

CASPIAN SERVICES INC

FORM 10-Q (Quarterly Report)

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Address	2319 FOOTHILL BOULEVARD SUITE 160 SALT LAKE CITY, UT, 84109
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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 June 30, 2016

☐ [] 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 ☒ No ☐

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 ☒ No ☐

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a
smaller reporting company)

Smaller reporting company ☒

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

As of August 10, 2016, 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)

	June 30, 2016 (Unaudited)	September 30, 2015
Current Assets		
Cash	\$ 1,229	\$ 1,372
Trade accounts receivable, net of allowance of \$1,394 and \$3,510, respectively	5,220	5,480
Trade accounts receivable from related parties, net of allowance of \$221 and \$296, respectively	330	211
Short-term notes from related parties	2,195	2,195
Other receivables, net of allowance of \$131 and \$490, respectively	126	339
Inventories	721	906
Property held for sale, net of allowance of \$576 and \$722, respectively	24	30
Prepaid taxes	119	6
Advances paid, net of allowance of \$16 and \$19, respectively	126	193
Deferred tax assets	339	552
Prepaid expenses and other current assets	141	170
Total Current Assets	10,570	11,454
Vessels, equipment and property, net	19,805	26,716
Drydocking costs, net	1,095	124
Long-term deferred tax assets	2,321	2,478
Goodwill	101	127
Intangible assets, net	26	38
Long-term prepaid taxes	748	1,630
Long-term other receivables, net of current portion	235	525
Total Assets	\$ 34,901	\$ 43,092
LIABILITIES AND DEFICIT		
Current Liabilities		
Accounts payable	\$ 1,983	\$ 2,240
Accounts payable to related parties	93	59
Accrued expenses	1,691	1,309
Taxes payable	441	303
Deferred revenue	-	336
Accelerated put option liability	25,135	23,644
Long-term debt - current portion	87,691	81,972
Total Current Liabilities	117,034	109,863
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	(110,651)	(94,501)
Accumulated other comprehensive loss	(16,560)	(20,815)
Deficit attributable to Caspian Services, Inc. Shareholders	(62,326)	(50,431)
Deficit attributable to noncontrolling interests	(19,807)	(16,340)
Total Deficit	(82,133)	(66,771)
Total Liabilities and Deficit	\$ 34,901	\$ 43,092

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 June 30,		For The Nine Months Ended June 30,	
	2016	2015	2016	2015
Revenues				
Vessel revenues	\$ 4,750	\$ 2,244	\$ 10,367	\$ 8,134
Geophysical service revenues (which includes \$0 from related parties for the three and nine months ended June 30, 2016 and \$746 and \$1,632 from related parties for the three and nine months ended June 30, 2015)	12	746	12	2,842
Marine base service revenues (which includes \$28 and \$119 from related parties for the three and nine months ended June 30, 2016, and \$211 and \$269 from related parties for the three and nine months ended June 30, 2015, respectively)	249	278	744	1,054
Total Revenues	5,011	3,268	11,123	12,030
Operating Expenses				
Vessel operating costs	1,633	1,498	4,768	5,322
Cost of geophysical service revenues (which includes \$0 to related parties for the three and nine months ended June 30, 2016, and \$37 to related parties for the three and nine months ended June 30, 2015)	184	783	600	2,616
Cost of marine base service	174	123	454	484
Depreciation and amortization	763	1,184	2,251	3,640
General and administrative expense	1,166	1,386	4,203	5,732
Total Costs and Operating Expenses	3,920	4,974	12,276	17,794
Income (Loss) from Operations	1,091	(1,706)	(1,153)	(5,764)
Other Income (Expense)				
Interest expense	(2,471)	(2,340)	(7,573)	(6,813)
Foreign currency transaction income (loss)	768	(147)	(11,187)	(1,128)
Other non-operating income, net	487	79	179	127
Net Other Expense	(1,216)	(2,408)	(18,581)	(7,814)
Loss from Continuing Operations Before Income Tax	(125)	(4,114)	(19,734)	(13,578)
Benefit from (provision for) income tax	(138)	638	323	1,125
Net Loss from Continuing Operations	(263)	(3,476)	(19,411)	(12,453)
Loss from discontinued operations	-	(7)	-	(22)
Net Loss	(263)	(3,483)	(19,411)	(12,475)
Net loss (income) attributable to noncontrolling interests	(160)	(3)	3,261	646
Net Loss Attributable to Caspian Services, Inc	\$ (423)	\$ (3,486)	\$ (16,150)	\$ (11,829)
Other Comprehensive Income (Loss)				
Foreign currency translation adjustment	(845)	10	4,255	94
Comprehensive Loss	(1,268)	(3,476)	(11,895)	(11,735)
Comprehensive income (loss) attributable to non-controlling interest	(84)	3	(206)	(646)
Comprehensive Loss Attributable to Caspian Services, Inc	\$ (1,352)	\$ (3,473)	\$ (12,101)	\$ (12,381)
Basic and diluted loss per share from continuing operations	(0.01)	(0.07)	(0.31)	(0.22)
Basic and diluted loss per share from discontinued operations	-	-	-	-
Basic and Diluted Loss per Share	\$ (0.01)	\$ (0.07)	\$ (0.31)	\$ (0.22)
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.

CASPIAN SERVICES, INC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Dollars in thousands, except share and per share data)

	For the Nine Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	\$ (19,411)	\$ (12,475)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,251	3,640
Accrued interest on accelerated put option	1,491	1,491
Foreign currency transaction loss	11,187	1,128
Changes in current assets and liabilities:		
Trade accounts receivable	(904)	3,647
Trade accounts receivable from related parties	36	(1,123)
Other receivables	219	175
Inventories	2	(35)
Prepaid taxes	(119)	1,098
Advances paid	49	257
Deferred tax assets	122	(1,629)
Prepaid expenses and other current assets	13	80
Long-term prepaid taxes	641	116
Long-term other receivables, net of current portion	71	(153)
Accounts payable	(39)	(53)
Accrued expenses	6,670	6,322
Taxes payable	204	(177)
Deferred revenue	(275)	57
Long-term deferred income tax liability	(36)	(79)
Net cash provided by operating activities	\$ 2,172	\$ 2,287
Cash flows from investing activities:		
Short-term notes from related parties	(455)	(2,882)
Payments to purchase vessels, equipment and property	(1,695)	(119)
Net cash used in investing activities	\$ (2,150)	\$ (3,001)
Cash flows from financing activities:		
Payments on long-term debt	(300)	(450)
Net cash used in financing activities	\$ (300)	\$ (450)
Effect of exchange rate changes on cash	135	(597)
Net change in cash	(143)	(1,761)
Cash at beginning of period	1,372	1,957
Cash at end of period	\$ 1,229	\$ 196
Supplemental disclosure of cash flow information:		
Cash paid for interest	300	450
Non-cash capital expenditures	\$ -	\$ 1,728

See accompanying notes to the condensed consolidated financial statements.

