and Cash Payments"* ASU 2016- provides guidance regarding the classification of certain items within the statement of cash flows. ASU 2016-15 is effective for annual periods beginning after December 15, 2017 with early adoption permitted. We do not believe this ASU will have an impact on our results of operation, cash flows, other than presentation, or financial condition.

In April 2016, the FASB issued ASU 2016–10 *Revenue from Contract with Customers (Topic 606)*: identifying Performance Obligations and Licensing. The amendments in this Update do not change the core principle of the guidance in Topic 606. Rather, the amendments in this Update clarify the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. Topic 606 includes implementation guidance on (a) contracts with customers to transfer goods and services in exchange for consideration and (b) determining whether an entity's promise to grant a license provides a customer with either a right to use the entity's intellectual property (which is satisfied at a point in time) or a right to access the entity's intellectual property (which is satisfied over time). The amendments in this Update are intended to render more detailed implementation guidance with the expectation to reduce the degree of judgement necessary to comply with Topic 606. We are currently reviewing the provisions of this ASU to determine if there will be any impact on our results of operations, cash flows or financial condition.

BROWNIE'S MARINE GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting*, which relates to the accounting for employee share-based payments. This standard addresses several aspects of the accounting for share-based payment award transactions, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. This standard will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The adoption of ASU 2016-09 did not have a material effect on our condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which will amend current lease accounting to require lessees to recognize (i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and (ii) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model. This standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently reviewing the provisions of this ASU to determine if there will be any impact on our results of operations, cash flows or financial condition.

In July 2015, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2015-11, *Inventory* (Topic 330), *Simplifying the Measurement of Inventory*. ASU No. 2015-11 does not apply to inventory measurement using the last-in, last-out (LIFO) or retail methods. ASU No. 2015-11 applies to all other inventory measurement methods, which includes first-in, first-out (FIFO) or average cost. Previously, inventory valuation was at the lower of cost or fair market value. This ASU changes the valuation to lower of cost or net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of the business, less reasonably predictable costs of completion, disposal, and transportation. ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. ASU 2015-11 should be applied prospectively with earlier application permitted. The Company opted for early adoption of ASU 2015-11 this period with no impact to financial condition, results of operations, or cash flows. The Company updated its consolidated financial statements to reflect inventory valuation at the lower of cost or net realizable value.

In August 2014, the Financial Accounting and Standards Board (FASB) issued Accounting Standards Update ("ASU") 2014-15, *Presentation of Financial Statements Going Concern* (Subtopic 205-206): Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern. The ASU requires an entity's management to assess its ability to continue as going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. This includes (1) providing a definition of the term substantial doubt, (2) requiring an evaluation every reporting period including interim periods, (3) providing principles for considering then mitigating effect of management's plans, (4) requiring certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) requiring an express statement and other disclosures when substantial doubt is not alleviated, and (6) requiring an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The ASU is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter with early adoption permitted. The Company elected early adoption for the year ended December 31, 2014, with insignificant impact to both its current process for evaluating ability to continue as going concern and to its existing disclosures.

The Company believes there was no other new accounting guidance adopted, but not yet effective that either has not already been disclosed in prior reporting periods or is relevant to the readers of our financial statements.

2. INVENTORY

Inventory consists of the following as of:

	June 30, 2017	December 31, 2016
Raw materials	$570,604	$402,407
Work in process	—	—
Finished goods	272,750	270,113
	$843,354	$672,520

10

BROWNIE’S MARINE GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	June 30, 2017	December 31, 2016
Prepaid inventory	$10,943	$ 30,076
Prepaid insurance	—	6,968
Prepaid other current assets	65,953	47,292
	$76,896	$ 84,336

4. PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following as of:

	June 30, 2017	December 31, 2016
Factory and office equipment	$125,832	$121,782
Computer equipment and software	27,469	31,519
Vehicles	44,160	44,160
Leasehold improvements	43,779	43,779
	241,240	241,240
Less: accumulated depreciation and amortization	(202,174)	(184,332)
	$39,066	$56,908

Depreciation and amortization expense totaled $9,041 and $17,842 for the three and six months periods ending June 30, 2017, and $5,332 and $10,663 for the three and six months periods ending June 30, 2016 respectively.

5. OTHER ASSETS

Other assets of $6,649 at June 30, 2017 and December 31, 2016, respectively, consisted solely of refundable deposits.

6. CUSTOMER CREDIT CONCENTRATIONS

The Company sells to three (3) entities owned by the brother of Robert Carmichael, the Company's Chief Executive Officer, and three (3) companies owned or controlled by the Chief Executive Officer as further discussed in Note 7. RELATED PARTIES TRANSACTIONS. Combined sales to these six (6) entities for the three months ended June 30, 2017 and 2016, represented 41.88% and 34.80% respectively, of total net revenues. Combined sales to these six (6) entities for the six months ended June 30, 2017 and 2016, represented 38.85% and 32.27% respectively, of total net revenues.

7. RELATED PARTIES TRANSACTIONS

Net revenues and accounts receivable – related parties – The Company sells products to Brownie's Southport Divers, Inc., Brownie's Palm Beach Divers, and Brownie's Yacht Toys, owned by the brother of the Company's Chief Executive Officer. Terms of sale are no more favorable than those extended to any of the Company's other customers with similar sales volume. Combined net revenues from these entities for three months ended June 30, 2017 and 2016, was $206,963 and $224,748, respectively. Combined net revenues from these entities for six months ended June 30, 2017 and 2016, was $365,386 and $334,760 respectively. Accounts receivable from Brownie's Southport Diver's, Inc., Brownie's Palm Beach Divers, and Brownie's Yacht Toys totaled $93,952 at June 30, 2017 and $58,420, at December 31 2016, respectively.

