CASPIAN SERVICES INC
Form 10-Q
May 20, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2015

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From ________ to _________

Commission File Number 000-33215

CASPIAN SERVICES, INC.
(Exact name of registrant as specified in its charter)

Nevada (State or other jurisdiction of incorporation or organization)	87-0617371 (I.R.S. Employer Identification No.)
2319 Foothill Drive, Suite 160 Salt Lake City, Utah (Address of principal executive offices)	84109 (Zip Code)

(801) 746-3700
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, (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 þ Noo

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, Interactive Data Files required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)
Yes þ Noo

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 o   Accelerated filer o

Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

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

As of May 13, 2015, the registrant had 52,657,574 shares of common stock, par value $0.001, issued and outstanding.

CASPIAN SERVICES, INC. AND SUBSIDIARIES
FORM 10-Q
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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

CASPIAN SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share and per share data)

	March 31, 2015 (Unaudited)	September 30, 2014
ASSETS		
Current Assets		
Cash	$ 1,480	$ 1,957
Trade accounts receivable, net of allowance of $3,890 and $3,454, respectively	5,343	10,458
Trade accounts receivable from related parties, net of allowance of $431 and $440, respectively	642	-
Short-term notes from related parties	2,963	70
Other receivables, net of allowance of $715 and $730, respectively	381	558
Inventories	1,316	1,261
Property held for sale, net of allowance of $1,052 and $1,074, respectively	44	44
Prepaid taxes	58	1,228
Advances paid, net of allowance of $27 and $28, respectively	319	547
Deferred tax assets	1,032	88
Prepaid expenses and other current assets	249	329
Total Current Assets	13,827	16,540
Vessels, equipment and property, net	40,793	42,087
Drydocking costs, net	308	538
Long-term deferred tax assets	2,507	2,450
Goodwill	185	189
Intangible assets, net	58	14
Long-term prepaid taxes	2,958	2,873
Long-term other receivables, net of current portion	777	2,377
Total Assets	$ 61,413	$ 67,068
LIABILITIES AND DEFICIT		
Current Liabilities		
Accounts payable	$ 1,880	$ 2,319
Accounts payable to related parties	81	76
Accrued expenses	1,543	1,690
Taxes payable	311	527
Deferred revenue	29	-
Accelerated put option liability	22,641	21,649
Long-term debt - current portion	78,439	75,284
Total Current Liabilities	104,924	101,545
Deficit		
Common stock, $0.001 par value per share; 500,000,000 shares authorized; 52,657,574 shares issued and outstanding	53	53
Additional paid-in capital	64,832	64,832

Accumulated deficit	(74,879)	(66,536)
Accumulated other comprehensive loss	(20,267)	(20,141)
Deficit attributable to Caspian Services, Inc. Shareholders	(30,261)	(21,792)
Deficit attributable to noncontrolling interests	(13,250)	(12,685)
Total Deficit	(43,511)	(34,477)
Total Liabilities and Deficit	$ 61,413	$ 67,068

See accompanying notes to the condensed consolidated financial statements.

CASPIAN SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)
(Dollars in thousands, except per share data)

	For The Three Months Ended March 31, 2015	For The Three Months Ended March 31, 2014	For The Six Months Ended March 31, 2015	For The Six Months Ended March 31, 2014
Revenues				
Vessel revenues	$ 1,128	$ 548	$ 5,890	$ 5,836
Geophysical service revenues (which includes $880 from related parties for the three and six months ended March 31, 2015, and $0 from related parties for the three and six months ended March 31, 2014)	1,094	3,155	2,096	7,268
Marine base service revenues (which includes $58 from related parties for the three and six months ended March 31, 2015, and $535 and $665 from related parties for the three and six months ended March 31, 2014, respectively)	443	859	776	1,216
Total Revenues	2,665	4,562	8,762	14,320
Operating Expenses				
Vessel operating costs	1,325	1,760	3,824	4,852
Cost of geophysical service revenues	901	2,391	1,833	4,071
Cost of marine base service	190	170	361	354
Impairment loss	-	56	-	56
Depreciation and amortization	1,237	1,067	2,456	2,277
General and administrative	2,463	1,900	4,357	4,050

expense				
Total Costs and Operating Expenses	6,116	7,344	12,831	15,660
Loss from Operations	(3,451)	(2,782)	(4,069)	(1,340)
Other Income (Expense)				
Interest expense	(2,235)	(1,973)	(4,473)	(3,973)
Foreign currency transaction loss	(891)	(6,478)	(981)	(6,463)
Interest income	-	11	-	23
Other non-operating income (loss), net	(18)	(75)	42	19
Net Other Expense	(3,144)	(8,515)	(5,412)	(10,394)
Loss from Continuing Operations Before Income Tax	(6,595)	(11,297)	(9,481)	(11,734)
Benefit from income tax	466	340	489	78
Net loss	(6,129)	(10,957)	(8,992)	(11,656)
Net loss attributable to noncontrolling interests	130	1,830	649	1,855
Net loss attributable to Caspian Services, Inc	$ (5,999)	$ (9,127)	$ (8,343)	$ (9,801)
Other Comprehensive Income (Loss)				
Foreign currency translation adjustment	72	(4,593)	84	(4,593)
Comprehensive loss	(5,927)	(13,720)	(8,259)	(14,394)
Comprehensive loss attributable to non-controlling interest	(649)	497	(649)	447
Comprehensive loss attributable to Caspian Services, Inc	$ (6,576)	$ (13,223)	$ (8,908)	$ (13,947)
Basic and Diluted Loss per Share	$ (0.11)	$ (0.17)	$ (0.16)	$ (0.19)
Weighted Average Shares Outstanding	52,657,574	52,657,574	52,657,574	52,657,574

See accompanying notes to the condensed consolidated financial statements.

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CASPIAN SERVICES, INC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(Dollars in thousands, except share and per share data)

	For the Six Months Ended March 31, 2015	2014
Cash flows from operating activities:		
Net loss	$ (8,992)	$ (11,656)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,456	2,277
Impairment loss	-	56
Accrued interest on accelerated put option	992	1,039
Foreign currency transaction loss	981	6,463
Stock based compensation	-	3
Changes in current assets and liabilities:		
Trade accounts receivable	4,977	2,652
Trade accounts receivable from related parties	(642)	1,237
Short-term notes from related parties	(3,006)	-
Other receivables	196	854
Inventories	(90)	(339)
Inventories held for sale	-	56
Prepaid taxes	1,162	(186)
Advances paid	225	156
Deferred tax assets	(1,024)	(49)
Prepaid expenses and other current assets	76	22
Long-term prepaid taxes	(137)	628
Long-term other receivables, net of current portion	(160)	18
Accounts payable	(411)	(400)
Accounts payable to related parties	-	(1,826)
Accrued expenses	4,008	6,419
Taxes payable	(209)	(491)
Deferred revenue	29	(8)
Long-term deferred income tax liability	(60)	(48)
Net cash provided by operating activities	$ 371	$ 6,877
Cash flows from investing activities:		
Payments to purchase vessels, equipment and property	(55)	(3,002)
Net cash used in investing activities	$ (55)	$ (3,002)
Cash flows from financing activities:		
Payments on long-term debt	(300)	(300)
Net cash used in financing activities	$ (300)	$ (300)
Effect of exchange rate changes on cash	(493)	(4,525)
Net change in cash	(477)	(950)

Cash at beginning of period		1,957		3,973
Cash at end of period	$	1,480	$	3,023
Supplemental disclosure of cash flow information:				
Cash paid for interest		300		300
Non-cash capital expenditures	$	1,736	$	-

See accompanying notes to the condensed consolidated financial statements.

CASPIAN SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2015 (UNAUDITED)
(Dollars in thousands, except share and per share data)

NOTE 1 — THE COMPANY AND BASIS OF PRESENTATION

Interim Financial Information – The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information and pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC"). Accordingly, they are condensed and do not include all of the information and notes required by US GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair and comparable presentation have been included and are of a normal recurring nature. The accompanying financial statements should be read in conjunction with the Caspian Services, Inc. (the "Company" or "CSI") most recent annual financial statements included in its annual report on Form 10-K filed with the SEC on January 13, 2015. Operating results for the six-month period ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ending September 30, 2015.

Principles of Consolidation – The accompanying condensed consolidated financial statements are presented in conformity with US GAAP and include operations and balances of Caspian Services, Inc. and its wholly-owned subsidiaries: Caspian Services Group Limited ("CSGL"), Caspian Services Group LLP ("Caspian LLP"), Caspian Services Group B.V. ("Caspian B.V."), Caspian Services LLC ("Caspian LLC"), Caspian Geophysics, Ltd ("CGEO"), TatArka LLP ("TatArka"), Caspian Real Estate, Ltd ("CRE") and Kyran Holdings Limited ("Kyran"); and include majority owned subsidiaries: Balykshi LLP ("Balykshi") and Mangistau Oblast Boat Yard LLP ("MOBY"), collectively "Caspian" or the "Company." TatArka owns a 40% non-controlling interest in Veritas-Caspian LLP ("Veritas-Caspian"). Ownership of up to 50% noncontrolling interests are accounted for by the equity method. Intercompany balances and transactions have been eliminated in consolidation.

Business Condition – The Company funded a portion of the construction of its marine base through a combination of debt and equity financing pursuant to which the European Bank for Reconstruction and Development ("EBRD") provided $18,600 of debt financing. EBRD also made an equity investment in the marine base in the amount of $10,000 in exchange for a 22% equity interest in Balykshi.

In connection with EBRD's 22% equity interest in Balykshi, the Company entered into a Put Option Agreement granting EBRD the right to require the Company to repurchase the 22% equity interest based on Balykshi's fair market value. The put option is exercisable between June 2013 and June 2017. This agreement also contains an acceleration feature that, should a triggering event occur, grants EBRD the right to require the Company to repurchase the $10,000 equity investment at a 20% annual rate of return at any time following the triggering event.

In accordance with US GAAP the put option is an unconditional obligation and is measured at its fair value based on an estimate of the amount of cash that would be required to settle the liability.

