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

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: September 30, 2016

or

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from __________ to __________

Commission file number 33-20111

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

Nevada	**75-2636283**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

4643 S. Ulster St., Suite 1510, Denver, CO 80237
(Address of principal executive offices)

(303) 991-8000
(Registrant's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer 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, every Interactive Data File 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	☐	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 ☑

APPLICABLE ONLY TO CORPORATE ISSUERS

As of October 28, 2016, there were 156,187,859 shares of the Registrant's common stock, par value $0.0001, issued, 107,636 shares of Series A Convertible preferred stock (convertible to 26,909,028 common shares), par value $0.0001, and 20,000 shares of Series E Convertible preferred stock (convertible to 207,900 common shares), par value $0.0001.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SPYR, INC., AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2016	December 31, 2015
ASSETS	(Unaudited)	
Current Assets:		
Cash and cash equivalents	$ 3,865,074	$ 6,903,887
Accounts receivable, net	22,018	7,701
Inventory	10,228	12,957
Prepaid expenses	82,021	55,533
Trading securities, at market value	330,631	324,444
Total Current Assets	4,309,972	7,304,522
Property and equipment, net	237,290	274,886
Intangible assets, net	18,606	21,307
Capitalized licensing rights, net	267,500	80,000
Deposit on acquisition	471,574	—
Other assets	22,299	22,299
TOTAL ASSETS	$ 5,327,241	$ 7,703,014
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 183,028	$ 104,871
Related party accounts payable	—	7,506
Total Current Liabilities	183,028	112,377
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock, $0.0001 par value, 10,000,000 shares authorized		
107,636 Class A shares issued and outstanding as of September 30, 2016 and 2015	11	11
20,000 Class E shares issued and outstanding as of September 30, 2016 and 2015	2	2
Common Stock, $0.0001 par value, 250,000,000 shares authorized 154,708,712 and 151,508,127 shares issued and outstanding as of September 30, 2016 and 2015	15,470	15,151
Additional paid-in capital	32,798,442	31,269,822
Accumulated deficit	(27,669,712)	(23,694,349)
Total Stockholders' Equity	5,144,213	7,590,637
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 5,327,241	$ 7,703,014

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

SPYR, INC., AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues	$ 431,242	$ 450,547	$ 1,137,974	$ 1,223,675
Cost of sales	131,210	155,083	323,830	358,248
Gross Margin	300,032	295,464	814,144	865,427
Expenses				
Labor and related expenses	411,639	270,583	1,301,897	1,303,417
Rent	98,938	101,327	295,169	242,504
Depreciation and amortization	34,872	24,828	110,617	66,812
Professional fees	952,222	166,474	1,493,006	2,288,397
Other general and administrative	619,778	238,781	1,378,023	608,661
Total Operating Expenses	2,117,449	801,993	4,578,712	4,509,791
Operating Loss	(1,817,417)	(506,529)	(3,764,568)	(3,644,364)
Other Income (Expense)				
Interest and dividend income	4,442	5,712	14,257	16,699
Unrealized gain (loss) on trading securities	(210,877)	(227,554)	(295,270)	(1,314,931)
Gain (loss) on sale of marketable securities	302	(485,928)	74,712	(971,257)
Total Other Expense	(206,133)	(707,770)	(206,301)	(2,269,489)
Loss from continuing operations	(2,023,550)	(1,214,299)	(3,970,869)	(5,913,853)
Loss from discontinued operations	—	(377,222)	(4,494)	(603,309)
Net Loss	$ (2,023,550)	$ (1,591,521)	$ (3,975,363)	$ (6,517,162)
Per Share Amounts				
Loss from continuing operations				
Basic and Diluted earnings per share	$ (0.01)	$ (0.01)	$ (0.03)	$ (0.04)
Loss on discontinued operations				
Basic and Diluted earnings per share	$ —	$ —	$ —	$ —
Net Loss				
Basic and Diluted earnings per share	$ (0.01)	$ (0.01)	$ (0.03)	$ (0.04)
Weighted Average Common Shares				
Basic and Diluted	154,466,661	153,241,052	153,202,982	151,840,448

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

SPYR, INC., AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 2016
(Unaudited)