BROWNIE'S MARINE GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Company sells products to Brownie's Global Logistics, LLC. ("BGL"), 3D Buoy and 940 Associates, Inc., affiliated with the Company's Chief Executive Officer. Terms of sale are more favorable than those extended to BWMG's regular customers, but no more favorable than those extended to Brownie's strategic partners. Terms of sale to BGL approximate cost or include a nominal margin. These terms are consistent with those extended to Brownie's strategic partners. Strategic partner terms on a per order basis include promotion of BWMG's technologies and "Brownie's" brand, offered only on product or services not offered for resale, and must provide for reciprocal terms or arrangements to BWMG on strategic partners' product or services. BGL is fulfilling the strategic partner terms by providing exposure for BWMG's technologies and "Brownie's" brand in the yachting and exploration community world-wide through its operations. Combined net revenues from these entities for three months ended June 30, 2017, and 2016, were $2,732 and $1,931, respectively. Combined net revenues from these entities for six months ended June 30, 2017, and 2016, were $3,067 and $2,521, respectively. Accounts receivable from BGL, 3D Buoy and 940 Associates at June 30, 2017 totaled $0, $0, and $335, respectively. Accounts receivable from BGL, 3D Buoy and 940 Associates at December 31, 2016 totaled $0, $3,074, and $0, respectively.

Royalties expense – related parties – The Company has an Exclusive License Agreement with 940 Associates, Inc. (hereinafter referred to as "940A"), an entity owned by the Company's Chief Executive Officer, to license the trademark "Brownies Third Lung", "Tankfill", "Brownies Public Safety" and various other related trademarks as listed in the agreement. This license agreement calls for the Company to pay 940A 2.5% of gross revenues per quarter. Total royalty expense for the above agreements for the three months and ended June 30, 2017 and 2016, is disclosed on the face of the Company's Condensed Consolidated Statements of Operations totaling $18,613 and $16,079, respectively, and for the six months and ended June 30, 2017 and 2016 totaled $29,486 and $25,618, respectively. In November 2016, the Company entered into a conversion agreement under which the Company issued 10,000,000 shares of restricted common stock in satisfaction of $88,850 past due and payable to 940A. As of the date of the conversion agreement, the Company was more than 31 months in arrears on its royalty payments totaling approximately $151,000. In addition, 940A has agreed to forebear on any default under the License Agreement due to the Company's remaining past due amount for a period of three months from the effective date of the conversion agreement. The shares issued were valued at $0.008885 per share, the closing price of the stock on the effective date of the conversion agreement. No default notice had been received prior to the conversion agreement.

On March 1, 2017, the Company and 940A entered into a conversion agreement. Under the agreement the Company issued 940A 4,587,190 shares of restricted common stock in satisfaction of $63,303, which represented all past due and payable amounts to 940A under that certain Exclusive License Agreement by and between the parties as of March 1, 2017, As of the date of the agreement the Company was more than 3 months in arrears on royalty payments due under the Exclusive License Agreement.

Stock options outstanding from patent purchase – Effective March 3, 2009, the Company entered into a Patent Purchase Agreement with Robert M. Carmichael, the Chief Executive Officer of the Company. The Company purchased several patents it had previously been paying royalties on and several related unissued patents. In exchange for the Intellectual Property ("IP"), the Company issued Mr. Carmichael 234 stock options at a $1,350 exercise price expiring ten years from the effective date of grant, or March 2, 2019. None of the options have been exercised to-date.

BROWNIE’S MARINE GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consists of the following as of:

	June 30, 2017	December 31, 2016
Accounts payable trade and other	$178,999	$110,020
Accrued payroll & fringe benefits	25,908	20,416
Accrued payroll taxes & withholding	14,636	16,400
Accrued interest	192,132	176,742
	$411,675	$323,578

Balances due certain vendors are in arrears to varying degrees. The Company is handling all delinquent accounts on a case-by-case basis.

9. OTHER LIABILITIES

Other liabilities consist of the following as of:

	June 30, 2017	December 31, 2016
Short-term loans	$139,428	$160,782
Asset purchase agreement payable	—	12,857
On-line training liability	—	2,975
	$139,428	$176,614

10. NOTES PAYABLE

Notes payable consists of the following as of June 30, 2017 and December 31, 2016:

	June 30,2017	December 31, 2016
Promissory note payable, secured by vehicle underlying loan having carrying value of $3,040 and $6,133 at June 30, 2017 and December 31, 2016, respectively, bearing interest at 1.9% per annum, due in monthly principal and interest payments of $523, maturing on December 5, 2017	$ 3,040	$ 6,133
Less amounts due within one year	(3,040)	(6,133)
Long-term portion of notes payable	$ —	$ —

As of June 30, 2017 and December 31, 2016, principal payments on the notes payable are as follows:

2017	$ 3,040	$ 6,133
2018	—	—
2019	—	—
2020	—	—
2021	—	—
Thereafter	—	—
	$ 3,040	$ 6,133

13

BROWNIE'S MARINE GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. CONVERTIBLE DEBENTURES

Convertible debentures consist of the following at June 30, 2017 and December 31, 2016:

Origination Date	Maturity Date	Interest Rate	Origination Principal	Origination Discount	June 30, 2017 Debenture Balance	June 30, 2017 Accrued Interest	December 31, 2016 Debenture Balance	December 31, 2016 Accrued Interest	Ref.
5/3/2011	5/5/2012	5 %	300,000	(206,832)	300,000	185,000	300,000	170,000	(1)
8/31/2011	8/31/2013	5 %	10,000	(4,286)	10,000	2,939	10,000	2,687	(2)
2/10/2012	2/10/2014	10 %	2,743	—	2,743	4,193	2,743	4,055	(3)
					$ 312,743	$ 192,132	$ 312,743	$ 176,742	

Reference numbers in right hand column of table entitled Ref. refer to paragraphs with corresponding numbers that immediately follow this paragraph.

(1) On May 3, 2011, the Company borrowed $300,000 in exchange for a convertible debenture. The Debenture bears 10% interest per annum. The lender may at any time convert any portion of the debenture to common shares at a 30% discount of the "Market Price" of the stock based on the average of the previous ten (10) days weighted average closing prices on the date prior to the notice of conversion. The Company may prepay the debenture plus accrued interest at any time before maturity. In addition, as further inducement for loaning the Company the funds, the Company granted the lender 300,000 and 600,000 warrants at $337.50 and $472.50 per share (after restatement for 1 for -1,350- reverse stock split), respectively. As a result, the Company allocated fair market value ("FMV") to both the BCF and to the warrants, or $206,832, which was recorded as a discount against the debenture. The Company accreted the discount to the convertible debenture through maturity and will accrue interest expense until paid in full or converted. Before discount, the Company determined the FMV of the warrants as $45,000 using the Black-Scholes valuation model.