CASPIAN SERVICES, INC. AND SUBSIDIARIES
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Under the terms of the EBRD Loan Agreement, as amended, Balykshi is required to repay the loan principal and accrued interest in eight equal semi-annual installments commencing November 20, 2011 and then occurring each May 20 and November 20 thereafter until fully repaid. As of the date of this report, none of the required semi-annual repayment installments have been made. The failure to pay the principal or interest on the EBRD loan when due may constitute an event of default under the EBRD Loan Agreement. The EBRD financing agreements have acceleration right features that, in the event of default, allow EBRD to declare the loans and accrued interest immediately due and payable. As a result, the Company has included the EBRD loan and all accrued interest as current liabilities at March 31, 2015 and September 30, 2014. Additionally, an event of default may trigger the acceleration clause in the Put Option Agreement with EBRD which would allow EBRD to put its $10,000 investment in Balykshi back to the Company. If EBRD were to accelerate its put right, the Company could be obligated to repay the initial investment plus a 20% annual rate of return. The balance of the accelerated put option liability was $22,641 and $21,649 as of March 31, 2015 and September 30, 2014, respectively. This balance includes the 20% rate of return on the $10,000 investment and is classified as a current liability. EBRD also previously notified the Company that it believes the Company and Balykshi are in violation of certain other covenants of the EBRD financing agreements. As of the date of this report, to the Company’s knowledge, EBRD has not sought to accelerate repayment of the loan or the put option.

The Company continues to engage in discussions with EBRD regarding a possible restructuring of its financial obligations to EBRD.

To help the Company meet its additional funding obligations to construct the marine base, in 2008 the Company entered into two facility agreements pursuant to which the Company received debt funding of $30,000. In June and July 2011 Mr. Bakhytbek Baiseitov (the “Investor”) acquired the two facility agreements. In connection with restructuring the facility agreements, each of which matured in 2011, in September 2011 the Company issued Investor two secured promissory notes, a Secured Non-Negotiable Promissory Note in the principal amount of $10,800 (“Non-Negotiable Note”) and a Secured Convertible Consolidated Promissory Note in the principal amount of $24,446 (“Consolidated Note”).

Pursuant to the terms of the Non-Negotiable Note, Investor may, at any time, demand and receive payment of the Note by the issuance of common stock of the Company. The price per share for principal and interest is $0.12. The Investor has the right, at any time, to demand the issuance of shares in satisfaction of the Non-Negotiable Note. In September 2014 the Company and Investor agreed to extend the maturity date of the Non-Negotiable Note from September 30, 2014 to June 30, 2015. If the issuance of common stock has not been demanded by Investor or made at the election of the Company by the June 30, 2015 maturity date, the Company must repay the principal and interest in cash.

Pursuant to the terms of the Consolidated Note, interest accrues at 12% per annum and shall be paid semi-annually in arrears on each six month anniversary of the Issuance Date (September 30, 2011). The Consolidated Note provides for a default rate of interest of 13% per annum upon the occurrence and during the continuation of an event of default, which shall be payable in cash upon demand. In September 2014 the Company and Investor agreed to extend the maturity date of the Consolidated Note from September 30, 2014 to June 30, 2015. The unpaid principal amount of the Consolidated Note, and any accrued but unpaid interest thereon, is due and payable on June 30, 2015.

CASPIAN SERVICES, INC. AND SUBSIDIARIES
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March 31, 2015 (UNAUDITED)
(Dollars in thousands, except share and per share data)

Investor has the right at any time following a five day written notice to convert all or any portion of the principal and any accrued but unpaid interest under the Consolidated Note into common stock at $0.10 per share. Any conversion that would result in a change in control of the Company without the prior consent of EBRD could result in a breach of the EBRD financing agreements.

As of the date of this report, none of the semi-annual interest payments have been made when due. The Company has, however, made partial interest payments to Investor totaling $2,600 in reduction of interest due as of March 31, 2015.

The failure to pay interest on the Consolidated Note when due, may be deemed an event of default under the Consolidated Note. In the event of a default that remains uncured, Investor may, at any time, demand immediate repayment of the Consolidated Note. As a result, the Company has included the Consolidated Note and all accrued but unpaid interest as current liabilities at March 31, 2015 and September 30, 2014. As of the date of this report, to the Company's knowledge, Investor has not demanded immediate repayment of the Consolidated Note.

In August 2008 MOBY entered into a Loan Agreement (the "MOBY Loan Agreement") with EBRD. In connection with the loan, EBRD required the Company and others to, among other things, execute a Deed of Guarantee and Indemnity ("Guarantee"), guaranteeing the repayment of the MOBY loan. The guarantee obligation of each party is limited to each party's respective ownership interest in MOBY.

The outstanding balance of the MOBY loan was $6,153 and $5,998 as of March 31, 2015 and September 30, 2014, respectively, including accrued and unpaid interest. The interest rate under the MOBY loan is generally the interbank rate plus a margin of 3.6%. The MOBY Loan Agreement provides that during any period when the loan is in default the rate of interest shall be the interbank rate plus a margin of 3.6% plus 2% per annum. The MOBY Loan Agreement provides for 14 equal semi-annual installment payments of principal and interest on June 15 and December 15, commencing on or after August 2011. As of March 31, 2015 and September 30, 2014 MOBY had made no semi-annual installment payments and was in violation of certain financial covenants under the MOBY Loan Agreement. Pursuant to the MOBY Loan Agreement, if an event of default occurs and is continuing, EBRD may, at its option, by notice to MOBY, declare all or any portion of the principal and accrued interest of the loan due and payable on demand, or immediately due and payable without further notice and without presentment, demand or protest.

To the Company's knowledge, to date EBRD has taken no action to establish the defaults or to increase or accelerate the debt obligations of MOBY or the guarantee obligation of the Company. Should EBRD determine to take action, the Company would not have sufficient funds to repay its portion of the MOBY loan or the guarantee and would be forced to seek sources of funding to satisfy these obligations.

Should EBRD or Investor determine to accelerate the Company's financial obligations to them, the Company currently has insufficient funds to repay its obligations to EBRD or Investor, individually or collectively, and would be forced to seek other sources of funds to satisfy these obligations. Given the Company's current and near-term anticipated operating results, the difficult credit and equity markets and the Company's current financial condition, the Company believes it would be very difficult to obtain new funding to satisfy these obligations. If the Company were unable to obtain funding to meet these obligations, EBRD or Investor could seek any legal remedy available to them to obtain repayment, including forcing the Company into bankruptcy, or in the case of the EBRD loan, which is collateralized by the assets, including the marine base, and bank accounts of Balykshi, CRE and MOBY, foreclosure by EBRD on such assets and bank accounts. As of March 31, 2015 the book value of collateralized assets was approximately $30,821. The Company has also agreed to collateralize Investor's Notes with non-marine base related assets. The ability of the Company to continue as a going concern is dependent upon, among other things, its ability to (i) successfully restructure its financial obligations to EBRD and Investor on terms that will allow the Company to service the restructured obligations, (ii) generate sufficient revenue from operations to satisfy its financial obligations, and/or (iii) identify a financing source that will provide the Company the ability to satisfy its financial obligations. Uncertainty as to the outcome of these factors raises substantial doubt about the Company's ability to continue as a going concern. The accompanying condensed consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. The Company intends to continue its efforts to restructure its financial obligations to EBRD and Investor.

CASPIAN SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2015 (UNAUDITED)
(Dollars in thousands, except share and per share data)

Nature of Operations – The Company’s business consists of three major business segments:

Vessel Operations – Vessel operations consist of chartering a fleet of shallow draft offshore support vessels to customers performing oil and gas exploration activities in the Caspian Sea.

Geophysical Services – Geophysical services consist of providing seismic data acquisition services to oil and gas companies operating onshore in Kazakhstan.

Marine Base Services – Marine base services consist of operating a marine base with a boat repair and drydocking services yard located at the Port of Bautino on the North Caspian Sea.

Correction to Previously Issued Financial Statements – In the current period, the Company identified mathematical errors in the calculation of basic and diluted loss per share for the three month and the six month periods ending March 31, 2014. This mathematical error was related to the use of the net loss as the numerator. To correct this mathematical error, the Company changed the formula to use the net loss attributable to the Caspian Services as the numerator. The Company has assessed the impact of the mathematical error on each period impacted under the guidance of Accounting Standards Codification Topic 250-10, Accounting Changes and Error Corrections, related to SEC Staff Accounting Bulletin ("SAB") No.99, Materiality, and has determined that the impact of the error was not material to the previously issued unaudited condensed consolidated financial statements. The Company has elected to revise its previously issued unaudited condensed consolidated financial statements to facilitate comparisons across periods. The Company has corrected the basic and diluted loss per share for the three month and the six month periods ending March 31, 2014, as follows:

	For The Three Months Ended March 31, 2014			For The Six Months Ended March 31, 2014		
	Previously reported	Revised	Difference	Previously reported	Revised	Difference
Basic and Diluted Loss per Share	$ (0.21)	$ (0.17)	$ (0.04)	$ (0.22)	$ (0.19)	$ (0.03)

Basic and Diluted Loss Per Share – Basic loss per common share is calculated by dividing net loss attributable to Caspian Services by the weighted-average number of common shares outstanding. Diluted loss per common share is calculated by dividing net loss attributable to Caspian Services by the weighted-average number of common shares outstanding giving effect to potentially dilutive issuable common shares.

For the three and six months ended March 31, 2015 the Company had 800,000 options outstanding and 437,555,000 potential shares related to convertible debt that were not included in the computation of diluted loss per common share because they would be anti-dilutive.

CASPIAN SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2015 (UNAUDITED)
(Dollars in thousands, except share and per share data)

For the three and six months ended March 31, 2014 the Company had 800,000 options outstanding, 147,939 non-vested restricted shares outstanding and 402,913,333 potential shares related to convertible debt that were not included in the computation of diluted loss per common share because they would be anti-dilutive.

Fair Value of Financial Instruments – The carrying amounts reported in the accompanying condensed consolidated financial statements for other receivables, accounts receivables from related parties, accounts payable to related parties and accrued expenses approximate fair values because of the immediate nature or short-term maturities of these financial instruments. The carrying amount of long-term debts approximates fair value due to the stated interest rates approximating prevailing market rates.

Accelerated Put Option Liability – In connection with EBRD’s $10,000 equity investment to purchase a 22% equity interest in Balykshi, the Company entered into a Put Option Agreement granting EBRD the right to require the Company to repurchase the 22% equity interest. The put option is exercisable between June 2013 and June 2017. The put price is determined based on the fair market value of Balykshi as mutually agreed by the parties. If the parties are unable to agree upon a fair market valuation, the parties agree to hire a third party expert to determine the put price on the basis of the fair market value of Balykshi, as set forth in the Put Option Agreement. In the event there is a change in control of the Company, EBRD has the right to require the repurchase of the equity interest at its fair market value. The Put Option Agreement also contains an acceleration feature. Should Balykshi: (i) default on $1,000 or more of debt; (ii) fail to meet the obligations of any of the agreements between Balykshi, the Company and EBRD; (iii) be found to have made false representations to EBRD; or (iv) be declared insolvent, EBRD has the right to accelerate the put option. If the put option is accelerated, EBRD can require the Company to repurchase the $10,000 equity investment plus a 20% per annum rate of return, taking into account any dividend or other distribution received by EBRD, at any time following one of the events mentioned above. Due to the fact that certain events of default under the EBRD Loan Agreement may have occurred and that such could trigger EBRD’s accelerated put right, we have reflected an accelerated put option liability of $22,641, although, as of the date of this quarterly report on Form 10-Q, to the Company’s knowledge, EBRD has not sought to accelerate the put option.