CASPIAN SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 (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, 2016. Operating results for the nine-month period ended June 30, 2016, are not necessarily indicative of the results that may be expected for the year ending September 30, 2016.

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 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 (the “Balykshi Loan”). 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 default 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 default 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
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 (UNAUDITED)

(Dollars in thousands, except share and per share data)

The Balykshi Loan matured in May 2015. As of the date of this report, none of the required repayment installments have been made and the principal and accrued interest is due and payable in full. The Company has included the Balykshi Loan and all accrued interest as a current liability at June 30, 2016 and September 30, 2015. The failure to pay the principal or interest on the Balykshi Loan may constitute an event of default under the Put Option Agreement which could trigger the acceleration clause contained in the Put Option Agreement. The acceleration clause 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 would be obligated to repay the initial investment plus a 20% annual rate of return. The balance of the accelerated put option liability was \$25,135 and \$23,644 as of June 30, 2016 and September 30, 2015, respectively. This balance includes the 20% rate of return on the \$10,000 investment and is classified as a current liability. As of the date of this report, to the Company's knowledge, EBRD has not sought to exercise the put option acceleration clause.

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, 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 repayment 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. The Investor has the right, at any time, to demand the issuance of shares in satisfaction of the Non-Negotiable Note. The maturity date of the Non-Negotiable Note was June 30, 2016. Subsequent to the end of the third fiscal quarter 2016 the maturity date was changed to June 30, 2017. If the issuance of common stock has not been demanded by Investor or made at the election of the Company by the June 30, 2017, maturity date, the Company is required to 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. The maturity date of the Consolidated Note was changed to June 30, 2017 subsequent to the end of the third fiscal quarter 2016.

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 repayments required under the Consolidated Note have been made when due. The Company has, however, made partial payments to Investor totaling \$3,420 in reduction of Consolidated Note balance due as of the date of this report.

The failure to make the semi-annual repayments 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 June 30, 2016 and September 30, 2015. As of the date of this report, to the Company's knowledge, Investor has not demanded immediate repayment of the Consolidated Note.

CASPIAN SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 (UNAUDITED)

(Dollars in thousands, except share and per share data)

In August 2008, MOBY entered into a loan agreement with EBRD (the "MOBY Loan"). In connection with the MOBY 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 \$6,589 and \$6,314 as of June 30, 2016 and September 30, 2015, 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 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 provides for 14 equal semi-annual installment payments of principal and interest on June 15 and December 15, commencing from August 2011. As of June 30, 2016 and September 30, 2015, MOBY had made no semi-annual installment payments and was in violation of certain financial covenants under the MOBY Loan. Pursuant to the MOBY Loan, 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 MOBY 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 a default or to increase or accelerate the debt obligations of MOBY or the Guarantee obligation of the Company. Should EBRD determine to take action, MOBY would not have sufficient funds to repay the MOBY Loan, nor would the Company have sufficient funds to repay the MOBY Loan or its portion of the Guarantee.

Should EBRD or Investor determine to collect or 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 anticipated operating results, current world oil prices, the difficult credit and equity markets and the Company's current financial condition, the Company believes it would be extremely difficult to obtain new funding to satisfy these obligations. If the Company were unable 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 Balykshi 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, in addition to pursuing other Company assets. As of June 30, 2016, the book value of collateralized assets was approximately \$16,202. 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, and (iv) a return to higher world oil prices. 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

June 30, 2016 (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.

Discontinued Operations – During fiscal 2015, the Company discontinued operations in its Kazakhstan subsidiary, CSI LLP (“CSI KZ”). Upon determining to discontinue CSI KZ, all prior periods presented have been restated to separately account for the discontinued operations. The entire loss from discontinued operations is attributable to the Company.

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.

At June 30, 2016, the Company had 492,336,667 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.

At June 30, 2015, the Company had 800,000 options outstanding and 447,383,333 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 receivable 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

CASPIAN SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 (UNAUDITED)

(Dollars in thousands, except share and per share data)

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 have occurred and that such could trigger EBRD's accelerated put right, we have reflected an accelerated put option liability of \$25,135, 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. At June 30, 2016 and September 30, 2015, the Company had \$0 and \$336, respectively, of deferred revenue related to these prepaid services.

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

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.

CASPIAN SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 (UNAUDITED)

(Dollars in thousands, except share and per share data)

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 US GAAP 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 June 30, 2016 and 2015, 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.

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 CSDL, 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. Their respective balance sheets have been translated into USD at the exchange rates prevailing at each balance sheet date. Their respective statements of 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.

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The translation of KZT 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 Kazakh subsidiaries' capital to its shareholders.

In August 2015, the National Bank of the Republic of Kazakhstan elected to change its currency policy to make the KZT free floating, which caused the KZT to fall sharply against the USD. As a result of this devaluation, during the nine months ended June 30, 2016, the Company recorded a foreign exchange transaction loss of \$11,187 mostly as a result of the remeasurement of the Balykshi Loan and MOBY Loan which are denominated in U.S. Dollars. No such event occurred during the nine months ended June 30, 2015.

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 condensed consolidated statements of comprehensive income (loss) and consists of foreign currency translation adjustments.

Concentration of Revenue – During the nine months ended June 30, 2016, vessel revenue from three customers represented approximately 79% of total vessel revenue as follows, Customer A – 34%; Customer B – 26%; and Customer C – 19%.

During the nine months ended June 30, 2016, marine base revenue from four customers represented 60% of total marine base revenue as follows, Customer A – 21%; Customer B – 16%; Customer C – 13%; and Customer D – 10%.

Reclassification – Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

Recent Accounting Pronouncements –

In January 2015, the FASB issued ASU 2015-01, Income Statement — Extraordinary and Unusual Items (Subtopic 225-20). This update eliminates from GAAP the concept of extraordinary items. Subtopic 225-20, Income Statement—Extraordinary and Unusual Items, required that an entity separately classify, present, and disclose extraordinary events and transactions. Presently, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. Paragraph 225-20-45-2 contains the following criteria that must both be met for extraordinary classification, (1) unusual nature - the underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates; and (2) infrequency of occurrence - the underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates. The amendments in ASU 2015-01 are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The Company is evaluating the impact of this ASU on the Company's financial statements.