(2) The Company borrowed $10,000 in exchange for a convertible debenture. The lender at their option may convert all or part of the note plus accrued interest into common stock at a price of thirty percent (30%) discount as determined from the average four (4) highest closing bid prices over the preceding five (5) trading days. The Company valued the BCF of the convertible debenture at $4,286, which was accreted to interest expense.

(3) The Company entered into three new debenture agreements upon sale or assignment by the original lender. Because the stated terms of the new debenture agreement and principal amounts were significantly different from the original debenture, including analysis of the value of the beneficial conversion feature at the assignment or purchase date, the transactions are treated as extinguishment of the old debentures and recorded as new for accounting purposes. As of June 30, 2017, the principle amount was $2,743.

The conversion price under the debentures is $0.37125 and the lender may convert at any time until the debenture plus accrued interest is paid in full. Various other fees and penalties apply if payments or conversions are not done timely by the Company. The lender will be limited to maximum conversion of 4.99% of the outstanding Common Stock of the Company at any one time.

12. AUTHORIZATION OF PREFERRED STOCK

During the second quarter of 2010, the holder of the majority of the Company’s outstanding shares of common stock approved an amendment to the Company’s Articles of Incorporation authorizing the issuance of 10,000,000 shares of preferred stock. The preferred stock as authorized has such voting powers, designations, preferences, limitations, restrictions and relative rights as may be determined by our Board of Directors of the Company from time to time in accordance with the provisions of the Florida Business Corporation Act. Before modification, the existing Articles of Incorporation did not authorize the issuance of shares of preferred stock. The Company authorized the preferred stock for the purpose of added flexibility in seeking capital and potential acquisition targets. The amendment authorizing the issuance of shares of preferred stock grants the Board authority, without further action by our stockholders, to designate and issue preferred stock in one or more series and to designate certain rights, preferences and restrictions of each series, any or all of which may be greater than the rights of the common stock. As of June 30, 2017, and December 31, 2016, the 425,000 shares of preferred stock are owned by the Company’s Chief Executive Officer. The preferred shares have 250 to 1 voting rights over the common stock, and are convertible into 31,481 shares of common stock. The preferred stock votes with the Company’s common stock, except as otherwise required under Florida law. Accordingly, Mr. Carmichael will have approximately 55% of the combined voting power of the Common Stock and Series A Convertible Preferred Stock, voting as a single class and will control the outcome of any corporate transaction or other matter submitted to the shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, and also the power to prevent or cause a change in control.

BROWNIE’S MARINE GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13. COMMITMENTS AND CONTINGENCIES

From time to time the Company is subject to legal proceedings, claims and litigation arising in the ordinary course of business, including matters relating to product liability claims. Such product liability claims sometimes involving wrongful death or injury have historically been covered by product liability insurance, which provided coverage for each claim up to $1,000,000. During the third quarter of 2014, the Company did not renew its product liability insurance since the renewal policy amount was cost prohibitive. The Company is currently seeking a new insurance carrier or alternative means to satisfy this potential liability exposure, as well as to fulfil the sales terms of some of our customers, which require the insurance coverage.

As previously disclosed, the Company and Trebor were co-defendants under an action filed by an individual in June 2013 in the Circuit Court of Broward County claiming personal injury resulting from use of a Brownie’s Third Lung. Plaintiff claimed damages in excess of $1,000,000. This matter was settled during the three months ended September 30, 2016 by the Company’s insurance carrier at no additional cost to the Company.

In addition, as previously disclosed, the Company, Trebor and other third parties, are each named as a co-defendants under an action filed in March 2015 in the Circuit Court of Broward County under Case No. CACE15-03238 by the Estate of Ernesto Rodriguez, claiming wrongful death and products liability resulting in the decedent’s drowning death while using a Brownie’s Third Lung product. This claim falls outside the Company’s period of insurance coverage. Plaintiff has claims damages exceeding $1,000,000. A default judgment was entered against Trebor in 2015 due to its failure to timely respond to the complaint. The Company has obtained different legal representation in this matter and attempted to have the default set aside. On November 2, 2016, the court granted plaintiff’s motion for sanctions against our company for frivolous litigation relating to our attempt to have the matter dismissed and granted the plaintiff’s motion to strike our motion for summary judgment due to our initial default. The Company believes the claim to be a Workers Compensation claim relating exclusively against other non-affiliated defendants and without merit, and will aggressively defend this action and to appeal the default judgment. In the event Trebor is unable to overturn the default judgment and the defendants are determined to be at fault, we would seek to allocate damages among all of the other parties, including the plaintiff. At this time, the amount of any loss, or range of loss, cannot be reasonably estimated due to the undetermined validity of any claim or claims made by plaintiff and the mitigating factors among the parties. Therefore, the Company has not recorded reserves and contingent liabilities related to this matter. However, in the future, as the case progresses, the Company may be required to record a contingent liability or reserve for these matters.

On August 14, 2014, the Company entered into a new lease commitment. Terms of the new lease include a thirty-seven-month term commencing on September 1, 2014; payment of $5,367 security deposit; base rent of approximately $4,000 per month over the term of the lease plus sales tax; and payment of 10.76% of annual operating expenses (i.e. common areas maintenance), which is approximately $2,000 per month subject to periodic adjustment. On December 1, 2016, we entered into an amendment to the initial lease agreement, commencing on October 1, 2017, extending the term for an additional eighty-four months, expiring September 30, 2024. The base rent was increased to $4,626 per month with a 3% annual escalation throughout the amended term. We believe that the facilities are suitable for their intended purpose, are being efficiently utilized and provide adequate capacity to meet demand for the foreseeable future.

BROWNIE’S MARINE GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Base rent expense attributable to the Company’s headquarters facility totaled approximately $23,000 and $12,000 for the three-month periods ending June 30, 2017 and 2016 and $35,000 and $24,000 for the six-month periods ending June 30, 2017 and 2016, respectively.