Revenue Recognition – Vessel revenues are usually derived from time charter contracts on a rate-per-day of service basis; therefore, vessel revenues are recognized on a daily basis throughout the contract period. These time charter contracts are generally on a term basis. The base rate of hire for a contract is generally a fixed rate; however, these contracts often include clauses to recover mobilization and demobilization costs and specific additional costs which are billed on a monthly basis.

Geophysical service revenue is recognized when services are rendered, accepted by the customer and collectability is reasonably assured. Direct costs are charged to each contract as incurred along with allocated indirect costs for the specific period of service. Losses on contracts are recognized during the period in which the loss first becomes probable and reasonably estimated. Due to the nature of some of the geophysical services provided, certain customers have prepaid their contract services. These prepayments have been deferred and are recognized as revenue as the services are provided.

Marine base service revenue is recognized when services are rendered, accepted by the customer and collectability is reasonably assured.

CASPIAN SERVICES, INC. AND SUBSIDIARIES
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March 31, 2015 (UNAUDITED)
(Dollars in thousands, except share and per share data)

Receivables – In the normal course of business the Company extends credit to its customers on a short-term basis. The principal customers for the Company's marine vessels are major oil and natural gas exploration, development and production companies and their contractors. Credit risks associated with these customers are considered minimal. Dealings with smaller, local companies pose the greatest risks. For new geophysical services customers the Company typically requires an advance payment and the Company retains the seismic data generated from these services until payment is made in full. The Company routinely reviews accounts receivable balances and makes provisions for doubtful accounts as necessary. Accounts are reviewed on a case-by-case basis and losses are recognized in the period the Company determines it is likely that receivables will not be fully collected. The Company may also provide a general provision for accounts receivable based on existing economic conditions.

Impairment of Long-Lived Assets and Long-Lived Assets for Disposal – Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount that the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Income Taxes – Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences in assets and liabilities and their respective tax bases and attributable to operating loss carry forwards. Differences generally result from the calculation of income under accounting principles generally accepted in the United States of America and the calculation of taxable income calculated under Kazakhstan income tax regulations.

The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's laws, decrees and related regulations can be severe. Penalties include confiscation of the amounts in question for currency law violations, as well as fines of generally 100% of the unpaid taxes. Interest is assessable at rates of generally 0.06% per day. As a result, penalties and interest can result in amounts that are multiples of any unreported taxes. At March 31, 2015 and 2014 no interest or penalties have been accrued as a result of any tax positions taken. In the event interest or penalties are assessed, the Company will include these amounts related to unrecognized tax benefits in income tax expense.

A deferred tax liability is not recognized for the following types of temporary differences unless it becomes apparent that those temporary differences will reverse in the foreseeable future:

(a) An excess of the amount for financial reporting over the tax basis of an investment in a foreign subsidiary or a foreign corporate joint venture, that is essentially permanent in duration; or

(b) Undistributed earnings of a domestic subsidiary or a domestic corporate joint venture that is essentially permanent in duration.

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Drydocking Costs – The Company's vessels must be periodically drydocked and undergo certain inspections to maintain their operating classification, as mandated by certain maritime regulations. Costs incurred to drydock the vessels for certification are capitalized and amortized over the period until the next drydocking, which is generally 24 months. Drydocking costs comprise painting the vessels' hulls and sides, recoating cargo and fuel tanks, and performing other engine and equipment maintenance activities to bring the vessels into compliance with classification standards.

Foreign Currency Transactions – Caspian Services, Inc., the parent company of the subsidiaries, makes its principal investing and financing transactions in United States Dollars (USD), which is also its functional currency. Transactions and balances denominated in other currencies have been translated into USD using historical exchange rates. Exchange gains and losses from holding foreign currencies and having liabilities payable in foreign currencies are included in the results of operations.

USD is also the functional currency of CSGL, CGEO and CRE.

The Kazakh Tenge (KZT) is the functional currency of Caspian LLP, TatArka, Balykshi, Kyran and MOBY; the Euro is the functional currency of Caspian B.V. and the Russian Ruble is the functional currency of Caspian LLC. Their respective balance sheets have been translated into USD at the exchange rates prevailing at each balance sheet date. Their respective statements of operations and comprehensive income (loss) have been translated into USD using the average exchange rates prevailing during the periods of each statement. The corresponding translation adjustments are part of accumulated other comprehensive income (loss) and are shown as part of shareholders' equity.

The translation of KZT, Euro and Russian Ruble denominated assets and liabilities into USD for the purpose of these condensed consolidated financial statements does not necessarily mean the Company could realize or settle, in USD, the reported values of these assets and liabilities in USD. Likewise it does not mean the Company could return or distribute the reported USD value of its subsidiaries' capital to its shareholders.

Use of Estimates – The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comprehensive Loss – Total comprehensive loss consists of net loss and changes in accumulated other comprehensive loss. Accumulated other comprehensive loss is presented in the consolidated statements of comprehensive income (loss) and consists of foreign currency translation adjustments.

Concentration of Revenue – During the six months ended March 31, 2015 vessel revenue from four customers that together represented approximately 72% of total vessel revenue as follows, Customer A – 22%; Customer B – 20%; Customer C – 18%; and Customer D – 12%.

During the six months ended March 31, 2015 geophysical service revenue from two customers that together represented approximately 96% of total geophysical revenue as follows, Customer A – 54% and Customer B – 42%.

During the six months ended March 31, 2015 marine base revenue from three customers represented 75% of total marine base revenue as follows, Customer A – 41%, Customer B – 24%, and Customer C – 10% .

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Recent Accounting Pronouncements –

In April 2014 the FASB issued Accounting Standards Update (“ASU”) No. 2014-08, Presentation of Financial Statements and Property, Plant, and Equipment. Reporting discontinued operations and disclosures of disposals of components of an entity. The Company does not believe that adoption of the standard will have a material impact on its results of operations or financial position upon adoption.

In May 2014 the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers. The objective of this update is to provide a robust framework for addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance. This update is effective in annual reporting periods beginning after December 15, 2016 and the interim periods within that year. The Company is evaluating the impact of this update on its financial statements.

In June 2014 FASB issued Accounting Standards Update No. 2014-12, Compensation - Stock Compensation (Topic 718) – Accounting for Share Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. ASU 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period, be treated as a performance condition. ASU 2014-12 is effective for interim and annual periods beginning after December 15, 2015. The amendments can be applied prospectively to all awards granted or modified after the effective date or retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented and to all new or modified awards thereafter. Early adoption is permitted. The adoption of this standard is not expected to have a material effect to the Company’s operating results or financial condition.

In August 2014 the FASB issued Accounting Standards Update No. 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40), Disclosure of Uncertainties about an Entities Ability to Continue as a Going Concern (ASU 2014-15). The guidance in ASU 2014-15 sets forth management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern as well as required disclosures. ASU 2014-15 indicates that, when preparing financial statements for interim and annual financial statements, management should evaluate whether conditions or events, in the aggregate, raise substantial doubt about the entity's ability to continue as a going concern for one year from the date the financial statements are issued or are available to be issued. This evaluation should include consideration of conditions and events that are either known or are reasonably knowable at the date the financial statements are issued or are available to be issued, as well as whether it is probable that management's plans to address the substantial doubt will be implemented and, if so, whether it is probable that the plans will alleviate the substantial doubt. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods and annual periods thereafter. Early application is permitted. The adoption of this guidance is not expected to have a material effect on the Company’s operating results or financial condition.

The Company has considered all recent accounting pronouncements issued or proposed by the FASB and other standards-setting bodies since the last audit of its financial statements. The Company does not believe that these pronouncements will have a material effect on the Company’s financial statements.

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Subsequent Events – The Company's management has evaluated subsequent events through the date the financial statements were issued and has found no subsequent events to report.

NOTE 2 — ATASH MARINE BASE

Additional dredging work at the marine base is still required. Currently, Balykshi has insufficient funds to complete the work. Failure to complete the dredging could subject Balykshi to certain penalties, including the cancelation of permits and termination of operational activities at the marine base until the dredging is completed. The failure by Balykshi or the Company to provide financing for, or to complete, dredging could constitute a default under the EBRD financing agreements.

In 2008 Balykshi entered into an agreement with the Investment Committee of the Republic of Kazakhstan and agreed to a schedule of work to be performed at the marine base. As of the date of this report, Balykshi has failed to complete approximately $3,800 of the agreed upon scheduled work, including dredging, which could result in the cancellation of tax preferences granted to Balykshi by the Investment Committee.

NOTE 3 — NOTES PAYABLE

Notes payable consist of the following:

	March 31, 2015	September 30, 2014
Secured non-negotiable promissory note payable to Investor; interest at 0.26% due June 30, 2015	$ 10,899	$ 10,885
Secured convertible consolidated promissory note payable to Investor; interest at 12% (default interest at 13%) due June 30, 2015	34,673	32,862
Balykshi- EBRD loan and accrued interest at 7% plus the interbank rate due May 2015 (default interest at 9% plus the interbank rate); secured by property and bank accounts	26,714	25,539
MOBY- EBRD loan and accrued interest at 3.6% plus the interbank rate due June 2018 (default interest at 5.6% plus the interbank rate)	6,153	5,998
Total Long-term Debt	78,439	75,284
Less: Current Portion	(78,439)	(75,284)
Long-term Debt - Net of Current Portion	$ -	$ -

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Notes Payable to Investor

In 2008 the Company entered into Facility agreements with Altima Central Asia (Master) Fund Ltd. ("Altima") and Great Circle Energy Services LLC ("Great Circle"). Pursuant to the Facility agreements, each party made an unsecured loan to the Company in the amount of $15,000. The Altima loan matured and became due and payable in June 2011 while the Great Circle loan matured and became due and payable in December 2011. The Altima and Great Circle loans ("Loans") bore interest at 13% per annum. At June 30, 2011 these Loans and accrued interest totaled $42,264. During June and July 2011 Investor acquired these Loans and on September 30, 2011 the Company and Investor agreed to restructure the Loans. Prior to the restructuring, the Company made payments to Investor reducing the total debt balance to $37,246. Within 30 days of closing, the Company agreed to make a $2,000 cash payment to Investor which was credited as a reduction of principal due. This payment was made during fiscal 2012. In satisfaction of the remaining outstanding balance of the restructured loan obligations, the Company issued Investor the Non-Negotiable Note in the principal amount of $10,800 and the Consolidated Note in the principal amount of $24,446. The Company has agreed to collateralize Investor's Notes with non-marine base-related assets.