	Preferred Stock				Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Class A		Class E						
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance at December 31, 2015	107,636	$ 11	20,000	$ 2	151,508,127	$15,151	$31,269,822	$(23,694,349)	$ 7,590,637
Fair value of common stock issued for employee compensation	—	—	—	—	1,443,987	144	231,868	—	232,012
Fair value of common stock issued for professional fees	—	—	—	—	1,981,598	198	533,635	—	533,833
Common stock issued for cash	—	—	—	—	100,000	10	18,990	—	19,000
Fair value of options granted for acquisition option	—	—	—	—	—	—	471,574	—	471,574
Fair value of options granted to employees	—	—	—	—	—	—	25,020	—	25,020
Common stock cancelled upon employee resignation	—	—	—	—	(325,000)	(33)	33	—	—
Vesting of shares of common stock issued for services	—	—	—	—	—	—	225,917	—	225,917
Vesting of shares of common stock issued to employees	—	—	—	—	—	—	21,583	—	21,583
Net loss	—	—	—	—	—	—	—	(3,975,363)	(3,975,363)
Balance at September 30, 2016	107,636	$ 11	20,000	$ 2	154,708,712	$15,470	$32,798,442	$(27,669,712)	$ 5,144,213

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

SPYR, INC., AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Nine Months Ended September 30, 2016	2015
Cash Flows From Operating Activities:		
Net loss for the period	$ (3,975,363)	$ (6,517,162)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on discontinued operations	4,494	603,309
Depreciation and amortization	110,618	66,812
Fair value of vesting warrants and options	25,020	16,564
Common stock issued for employee compensation	253,595	879,183
Common stock issued for professional fees	537,833	1,280,550
Vesting of shares of common stock issued for services	225,917	47,850
Unrealized loss on trading securities	295,270	1,314,931
(Gain) loss on sale of trading securities	(74,712)	971,257
(Increase) decrease in accounts receivables	(14,317)	(2,614)
Decrease in inventory	2,729	3,414
(Increase) decrease in prepaid expenses	(26,488)	(553)
Increase in other assets	—	(7,299)
Increase (decrease) in accounts payable and accrued liabilities	78,157	84,702
Decrease in related party accounts payable	(7,506)	(270,000)
Net Cash Used in Operating Activities from Continuing Operations	(2,564,753)	(1,529,056)
Net Cash Used in Operating Activities from Discontinued Operations	(4,494)	(601,157)
Net Cash Used in Operating Activities	(2,569,247)	(2,130,213)
Cash Flows From Investing Activities:		
Purchase of licensing rights	(210,000)	—
Purchases of trading securities	(510,000)	—
Proceeds from sale of trading securities	283,255	2,576,667
Purchase of property and equipment	(47,821)	(163,995)
Purchase of intangible assets	—	(20,202)
Net Cash (Used in) Provided by Investing Activities	(484,566)	2,392,470
Cash Flows From Financing Activities:		
Proceeds from sale of common stock	15,000	—
Net Cash Provided by Financing Activities	15,000	—
Net increase (decrease) in Cash	(3,038,813)	262,257
Cash and cash equivalents at beginning of period	6,903,887	6,994,180
Cash and cash equivalents at end of period	$ 3,865,074	$ 7,256,437
Supplemental Disclosure of Interest and Income Taxes Paid:		
Interest paid during the period	$ —	$ —
Income taxes paid during the period	$ —	$ —
Supplemental Disclosure of Non-cash Investing and Financing Activities:		
Common stock options granted for acquisition option	$ 471,574	$ —
Common stock issued for acquisition of Franklin Networks, Inc.	$ —	$ 1,700,000

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

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interim Financial Statements

The accompanying condensed consolidated financial statements are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the SEC. The condensed consolidated balance sheet as of December 31, 2015 included herein was derived from the audited consolidated financial statements as of that date, but does not include all disclosures, including notes, required by GAAP.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to fairly present the Company's financial position and results of operations for the interim periods reflected. Except as noted, all adjustments contained herein are of a normal recurring nature. Results of operations for the fiscal periods presented herein are not necessarily indicative of fiscal year-end results.

Organization

The Company was incorporated as Conceptualistics, Inc. on January 6, 1988 in Delaware. Subsequent to its incorporation, the Company changed its name to Eat at Joe's, Ltd. In February 2015, the Company changed its name to SPYR, Inc. and adopted a new ticker symbol "SPYR" effective March 12, 2015.

Nature of Business

The primary focus of SPYR, Inc. (the "Company") is to act as a holding company and develop a portfolio of profitable subsidiaries, not limited by any particular industry or business.

We currently own three operating subsidiaries, two in the digital technology industry and, one in the restaurant industry, each having their own particular focus.

Through our wholly owned subsidiaries, SPYR APPS, LLC and SPYR APPS Oy, we operate our mobile games and applications business. The focus of the SPYR APPS subsidiaries is the development and publication of our own mobile games as well as the publication of games developed by third-party developers.