The following is an estimate of future minimum rental payments required under our lease agreement on August 14, 2014 and as amended December 1, 2016:

	Operating lease
year 1	$24,239
year 2	49,931
year 3	51,429
year 4	52,972
year 5 and thereafter	96,710
	$275,281

14. <u>EQUITY INCENTIVE PLAN</u>

On August 22, 2007, the Company adopted an Equity Incentive Plan (the “Plan”). Under the Plan, Stock Options may be granted to employees, directors, and consultants in the form of Incentive Stock Options or Nonstatutory Stock Options. Stock Purchase Rights, time vested and/performance invested Restricted Stock, and Stock Appreciation Rights and Unrestricted Shares may also be granted under the Plan. The initial maximum number of shares that may be issued under the Plan shall be 297 shares, and no more than 75 Shares of Common Stock may be granted to any one Participant with respect to Options, Stock Purchase Rights and Stock Appreciation Rights during any one calendar year period. Common Stock to be issued under the Plan may be either authorized and unissued or shares held in treasury by the Company. The term of the Plan shall be ten years. The Board of Directors may amend, alter, suspend, or terminate the Plan at any time. All 297 options were issued under the plan prior to January 1, 2010, and to-date all remain outstanding.

15. <u>EQUITY BASED INCENTIVE/RETENTION BONUSES</u>

On November 2, 2012, the Board of Directors consented to grant equity based bonuses to certain key employees and consultants as an incentive to retain their services. Stock incentive bonuses were to vest, and be paid out on May 2, 2013, contingent upon continued employment or service. The stock bonus price per share was calculated based on last closing price as reported on per the OTCBB prior to the grant date for a total of $75,100. Shares were set aside and reserved for this transaction. The Company accrued operating expense ratably from the time of the awards through May 2, 2013, when vested. Of the 61,852 vested shares, only 5,185 were issued. On April 29, 2016, the Board of Directors determined it was not in the best interest of either the Company or the recipients to pay bonuses based on the current and foreseeable share price and cancelled the bonuses payable.

16. INTEREST EXPENSE NON-RELATED PARTIES AND OTHER EXPENSE (INCOME), NET

For the three months ended June 30, 2017, non-related parties interest expense of $7,668 is comprised of interest on convertible debentures. For the three months ended June 30, 2016, non-related parties interest expense of $7,758 is comprised of $7,695 interest on convertible debentures and $63 interest on notes payable and other interest.

For the six months ended June 30, 2017, non-related parties interest expense of $15,390 is comprised of interest on convertible debentures. For the six months ended June 30, 2016, non-related parties interest expense of $15,517 is comprised of $15,398 interest on convertible debentures and $119 interest on notes payable and other interest.

For the three months ended June 30, 2017, $7,452 other expense, net is comprised primarily of $7,668 of interest expense, and $216 of other income. For the three months ended June 30, 2016, $143,597 other income, net is comprised primarily of $140,366 cancelation of an employee bonus payable, $2,009 insurance premium refund, $5,609 from the expiration of online training liability certificates, $2,632 other expense, net of individually insignificant items, and $1,755 other expense.

BROWNIE’S MARINE GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2017, $14,183 other expense, net is comprised primarily of $15,390 of interest expense, and $1,207 of other income. For the six months ended June 30, 2016, $255,354 other income, net is comprised primarily of $93,459 cancelation of a convertible debenture and its interest, $140,366 cancelation of an employee bonus payable, together totaling $233,825, $14,970 royalty income, $11,331 from the expiration of online training liability certificates, $2,009 insurance premium refund and $8,674 other expense, net of individually insignificant items, $11,137 insurance audit adjustments partially offset by $3,471 product royalty income, $1,800 sale of fixed assets and $3,635 other income, net of individually insignificant items.

17. SUBSEQUENT EVENTS

Effective August 1, 2017, Mikkel Pitzner, was appointed by a unanimous written consent of the members of the Company’s board of directors to serve on the Company’s board of directors, filling a vacancy on the board. Pursuant to an independent director agreement, the Company has agreed to pay Mr. Pitzner an annual fee of $6,000 and agreed to issue Mr. Pitzner 2,000,000 shares of restricted common stock valued at $25,000.

Effective August 1, 2017, the board of directors agreed to issue Mr. Robert Carmichael, the Company’s chief executive officer, chief financial officer and member of the Company’s board of directors, 2,000,000 shares of restricted common stock valued at $25,000 in consideration of serving on the Company’s board of directors.

Effective August 1, 2017, the Company entered into an Advisory Agreement with Wesley P. Siebenthal to provide certain advisory services to the Company and serve as its Chief Technology Advisor. Under the terms of the six month agreement, the services to be provided to the Company by Mr. Siebenthal include researching, designing, and building prototype(s) and managing production tooling for modification to current products and new products under consideration at the Company. As compensation for the services, the Company agreed to issue him 2,000,000 shares of its common stock valued at $25,000. The Advisory Agreement may be terminated by either party upon 30 days notice in the event of a breach, and contains customary confidentiality and invention assignment provisions.

On August 1, 2017, the Company entered into a six month employment agreement with Blake Carmichael, the son of the Company’s chief executive officer and an electrical engineer, to serve as the Company’s products development manager, electrical engineer and marketing team member. Under the terms of the employment agreement, in addition to a monthly salary of $3,600.00, the Company agreed to issue Mr. Carmichael 2,000,000 shares of common stock valued at $25,000. Mr. Carmichael is also entitled to performance bonuses at the discretion of the board of directors.

On August 7, 2017 the Company entered into an Exclusive Distribution Agreement with Lenhardt & Wagner GmbH ("L&W"), a German-based company engaged in the development, manufacturing and sales of high pressure air and industrial gas compressor packages. Under the terms of the Exclusive Distribution Agreement, we were appointed the exclusive distributor of L&W's complete product line in North America and South America, including the Caribbean (the "Territory"). Pursuant to an intercompany assignment, Brownie's High Pressure Compressor Services, Inc., our newly-formed wholly-owned subsidiary ("BHP"), is party to the agreement. Through BHP we expect to conduct business and build the brand name "L&W Americas/LWA", establishing sales, distribution and service centers for high pressure air and industrial gas systems in the dive, fire, CNG, military, scientific, recreational and aerospace industries. Under the terms of the agreement, we were granted a non-exclusive, non-transferrable and irrevocable right to use certain of L&W's trademarks in connection with the marketing, use, sale and service of the products in the Territory. The agreement is for an initial term of five years, and will automatically renew for one additional five year term unless terminated by either party upon one year written notice prior to the expiration of the then current term. Either party may terminate the agreement without cause upon one year prior written notice to the other party. In addition, L&W may terminate the agreement for cause upon 120 days prior notice to us, subject to certain cure periods.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Introductory Statements

Information included or incorporated by reference in this filing may contain forward-looking statements. This information may involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "intend" or "project" or the negative of these words or other variations on these w or comparable terminology.