Non-Negotiable Promissory Note

Pursuant to the terms of the Non-Negotiable Note, Investor may, at any time, demand and receive payment of the Non-Negotiable Note by the issuance of common stock of the Company. The price per share for principal and interest is $0.12. Investor has the right, at any time, to demand the issuance of shares in satisfaction of the Non-Negotiable Note. The Company has the right to pay the principal and interest under the Non-Negotiable Note by the issuance of Company common stock on the earlier of: (i) the date on which the Company and Investor complete renegotiation of the terms of the financing between the Company and EBRD; or (ii) the date when the Company and Investor terminate restructuring negotiations with EBRD. The Non-Negotiable Note initially had a maturity date of September 30, 2014. In September 2014 the Company and Investor entered into a first amendment to this Note, which extended the maturity date to June 30, 2015 (Extended Maturity Date). If the issuance of common stock had not been demanded by Investor or made at the election of the Company by the Extended Maturity Date the Company must repay the principal and interest in cash.

The Company is required to pay interest on the principal amount of the Non-Negotiable Note in common stock at the time of payment of the principal. Interest accrues at a rate per annum equal to 0.26%, until the Extended Maturity Date.

The Company will issue the Investor 90 million shares of restricted common stock to settle the principal amount of the Non-Negotiable Note, excluding shares that will be issued to Investor in satisfaction of accrued interest.

As the Non-Negotiable Note matures in less than twelve months, it has been treated as a current liability in the accompanying financial statements.

Convertible Consolidated Promissory Note

Interest accrues on the Consolidated Note at 12% per annum and is required to be paid semi-annually in arrears on each six month anniversary of the Issuance Date (September 30, 2011). The Consolidated Note provides for a default rate of interest of 13% per annum upon the occurrence and during the continuation of an event of default, as defined in the Consolidated Note, which shall be payable in cash upon demand.

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The unpaid principal amount of the Consolidated Note, and any accrued but unpaid interest thereon, was initially due and payable on September 30, 2014. In September 2014 a first amendment to this Note was entered into between the Company and Investor, which extended the maturity date to June 30, 2015. The Company may elect to prepay principal in increments of $1,000 at the time of any scheduled interest payment, except in the case of full repayment of principal and interest which may be made at any time.

As of the date of this report, none of the semi-annual interest payments have been made on the date they were due. During fiscal 2013 the Company paid $1,600 to Investor, which was credited as a reduction of interest due under the Consolidated Note. An additional $700 was paid during the fiscal 2014 and $300 was paid in December 2014. The failure to pay the interest on the Consolidated Note may be deemed an event of default under the Consolidated Note. In the event of a default that remains uncured, Investor may, at any time, demand immediate repayment of the Consolidated Note. As a result, the Company has included the Consolidated Note and all accrued interest as current liabilities at March 31, 2015 and September 30, 2014.

The Consolidated Note is superior in rank to all future unsecured indebtedness of the Company and its subsidiaries, except for the EBRD Indebtedness.

With the increase in the Company's authorized common stock in May 2013, Investor now has the right at any time following a five day written notice to convert all or any portion of the principal and any accrued but unpaid interest into common stock at $0.10 per share. However any conversion that would result in a change in control of the Company without the prior consent of EBRD could result in a breach of the EBRD financing agreements.

Registration Rights Agreement

In connection with restructuring the Facility agreements, the Company and Investor agreed to enter into a Registration Rights Agreement granting Investor the right to require the Company to register all or any part of the shares held by Investor, including but not limited to, any shares issued in satisfaction of the Notes. As of the date of this report no agreement has been finalized.

EBRD Loan to Balykshi

EBRD's financing agreements contain certain financial and other covenants, the violation of which could be deemed a default under those agreements. Pursuant to the terms of the financing agreements, following delivery of written notice to Balykshi or the Company of an event of default and the expiration of any applicable grace period, EBRD may declare all or any portion of its loan, together with all accrued interest, immediately due and payable or payable on demand. The EBRD financing agreements also provide that in the event any indebtedness of the Company in excess of $1,000 is declared or otherwise becomes due and payable prior to its specified maturity date, such may be deemed an event of default which would allow EBRD to declare its loan immediately due and payable or payable on demand. As the EBRD loan is secured, in the event Balykshi or the Company are unable to repay the loan, EBRD could have the right to foreclose on the assets and bank accounts of Balykshi and CRE, including the marine base.

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Under the terms of the EBRD Loan Agreement, as amended, Balykshi is required to repay the loan principal and accrued interest in eight equal semi-annual installments commencing November 20, 2011 and then occurring each May 20 and November 20 thereafter until fully repaid. As of the date of this report, none of the semi-annual repayment installments have been made by the Company. The failure to pay principal or interest when due constitutes an event of default under the EBRD Loan Agreement. The EBRD Loan Agreement provides that if the Borrower fails to pay when due any amount payable by it under the Loan Agreement, the overdue amount shall bear interest at a rate that is 2% higher than the non-default rate of interest.

EBRD Loan to MOBY

As of March 31, 2015 the outstanding balance of the MOBY loan was $6,153, including accrued and unpaid interest. The interest rate under the MOBY loan is generally the interbank rate plus a margin of 3.6%. The MOBY Loan Agreement provides that during any period when the loan is in default, the rate of interest shall be the interbank rate plus a margin of 3.6% plus 2% per annum. The MOBY Loan Agreement provides for 14 equal semi-annual installment payments of principal and interest on June 15 and December 15, commencing after August 2011 (the third anniversary of the MOBY Loan Agreement.)

As of March 31, 2015 and September 30, 2014 MOBY had made no semi-annual installment payments and was in violation of certain financial covenants under the MOBY Loan Agreement. Pursuant to the MOBY Loan Agreement, if an event of default occurs and is continuing, EBRD may, at its option, by notice to MOBY, declare all or any portion of the principal and accrued interest of the loan due and payable on demand, or immediately due and payable without further notice and without presentment, demand or protest.

To date, to the Company's knowledge, EBRD has taken no action to establish the defaults or to increase or accelerate the debt obligations of MOBY or the guarantee obligations of the Company under the Guarantee. Should EBRD determine to take action, MOBY would not have sufficient funds to repay its portion of the MOBY Loan nor would the Company have sufficient funds to pay it obligations under the Guarantee.

The Company is engaged in ongoing discussions with EBRD about restructuring the terms of its financial obligations to EBRD, but there is no guarantee the Company will be successful in doing so.

NOTE 4 — COMMITMENTS AND CONTINGENCIES

Economic Environment – In recent years, Kazakhstan has undergone substantial political and economic change. As an emerging market Kazakhstan does not possess a well-developed business infrastructure, which generally exists in more mature free market economies. As a result, operations carried out in Kazakhstan can involve significant risks, which are not typically associated with those in developed markets. Instability in the market reform process could subject the Company to unpredictable changes in the basic business infrastructure in which it currently operates. Uncertainties regarding the political, legal, tax or regulatory environment, including the potential for adverse changes in any of these factors could affect the Company's ability to operate commercially. Management is unable to estimate what changes may occur or the resulting effect of such changes on the Company's financial condition or future results of operations.

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NOTE 5 — RELATED PARTY TRANSACTIONS

Seismic revenue recognized from Sequa Petroleum (a company related through common ownership) for the three and six months ended March 31, 2015 was $880.

Revenue from the agent fee for the marine base services recognized from Sayat Media (a company related through common management) for the three and six months ended March 31, 2015 was $49.

Marine base services revenue from Kazmortansflot (a company related through participation in a joint venture) for the three and six months ended March 31, 2015 was $0 and $9, respectively.

Lease revenue recognized from MOBY for the three and six months ended March 31, 2014 was $535 and $665, respectively.

Accounts receivable from related parties as of March 31, 2015 and September 30, 2014 consisted of the following:

Related Party's Name	Description		March 31, 2015		September 30, 2014
Sequa Petroleum	Seismic services	$	456	$	-
Demeu Energy	Advance given for vehicles delivery		269		275
Sayat Media	Receivable from agent for marine base services		185		-
Caspian Geo Consulting	Advance given for equipment delivery		162		165
	Allowance for doubtful accounts		(430)		(440)
TOTAL		$	642	$	-

Accounts payable to related parties as of March 31, 2015 and September 30, 2014 consisted of the following:

Related Party's Name	Description		March 31, 2015		September 30, 2014
Sayat Media	Other services	$	15	$	13
Others	Others		66		63
TOTAL		$	81	$	76

Short-term notes from related parties as of March 31, 2015 and September 30, 2014 consisted of the following:

Related Party's Name	Description		March 31, 2015		September 30, 2014
Caspian Geo Consulting	Notes Receivable	$	2,963	$	-
Sayat Media	Notes Receivable		-		70
TOTAL		$	2,963	$	70

Sayat Media – In September 2014 Balykshi entered into loan agreement with Sayat Media (a company related through Balykshi's management). Pursuant to the loan agreement Balykshi provided a loan to Sayat Media in the amount of $70. The note receivable bore interest at 5.5% per annum and was scheduled to mature in one year. This loan was fully repaid in November 2014.

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Caspian Geo-Consulting Services LLP – During the period from November 2014 to March 2015 CSG LLP entered into five loan agreements with Caspian Geo-Consulting Services LLP. Pursuant to the loan agreements CSG LLP has provided loans to Caspian Geo-Consulting Services LLP in the amount of $2,963. The notes receivable bear no interest and mature in one year.

NOTE 6 — FAIR VALUE MEASUREMENTS

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. To measure fair value, a hierarchy has been established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs. This hierarchy uses three levels of inputs to measure the fair value of assets and liabilities as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.

Level 3 – Unobservable inputs supported by little or no market activity for 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.

The Company uses fair value to measure certain assets and liabilities on a recurring basis when fair value is the primary measure for accounting. This is done primarily for the put option liability. Fair value is used on a nonrecurring basis to measure certain assets when applying lower of cost or market accounting or when adjusting carrying values and for acquisitions. Fair value is also used when evaluating impairment on certain assets, including goodwill, intangibles, and long-lived assets.