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In February 2015, the FASB issued Accounting Standards Update No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which changes the analysis to be performed in determining whether certain types of legal entities should be consolidated. Under the revised guidance, all legal entities are subject to reevaluation under the revised consolidation model, unless a scope exception applies. Though the revised guidance mostly affects asset managers, all reporting entities involved with limited partnerships or similar entities are required to reevaluate such entities for consolidation. The guidance is effective for public business entities for fiscal years and for interim periods within those fiscal years beginning after December 15, 2015. The Company is evaluating the impact of this update on its financial statements.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, as part of its simplification initiative to reduce the cost and complexity in accounting standards. The ASU requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the related liability. The treatment is consistent with the current presentation of debt discounts or premiums. For public business entities, the guidance is effective for financial statements covering fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The amended guidance must be applied on a retrospective basis and has not materially affected the Company's operating results or financial position.

In May 2015, the FASB issued Accounting Standards Update No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory, which requires entities who value inventory using the first-in, first-out or average cost method to measure inventory at the lower of cost and net realizable value. For public business entities, the amended guidance is effective for fiscal years beginning after December 15, 2016, and for interim periods within those years. The amended guidance must be applied on a prospective basis. The Company is evaluating the impact of this update on its financial statements.

In May 2015, the FASB issued ASU 2015-08, Business Combinations – Pushdown Accounting – Amendment to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115. This update was issued to amend various SEC paragraphs pursuant to the issuance of Staff Accounting Bulletin No. 115. This ASU is not expected to have a significant impact on the Company's financial statements.

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In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606). The amendments in this update defer the effective date of ASU 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. All other entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Company is evaluating the effect of adopting this new ASU.

In August 2015, the FASB issued ASU 2015-15, Interest – Imputation of Interest (Subtopic 835-30): Presentation And Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting. This ASU adds SEC paragraphs pursuant to the SEC Staff Announcement at the June 18, 2015, Emerging Issues Task Force meeting about the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. This ASU is not expected to have a significant impact on the Company's financial statements.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805). The amendments in this update require that an acquirer recognizes adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this update require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in this update require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. For all other entities, the amendments in this update are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. This ASU is not expected to have a significant impact on the Company's financial statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases. Under the new guidance a lessee will be required to recognize assets and liabilities for leases with lease terms more than 12 months, whether that lease be classified as a capital or operating lease. This update is effective in annual reporting periods beginning after December 15, 2018 and the interim periods within that year. The Company will be evaluating the impact of this update as it pertains to the Company's financial statements and other required disclosures on an on-going basis until its eventual adoption and incorporation.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Compensation – Stock Compensation. The update will simplify certain aspects of the accounting for share-based payment transactions, including income taxes, classification of awards and classification in the statement of cash flows and forfeitures. This update will be effective for the Company beginning in its first quarter of 2018. The Company is currently evaluating the impact of adopting the new stock compensation standard on its consolidated financial statements.

Subsequent Events – The Company's management has evaluated subsequent events through the date the financial statements were issued. Please, refer to Note 8 for details.

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.

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NOTE 3 — NOTES PAYABLE

Notes payable consist of the following:

	June 30, 2016	September 30, 2015
Secured non-negotiable promissory note payable to Investor; interest at 0.26% due June 30, 2017	\$ 10,934	\$ 10,913
Secured convertible consolidated promissory note payable to Investor; interest at 12% (default interest at 13%) due June 30, 2017	40,122	36,777
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	30,046	27,968
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)	6,589	6,314
Total Long-term Debt	87,691	81,972
Less: Current Portion	(87,691)	(81,972)
Long-term Debt - Net of Current Portion	\$ -	\$ -

Notes Payable to Investor

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. Based on the third amendment signed in July 2016, the Non-Negotiable Note matures on June 30, 2017 (the Maturity Date). If the issuance of common stock had not been demanded by Investor or made at the election of the Company by the Maturity Date the Company is required to 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 Maturity Date.

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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. The unpaid principal amount of the Consolidated Note, and any accrued but unpaid interest thereon, is due and payable on June 30, 2017, based on the third amendment signed in July 2016.

As of the date of this report, none of the semi-annual payments have been made on the date they were due. The failure to make the semi-annual payments 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 June 30, 2016 and September 30, 2015.

During fiscal 2013, the Company paid \$1,600 to Investor, which was credited as a reduction of balance due under the Consolidated Note. During fiscal 2014, Investor was paid \$700. During fiscal 2015 Investor was paid \$450. During the nine months ended June 30, 2016, Investor was paid \$300 and subsequent to the third fiscal quarter 2016 \$370 more was paid.

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

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 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.

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Loans Payable to EBRD

Balykshi Loan

The Balykshi Loan matured in May 2015. As of the date of this report, none of the repayment installments have been made by the Company and the principal and accrued interest is currently due and payable in full. The Balykshi Loan Agreement provides that if Balykshi fails to pay when due any amount payable by it under the Balykshi Loan, the overdue amount shall bear interest at a rate that is 2% higher than the non-default rate of interest.

As the Balykshi Loan is secured, in the event of a failure to repay the loan, EBRD has the right to foreclose on the assets and bank accounts of Balykshi and CRE, including the marine base, and to pursue the other assets of the Company.

MOBY Loan

As of June 30, 2016, the outstanding balance of the MOBY Loan was \$6,589, 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 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 provides for 14 equal semi-annual installment payments of principal and interest on June 15 and December 15, commencing after August 2011.

As of June 30, 2016 and September 30, 2015, MOBY had made no installment payments and was in violation of certain financial covenants under the MOBY Loan. 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 default 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 its 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

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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, monetary policy 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.

Legislation and regulations regarding taxation, foreign currency translation, and licensing of foreign currency loans in the Republic of Kazakhstan continue to evolve. Such legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual.

NOTE 5 — RELATED PARTY TRANSACTIONS

Revenues and expenses from transactions with related parties for the nine months ended June 30, 2016 and 2015, consisted of the following:

Related Party's Name	Description	For the period ended June 30,	
		2016	2015
Sequa Petroleum	Seismic services revenue	\$ -	\$ 1,632
Sayat Media	Revenue from agent for marine base services	119	259
Other revenue/ (expenses)	Other services	59	10
TOTAL		\$ 178	\$ 1,901

Accounts receivable from related parties as of June 30, 2016 and September 30, 2015, consisted of the following:

Related Party's Name	Description	June 30, 2016	September 30, 2015
Sayat Media	Receivable from agent for marine base services	\$ 153	\$ 104
Demeu Energy	Advance given for vehicles delivery	148	185
Bolz LLP	Long term advances given	104	-
Caspian Geo Consulting	Advance given for equipment delivery	74	185
KazEnergy Solutions	Advance given for equipment delivery	72	-
Sequa Petroleum	Seismic services	-	33
	Allowance for doubtful accounts	(221)	(296)
TOTAL		\$ 330	\$ 211

Accounts payable to related parties as of June 30, 2016 and September 30, 2015, consisted of the following:

Related Party's Name	Description	June 30, 2016	September 30, 2015
Sayat Media	Other services	\$ 83	\$ 10
Others	Others	10	49
TOTAL		\$ 93	\$ 59

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Short-term notes from related parties as of June 30, 2016 and September 30, 2015, consisted of the following:

Related Party's Name	Description	June 30, 2016	September 30, 2015
Caspian Geo Consulting	Notes Receivable	\$ 2,195	\$ 2,195
TOTAL		\$ 2,195	\$ 2,195

Caspian Geo-Consulting Services LLP (“Caspian Geo”) – During the period from November 2014 to September 2015, CSG LLP and Tatarka provided financial assistance to Caspian Geo. The aggregate outstanding amount of the financial assistance loans provided to Caspian Geo as of June 30, 2016 and September 30, 2015, was \$2,195 and \$2,195. Initially, the loans were scheduled to mature one year from issuance. It is normal practice in Kazakhstan not to charge a rate of interest on financial assistance loans, therefore the loans bear no interest except in the event of a default by Caspian Geo, in which case an 18% per annum default penalty may be applied.