Overview

Brownie's Marine Group, Inc., a Florida corporation (referred to herein as "BWMG", "the Company", "we" or "Brownie's"), does business through its wholly owned subsidiary, Trebor Industries, Inc., d/b/a Brownie's Third Lung, a Florida corporation. The Company designs, tests, manufactures and distributes recreational hookah diving, yacht based scuba air compressor and nitrox generation systems, and scuba and water safety products. BWMG sells its products both on a wholesale and retail basis, and does so from its headquarters and manufacturing facility in Pompano Beach, Florida. The Company's common stock is quoted on the OTC Markets (Pink) under the symbol "BWMG".

Subsequent to the period covered by this report, on August 7, 2017 the Company entered into an Exclusive Distribution Agreement with Lenhardt & Wagner GmbH ("L&W"), a German-based company engaged in the development, manufacturing and sales of high pressure air and industrial gas compressor packages. Under the terms of the Exclusive Distribution Agreement, we were appointed the exclusive distributor of L&W's complete product line in North America and South America, including the Caribbean (the "Territory"). Pursuant to an intercompany assignment, Brownie's High Pressure Compressor Services, Inc., our newly-formed wholly-owned subsidiary ("BHP"), is party to the agreement. Through BHP we expect to conduct business and build the brand name "L&W Americas/LWA", establishing sales, distribution and service centers for high pressure air and industrial gas systems in the dive, fire, CNG, military, scientific, recreational and aerospace industries. Our goal will be to build a network of jobbers, dealers, installers and high-pressure compressor distributors throughout the Territory by leveraging our know-how, brand awareness, complimentary products and creating sustainable distribution and core product OEM integration relationships.

The Company's common stock is quoted on the OTC Markets (Pink) under the symbol "BWMG". The Company's website is www.browniesmarinegroup.com. Information contained on the website is not part of this report.

Mr. Robert Carmichael, our Chief Executive Officer, has operated Trebor as its President since 1986. Since April 16, 2004, Mr. Carmichael has served as President, Acting Principal Accounting Officer and Acting Chief Financial Officer of the Company. From March 23, 2004 to April 16, 2004, Mr. Carmichael served as the Company’s Executive Vice-President and Chief Operating Officer. The Company was organized under the laws of the State of Nevada and effective October 22, 2015, the Company reincorporated to the State of Florida pursuant to a plan of conversion, effective October 22, 2015.

The Company’s diving and marine based products are generally marketed under the Brownie’s Third Lung, Brownie’s Tankfill, and Brownie’s Public Safety trade names.

Results of Operations for the Three Months Ended June 30, 2017, as Compared to the Three Months Ended June 30, 2016

Net revenues. For the three months ended June 30, 2017, we had net revenues of $494,152 as compared to net revenues of $645,918 for the three months ended June 30, 2016, a decrease of $151,766 or 23%. The decrease is primarily attributable to a decrease of $133,981 or 32% in sales of our hookah systems and related products to non-related parties. Tankfill and Nitrox sales to related parties had a slight decrease of 8% for the three months ended June 30, 2017 compared to 2016. This change in sales and customer mix is not believed to be attributable to any particular sales trend or competitive pressures but rather normal fluctuations in market demand.

Cost of net revenues. Cost of net revenues increased during the second quarter 2017 compared to the second quarter 2016 representing, 73% of total net revenues compared to 70% for the prior year. This increase reflects an increase in raw materials and labor.

Gross profit. For the three months ended June 30, 2017, we had a gross profit of $131,479 as compared to gross profit of $193,556 for the three months ended June 30, 2016, a decrease of 32% totaling $62,077. This decrease resulted from the 23% decrease in total net revenues coupled with the increase in cost of revenues as described above.

Operating expenses. Operating expenses remained relatively constant for the three months ended June 30, 2017 compared to the same period of the preceding year. Selling, general and administrative expenses totaled $179,675 and $160,271 for the three months ending June 30, 2017 and 2016, respectively. This nominal increase, despite the 23% increase in net revenues between the periods, reflects the results of the Company’s cost cutting efforts initiated in 2016.

Other (income) expense, net. Other (income) expense, net totaled $7,452 in expense and ($142,945) in income for the three months ended June 30, 2017 and 2016, respectively. Other expense for the three months ended June 30, 2017 was comprised of $216 in other income and $7,668 in interest expense. Other (income) for the three months ended June 30, 2016 was comprised of transactions that are generally of a non-recurring nature, resulting from the settlement of a convertible debenture and associated interest, and an insurance audit adjustment.

Net Income. For the three months ended June 30, 2017, we had net loss of $55,648 as compared to net income of $176,230 for the three months ended June 30, 2016. It should be noted that the net income for the three months of 2016 was attributable to the settlement of a convertible note and related accrued interest. Absent this settlement transaction, we would have had a net loss during the second quarter 2016 of $79,153.

Results of Operations for the Six Months Ended June 30, 2017, as Compared to the Six Months Ended June 30, 2016

Net revenues. For the six months ended June 30, 2017, we had net revenues of $940,392 as compared to net revenues of $1,037,292 for the six months ended June 30, 2016, a decrease of $96,900 or 9%. The decrease is primarily attributable to a decrease of $127,526 or 18% in sales of our hookah systems and related products to non-related parties. This decrease was partially offset by Tankfill and Nitrox sales to related parties which had an increase of 9% for the six months ended June 30, 2017 compared to 2016. This change in sales and customer mix is not believed to be attributable to any particular sales trend or competitive pressures but rather normal fluctuations in market demand.