Recurring basis:

At March 31, 2015 and September 30, 2014 the Company had two liabilities measured at fair value on a recurring basis.

The put option liability is a Level 3 measurement, which is fair valued at the put option price plus accrued interest at a rate of 20% annually. The $992 change during the six months ended March 31, 2015 was for the 20% rate of return and it was charged to interest expense.

The value of the Property held for sale was derived based on estimated sales price of the property. The estimation of sales price is made based on the market prices of similar vessels.

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For Level 3 assets, the Company's finance department, which reports to the chief financial officer, determines the fair value measurement valuation policies and procedures. At least annually, the finance department determines if the current valuation techniques used in the fair value measurements are still appropriate and evaluates and adjusts the unobservable inputs used in the fair value measurements based on current market conditions and third-party information.

There were no changes in the valuation techniques during the six months ended March 31, 2015.

		Fair Value Measurements at Reporting Date Using		
Description	March 31, 2015	Level 1	Level 2	Level 3
Property held for sale	$ 44	$ -	$ -	$ 44
Put option liability	22,641	-	-	22,641
Total	$ 22,685	$ -	$ -	$ 22,685

		Fair Value Measurements at Reporting Date Using		
	September 30, 2014	Level 1	Level 2	Level 3
Property held for sale	$ 44	$ -	$ -	$ 44
Put option liability	21,649	-	-	21,649
Total	$ 21,693	$ -	$ -	$ 21,693

NOTE 7 — SEGMENT INFORMATION

US GAAP requires disclosures related to components of a company for which separate financial information is available and evaluated regularly by a company's chief operating decision makers in deciding how to allocate resources and in assessing performance. They also require segment disclosures about products and services as well as geographic area.

The Company has operations in three segments of its business, namely: Vessel Operations, Geophysical Services and Marine Base Services. All of these operations are located in the Republic of Kazakhstan. Corporate administration is located in the United States of America and the Republic of Kazakhstan.

Further information regarding the operations and assets of these reportable business segments follows:

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	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2015	2014	2015	2014
Capital Expenditures				
Vessel Operations	$ 54	$ 356	$ 178	$ 813
Geophysical Services	29	686	1,736	2,188
Marine Base Services	2	-	2	-
Total segments	85	1,042	1,916	3,001
Corporate assets	-	1	-	1
Less intersegment investments	(17)	-	(125)	-
Total consolidated	$ 68	$ 1,043	$ 1,791	$ 3,002

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2015	2014	2015	2014
Revenues				
Vessel Operations	$ 1,371	$ 809	$ 6,508	$ 6,723
Geophysical Services	1,094	3,155	2,096	7,268
Marine Base Services	3,173	866	3,587	3,077
Total segments	5,638	4,830	12,191	17,068
Corporate revenue	-	-	-	-
Less intersegment revenues	(2,973)	(268)	(3,429)	(2,748)
Total consolidated	$ 2,665	$ 4,562	$ 8,762	$ 14,320
Depreciation and Amortization				
Vessel Operations	$ (446)	$ (475)	$ (892)	$ (996)
Geophysical Services	(408)	(284)	(793)	(607)
Marine Base Services	(382)	(308)	(770)	(674)
Total segments	(1,236)	(1,067)	(2,455)	(2,277)
Corporate depreciation and amortization	(1)	-	(1)	-
Total consolidated	$ (1,237)	$ (1,067)	$ (2,456)	$ (2,277)
Interest expense				
Vessel Operations	$ -	$ -	$ -	$ -
Geophysical Services	-	-	-	-
Marine Base Services	(1,664)	(1,442)	(3,318)	(2,904)
Total segments	(1,664)	(1,442)	(3,318)	(2,904)
Corporate interest expense	(571)	(531)	(1,155)	(1,069)
Total consolidated	$ (2,235)	$ (1,973)	$ (4,473)	$ (3,973)
Income/(Loss) Before Income Tax				
Vessel Operations	$ (1,400)	$ (1,768)	$ (490)	$ (1,206)

Geophysical Services	(1,073)	174	(1,766)	1,733
Marine Base Services	(3,197)	(8,691)	(5,573)	(10,541)
Total segments	(5,670)	(10,285)	(7,829)	(10,014)
Corporate loss	(925)	(1,012)	(1,652)	(1,720)
Total consolidated	$ (6,595)	$ (11,297)	$ (9,481)	$ (11,734)

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	For the Three Months Ended March 31, 2015	For the Three Months Ended March 31, 2014	For the Six Months Ended March 31, 2015	For the Six Months Ended March 31, 2014
Benefit from (Provision for) Income Tax				
Vessel Operations	$ 287	$ 339	$ 156	$ 599
Geophysical Services	181	1	335	(521)
Marine Base Services	-	-	-	-
Total segments	468	340	491	78
Corporate provision for income tax	(2)	-	(2)	-
Total consolidated	$ 466	$ 340	$ 489	$ 78
Loss/(Income) attributable to Noncontrolling Interests				
Vessel Operations	$ -	$ -	$ -	$ -
Geophysical Services	-	-	-	-
Marine Base Services	130	1,830	649	1,855
Total segments	130	1,830	649	1,855
Corporate noncontrolling interest	-	-	-	-
Total consolidated	$ 130	$ 1,830	$ 649	$ 1,855
Net (Loss)/Income attributable to Caspian Services Inc.				
Vessel Operations	$ (1,113)	$ (1,429)	$ (334)	$ (607)
Geophysical Services	(892)	175	(1,431)	1,212
Marine Base Services	(3,067)	(6,861)	(4,924)	(8,686)
Total segments	(5,072)	(8,115)	(6,689)	(8,081)
Corporate loss	(927)	(1,012)	(1,654)	(1,720)
Total consolidated	$ (5,999)	$ (9,127)	$ (8,343)	$ (9,801)

Segment Assets	March 31, 2015	September 30, 2014
Vessel Operations	$ 17,302	$ 15,219
Geophysical Services	16,632	18,663
Marine Base Services	67,480	73,001
Total segments	101,414	106,883
Corporate assets	700	766
Less intersegment investments	(40,701)	(40,581)
Total consolidated	$ 61,413	$ 67,068

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

Unless otherwise indicated by the context, all dollar amounts stated in this Part I, Item 2, other than share and per share amounts, are presented in thousands and all references to dollar amounts ($) refers to U.S. dollars.

The following discussion is intended to assist you in understanding our results of operations and our present financial condition. Our condensed consolidated financial statements and the accompanying notes included in this quarterly report on Form 10-Q should be read in conjunction with our annual report on Form 10-K for the year ended September 30, 2014 and our other filings with the Securities and Exchange Commission (the “Commission”).

Forward-Looking Information and Cautionary Statements

This quarterly report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (“Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (“Exchange Act”) that are based on management’s beliefs and assumptions and on information currently available to management. For this purpose any statement contained in this quarterly report that is not a statement of historical fact may be deemed to be forward-looking, including, but not limited to those relating to future demand for the services we offer, changes in the composition of the services we offer, future revenues, expenses, capital expenditures, results of operations, liquidity and capital resources or cash flows, the commodity price environment, managing our asset base, our ability to restructure our existing debts in a manner that will allow us to continue operating or to obtain additional debt or equity financing, management’s assessment of internal control over financial reporting, opportunities, growth, business plans, strategies and objectives. Without limiting the foregoing, words such as “believe,” “expect,” “project,” “intend,” “estimate,” “budget,” “plan,” “forecast,” “predict,” “may,” “will,” “could,” “should,” or “anticipate” or comparable te intended to identify forward-looking statements. These statements by their nature involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance or achievements or the industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, market factors, market prices and marketing activity, future revenues and costs, unsettled political conditions, civil unrest and governmental actions, foreign currency fluctuations, commodity price fluctuations and environmental and labor laws and other factors detailed herein and in our other filings with the Commission.

Forward-looking statements are predictions and not guarantees of future performance or events. Forward-looking statements are based on current industry, financial and economic information, which we have assessed but which by its nature, is dynamic and subject to rapid and possibly abrupt changes. Our actual results could differ materially from those stated or implied by such forward-looking statements due to risks and uncertainties associated with our business. We hereby qualify all our forward-looking statements by these cautionary statements. These forward-looking statements speak only as of their dates and should not be unduly relied upon. We undertake no obligation to publicly update or revise these forward-looking statements (other than pursuant to reporting obligations imposed on registrants pursuant to the Exchange Act), whether as a result of new information, future events or otherwise.

Business Review

As a result of the recent significant decline in world oil prices and the continued delay in development of the Kashagan oil field, we anticipate demand for our services will be lower throughout the remainder of fiscal 2015 compared to the same periods of fiscal 2014. Current projections place commencement of the second phase of development of the Kashagan oil field some time in 2019. We do not know when world oil prices will rebound. We do not anticipate significant growth in demand for our services until the second phase of the Kashagan development project ramps up and world oil prices rebound. Based on current industry expectations for Kashagan development, we remain optimistic about our prospects in the longer-term. Additionally, we continued to work to expand our vessel operations to Turkmenistan and Russian sectors of Caspian Sea.

During the six months ended March 31, 2015, we operated three business segments: Vessel Operations, Geophysical Services and Marine Base Services.

	For the Three Months Ended March 31,			For the Six Months Ended March 31,		
	2015	2014	% change	2015	2014	% change
VESSEL OPERATIONS						
Operating Revenue	$ 1,371	$ 809	69%	$ 6,508	$ 6,723	-3%
Pretax Operating Loss	(1,400)	(1,768)	-21%	(490)	(1,206)	-59%
GEOPHYSICAL SERVICES						
Operating Revenue	$ 1,094	$ 3,155	-65%	$ 2,096	$ 7,268	-71%
Pretax Operating Income/(Loss)	(1,073)	174	-717%	(1,766)	1,733	-202%
MARINE BASE SERVICES						
Operating Revenue	$ 3,173	$ 866	266%	$ 3,587	$ 3,077	17%
Pretax Operating Loss	(3,197)	(8,691)	-63%	(5,573)	(10,541)	-47%
CORPORATE ADMINISTRATION						
Operating Revenue	$ -	$ -	n/a	$ -	$ -	n/a
Pretax Operating Loss	(925)	(1,012)	-9%	(1,652)	(1,720)	-4%

This table includes intercompany revenues, which are eliminated on a consolidation level. For details, please, refer to Note 7 to our condensed consolidated financial statements.