On January 11, 2016, the Company entered into a Master Financial Assistance Repayment Agreement with Caspian Geo, (the “Repayment Agreement”). Pursuant to the Repayment Agreement, the Company and Caspian Geo agreed to consolidate the previously provided financial assistance loans into a single US dollar denominated outstanding amount of \$2,195. The Repayment Agreement provides for minimum monthly payments of KZT 50,000 from January 2016 through November 2016, and by no later than December 30, 2016, Caspian Geo is required to pay any remaining unpaid balance of the outstanding amount.

The financial assistance loans have been used by Caspian Geo to explore for gold ore within the Shoymibai Deposit located in the Karaganda Oblast of the Republic of Kazakhstan (the “Deposit”) and to prove the reserves of the Deposit to allow Caspian Geo and the holders of the exploration license to the Deposit to prepare the required submission to apply for a subsoil use contract for the production of gold ore from the Deposit. The application for the Subsoil Use Contract has been submitted to the competent authority of the Republic of Kazakhstan and, in May 2016, the Company was informed that the Subsoil Use Contract has been granted to Caspian Geo. Caspian Geo plans to pursue commercial production of gold ore from the Deposit.

In addition to repayment of the previously provided financial assistance, the Company holds a participation interest right pursuant to which the Company will receive 20% of the total amount received by Caspian Geo, which in no event shall be less than 10% of the total amount distributed to the holders of the Subsoil Use Contract, from the sale of gold ore from the Deposit (the “Participation Interest”) from the date of the Repayment Agreement until seven years from the date of commencement of production following a commercial discovery at the Deposit. In the event the Company’s Participation Interest has not been converted or exchanged, following repayment in full of the \$2,195, Caspian Geo has the right until January 9, 2018, to retire the Participation Interest in exchange for a lump sum payment of \$1,825. The Company also has the right, at any time prior to retirement of the Participation Interest, to convert its Participation Interest into a 12.5% equity interest in the entity holding the Subsoil Use Contract should it become a public company or, in the event of a sale of the Subsoil Use Contract, to exchange the Participation Interest for 12.5% of the proceeds received by Caspian Geo in connection with such sale.

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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 the 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 June 30, 2016 and September 30, 2015, 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 \$1,491 change during the nine months ended June 30, 2016, 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 assets.

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 nine months ended June 30, 2016.

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Description	June 30, 2016	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
Property held for sale	\$ 24	\$ -	\$ -	\$ 24
Put option liability	25,135	-	-	25,135
Total	\$ 25,159	\$ -	\$ -	\$ 25,159

Description	September 30, 2015	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
Property held for sale	\$ 30	\$ -	\$ -	\$ 30
Put option liability	23,644	-	-	23,644
Total	\$ 23,674	\$ -	\$ -	\$ 23,674

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:

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2016	2015	2016	2015
Capital Expenditures				
Vessel Operations	\$ 29	\$ 64	\$ 1,494	\$ 242
Geophysical Services	199	(7)	199	1,728
Marine Base Services	2	-	2	2
Total segments	230	57	1,695	1,972
Corporate assets	-	-	-	-
Less intersegment investments	-	1	-	(125)
Total consolidated	\$ 230	\$ 58	\$ 1,695	\$ 1,847

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	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2016	2015	2016	2015
Revenues				
Vessel Operations	\$ 5,033	\$ 2,620	\$ 11,137	\$ 9,128
Geophysical Services	12	746	12	2,842
Marine Base Services	2,242	2,205	5,605	5,792
Total segments	7,287	5,571	16,754	17,762
Corporate revenue	-	-	-	-
Less intersegment revenues	(2,276)	(2,303)	(5,631)	(5,732)
Total consolidated	\$ 5,011	\$ 3,268	\$ 11,123	\$ 12,030
Depreciation and Amortization				
Vessel Operations	\$ (368)	\$ (408)	\$ (1,003)	\$ (1,300)
Geophysical Services	(174)	(405)	(578)	(1,199)
Marine Base Services	(220)	(371)	(668)	(1,140)
Total segments	(762)	(1,184)	(2,249)	(3,639)
Corporate depreciation and amortization	(1)	-	(2)	(1)
Total consolidated	\$ (763)	\$ (1,184)	\$ (2,251)	\$ (3,640)
Interest expense				
Vessel Operations	\$ -	\$ -	\$ -	\$ -
Geophysical Services	-	-	-	-
Marine Base Services	(1,778)	(1,723)	(5,582)	(5,041)
Total segments	(1,778)	(1,723)	(5,582)	(5,041)
Corporate interest expense	(693)	(617)	(1,991)	(1,772)
Total consolidated	\$ (2,471)	\$ (2,340)	\$ (7,573)	\$ (6,813)
Income/(Loss) Before Income Tax				
Vessel Operations	\$ 1,950	\$ (336)	\$ 3,374	\$ (826)
Geophysical Services	(221)	(776)	(1,742)	(2,542)
Marine Base Services	(1,330)	(2,340)	(18,875)	(7,913)
Total segments	399	(3,452)	(17,243)	(11,281)
Corporate loss	(524)	(662)	(2,491)	(2,297)
Total consolidated	\$ (125)	\$ (4,114)	\$ (19,734)	\$ (13,578)