Through our other wholly owned subsidiary, E.A.J.: PHL Airport, Inc., we own and operate the restaurant "Eat at Joe's" ®, which is located in the Philadelphia International Airport and has been in operations since 1997.

Principles of Consolidation

The consolidated financial statements include the accounts of SPYR, Inc. and its wholly-owned subsidiaries, SPYR APPS, LLC, a Nevada Limited Liability Company, and SPYR APPS, Oy, a Finnish Limited Liability Company, and E.A.J.: PHL, Airport Inc., a Pennsylvania corporation. Intercompany accounts and transactions have been eliminated.

Revenue Recognition

The Company generates revenues from its wholly owned subsidiaries, which operate separate and distinct businesses. The following is a summary of our revenue recognition policies.

Through our wholly owned subsidiary SPYR APPS, LLC, we develop, publish and co-publish mobile games, and then generate revenue through those games by way of advertising and in-app purchases. The Company recognizes revenue using four basic criteria that must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured, which is typically after receipt of payment and delivery.

Though our wholly owned subsidiary E.A.J.: PHL, Airport, Inc. we generate revenue from the sale of food and beverage products through our restaurant. Revenue from the restaurant is recognized upon sale to a customer and receipt of payment.

Income Taxes

The Company accounts for income taxes under the provisions of ASC 740 “Accounting for Income Taxes,” which requires a company to first determine whether it is more likely than not (which is defined as a likelihood of more than fifty percent) that a tax position will be sustained based on its technical merits as of the reporting date, assuming that taxing authorities will examine the position and have full knowledge of all relevant information. A tax position that meets this more likely than not threshold is then measured and recognized at the largest amount of benefit that is greater than fifty percent likely to be realized upon effective settlement with a taxing authority.

Deferred income taxes are recognized for the tax consequences related to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax purposes at each year end, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance is recognized when, based on the weight of all available evidence, it is considered more likely than not that all, or some portion, of the deferred tax assets will not be realized. The Company evaluates its valuation allowance requirements based on projected future operations. When circumstances change and cause a change in management's judgment about the recoverability of deferred tax assets, the impact of the change on the valuation is reflected in current income. Income tax expense is the sum of current income tax plus the change in deferred tax assets and liabilities.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions used by management affected impairment analysis for fixed assets, intangible assets, amounts of potential liabilities and valuation of issuance of equity securities. Actual results could differ from those estimates.

Earnings (Loss) Per Share

The Company’s computation of earnings (loss) per share (EPS) includes basic and diluted EPS. Basic EPS is calculated by dividing the Company’s net income (loss) available to common stockholders by the weighted average number of common shares during the period. Diluted EPS reflects the potential dilution, using the treasury stock method that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the net income (loss) of the Company. In computing diluted EPS, the treasury stock method assumes that outstanding options and warrants are exercised and the proceeds are used to purchase common stock at the average market price during the period. Shares of restricted stock are included in the basic weighted average number of common shares outstanding from the time they vest.

The basic and fully diluted shares for the three and nine months ended September 30, 2016 are the same because the inclusion of the potential shares (Non-vested Common – 83,333, Class A – 26,909,028, Class E – 163,415, Options – 11,250,000) would have had an anti-dilutive effect due to the Company generating a loss for the three and nine months ended September 30, 2016.

The basic and fully diluted shares for the three and nine months ended September 30, 2015 are the same because the inclusion of the potential shares (Non-vested Common – 416,666, Class A – 26,909,028, Class E – 436,681, Warrants – 250,000) would have had an anti-dilutive effect due to the Company generating a loss for the three and nine months ended September 30, 2015.

Stock-Based Compensation

The Company periodically issues stock options and warrants to employees and non-employees in non-capital raising transactions for services and for financing costs. The Company accounts for stock option and warrant grants issued and vesting to employees based on the authoritative guidance provided by the Financial Accounting Standards Board (FASB) whereas the value of the award is measured on the date of grant and recognized over the vesting period. The Company accounts for stock option and warrant grants issued and vesting to non-employees in accordance with the authoritative guidance of the FASB whereas the value of the stock compensation is based upon the measurement date as determined at either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete. Non-employee stock-based compensation charges generally are amortized over the vesting period on a straight-line basis. In certain circumstances where there are no future performance requirements by the non-employee, option grants are immediately vested and the total stock-based compensation charge is recorded in the period of the measurement date.