Summary of Operations

Three months ended March 31, 2015 compared to the three months ended March 31, 2014

Total revenue during the three months ended March 31, 2015 was $2,665 compared to $4,562 during the three months ended March 31, 2014, a decrease of 42%.

Vessel revenues were up 106% from $548 during the quarter ended March 31, 2014 to $1,128 during the quarter ended March 31, 2015 due to higher utilization of our vessels in the second fiscal quarter 2015. We expect demand for our vessels during the remainder of fiscal 2015 in the Kazakhstan sector of the Caspian Sea to be flat or to soften, so we will continue to pursue opportunities in Turkmenistan and Russian sectors of Caspian Sea. We anticipate vessel revenue in the remaining 2015 fiscal quarters will be at the same or lower levels as compared to the same quarters of fiscal 2014.

Revenue from geophysical services decreased 65% from $3,155 during the second fiscal quarter 2014 to $1,094 during the second fiscal quarter 2015. This is a result of completing two successful projects during the second fiscal quarter 2014 compared to one project during the second fiscal quarter 2015. As a result of the significant decrease in world oil prices, we expect geophysical services revenue during the remaining two fiscal quarters of 2015 will continue to be significantly lower compared to the same fiscal quarters of 2014. We anticipate geophysical services revenue will remain significantly depressed until world oil prices rebound.

During the second fiscal quarter 2014 our onshore seismic segment collected overdue payments from a related party (Bolz LLP) in the amount of $1,201. In prior periods we created an allowance for this overdue trade account receivable from related parties. As a result we reversed this allowance during the second fiscal quarter 2014 for the amount of the payment received. No similar transactions occurred during the second fiscal 2015.

During the second fiscal quarter 2015 and 2014 we realized foreign currency transaction losses of $891 and $6,478, respectively. This decrease in loss is mostly due to revaluation of our debt denominated in U.S. Dollars following a 20% devaluation of the Kazakh Tenge in February 2014. No such dramatic devaluation occurred during the second fiscal quarter 2015.

As a result of the foregoing, our comprehensive loss attributable to Caspian Services, Inc. decreased from $13,223 to $6,576 during the second fiscal quarter 2015.

Vessel Operations

Second fiscal quarter 2015 revenue from vessel operations of $1,128 was 106% or $580 higher than the second fiscal quarter 2014 as more vessels were utilized in the second fiscal quarter 2015. As the market reacts to the decline in world oil prices, we expect vessel revenues will be flat or lower throughout the remainder of fiscal 2015, as compared to the comparable periods of fiscal 2014, and we do not expect significant growth in demand for our vessels in the Kazakhstan sector of the Caspian Sea until commencement of the second phase of the Kashagan oil field project. Therefore, we continue to seek opportunities to utilize our vessel fleet outside of Kazakhstan, in the Turkmen and Russian sectors of the Caspian Sea.

During the three months ended March 31, 2015 vessel operating costs of $1,325 were 25% lower than during the three months ended March 31, 2014 in response to our cost savings efforts.

As a result of the improved margins our net loss from vessel operations in the second fiscal quarter 2015 decreased to $1,113 compared to net loss of $1,429 in the second fiscal quarter of 2014.

Geophysical Services

Revenue from geophysical services decreased 65% from $3,155 during the second fiscal quarter 2014 to $1,094 during the second fiscal quarter 2015. This is a result of completing two successful projects during second fiscal quarter 2014 compared to one completed project during the second fiscal quarter 2015. As a result of the decreased activity, cost of geophysical service revenues decreased by 62% to $901.

During the second fiscal quarter 2014 we collected overdue payments from a related party (Bolz LLP) in the amount of $1,201. We had created an allowance for the full amount of this past due account in prior periods, so we reversed a portion of the allowance to reflect the amount of repayment received during the second fiscal quarter 2014.

During the three months ended March 31, 2014 we paid a bonus of $510 to Mr. Vasilenko, our General Manager of Geophysical Services, in recognition of his efforts to collect this overdue balance from Bolz LLP.

No similar transactions occurred during the second fiscal 2015.

As a result of decreased activity and reversal of a portion of the allowance for the overdue receivable from a related party in our geophysical services business during the second fiscal quarter 2014, we realized net income attributable to Caspian Services, Inc. from geophysical operations of $175 during the second fiscal quarter 2014. As we had no similar transactions during the second fiscal quarter 2015, coupled with the decrease in projects performed, during the second fiscal quarter 2015 we realized a net loss attributable to Caspian Services, Inc. of $892.

The local market, from which much of our seismic work is generated, remains depressed as a result of the difficult credit market and lower world oil prices and we continue to struggle to obtain payment from overdue accounts from non-related parties.

We anticipate that the remainder of fiscal 2015 will be worse than fiscal 2014 for seismic work as the credit required by local Kazakh companies to finance seismic projects remains elusive. In addition, decreasing world oil prices have resulted in many companies postponing further seismic works until oil prices rebound.

Marine Base Services

Our marine base services revenues decreased 48% to $443 during the second fiscal quarter 2015 as a result of $535 of revenues from MOBY recognized during the second fiscal quarter 2014. As MOBY is now a part of the Caspian Services group, the MOBY intercompany revenue is eliminated in the consolidation process.

The revenue generated by the marine base was insufficient to cover our fixed costs, including depreciation. Additionally, interest expense of $1,664 was accrued to reflect our liability under the EBRD loan, the potential accelerated put option and the portion of interest on the loans from Investor, which relate to the marine base.

During the second fiscal quarter 2015 we realized a marine base services loss of $3,067 compared to a loss of $6,861 during the second fiscal quarter 2014. The decrease in loss was mostly due to $7,133 of foreign exchange loss, which reflected the effect of the revaluation of our debt to EBRD denominated in U.S. Dollars following the 20% devaluation of the Kazakh Tenge in February 2014. No such dramatic devaluation occurred during the second fiscal quarter 2015.

Although we have been able to enter into agreements with some customers to use our base's services we do not expect significant demand for the marine base until Kashagan field development and construction activity increases, which is currently anticipated to start in 2019. Until world oil prices rebound and activity in the Caspian Sea region increases significantly, we do not expect the marine base to be able to service its current debt obligations or to operate profitably.

Corporate Administration

During the second fiscal quarter 2015, net loss from corporate administration was $927, which is 8% lower than loss realized during the second fiscal quarter 2014. This decrease in loss is mostly due to increased accrual of board of directors' fees during the second fiscal quarter 2014.

Depreciation

Depreciation expense increased by $170 or 16% to $1,237 during the second fiscal quarter 2015 compared to the second fiscal quarter 2014 mostly due to MOBY depreciation expense incurred during the second fiscal quarter 2015. As we acquired MOBY in August 2014 no such expense was incurred during the second fiscal quarter 2014.

General and Administrative Expenses

General and administrative expenses increased 30% to $2,463 during the quarter ended March 31, 2015. Excluding the effect of the reversed provision of $1,201 for Bolz LLP and $510 bonus paid to Mr. Vasilenko during the second fiscal quarter 2014, which were mentioned above, total general and administrative expenses for the second fiscal quarter 2015 would have decreased 5% or $128 compared to the second fiscal quarter 2014.

Interest Expense

Interest expense of $2,235 for the second fiscal quarter 2015 was 13% higher than interest expense for the second fiscal quarter 2014. This increase is attributable to MOBY interest incurred during the second fiscal quarter 2015. As we acquired MOBY in August 2014 no such expense was incurred during the second fiscal quarter 2014.

Foreign Currency Transaction Loss

During the second fiscal quarter 2015 and 2014 we realized foreign currency transaction losses of $891 and $6,478, respectively. This decrease in loss is mostly due to revaluation of our EBRD loan denominated in U.S. Dollars following a 20% devaluation of the Kazakh Tenge in February 2014. No such dramatic devaluation occurred during the second fiscal quarter 2015.

It is our policy to try and match Euro costs with Euro income and we were able to reduce some of the loss as Euro costs for vessel rental were also lower. It is not our business to speculate on currency movements and we have not historically engaged in currency hedging.

Other Non-operating Income, Net

During the quarter ended March 31, 2015 we realized net other non-operating loss of $18 compared to a loss of $75 during the quarter ended March 31, 2014.

Net Other Expenses

Net other expenses decreased 63% to $3,144 during the second fiscal quarter 2015. The decrease in net other expenses is mostly attributable to the decreased foreign currency translation loss resulting from the devaluation of the Kazakh Tenge during the second fiscal quarter 2014.

Benefit from Income Tax

During the three months ended March 31, 2015 we recorded a benefit for income tax in the amount of $466, which is 37% more than the benefit incurred during the three months ended March 31, 2014. This increase is caused by more taxable losses recognized in CSG LLP and Tatarka entities during the second fiscal quarter 2015. In Kazakhstan each entity is taxed independently.

Net Loss Attributable to Caspian Services, Inc.

As a result of the aforementioned factors, during our second fiscal quarter 2015 we realized a net loss attributable to Caspian Services, Inc. of $5,999. By comparison, during the second fiscal quarter 2014 we realized a net loss attributable to Caspian Services, Inc. of $9,127.

Comprehensive Loss Attributable to Caspian Services, Inc.

During the quarter ended March 31, 2015 we realized a foreign currency translation adjustment of $72 and comprehensive loss attributable to non-controlling interest of $649, compared to a foreign currency translation adjustment of ($4,593) and comprehensive income attributable to non-controlling interests of $497 during the quarter ended March 31, 2014. As a result, comprehensive loss attributable to Caspian Services, Inc. was $6,576 during the second fiscal quarter 2015 compared to $13,223 during the second fiscal quarter 2014.

Six months ended March 31, 2015 compared to the six months ended March 31, 2014

Total revenue during the six months ended March 31, 2015 was $8,762 compared to $14,320 during the six months ended March 31, 2013, a decrease of 39%.

Vessel revenues were in line with the results for the six months ended March 31, 2014. We expect demand for our vessels during the remainder of fiscal 2015 in the Kazakhstan sector of the Caspian Sea to be flat or to soften, so we will continue to pursue opportunities in the Turkmenistan and Russian sectors of Caspian Sea.

Revenue from geophysical services decreased 71% from $7,268 during the six months ended March 31, 2014 to $2,096 during the six months ended March 31, 2015. This is a result of completing six successful projects during the six months ended March 31, 2014 compared to two projects during the six months ended March 31, 2015. As a result of the significant decrease in world oil prices, we expect less demand for our geophysical services until oil prices rebound.

During the six months ended March 31, 2014 our onshore seismic segment collected overdue payments from a related party (Bolz LLP) in the amount of $3,154. In prior periods we created an allowance for this overdue trade account receivable from related parties. As a result we reversed this allowance during the six months ended March 31, 2014 for the amount of the repayment received. No similar transactions occurred during the six months ended March 31, 2015.