Cost of net revenues. Cost of net revenues decreased during the six months ended June 30, 2017 compared to the six months ended June 30, 2016 representing, 65% of total net revenues compared to 76% for the prior year. This decrease reflects the company's cost cutting efforts implemented in 2016 including a decrease in direct factory labor costs and modified raw materials purchasing procedures further reducing direct manufacturing costs.

Gross profit. For the six months ended June 30, 2017, we had a gross profit of $327,698 as compared to gross profit of $249,990 for the six months ended June 30, 2016, an increase of 31% totaling $77,708. This increase resulted from the 9% decrease in cost of revenues over total net revenues as described above.

Operating expenses. Operating expenses remained relatively constant for the six months ended June 30, 2017 compared to the same period of the preceding year. Selling, general and administrative expenses totaled $330,367 and $313,014 for the six months ending June 30, 2017 and 2016, respectively. This increase, despite the 9% decrease in net revenues between the periods, reflects the results of the Company's cost cutting efforts initiated in 2016.

Other (income) expense, net. Other (income) expense, net totaled $14,183 in expense and ($255,354) in income for the six months ended June 30, 2017 and 2016, respectively. Other expense for the six months ended June 30, 2017 was comprised of $1,207 in other income and $15,390 in interest expense. Other (income) for the six months ended June 30, 2016 was comprised of transactions that are generally of a non-recurring nature resulting from the settlement of a convertible debenture, and associated interest and an insurance audit adjustment.

Net Income. For the six months ended June 30, 2017, we had net loss of $18,057 as compared to net income of $190,915 for the six months ended June 30, 2016. It should be noted that the net income for the six months of 2016 was attributable to the settlement of a convertible note and related accrued interest. Absent this settlement transaction, we would have had a net loss during the second quarter 2016 of $79,153.

Liquidity and Capital Resources

As of June 30, 2017, the Company had cash and current assets (primarily consisting of inventory) of $1,134,823 and current liabilities of $968,750 or a current ratio of 1.17 to 1. This represents a working capital surplus of $166,073. This compares to working capital of $102,985 at December 31, 2016.

Net cash used in operating activities totaled $80,337 and $6,479 for the six months ended June 30, 2017 and 2016, respectively. Net cash used in operating activities in six month ended June 30, 2017 included an increase in inventory of $170,834, a decline of $37,186 in other current liabilities, and an increase in accounts receivable-related parties of $31,854, which was partially offset by an increase in accounts payable and accrued liabilities of $88,097, customer deposits and unearned revenue of $70,287, and depreciation and amortization of $17,842.

The unaudited condensed consolidated financial statements included herein have been prepared assuming the Company will continue as a going concern, which contemplates realization of assets and the satisfaction of liabilities in the normal course of business for the twelve-month period following the date of these financial statements. Although we had net income for the years ended December 31, 2016, 2015 and 2014, we have otherwise incurred annual losses since 2009, and expect we may have more losses in future periods.

The Company is behind on payments due for matured convertible debentures and certain vendor payables. The Company is handling delinquencies on a case by case basis. However, there can be no assurance that cooperation the Company has received thus far will continue. We currently do not have any product liability insurance and are a defendant in a wrongful death lawsuit and Trebor subject to a default judgment. In the event that we do not have adequate insurance or contractual indemnification, product liabilities relating to defective products could have a material adverse effect on our operations and financial conditions, which could force us to curtail or cease our business operations.

The Company does not expect that existing cash flow will be sufficient to fund presently anticipated operations. This raises substantial doubt as to our ability to continue as a going concern during the twelve- month period following the date of the financial statements included herein. The Company will need to raise additional funds and is currently exploring alternative sources of financing. We have issued a number of convertible debentures as an interim measure to finance our working capital needs. We have historically paid for some legal and consulting services with restricted stock to maximize working capital and intend to continue this practice in the future when possible. We have implemented some cost saving measures and will continue to explore more to reduce operating expenses.

If we fail to raise additional funds when needed, or do not have sufficient cash flows from sales, we may be required to scale back or cease operations, liquidate our assets and possibly seek bankruptcy protection. The accompanying condensed consolidated financial statements do not include any adjustments that may result from the outcome of this uncertainty.

Certain Business Risks

The Company is subject to various risks, which may materially harm its business, financial condition and results of operations. You should carefully consider the risks and uncertainties described below and the other information in this report before deciding to purchase the Company's common stock. These are not the only risks and uncertainties that the Company faces. If any of these risks or uncertainties actually occurs, the Company's business, financial condition or operating results could be materially harmed. In that case, the trading price of the Company's common stock could decline and you could lose all or part of your investment.

Our ability to continue as a going concern is in substantial doubt absent obtaining adequate new debt or equity financing and achieving sufficient sales levels.

Although we had net income for the years ended December 31, 2016, 2015 and 2014, we anticipate that losses may occur in the foreseeable future. Additionally, the Company has negative cash flows from operations, is behind on payments due for matured convertible debentures, and certain vendor payables. The Company is working out all matters of delinquency on a case by case basis. However, there can be no assurance that cooperation the Company has received thus far will continue. This raises a substantial doubt about our ability to continue as a going concern. Our continued existence is dependent upon generating working capital and obtaining adequate new debt or equity financing. Because of our historical operational losses, we may not have working capital to permit us to remain in business during the twelve month period following the date of the financial statements included herein, without improvements in our cash flow from operations or new financing. Working capital limitations continue to impinge on our day-to-day operations, thus contributing to continued operating losses.

The optional conversion features of a series of convertible debentures issued by the Company could require the Company to issue a substantial number of shares of common stock, which will cause dilution to the Company's stockholders and a potentially negative effect on our stock price.

Since October 4, 2010 the Company has issued convertible debentures to several lenders and other third parties. At June 30, 2017, the outstanding principal balance of these debentures was $312,743. The debentures convert under various conversion formulas, many of which may be at a significant discount to market price of our common stock. The conversion of any of the debentures will result in the issuance of a significant number of shares of our common stock, which will cause dilution to our existing shareholders. Furthermore, the conversion at a significant discount to the market price of our common stock may have a negative effect on our stock price.

Our common stock may be affected by limited trading volume and may fluctuate significantly.