The fair value of the Company's stock option and warrant grants is estimated using the Black-Scholes Option Pricing model, which uses certain assumptions related to risk-free interest rates, expected volatility, expected life of the stock options or warrants, and future dividends. Compensation expense is recorded based upon the value derived from the Black-Scholes Option Pricing model, and based on actual experience. The assumptions used in the Black-Scholes Option Pricing model could materially affect compensation expense recorded in future periods.

The Company also issues restricted shares of its common stock for share-based compensation programs to employees and non-employees. The Company measures the compensation cost with respect to restricted shares to employees based upon the estimated fair value at the date of the grant, and is recognized as expense over the period which an employee is required to provide services in exchange for the award. For non-employees, the Company measures the compensation cost with respect to restricted shares based upon the estimated fair value at measurement date which is either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete.

Fair Value of Financial Instruments

The Company follows paragraph 825-10-50-10 of the FASB Accounting Standards Codification for disclosures about fair value of its financial instruments and paragraph 820-10-35-37 of the FASB Accounting Standards Codification (“Paragraph 820-10-35-37”) to measure the fair value of its financial instruments. Paragraph 820-10-35-37 establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America (U.S. GAAP), and expands disclosures about fair value measurements. To increase consistency and comparability in fair value measurements and related disclosures, Paragraph 820-10-35-37 establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three (3) broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The three (3) levels of fair value hierarchy defined by Paragraph 820-10-35-37 are described below:

> Level 1: Quoted market prices available in active markets for identical assets or liabilities as of the reporting date.
>
> Level 2: Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.
>
> Level 3: Pricing inputs that are generally observable inputs and not corroborated by market data.

The carrying amount of the Company’s financial assets and liabilities, such as cash and cash equivalents, accounts receivable, inventory, prepaid expenses, and accounts payable and accrued expenses approximate their fair value because of the short maturity of those instruments.

The Company’s trading securities are measured at fair value using level 1 fair values.

Software Licensing Costs

Software licensing publishing costs pertain to non-refundable payments made to independent gaming software developers pursuant to licensing agreements. The payments are intended to assist gaming software developers in the marketing and further development of two gaming software applications.

Software licensing costs were $760,000 for the nine months ended September 30, 2016 and was reflected as part of Other General and Administrative Expenses on the accompanying consolidated statements of operations. There were no such costs in 2015.

Capitalized Licensing Rights

Capitalized licensing rights represent fees paid to intellectual property rights holders for use of their trademarks, copyrights, software, technology, music or other intellectual property or proprietary rights in the development of our products. Depending upon the agreement with the rights holder, we may obtain the right to use the intellectual property in multiple products over a number of years, or alternatively, for a single product.

Significant management judgments and estimates are utilized in assessing the recoverability of capitalized costs. In evaluating the recoverability of capitalized costs, the assessment of expected product performance utilizes forecasted sales amounts and estimates of additional costs to be incurred. If revised forecasted or actual product sales are less than the originally forecasted amounts utilized in the initial recoverability analysis, the net realizable value may be lower than originally estimated in any given quarter, which could result in an impairment charge. Material differences may result in the amount and timing of expenses for any period if management makes different judgments or utilizes different estimates in evaluating these qualitative factors.

As of December 31, 2015, the Company capitalized $80,000 as a result of the acquisition of licensing rights for two gaming applications.

During the nine months ended September 30, 2016, the Company capitalized an additional $210,000 and amortized $22,500. As of September 30, 2016, the unamortized capitalized licensing rights amounted to $267,500. The Company estimates that the two gaming applications will have an estimated life ranging from two to five years, which approximates the term of the respective licenses.

Recent Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 is a comprehensive revenue recognition standard that will supersede nearly all existing revenue recognition guidance under current U.S. GAAP and replace it with a principle based approach for determining revenue recognition. ASU 2014-09 will require that companies recognize revenue based on the value of transferred goods or services as they occur in the contract. The ASU also will require additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted only in annual reporting periods beginning after December 15, 2016, including interim periods therein. Entities will be able to transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. The Company is in the process of evaluating the impact of ASU 2014-09 on the Company's financial statements and disclosures.

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases*. ASU 2016-02 requires a lessee to record a right of use asset and a corresponding lease liability on the balance sheet for all leases with terms longer than 12 months. ASU 2016-02 is effective for all interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is in the process of evaluating the impact of ASU 2016-02 on the Company's financial statements and disclosures.