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	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2016	2015	2016	2015
Benefit from (Provision for) Income Tax				
Vessel Operations	\$ (192)	\$ 483	\$ 166	\$ 639
Geophysical Services	54	155	157	490
Marine Base Services	-	-	-	-
Total segments	(138)	638	323	1,129
Corporate provision for income tax	-	-	-	(4)
Total consolidated	\$ (138)	\$ 638	\$ 323	\$ 1,125
Loss from discontinued operations				
Vessel Operations	\$ -	\$ -	\$ -	\$ -
Geophysical Services	-	-	-	-
Marine Base Services	-	-	-	-
Total segments	-	-	-	-
Corporate	-	(7)	-	(22)
Total consolidated	\$ -	\$ (7)	\$ -	\$ (22)
Loss/ (Income) attributable to Noncontrolling Interests				
Vessel Operations	\$ -	\$ -	\$ -	\$ -
Geophysical Services	-	-	-	-
Marine Base Services	(160)	(3)	3,261	646
Total segments	(160)	(3)	3,261	646
Corporate noncontrolling interest	-	-	-	-
Total consolidated	\$ (160)	\$ (3)	\$ 3,261	\$ 646
Net (Loss)/ Income attributable to Caspian Services Inc.				
Vessel Operations	\$ 1,758	\$ 147	\$ 3,540	\$ (187)
Geophysical Services	(167)	(621)	(1,585)	(2,052)
Marine Base Services	(1,490)	(2,343)	(15,614)	(7,267)
Total segments	101	(2,817)	(13,659)	(9,506)
Corporate loss	(524)	(669)	(2,491)	(2,323)
Total consolidated	\$ (423)	\$ (3,486)	\$ (16,150)	\$ (11,829)
Segment Assets			June 30, 2016	September 30, 2015
Vessel Operations			\$ 17,295	\$ 16,430
Geophysical Services			7,377	10,611
Marine Base Services			49,301	55,726
Total segments			73,973	82,767
Corporate assets			1,245	673
Less intersegment investments			(40,317)	(40,348)
Total consolidated			\$ 34,901	\$ 43,092

NOTE 8 — SUBSEQUENT EVENTS

In July 2016, the Company paid \$370 to Investor, which was credited to reduce the Non-Negotiable Note balance due.

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

Throughout this report, unless otherwise indicated by the context, references herein to “we,” “our,” and “us” mean Caspian Services, Inc., a Nevada corporation, and our subsidiaries and predecessors. 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 (\$) refer to U.S. dollars.

The following discussion is intended to assist you in understanding our results of operations and our present financial condition. Our unaudited condensed consolidated financial statements and the accompanying notes included in this quarterly report on Form 10-Q contain additional information that should be referred to when reviewing this material and this document should be read in conjunction with our financial statements and the related notes contained elsewhere in this report and in our other filings with the U.S. Securities and Exchange Commission (the “Commission”), including our annual report on Form 10-K for the year ended September 30, 2015, and our other filings with 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, the commodity price environment, economic conditions in the markets where we operate, the availability to our customers of financing to pursue projects, our ability to restructure our existing debts, changes in the composition of the services we offer, future revenues, expenses, capital expenditures, results of operations, liquidity and capital resources or cash flows, foreign currency exchange risk, 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 terminology are 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, commodity price fluctuations, market economic conditions, the availability of funding, market factors, market prices, future revenues and costs, unsettled political conditions, civil unrest and governmental actions, foreign currency fluctuations and local currency devaluations, 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 prolonged 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 2016, compared to the same periods of fiscal 2015. Current projections place commencement of the second phase of development of the Kashagan oil field some time in 2019. 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 materially. We continue to work to expand our vessel operations to Turkmenistan and Russian sectors of Caspian Sea in hopes of replacing some of the lost demand in Kazakhstan for our vessels.

During the nine months ended June 30, 2016, we operated three business segments: Vessel Operations, Geophysical Services and Marine Base Services.

	For the Three Months Ended June 30,			For the Nine Months Ended June 30,		
	2016	2015	% change	2016	2015	% change
VESSEL OPERATIONS						
Operating Revenue	\$ 5,033	\$ 2,620	92%	\$ 11,137	\$ 9,128	22%
Pretax Operating Income (Loss)	1,950	(336)	-680%	3,374	(826)	-508%
GEOPHYSICAL SERVICES						
Operating Revenue	\$ 12	\$ 746	-98%	\$ 12	\$ 2,842	-100%
Pretax Operating Loss	(221)	(776)	-72%	(1,742)	(2,542)	-31%
MARINE BASE SERVICES						
Operating Revenue	\$ 2,242	\$ 2,205	2%	\$ 5,605	\$ 5,792	-3%
Pretax Operating Loss	(1,330)	(2,340)	-43%	(18,875)	(7,913)	139%
CORPORATE ADMINISTRATION						
Operating Revenue	\$ -	\$ -	n/a	\$ -	\$ -	n/a
Pretax Operating Loss	(524)	(662)	-21%	(2,491)	(2,297)	8%

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 June 30, 2016, compared to the three months ended June 30, 2015

Total revenue during the three months ended June 30, 2016, was \$5,011 compared to \$3,268 during the three months ended June 30, 2015, an increase of 53%, while total costs and operating expenses decreased 21% during the three months June 30, 2016, compared to the same period 2015.

Vessel revenues were up 112% due to more utilization of our vessels in the third fiscal quarter 2016. During the same period, vessel operating costs increased 9%. We expect demand for our vessels to be flat or lower during the remainder of fiscal 2016 compared to fiscal 2015.

Revenue from geophysical services decreased 98% from \$746 during the third fiscal quarter 2015, to \$12 during the third fiscal quarter 2016. We completed one successful project during the third fiscal quarter 2015. By comparison, during the third fiscal quarter 2016, we engaged in a small one-time project. We were able to reduce our cost of geophysical services during the three months ended June 30, 2016 by 77%. As a result of the significant decrease in world oil prices and the difficult local credit market, we expect less demand for our geophysical services until oil prices rebound and the local credit market improves.

Marine base service revenues were 10% lower and cost of marine base services revenue was 41% higher during the third fiscal quarter 2016, mostly due to fewer vessel standby contracts which resulted in the generation of less revenue. We expect demand for our marine base to be lower throughout the remainder of fiscal 2016 as compared to fiscal 2015.

During the three months ended June 30, 2016, we also realized a 36% decrease in depreciation and amortization and a 16% decrease in general and administrative expenses.

During the third fiscal quarter 2016, we realized a net loss attributable to Caspian Services of \$423 compared to \$3,486 during the same period 2015. Our comprehensive loss attributable to Caspian Services, Inc. decreased from \$3,473 during the third fiscal quarter 2015, to \$1,352 during the third fiscal quarter 2016.

Vessel Operations

Third fiscal quarter 2016 revenue from vessel operations of \$4,750 was 112% higher than the third fiscal quarter 2015, as more vessels were utilized during the 2016 period. We believe this increase in utilization was principally due to efforts by the operators of the Kashagan field to complete works to allow it to recommence production at the Kashagan field by the end of 2016 or early 2017. We believe this increase in utilization is

short-term in nature and does not reflect a trend toward higher vessel utilization in future periods. As a result, we anticipate vessel revenues will be flat or lower throughout the remainder of fiscal 2016. 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, if then. 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 June 30, 2016, vessel operating costs of \$1,633 were 9% higher than during the three months ended June 30, 2015, primarily as a result of the increase in vessel utilization. As a result of the improved profit margins, we had net income from vessel operations in the third fiscal quarter 2016 of \$1,758 compared to net income of \$147 in the third fiscal quarter of 2015. As noted above, we view this as a short-term event due to increased efforts to recommence commercial production at the Kashagan field and do not believe it signals a trend toward higher vessel utilization in upcoming periods.