Our common stock is traded on the Over-the-Counter Markets. There is a limited public market for our common stock and there can be no assurance that an active trading market for our common stock will develop. As a result, this could adversely affect our shareholders' ability to sell our common stock in short time periods, or possibly at all. Thinly traded common stock can be more volatile than common stock traded in an active public market. Our common stock has experienced, and is likely to experience in the future, significant price and volume fluctuations, which could adversely affect the market price of our common stock without regard to our operating performance. In addition, we believe that factors such as quarterly fluctuations in our financial results and changes in the overall economy or the condition of the financial markets could cause the price of our common stock to fluctuate substantially.

Our company is a voluntary filer with the Securities and Exchange Commission and in the event that we cease reporting under the Exchange Act, investors would have limited information available to them about the company.

While we are subject to Section 15(d) of the Exchange Act, we do not have a class of securities registered under Section 12(g) of the Exchange Act. To the extent that our duty to file Exchange Act reports has automatically suspended under Section 15(d) of the Exchange Act, as a voluntary filer, we may elect to cease reporting under the Exchange Act at such time, which would limit the information available to investors and shareholders about the company.

Our common stock is deemed to be "penny stock," which may make it more difficult for investors to sell their shares due to suitability requirements

Our common stock is deemed to be "penny stock" as that term is defined under the Securities Exchange Act of 1934. Penny stocks generally are equity securities with a price of less than $5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system). Our common stock is covered by an SEC rule that imposes additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors, which are generally institutions with assets in excess of $5,000,000, or individuals with net worth in excess of $1,000,000 or annual income exceeding $200,000 or $300,000 jointly with their spouse.

Broker/dealers dealing in penny stocks are required to provide potential investors with a document disclosing the risks of penny stocks. Moreover, broker/dealers are required to determine whether an investment in a penny stock is a suitable investment for a prospective investor. These requirements may reduce the potential market for our common stock by reducing the number of potential investors. This may make it more difficult for investors in our common stock to sell shares to third parties or to otherwise dispose of them. This could cause our stock price to decline.

We depend on the services of our Chief Executive Officer

Our success largely depends on the efforts and abilities of Robert M. Carmichael, our President and Chief Executive Officer. Mr. Carmichael has been instrumental in securing our existing financing arrangements. Mr. Carmichael is primarily responsible for the development of our technology and the design of our products. The loss of the services of Mr. Carmichael could materially harm our business because of the cost and time necessary to recruit and train a replacement. Such a loss would also divert management attention away from operational issues. We do not presently maintain a key-man life insurance policy on Mr. Carmichael.

We require additional personnel and could fail to attract or retain key personnel

We are currently utilizing the services of professional consultants in the absence of a Chief Financial Officer and Chief Operations Officer. The loss of the services of these consultants prior to our ability to attract and retain a Chief Financial Officer or Chief Operations Officer may have a material adverse effect upon us. Also, there can be no assurance that we will be able to retain our existing personnel or attract additional qualified associates in the future.

Our failure to obtain intellectual property and enforce protection would have a material adverse effect on our business

Our success depends in part on our ability, and the ability of our patent and trademark licensors, entities owned and controlled by Robert M. Carmichael, our President and Chief Executive Officer, to obtain and defend our intellectual property, including patent protection for our products and processes, preserve our trade secrets, defend and enforce our rights against infringement and operate without infringing the proprietary rights of third parties, both in the United States and in other countries. Despite our efforts to protect our intellectual proprietary rights, existing copyright, trademark and trade secret laws afford only limited protection.

Our industry is characterized by frequent intellectual property litigation based on allegations of infringement of intellectual property rights. Although we are not aware of any intellectual property claims against us, we may be a party to litigation in the future.

We may be unable to manage growth

Successful implementation of our business strategy requires us to manage our growth. Growth could place an increasing strain on our management and financial resources. If we fail to manage our growth effectively, our business, financial condition or operating results could be materially harmed, and our stock price may decline.

Reliance on vendors and manufacturers

We deal with suppliers on an order-by order basis and have no long-term purchase contracts or other contractual assurances of continued supply or pricing. In addition, we have no long-term contracts with our manufacturing sources and compete with other companies for production facility capacity. Historically, we have purchased enough inventories of products or their substitutes to satisfy demand. However, unanticipated failure of any manufacturer or supplier to meet our requirements or our inability to build or obtain substitutes could force us to curtail or cease operations.

Dependence on consumer spending

The success of the our business depends largely upon a number of factors related to consumer spending, including current and future economic conditions affecting disposable consumer income such as employment, business conditions, tax rates, and interest rates. In times of economic uncertainty, consumers tend to defer expenditures for discretionary items, which affect demand for our products. Any significant deterioration in overall economic conditions that diminishes consumer confidence or discretionary income can reduce our sales and adversely affect our financial results. The impact of weakening consumer credit markets; layoffs; corporate restructurings; higher fuel prices; declines in the value of investments and residential real estate; and increases in federal and state taxation can all negatively affect our results. There can be no assurance that in this type of environment consumer spending will not decline beyond current levels, thereby adversely affecting our growth, net sales and profitability or that our business will not be adversely affected by continuing or future downturns in the economy, boating industry, or dive industry. If declines in consumer spending on recreational marine accessories and dive gear are other than temporary, we could be forced to curtail operations.

Government regulations may impact us

The SCUBA industry is self-regulating; therefore, Brownie’s is not subject to government industry specific regulation. Nevertheless, Brownie’s strives to be a leader in promoting safe diving practices within the industry and is at the forefront of self-regulation through responsible diving practices. Brownie’s is subject to all regulations applicable to “for profit” companies as well as all trade and general commerce governmental regulation. All required federal and state permits, licenses, and bonds to operate its facility have been obtained. There can be no assurance that our operations will not be subject to more restrictive regulations in the future, which could force us to curtail or cease operations.

Bad weather conditions could have an adverse effect on operating results

Our business is significantly impacted by weather patterns. Unseasonably cool weather, extraordinary amounts of rainfall, or unseasonably rough surf, may decrease boat use and diving, thereby decreasing sales. Accordingly, our results of operations for any prior period may not be indicative of results of any future period.

Investors should not rely on an investment in our stock for the payment of cash dividends

We have not paid any cash dividends on our capital stock and we do not anticipate paying cash dividends in the future. Investors should not make an investment in our common stock if they require dividend income. Any return on an investment in our common stock will be as a result of any appreciation, if any, in our stock price.