During the six months ended March 31, 2015 and 2014 we realized a foreign exchange transaction loss of $981 and $6,463, respectively. This decrease in loss is due to revaluation of our debt denominated in U.S. Dollars following a 20% devaluation of the Kazakh Tenge in February 2014. No such dramatic devaluation occurred during the six months ended March 31, 2015.

As a result of the foregoing, our comprehensive loss attributable to Caspian Services, Inc. decreased from $13,947 during the during the six months ended March 31, 2014 to $8,908 during the six months ended March 31, 2015.

Vessel Operations

During the six months ended March 31, 2015 revenue from vessel operations of $5,890 was in line with the results for the six months ended March 31, 2014. As the market reacts to the decline in world oil prices, we expect vessel revenues will be lower throughout the remainder of fiscal 2015 compared to the same period of fiscal 2014, and we do not expect significant growth in demand for our vessels in the Kazakhstan sector of the Caspian Sea until commencement of the second phase of the Kashagan oil field project and until world oil prices rebound. Therefore, we continue to seek opportunities to utilize our vessel fleet outside of Kazakhstan, in the Turkmen and Russian sectors of the Caspian Sea.

During the six months ended March 31, 2015 vessel operating costs of $3,824 were 21% lower than during the six months ended March 31, 2014, as we were able to improve the operational margins.

As a result of improved vessel operating margins we realized net loss of $334 from vessel operations during the six months ended March 31, 2015 compared to net loss of $607 during the six months ended March 31, 2014.

Geophysical Services

Revenue from geophysical services decreased 71% from $7,268 during the six months ended March 31, 2014 to $2,096 during the six months ended March 31, 2015. This is a result of completing six successful projects during the six months ended March 31, 2014 compared to two projects during the six months ended March 31, 2015. As a result of the significant decrease in world oil prices, we expect less demand for our geophysical services and correspondingly, lower geophysical services revenue until world oil prices rebound.

During the six months ended March 31, 2014 our onshore seismic segment collected overdue payments from a related party (Bolz LLP) in the amount of $3,154. In prior periods we created an allowance for this overdue trade account receivable from related parties. As a result we reversed this allowance during the six months ended March 31, 2014 for the amount of the repayment received.

During the six months ended March 31, 2014 we paid a bonus of $1,487 to Mr. Vasilenko, our General Manager of Geophysical Services, in recognition of his efforts to collect this overdue balance from Bolz LLP.

No similar transactions occurred during the six months ended March 31, 2015.

As a result of decreased activity in our onshore seismic business, net loss attributable to Caspian Services, Inc. from geophysical operations of $1,431 was accrued during the six months ended March 31, 2015 compared to net income attributable to Caspian Services, Inc. of $1,212 during the six months ended March 31, 2014.

The local market, from which much of our seismic work is generated, remains depressed as a result of the difficult credit market and reduced oil prices and we continue to struggle to obtain payment from overdue accounts from non-related parties.

We anticipate that fiscal 2015 will be worse than fiscal 2014 for seismic work as the credit required by local Kazakh companies to finance seismic projects remains elusive. In addition, decreasing world oil prices have resulted in many companies postponing further seismic works until oil prices rebound.

Marine Base Services

Our marine base services revenues decreased 36% to $776 during the six months ended March 31, 2015. During the six months ended March 31, 2015 we realized no revenue from MOBY compared to $665 during the six months ended March 31, 2014. As MOBY is now part of the Caspian Services group of companies, MOBY's intercompany revenue was eliminated during the consolidation process during the six months ended March 31, 2015.

The revenue generated from marine base services was insufficient to cover our fixed costs, including depreciation. Additionally, interest expense of $3,318 was accrued to reflect our liability under the EBRD loan, the potential accelerated put option and the portion of interest on the loans from Investor, which relate to the marine base.

During the six months ended March 31, 2015 we realized a marine base services loss of $4,924 compared to a loss of $8,686, during the six months ended March 31, 2015. The decrease in loss was mostly due to $7,131 of foreign exchange loss, which reflected from the revaluation of our debt to EBRD denominated in U.S. Dollars following a 20% devaluation of the Kazakh Tenge in February 2014. No such dramatic devaluation occurred during the six months ended March 31, 2015.

Although we have been able to enter into agreements with some customers to use our base's services we do not expect significant demand for the marine base until Kashagan field development and construction activity increases, which is currently anticipated to start in 2019. Until world oil prices rebound and activity in the Caspian Sea region increases significantly, we do not expect the marine base to be able to service its current debt obligations or to operate profitably.

Corporate Administration

During the six months ended March 31, 2015 net loss from corporate administration was $1,654, which is 4% lower than the loss realized during the six months ended March 31, 2014. This decrease in loss is mostly due to bonuses paid to Company management during the six months ended March 31, 2014. No such bonuses were paid during the six months ended March 31, 2015.

Depreciation

Depreciation expense increased by $179 or 8% to $2,456 during the six months ended March 31, 2015 compared to the six months ended March 31, 2014 mostly due to MOBY depreciation expense incurred during the six months ended March 31, 2015. As we acquired MOBY in August 2014 no such expense was incurred during the six months ended March 31, 2014.

General and Administrative Expenses

General and administrative expenses increased 8% or $307 to $4,357 during six months ended March 31, 2015. Excluding the effect of the reversed provision of $3,154 for Bolz LLP and $1,487 bonus paid to Mr. Vasilenko during the six months ended March 31, 2014, which were mentioned above, total general and administrative expenses for the six months ended March 31, 2015 would have decreased 24% or $1,360 compared to six months ended March 31, 2014. The decrease is mostly due to (i) the write-off $620 of other receivables due from Kazmorgeophisica to Tatarka during six months ended March 31, 2014, (ii) payment of $165 of retention bonuses to certain executive officers and (iii) payment of $70 of loyalty bonuses to non-executive officers recognized during six months ended March 31, 2014. No such expenses were recognized during the six months ended March 31, 2015.

Interest Expense

Interest expense of $4,473 for the six months ended March 31, 2015 was 13% higher than during the six months ended March 31, 2014. This increase is attributable to interest incurred on the MOBY-EBRD loan during the six months ended March 31, 2015. As we acquired MOBY in August 2014 we are now required to consolidate MOBY in our financial statements. Prior to August 2014 we were not required to recognize and expense related to the MOBY-EBRD loan.

Foreign Currency Transaction Loss

During the six months ended March 31, 2015 and 2014 we realized foreign currency transaction losses of $981 and $6,463, respectively. This decrease in loss is mostly due to revaluation of our EBRD loan denominated in U.S. Dollars following a 20% devaluation of the Kazakh Tenge in February 2014. No such dramatic devaluation occurred during the six months ended March 31, 2015.

It is our policy to try and match Euro costs with Euro income and we were able to reduce some of the loss as Euro costs for vessel rental were also lower. It is not our business to speculate on currency movements and we have not historically engaged in currency hedging.

Other Non-operating Income, Net

During the six months ended March 31, 2015 we realized net other non-operating income of $42 compared to $19 during the six months ended March 31, 2014.

Net Other Expenses

Net other expenses decreased 48% to $5,412 during the six months ended March 31, 2015. The decrease in net other expenses is mostly attributable to the decreased foreign currency translation loss resulting from the devaluation of the Kazakh Tenge during the six months ended March 31, 2014.

Benefit from Income Tax

During the six months ended March 31, 2015 we realized a benefit from income tax in the amount of $489 compared to $78 during the six months ended March 31, 2014. This difference was caused by the fact that our wholly-owned subsidiaries, CSG LLP and Tatarka, incurred more taxable loss during six months ended March 31, 2015 compared to the same six-month period ended March 31, 2014. In Kazakhstan each entity is taxed independently.

Net Loss Attributable to Caspian Services, Inc.

As a result of the aforementioned factors, during the six months ended March 31, 2015 we realized a net loss attributable to Caspian Services, Inc. of $8,343. By comparison, during six months ended March 31, 2014 we realized a net loss attributable to Caspian Services, Inc. of $9,801.

Comprehensive Loss Attributable to Caspian Services, Inc.

During the six months ended March 31, 2015 we realized a foreign currency translation adjustment of $84 and comprehensive loss attributable to non-controlling interest of $649, compared to a foreign currency translation adjustment of ($4,593) and comprehensive income attributable to non-controlling interests of $447 during six months ended March 31, 2014. As a result, comprehensive loss attributable to Caspian Services, Inc. was $8,908 during the six months ended March 31, 2015 compared to $13,947 during the six months ended March 31, 2014.

Liquidity and Capital Resources

At March 31, 2015 we had cash on hand of $1,480 compared to cash on hand of $1,957 at September 30, 2014. At March 31, 2015 total current liabilities exceeded total current assets by $91,097. This was mainly attributable to the EBRD loans and put option and the Investor Notes being classified as current liabilities.

In 2007 our subsidiary Balykshi entered into a series of debt and equity financing agreements with EBRD to provide funding for our marine base. As of March 31, 2015 the outstanding loan balance and accrued interest of the Balykshi loan was $26,714. The Balykshi loan matures in May 2015. The Balykshi financing agreements contain financial and other covenants, the violation of which could be deemed a default under those agreements. Pursuant to the terms of these financing agreements, following delivery of written notice to us of an event of default and the expiration of any applicable grace period, EBRD may declare all or any portion of this loan, together with all accrued interest, immediately due and payable or payable on demand. The Balykshi financing agreements provide that in the event any indebtedness of the Company in excess of $1,000 is declared or otherwise becomes due and payable prior to its specified maturity date, such may be deemed an event of default which would also allow EBRD to declare its loan immediately due and payable or payable on demand. The Balykshi loan is collateralized by the property, including the marine base, and bank accounts of Balykshi and CRE.

In connection with the Balykshi financing, EBRD also made a $10,000 equity investment to purchase a 22% equity interest in Balykshi. To secure that funding we were required to grant EBRD a put option whereby EBRD can require the Company to repurchase the 22% equity interest. The put is exercisable during the period from six to ten years after the signing of the Investment Agreement. The put price is determined based on the fair market value of Balykshi as mutually agreed by the parties, except that in the event of a default, EBRD has the right to accelerate the put option at a fixed rate of return as discussed in more detail below. In the event there is a change in control of the Company, EBRD may, but is not required to exercise its put right to require the Company to repurchase the equity interest at its fair market value.