Geophysical Services

Revenue from geophysical services decreased 98% from \$746 during the third fiscal quarter 2015, to \$12 during the third fiscal quarter 2016. This is a result of completing one successful project during the third fiscal quarter 2015, compared to a small one-time job during the third fiscal quarter 2016. As a result of the decreased activity, cost of geophysical service revenues decreased by 77% to \$184. Even though we performed no significant projects during the third fiscal quarter 2016, we continue to incur certain fixed costs to maintain our geophysical service assets.

As a result of low activity, we realized a net loss attributable to Caspian Services, Inc. from geophysical operations of \$167 during the third fiscal quarter 2016, compared to a loss of \$621 during the third fiscal quarter 2015.

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

Although we continue to make attempts to diversify into other geophysical services, particularly mining, we anticipate that fiscal 2016, will be worse for seismic work as the credit required by local Kazakh companies to finance seismic projects remains elusive. In addition, current world oil prices continue to result in the postponement of seismic works by our potential customer. Currently, we are not engaged in any projects. We are pursuing work from potential customers, but there is no guarantee we will be successful in securing this work. We anticipate this trend will continue in future periods until world oil prices rebound materially and the credit market in Kazakhstan improves.

Marine Base Services

Our marine base services revenues decreased 10% to \$249 during the third fiscal quarter 2016, mostly due to having fewer vessel standby contracts. The revenue generated was insufficient to cover our fixed costs, including depreciation. Additionally, interest expense of \$1,778 was accrued to reflect our liability under the Balykshi Loan, the potential accelerated put option and the portion of interest on the Investor's Notes that relates to the marine base.

During the third fiscal quarter 2016, we realized a marine base services loss of \$1,490 compared to a loss of \$2,343 during the third 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 an increase in demand for the marine base until the second phase of Kashagan field development and construction activity increases, if then, which is currently anticipated to start no earlier than 2019. Until activity in the Caspian Sea region increases, we do not expect the marine base to be able to service its current debt obligations or to operate profitably.

Corporate Administration

During the third fiscal quarter 2016, net loss from corporate administration was \$524, which is in line with net loss of \$662 realized during the third fiscal quarter 2015.

Depreciation and Amortization

Depreciation and amortization expense of \$763 during the third fiscal quarter 2016, was 36% lower compared to the third fiscal quarter 2015, mainly due to the effect of devaluation of Kazakh tenge, as our major assets are denominated in Kazakh tenge.

General and Administrative Expense

General and administrative expenses of \$1,166 during the quarter ended June 30, 2016, was 16% less than general and administrative expenses incurred during the quarter ended June 30, 2015, mostly due to salary cuts to administrative personnel, as well as the effect of Kazakh tenge devaluation, as most of general and administrative expenses are denominated in Kazakh tenge.

Interest Expense

Interest expense of \$2,471 was \$131 higher during the three months ended June 30, 2016, than during the three months ended June 30, 2015. The increase represents the effect of the capitalization of Investor's Notes, and the Balykshi Loan and MOBY Loan interest during the third fiscal quarter 2016.

Foreign Currency Transaction Income (Loss)

In August 2015, the National Bank of the Republic of Kazakhstan changed its monetary policy to switch the Kazakh tenge to a free-floating exchange rate, which resulted in the value of the Kazakh tenge falling approximately 80% against the US dollar as of June 30, 2016. During the third quarter 2016, however, the Kazakh tenge was more stable. Additionally, \$607 of foreign currency translation gain was recognized to reflect the effect of revaluation of short-term notes from Caspian Geo. As a consequence, we realized foreign currency transaction income of \$768 during the third fiscal 2016, compared to a loss of \$147 during the third fiscal quarter 2015.

It is our policy to try to 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.

Net Other Expenses

As a result of the change from a foreign currency transaction loss in the third fiscal quarter 2015 to foreign currency transaction income in the third fiscal quarter 2016, net other expenses decreased 50% to \$1,216, during the third fiscal quarter 2016.

Benefit from Income Tax

During the three months ended June 30, 2016, we realized a provision for income tax in the amount of \$138, compared with benefit from income tax of \$638 realized during the three months ended June 30, 2015. This change is the result of less taxable loss recognized in CSG LLP entity during the third fiscal quarter 2016.

Net Loss Attributable to Caspian Services, Inc.

As a result of the aforementioned factors, during our third fiscal quarter 2016, we realized a net loss attributable to Caspian Services, Inc. of \$423. By comparison, during our third fiscal quarter 2015, we realized a net loss attributable to Caspian Services, Inc. of \$3,486.

Comprehensive Loss Attributable to Caspian Services, Inc.

During the quarter ended June 30, 2016, we realized a foreign currency translation adjustment of (\$845) and comprehensive loss attributable to noncontrolling interest of \$84, compared to a foreign currency translation adjustment of \$10 and comprehensive income attributable to noncontrolling interest of \$3 during the quarter ended June 30, 2015. As a result, comprehensive loss attributable to Caspian Services, Inc. was \$1,352 during the third fiscal quarter 2016, compared to \$3,473 during the third fiscal quarter 2015.

Nine months ended June 30, 2016, compared to the nine months ended June 30, 2015

Total revenue during the nine months ended June 30, 2016, was \$11,123 compared to \$12,030 during the nine months ended June 30, 2015, a decrease of 8%.

Vessel revenues were up 27% and vessel operating costs were lower by 10% due to more utilization of our vessels during the nine months ended June 30, 2016. As discussed in more detail herein, we expect demand for our vessels to be flat or lower during the remainder of fiscal 2016 compared to fiscal 2015.

Revenue from geophysical services decreased almost 100% from \$2,842 during the period ended June 30, 2015, to \$12 during the period ended June 30, 2016, and cost of geophysical service revenue decreased 77% to \$600 during the nine months ended June 30, 2016. While we completed two successful projects during the nine months ended June 30, 2015, we were engaged to undertake only one small one-time project during the nine months ended June 30, 2016. As a result of the ongoing weakness in world oil prices and the depressed local credit market, we expect lower demand for our geophysical services until oil prices rebound, materially and the local credit market improves substantially.

Marine base service revenues were 29% lower during the nine months ended June 30, 2016, and cost of marine base service revenue was 6% lower during the same period, mostly due to fewer winter vessel standby contracts which resulted in the generation of less revenue. We expect demand for our marine base to be lower throughout the remainder of fiscal 2016 as compared to fiscal 2015.