The manufacture and distribution of recreational diving equipment could result in product liability claims and we currently lack product liability insurance

We, like any other retailer, distributor and manufacturer of products that are designed for recreational sporting purposes, face an inherent risk of exposure to product liability claims in the event that the use of our products results in injury. Such claims may include, among other things, that our products are designed and/or manufactured improperly or fail to include adequate instructions as to proper use and/or side effects, if any. We do not anticipate obtaining contractual indemnification from parties-supplying raw materials, manufacturing our products or marketing our products. In any event, any such indemnification if obtained will be limited by our terms and, as a practical matter, to the credit worthiness of the indemnifying party. We currently do not have any product liability insurance and are a defendant in a wrongful death lawsuit. In the event that we do not have adequate insurance or contractual indemnification, product liabilities relating to defective products could have a material adverse effect on our operations and financial conditions, which could force us to curtail or cease our business operations.

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results. As a result, current and potential shareholders could lose confidence in our financial reporting, which would harm our business and the trading price of our stock.

Our management has previously determined that we did not maintain effective internal controls over financial reporting. For a detailed description of these material weaknesses and our remediation efforts and plans, see “Part II — Item 9A — Controls and Procedures.” If the result of our remediation of the identified material weaknesses is not successful, or if additional material weaknesses are identified in our internal control over financial reporting, our management will be unable to report favorably as to the effectiveness of our internal control over financial reporting and/or our disclosure controls and procedures, and we could be required to further implement expensive and time-consuming remedial measures and potentially lose investor confidence in the accuracy and completeness of our financial reports which could have an adverse effect on our stock price and potentially subject us to litigation.

We currently have no independent directors, which poses a risk for us from a corporate governance perspective.

Robert Carmichael, our only executive officer, also serves as our only director. Our director and executive officer is required to make interested party decisions, such as the approval of related party transactions, his level of his compensation, and oversight of our accounting function. Our director and executive officer also exercise substantial control over all matters requiring stockholder approval, including the nomination of directors and the approval of significant corporate transactions. Due to our lack of independent directors, we have not implemented various corporate governance measures, the absence of which may cause stockholders to have more limited protections against transactions implemented by our board of directors, conflicts of interest and similar matters. Stockholders should bear in mind our current lack of corporate governance measures in formulating their investment decisions.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not Applicable to Smaller Reporting Company.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) that are designed to be effective in providing reasonable assurance that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management to allow timely decisions regarding required disclosure. The Company’s management, under the supervision and with the participation of Robert Carmichael, the Company’s Chief Executive Officer and Chief Financial (and principal accounting) Officer, carried out an evaluation of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act) as of June 30, 2017. Based upon that evaluation and the identification of the material weakness in the Company’s internal control over financial reporting as described below under “Management’s Report on Internal Control over Financial Reporting,” the Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were ineffective as of the end of the period covered by this report.

Management’s Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting of the Company. Management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our internal control over financial reporting as of June 30, 2017, based on the criteria established in 2013 Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2017, our internal control over financial reporting is not effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles because of the Company’s limited resources and limited number of employees. To mitigate the current limited resources and limited employees, we rely heavily on direct management oversight of transactions, along with the use of legal and accounting professionals. As we grow, we expect to increase our number of employees, which will enable us to implement adequate segregation of duties within the internal control framework.

Limitations on Effectiveness of Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also 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. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Controls over Financial Reporting

There were no changes in our internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

In addition, as previously disclosed, the Company, Trebor and other third parties, are each named as a co-defendants under an action filed in March 2015 in the Circuit Court of Broward County under Case No. CACE15-03238 by the Estate of Ernesto Rodriguez, claiming wrongful death and products liability resulting in the decedent’s drowning death while using a Brownie’s Third Lung product. This claim falls outside the Company’s period of insurance coverage. Plaintiff has claims damages exceeding $1,000,000. A default judgment was entered against Trebor in 2015 due to its failure to timely respond to the complaint. The Company has obtained different legal representation in this matter and attempted to have the default set aside. On November 2, 2016, the court granted plaintiff’s motion for sanctions against our company for frivolous litigation relating to our attempt to have the matter dismissed and granted the plaintiff's motion to strike our motion for summary judgment due to our initial default. The Company believes the claim to be a Workers Compensation claim relating exclusively against other non-affiliated defendants and without merit, and will aggressively defend this action and to appeal the default judgment. In the event Trebor is unable to overturn the default judgment and the defendants are determined to be at fault, we would seek to allocate damages among all of the other parties, including the plaintiff. At this time, the amount of any loss, or range of loss, cannot be reasonably estimated due to the undetermined validity of any claim or claims made by plaintiff and the mitigating factors among the parties. Therefore, the Company has not recorded reserves and contingent liabilities related to this matter. However, in the future, as the case progress, the Company may be required to record a contingent liability or reserve for these matters.

Item 1a. Risk Factors

Not Applicable to Smaller Reporting Company.

Item 2. Unregistered sales of equity securities and use of proceeds

Except as otherwise previously disclosed, the Company did not sell any equity securities without registration under the Securities Act of 1933, as amended, during the period covered by this report.

Item 3. Defaults Upon Senior Securities

None.

Item 4. MINE SAFETY DISCLOSURE

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description	Location
31.1	Certification Pursuant to Rule 13a-14(a)/15d-14(a)	Provided herewith.

31.2	Certification Pursuant to Rule 13a-14(a)/15d-14(a)	Provided herewith.
32.1	Certification Pursuant to Section 1350	Provided herewith.
32.2	Certification Pursuant to Section 1350	Provided herewith.
101	XBRL Interactive Data File *	

* Attached as Exhibit 101 to this report are the following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, formatted in XBRL (extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) Consolidated Statements of Stockholders' Equity (Deficit) (iv) the Consolidated Statements of Cash Flows, and (iv) related notes to these financial statements tagged as blocks of text.

SIGNATURES

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

Date: August 14, 2017	**Brownie's Marine Group, Inc.**
	By:*/s/ Robert M. Carmichael*
	Robert M. Carmichael President, Chief Executive Officer, Chief Financial Officer/ Principal Accounting Officer