The put option includes an acceleration right in the event: (i) any financial debt of Balykshi in excess of $1,000 is not paid when due, or a default of any nature occurs and such financial debt becomes prematurely due and payable or is placed on demand; (ii) any party to the financing agreements (other than EBRD) fails to meet its obligations under of any of the financing agreements between Balykshi, the Company and EBRD; (iii) any actions are taken or proceeding instituted that would result in the Company's bankruptcy, insolvency, reorganization or similar action, or the Company's consenting to any such action or proceeding; (iv) any representation or warranty made or confirmed by the Company or Balykshi is found to be false or misleading when made or confirmed. If the put option is accelerated, EBRD can require the Company to repurchase the $10,000 equity investment plus a 20% per annum rate of return.

In connection with the Balykshi financing agreements, the Company is obligated to provide financial assistance to Balykshi to meet its obligations and working capital needs. As noted above, we have agreed with local authorities to complete outstanding dredging work at the marine base within a reasonable period of time. Currently, Balykshi has insufficient funds to complete the dredging project. As the dredging was not completed in a reasonable period of time, Balykshi could be subject to certain penalties, including the cancelation of permits and termination of operational activities at the marine base until the dredging is completed. The failure by Balykshi or the Company to provide financing for, or to complete, the dredging works could constitute a default under the Balykshi-EBRD financing agreements.

In 2008 Balykshi entered into an agreement with the Investment Committee of the Republic of Kazakhstan and agreed to a schedule of work to be performed at the marine base. As of the date of this report, Balykshi has failed to complete approximately $3,800 of the agreed upon scheduled work, which could result in the cancellation of tax preferences granted to Balykshi by the Investment Committee.

As discussed above, under the terms of the Balykshi Loan Agreement, as amended, the semi-annual repayment installments under the Balykshi loan are due each year on November 20 and May 20. As of the date of this report none of the required installment payments has been made, which may constitute an event of default under the Balykshi Loan Agreement and may constitute a default under the Put Option Agreement. The default interest rate of the Balykshi loan of 9% is applied to the payments due but not paid.

As of March 31, 2015 the outstanding balance of the MOBY loan from EBRD was $6,153 including the accrued and unpaid interest. The interest rate under the MOBY loan is generally the interbank rate plus a margin of 3.6%. The MOBY Loan Agreement provides that during any period when the loan is in default, a default interest rate of the interbank rate plus a margin of 3.6% plus an additional 2% per annum shall be charged. The MOBY Loan Agreement provides for 14 equal semi-annual installment payments of principal and interest on June 15 and December 15, commencing after August 2011 (the third anniversary of the MOBY Loan Agreement.)

As of March 31, 2015 MOBY had made no semi-annual installment payments and was in violation of certain financial covenants under the MOBY Loan Agreement. Pursuant to the MOBY Loan Agreement, if an event of default occurs and is continuing, EBRD may, at its option, by notice to MOBY, declare all or any portion of the principal and accrued interest of the loan due and payable on demand, or immediately due and payable without further notice and without presentment, demand or protest.

To our knowledge EBRD has not sought to accelerate the debt obligations of MOBY or enforce the guarantee obligations of the Company under the Guarantee.

Should EBRD accelerate its loans to Balykshi or MOBY or its put option, or should it seek to enforce the MOBY loan guarantee, or our other financial obligations to it, we would have insufficient funds to satisfy those obligations collectively or individually. If we are unable to satisfy those obligations, EBRD could seek any legal remedy available to it to obtain repayment, including forcing the Company into bankruptcy, or foreclosing on the loan collateral, which includes the marine base and other assets and bank accounts of Balykshi and CRE.

We are engaged in ongoing discussions with EBRD about a potential restructuring of our obligations to EBRD. There is no guarantee we will be successful in negotiating, obtaining approval of or concluding definitive restructuring agreements with EBRD on favorable terms, or at all.

To help meet our additional funding obligations to construct the marine base, in 2008 we entered into two facility agreements pursuant to which we obtained debt funding of $30,000. In June and July 2011 Investor acquired the two facility agreements. In September 2011 we issued Investor two secured promissory notes, the Non-Negotiable Note in the principal amount of $10,800 and the Consolidated Note in the principal amount of $24,446 in connection with a proposed restructuring of the facility agreements. We agreed to secure these Notes with non-marine base assets that have not been pledged to EBRD.

Pursuant to the terms of the Non-Negotiable Note, Investor may, at any time, demand and receive payment of the Non-Negotiable Note by the issuance of our common stock. The price per share for principal and interest is $0.12. Investor has the right, at any time, to demand the issuance of shares in satisfaction of the Non-Negotiable Note. If the issuance of common stock has not been demanded by Investor or made at our election by the June 30, 2015 extended maturity date, we are required to repay the principal and interest in cash. We do not currently expect to have sufficient cash to repay the principal and interest of the Non-Negotiable Note if it were to reach the extended maturity date without having been satisfied through the issuance of our common stock.

Pursuant to the terms of the Consolidated Note, interest accrues at 12% per annum and shall be paid semi-annually in arrears on each six month anniversary of the Issuance Date (September 30, 2011). The unpaid principal amount of the Consolidated Note and any accrued but unpaid interest thereon shall be due and payable on the extended maturity date of the Consolidated Note, which is June 30, 2015. The Consolidated Note provides for a default rate of interest of 13% per annum upon the occurrence and during the continuation of an event of default, as defined in the Consolidated Note, which shall be payable in cash upon demand.

With the increase in our authorized common stock in May 2013 Investor now has the right at any time following a five-day written notice to convert all or any portion of the principal and any accrued but unpaid interest into shares of our common stock at $0.10 per share. However any conversion that would result in a change in control of the Company without the prior consent of EBRD could result in a breach of the Balykshi-EBRD financing agreements.

As of the date of this report none of the semi-annual interest payments under the Consolidated Note have been made to Investor when due. We have, however, made partial interest payments to Investor in the aggregate amount of $2,600 to reduce interest due on the Consolidated Note. The failure to pay the full interest on the Consolidated Note when due may constitute an event of default under the Consolidated Note. In the event of a default that remains uncured, Investor may, at any time, demand immediate repayment of the Consolidated Note. As a result, we have included the Consolidated Note and all accrued but unpaid interest as current liabilities at March 31, 2015. As of the date of this report, to our knowledge, Investor has not made any demand for immediate repayment of the Consolidated Note. As with EBRD, if Investor were to demand immediate repayment of the Consolidated Note, we would have insufficient funds to satisfy that obligation. Were that to occur, we anticipate Investor would seek any legal remedy available to him to obtain repayment.

While we have made significant efforts to increase our revenues and control our operating expenses, we continue to generate net losses. As noted above, we do not expect revenues from operations to improve significantly until world oil prices rebound and the second phase of the Kashagan development ramps up, which at this time is projected to occur in 2019. In order to diversify our operations, we have worked to enter the Turkmen and Russian markets. Unless we are able to exploit other new markets outside of Kazakhstan for our services, there is no guarantee we will be able to continue to sustain net losses until the second phase of Kashagan development ramps up. Moreover, we expect the recent significant decrease in world oil prices will have a negative impact on our revenues until such time as oil prices rebound.

Our ability to continue as a going concern is dependent upon, among other things, our ability to (i) successfully restructure our financial obligations to EBRD and Investor, (ii) increase our revenues and improve our operating results to a level that will allow us to service our financial obligations, and/or (iii) attract other significant sources of funding and a return to higher world oil prices. Uncertainty as to the outcome of each of these events raises substantial doubt about our ability to continue as a going concern.

Cash Flows

We typically realize decreasing cash flows during our first fiscal quarter and limited cash flow during our second fiscal quarter as weather conditions in the north Caspian Sea dictate when oil and gas exploration and development work can be performed. Usually, the work season commences in late March or early April and continues until the Caspian Sea ices over in November. As a result, other than TatArka, which can continue to provide some onshore geophysical services between November and March and the receipt of winter standby rates on vessels, we generate very little revenue from November to March each year.

The following table provides an overview of our cash flow during the three months ended March 31, 2015 and 2014.

	Period ended March 31, 2015	2014
Net cash provided by operating activities	$ 371	$ 6,877
Net cash used in investing activities	(55)	(3,002)
Net cash used in financing activities	(300)	(300)
Effect of exchange rate changes on cash	(493)	(4,525)
Net Change in Cash	$ (477)	$ (950)

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Net cash flow from operations for the six months ended March 31, 2015 was positive, mostly due to a decrease in trade accounts receivable of $4,977, which was partially off-set by the increase in short-term notes from related parties of $3,006 and deferred tax assets of $1,024.

Net cash used in financing activities during the six months ended March 31, 2015 represents partial payment of interest due to Investor under the Notes.

		Payment Period			
Contractual Commitments	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 years
Loans from Investor	$ 45,572	$ 45,572	$ -	$ -	$ -
Loans from EBRD	32,867	32,867	-	-	-
Accelerated put option liability	22,641	22,641	-	-	-
Operating leases - vessels	6,719	641	1,673	1,723	2,682
Operating leases - other	477	190	285	2	-
Total	$108,276	$101,911	$ 1,958	$ 1,725	$ 2,682

Item 3. Qualitative and Quantitative Disclosures About Market Risk

Because we are a smaller reporting company, we are not required to provide the information required by this Item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this quarterly report on Form 10-Q our disclosure controls and procedures were effective in (i) recording, processing, summarizing and reporting, information required to be disclosed by us in the reports we file or submit under the Exchange Act within the time periods specified in the Commission’s rules and forms and (ii) ensuring that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2015 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of our business. Excluding ordinary routine litigation incidental to our business, we are not currently a party to any legal proceedings that we believe would reasonably be expected to have a materially adverse effect on our business, financial condition or results of operations.

Item 1A. Risk Factors

We believe there are no additions to the risk factors disclosed in our annual report on Form 10-K for the year ended September 30, 2014 filed on January 13, 2015.

Item 3. Defaults Upon Senior Securities

See Note 1 – Business Condition to the condensed consolidated financial statements included in this quarterly report on Form 10-Q.

Item 6. Exhibits

Exhibits. The following exhibits are included as part of this report:

Exhibit No.	Description of Exhibit
Exhibit 31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 101	The following financial information from the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2015 formatted in XBRL (eXtensive Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss), (iii) the Condensed Consolidated Statements of Cash Flows, and (v) the Notes to the Condensed Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CASPIAN SERVICES, INC.

Date: May 20, 2015	By:	/s/ Alexey Kotov Alexey Kotov Chief Executive Officer
Date: May 20, 2015	By:	/s/ Indira Kaliyeva Indira Kaliyeva Chief Financial Officer