In March 2016, the FASB issued the ASU 2016-09, *Compensation - Stock Compensation (Topic 718)*: Improvements to Employee Share-Based Payment Accounting. The amendments in this ASU require, among other things, that all income tax effects of awards be recognized in the income statement when the awards vest or are settled. The ASU also allows for an employer to repurchase more of an employee's shares than it can today for tax withholding purposes without triggering liability accounting and allows for a policy election to account for forfeitures as they occur. The amendments in this ASU are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted for any entity in any interim or annual period. The Company is currently evaluating the expected impact that the standard could have on its financial statements and related disclosures.

Other recent accounting pronouncements issued by the FASB, including its Emerging Issues Task Force, the American Institute of Certified Public Accountants, and the Securities and Exchange Commission did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

NOTE 2 - TRADING SECURITIES

Trading securities are purchased with the intent of selling them in the short term. Trading securities are recorded at market value and the difference between market value and cost of the securities is recorded as an unrealized gain or loss in the statement of operations. Gains from the sales of such marketable securities will be utilized to fund payment of obligations and to provide working capital for operations and to finance future growth, including, but not limited to: conducting our ongoing business, conducting strategic business development, marketing analysis, due diligence investigations into possible acquisitions, and research and development and implementation of the Company’s business plans generally.

The Company’s securities investments that are bought and held principally for the purpose of selling them in the near term are classified as trading securities. Trading securities are recorded at fair value based on quoted market price (level 1) on the balance sheet in current assets, with the change in fair value during the period included in earnings.

Investments in securities are summarized as follows:

Year	Fair Value at Beginning of Year	Purchases	Proceeds from Sale	Gain on Sale	Unrealized Loss	Fair Value at September 30, 2016
2016	$ 324,444	$ 510,000	$ (283,255)	$ 74,712	$ (295,270)	$ 330,631

Realized gains and losses are determined on the basis of specific identification. During the nine months ended September 30, 2016 and 2015, sales proceeds and gross realized gains and losses on trading securities were:

	September 30, 2016	September 30, 2015
Sales proceeds	$ 283,255	$ 2,576,667
Gross realized (losses)	$ -	$ (971,257)
Gross realized gains	74,712	-
Gain (loss) on sale of trading securities	$ 74,712	$ (971,257)

The following table discloses the assets measured at fair value on a recurring basis and the methods used to determine fair value:

		Fair Value Measurements at Reporting Date Using		
	Fair Value at September 30, 2016	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Trading securities	$ 330,631	$ 330,631	$ -	$ -
Money market funds	36,255	36,255	-	-
Total	$ 366,886	$ 366,886	$ -	$ -

		Fair Value Measurements at Reporting Date Using		
	Fair Value at December 31, 2015	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Trading securities	$ 324,444	$ 324,444	$ -	$ -
Money market funds	332,706	332,706	-	-
Total	$ 657,150	$ 657,150	$ -	$ -

Generally, for all trading securities and available-for-sale securities, fair value is determined by reference to quoted market prices (level 1).

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	September 30, 2016	December 31, 2015
	(Unaudited)	
Equipment	$ 151,082	$ 131,821
Furniture & fixtures	115,503	86,943
Leasehold improvements	381,450	381,450
	648,035	600,214
Less: accumulated depreciation and amortization	(410,745)	(325,328)
Property and Equipment, Net	$ 237,290	$ 274,886

Depreciation and amortization expense for the nine months ended September 30, 2016 and 2015 was $85,417 and $66,812, respectively.

NOTE 4 – DEPOSIT ON ACQUISITION

In January 2016, the Company started publishing an electronic game called Pocket Starships through an exclusive publishing agreement (the "Publishing Agreement") with Spectacle Games Publishing ("Spectacle"). The exclusive Publishing Agreement runs for a term of five years, expiring on December 17, 2020. Spectacle is a California corporation, holding the exclusive rights to publish and market Pocket Starships, including the ability to sublicense these rights to other parties, pursuant to an agreement with MMOJoe UG. MMOJoe UG, a German limited liability company ("MMOJoe") is the owner and developer of all intellectual property that relates or pertains to the real-time, cross-platform, massively multiplayer on-line electronic game know as Pocket Starships.

In June 2016, the Company obtained an exclusive option to purchase all of MMOJoe's assets including but not limited to all assets pertaining to Pocket Starships (the "Option"). Should the Company decide to exercise the Option, it will purchase MMOJoe for cash of $5,000,000 plus $10,000,000 worth of shares of the Company's common stock, valued at the time of closing of the purchase. This exclusive Option is exercisable by the Company at any time, in the Company's sole discretion, through December 31, 2020.