In August 2015, the National Bank of the Republic of Kazakhstan changed its monetary policy to switch the Kazakh tenge to a free-floating exchange rate, which resulted in the value of the Kazakh tenge falling approximately 80% against the US dollar as of June 30, 2016. No such devaluation happened during the nine months ended June 30, 2015. Due to this significant devaluation, and the remeasurement of our debt obligations, our foreign currency transaction loss increased by \$10,059 during the nine months ended June 30, 2016, compared to the nine months ended June 30, 2015.

As a result of the foregoing, during the nine-month period ended June 30, 2016, net loss attributable to Caspian Services, Inc. was \$16,150 compared to \$11,829 during the nine-month period ended June 30, 2015, and comprehensive loss attributable to Caspian Services, Inc. decreased from \$12,381 during the nine months ended June 30, 2015, to \$12,101 during the nine months ended June 30, 2016.

Vessel Operations

During the nine months ended June 30, 2016, revenue from vessel operations of \$10,367 was 27% more than revenue during the nine months ended June 30, 2015. As noted above, we believe this increase in vessel revenue is the result of a short-term increase in activity to recommence commercial production at the Kashagan field. We do not view this as a trend toward higher demand for our vessel fleet. We expect vessel revenues will be flat or lower throughout the remainder of fiscal 2016 compared to the same period of fiscal 2015, and we do not expect significant growth in demand for our vessels in the Kazakh sector of the Caspian Sea, if at all, until commencement of the second phase of the Kashagan oil field project and until world oil prices rebound materially. 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 nine months ended June 30, 2016, vessel operating costs of \$4,768 were 10% lower than during the nine months ended June 30, 2015, as we were able to improve our operational margins.

As a result of improved vessel operating margins we realized net income attributable to Caspian Services, Inc. of \$3,540 from vessel operations during the nine months ended June 30, 2016 compared to net loss of \$187 during the nine months ended June 30, 2015.

Geophysical Services

Revenue from geophysical services decreased nearly 100% from \$2,842 during the nine months ended June 30, 2015, to \$12 during nine months ended June 30, 2016. During the nine months ended June 30, 2015, we were able to complete two successful projects. By comparison, during the same period of fiscal 2016, we have completed only one small one-time project. As a result of the decreased activity, cost of geophysical service revenues decreased by 77% to \$600. Even though we performed no significant projects during the nine months ended June 30, 2016, we continue to incur certain fixed costs to maintain our geophysical service assets.

As a result of low activity, we realized a net loss attributable to Caspian Services, Inc. from geophysical operations of \$1,585 during the nine months ended June 30, 2016, compared to a loss of \$2,052 during the nine months ended June 30, 2015.

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.

Although we continue to make attempts to diversify into other geophysical services, particularly mining, we anticipate that fiscal 2016 will be worse for seismic work as the credit required by local Kazakh companies to finance seismic projects remains elusive. In addition, the ongoing depressed world oil prices continue to result in the postponement of seismic works by our potential customer. Currently, we are not engaged in any projects. We are pursuing work from potential customers, but there is no guarantee we will be successful in securing this work. We anticipate this trend will continue in future periods until world oil prices rebound and the credit market in Kazakhstan improves.

Marine Base Services

Our marine base services revenues decreased 29% to \$744 during the nine months ended June 30, 2016.

The revenue generated from marine base services was insufficient to cover our fixed costs, including depreciation. Additionally, interest expense of \$5,582 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 nine months ended June 30, 2016, we realized a marine base services loss attributable to Caspian Services, Inc. of \$15,614 compared to a loss of \$7,267 during the nine months ended June 30, 2015. This increase in loss was mostly due to \$12,169 of foreign currency transaction loss resulting from the revaluation of our obligations to EBRD denominated in US dollars following the 80% devaluation of the Kazakh tenge against the US dollar from August 2015, through the end of our third fiscal quarter 2016.

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, if ever, until Kashagan field development and construction activity increases, which is currently anticipated to start some time 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 nine months ended June 30, 2016, net loss attributable to Caspian Services, Inc. from corporate administration was \$2,491, which was \$194 higher than the net loss for the nine months ended June 30, 2015. The increase represents the effect of the capitalization of interest on Investor's Notes.

Depreciation and Amortization

Depreciation and amortization expense of \$2,251 during the nine months ended June 30, 2016, was 38% lower compared to the nine months ended June 30, 2015, mainly due to the effect of devaluation of Kazakh tenge, as our major assets are denominated in Kazakh tenge.

General and Administrative Expenses

General and administrative expenses of \$4,203 during the nine months ended June 30, 2016, was 27% less than general and administrative expenses incurred during the nine months ended June 30, 2015, mostly due to salary cuts to administrative personnel, as well as the effect of Kazakh tenge devaluation, as most of general and administrative expenses are denominated in Kazakh tenge.

Interest Expense

Interest expense of \$7,573 for the nine months ended June 30, 2016, was 11% higher than during the nine months ended June 30, 2015. The increase represents the effect of the capitalization of Investor's Notes, and the Balykshi Loan and MOBY Loan interest during the nine months ended June 30, 2016.

Foreign Currency Transaction Income (Loss)

As result of this devaluation of the Kazakh tenge in August 2015, as discussed above, and the remeasurement of the debt obligations of our subsidiaries, our foreign currency transaction loss increased by \$10,059 during nine months ended June 30, 2016, compared to nine months ended June 30, 2015. The Kazakh tenge was stable during the nine-month period ended June 30, 2016.

It is our policy to try to 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 nine months ended June 30 , 2016, we realized a net other non-operating income of \$179, which is in line with net other non-operating income of \$127 during the nine months ended June 30 , 2015 .

Net Other Expenses

As a result of the significant increase in foreign currency transaction loss, net other expenses increased 138% to \$18,581, during the nine months ended June 30, 2016.

Benefit from Income Tax

During the nine months ended June 30, 2016, we realized a benefit from income tax in the amount of \$323, compared to the benefit from income tax of \$1,125 realized during the nine months ended June 30, 2015. The decrease in tax benefit was caused by less CSG LLP taxable loss recognized during the nine months ended June 30, 2016. In Kazakhstan each entity is taxed independently.

Net Loss Attributable to Caspian Services, Inc.

As a result of the aforementioned factors, during the nine months ended June 30, 2016, we realized a net loss attributable to Caspian Services, Inc. of \$16,150. By comparison, during the nine months ended June 30, 2015, we realized a net loss attributable to Caspian Services, Inc. of \$11,829.

Comprehensive Loss Attributable to Caspian Services, Inc.

During the nine months ended June 30, 2016, we realized a foreign currency translation adjustment of \$4,255 and comprehensive loss attributable to noncontrolling interest of \$206, compared to a foreign currency translation adjustment of \$94 and comprehensive loss attributable to noncontrolling interests of \$646 during nine months ended June 30, 2015. As a result, comprehensive loss attributable to Caspian Services, Inc. was \$12,101 during the nine months ended June 30, 2016, compared to \$12,381 during the nine months ended June 30, 2015.

Liquidity and Capital Resources

At June 30, 2016, we had cash on hand of \$1,229 compared to cash on hand of \$1,372 at September 30, 2015. At June 30, 2016, total current liabilities exceeded total current assets by \$106,464. This was mainly attributable to the Balykshi and MOBY Loans, the put option and the Investor's Notes being classified as current liabilities.

As of June 30, 2016, the outstanding loan balance and accrued interest of the Balykshi Loan was \$30,046. The Balykshi Loan matured in May 2015. As of the date of this report none of the required installment payments have been made and the loan is now due and payable in full. The default interest rate of the Balykshi Loan of 9% per annum is applied to the payments due but not paid. The Balykshi Loan is collateralized by the property, including the marine base, and bank accounts of Balykshi and CRE and is additionally secured by a CSI corporate guarantee.

The balance of our put option liability to EBRD, had EBRD accelerated its put option and required us to repurchase its 22% equity interest in Balykshi, was \$25,135 as of June 30, 2016.

As of June 30, 2016, the outstanding balance of the MOBY Loan was \$6,589 including the accrued and unpaid interest. We are currently accruing interest under the MOBY Loan at the default interest rate which is equal to the interbank rate plus 5.6% per annum. As of June 30, 2016, MOBY had made none of the required 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 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.

As of June 30, 2016, the outstanding balance of the Non-Negotiable Note was \$10,934 and the outstanding balance of the Consolidated Note was \$40,122. We have 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, 2017, maturity date, we will be required to repay the principal and interest in cash.

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 payments to Investor in the aggregate amount of \$3,420 to reduce the balance of the Consolidated Note. The failure to make the full semi-annual payments under the Consolidated Note when due may constitute an event of default under the Consolidated Note. The default interest rate under the Consolidated Note is 13% per annum. In the event of a default that remains uncured, Investor may, at any time, demand immediate repayment of the Consolidated Note. The maturity date of the Consolidated Note is June 30, 2017. As noted herein the Investor may elect to have the Consolidated Note repaid in common stock of the Company in lieu of cash repayment. The price per share for principal and interest is \$ 0 .1 0.

To our knowledge, as of the date of this report neither EBRD nor Investor has sought to accelerate our obligations to them. Should EBRD seek to collect the Balykshi Loan or to accelerate the MOBY Loan or the put option, or to enforce the MOBY Loan Guarantee or the Company corporate guarantee, or any of our other financial obligations to EBRD, or should Investor seek to accelerate repayment of the Consolidated Note we would have insufficient funds to satisfy any of those obligations, collectively or individually. If we are unable to satisfy those obligations, EBRD or Investor could seek any legal remedy available to it or him to obtain repayment, including forcing the Company into bankruptcy, or in the case of EBRD, foreclosing on the loan collateral, which includes the marine base and other assets and bank accounts of Balykshi and CRE, enforcing the Company corporate guarantee, and pursuing the other assets of the Company.

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 a reversal in the trend of lower revenues from operations to improve until world oil prices rebound materially, the credit markets in Kazakhstan improve and the second phase of the Kashagan development ramps up, if then, which at this time is projected to occur no earlier than 2019. In order to diversify our operations, we have worked to enter the Turkmen and Russian markets. To date, however, these efforts have not been successful in replacing the lost demand in Kazakhstan. Unless we are able to exploit other new markets outside of Kazakhstan for our services, we do not believe we will be able to continue to sustain net losses until the second phase of Kashagan development ramps up. Moreover, we expect the ongoing weakness of world oil prices will continue to have a significantly negative impact on our revenues until such time as oil prices rebound materially.

With ongoing depressed oil prices and the contracted market for the services we offer, we continue to search for new opportunities to generate income.

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 (iv) 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 nine months ended June 30, 2016 and 2015.

	For the nine months ended June 30 ,	
	2016	2015
Net cash provided by operating activities	\$ 2,172	\$ 2,287
Net cash used in investing activities	(2,150)	(3,001)
Net cash used in financing activities	(300)	(450)
Effect of exchange rate changes on cash	135	(597)
Net Change in Cash	\$ (143)	\$ (1,761)

Net cash flow from operations for the nine months ended June 30, 2016, was positive, mostly due to a decrease in long term prepaid taxes of \$641 and a decrease in other receivables of \$219.

Net cash used in investing activities for the nine months ended June 30, 2016, mostly represented the cost of vessel dry-dock incurred during the period.

During the nine months ended June 30, 2016, net cash was used in financing activities to make a partial payment of the balance due to Investor under the Consolidated Note.

Contractual Commitments	Payment Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 years
Loans from Investor	\$ 51,056	\$ 51,056	\$ -	\$ -	\$ -
Loans from EBRD	36,635	36,635	-	-	-
Accelerated put option liability	25,135	25,135	-	-	-
Operating leases - vessels	6,150	663	1,868	1,763	1,856
Operating leases - other	165	54	108	3	-
Total	\$119,141	\$113,543	\$ 1,976	\$ 1,766	\$ 1,856

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

As of June 30, 2016, our management, under the supervision and with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures under the 2013 framework of the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report in timely alerting them to information required to be included in the Company's periodic filings with the Commission.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2016, 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, 2015, filed on January 13, 2016.

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 31.01	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
Exhibit 31.02	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
Exhibit 32.01	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, 2016, 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*

* Filed herewith.

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: August 15, 2016

By: /s/ Alexey Kotov
Alexey Kotov
Chief Executive Officer

Date: August 15, 2016

By: /s/ Indira Kaliyeva
Indira Kaliyeva
Chief Financial Officer

EXHIBIT 31.01

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Alexey Kotov, certify that:

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

Date: August 15, 2016

By: /s/ Alexey Kotov
Alexey Kotov
Chief Executive Officer

EXHIBIT 31.02

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Indira Kaliyeva, certify that:

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

Date: August 15, 2016

By: /s/ Indira Kaliyeva
Indira Kaliyeva
Chief Financial Officer

EXHIBIT 32.01

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

In connection with this Quarterly Report of Caspian Services, Inc. (the "Company") on Form 10-Q for the periods ended June 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "*Report*"), the undersigned Alexey Kotov, Chief Executive Officer and Indira Kaliyeva, Chief Financial Officer of the Company, each certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his or her knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 15, 2016

By: /s/ Alexey Kotov
Alexey Kotov
Chief Executive Officer

Date: August 15 , 2016

By: /s/ Indira Kaliyeva
Indira Kaliyeva
Chief Financial Officer