In exchange for the Option, the Company granted MMOJoe stock options to purchase an aggregate of 3.75 million shares of the Company's common stock. The stock options are fully vested, exercisable at a price per share of $1.00, $2.50 and $5.00 and will expire starting in December 31, 2017 through December 31, 2019. Total fair value of the options amounted to $471,574 using the Black-Scholes Option Pricing Model.

The Company accounted for the entire fair value of $471,574 at grant date as a deposit on acquisition based upon the Company's determination that the acquisition of MMOJoe will occur on or before June 30, 2017, otherwise, the amount will be reflected as an expense if the acquisition will not occur.

NOTE 5 – EQUITY TRANSACTIONS

Common Stock:

During the nine months ended September 30, 2016, the Company issued an aggregate of 1,443,987 shares of common stock to employees with a total fair value of $232,012 for services rendered. The shares issued are non-refundable and deemed earned upon issuance. As a result, the Company expensed the entire $232,012 upon issuance. The shares issued were valued at the date of the respective agreements.

During the nine months ended September 30, 2016, the Company issued an aggregate of 1,981,598 shares of restricted common stock to consultants with a total fair value of $533,833. The shares issued are non-refundable and deemed earned upon issuance. As a result, the Company expensed the entire $533,833 upon issuance. The shares issued were valued at the date of the respective agreements.

During the nine months ended September 30, 2016, the Company issued an aggregate of 100,000 shares of restricted common stock to consultants for cash of $15,000. The common shares had a fair value of $19,000 at the date of grant, and as a result, the Company reflected an expense of $4,000 upon issuance. The shares issued were valued at the date of the respective agreements.

Common Stock with Vesting Terms:

In August 2015, the Company granted and issued 100,000 shares of its restricted common stock to an employee pursuant to an employment agreement. The 100,000 shares vest over a period of one year with a fair value of $37,000 at the date of grant.

In February 2015, the Company granted and issued 500,000 shares of its restricted common stock to a consultant pursuant to a consulting agreement. The 500,000 shares are forfeitable and are deemed earned upon completion of service over a period of twenty-four months. The Company recognizes the fair value of these shares as they vest.

As of December 31, 2015, 270,833 of these shares had vested. During the nine months ended September 30, 2016, another 245,834 of these shares vested and as a result, the Company recognized compensation cost of $247,500. As of September 30, 2016, total unvested shares totaled 83,333 shares with unearned compensation costs of $54,350 which will be recognized in the remainder of fiscal year 2016 and in fiscal 2017.

When calculating basic net income (loss) per share, these shares are included in weighted average common shares outstanding from the time they vest. When calculating diluted net income per share, these shares are included in weighted average common shares outstanding as of their grant date.

The following table summarizes common stock with vesting terms activity:

	Number of Shares		Weighted Average Grant Date Fair Value
Non-vested, December 31, 2015	329,167	$	0.47
Granted	-		-
Vested	(245,834)		0..47
Forfeited	-		-
Non-vested, September 30, 2016	83,333	$	0.50

Options

In June 2016, the Company granted options to purchase 3.75 million shares of common stock pursuant to the planned acquisition of MMOJoe (see Note 4). The stock options are fully vested, exercisable at a price per share of $1.00, $2.50 and $5.00 and will expire starting in December 31, 2017 through December 31, 2019.

In August 2016, the Company granted an employee option to purchase a total of 7.5 million shares of common stock with an exercise price of $1.00, $2.50 and $5.00. The options are fully vested upon grant but are only exercisable in three tranches starting in January 2017, 2018 and 2019. These options will expire starting in December 2017 through December 2019.

Total fair value of the options at grant date amounted to $200,575 computed using the Black-Scholes Option Pricing Model. The Company determined the appropriate treatment is to recognize the fair value of the options over the service period, which would be when the options are fully exercisable. During the period ended September 30, 2016, the Company recognized compensation expense of $25,020. As of September 30, 2016, future unamortized costs amounted to approximately $176,000.

The following table summarizes common stock options activity:

	Options		Weighted Average Exercise Price
December 31, 2015	-	$	-
Granted	11,250,000		3.97
Exercised	-		-
Forfeited	-		-
Outstanding September 30, 2016	11,250,000		3.97
Exercisable, September 30, 2016	3,750,000	$	3.97

The weighted average exercise prices, remaining lives for options granted, and exercisable as of September 30, 2016, were as follows:

	Outstanding Options			Exercisable Options	
Options Exercise Price Per Share	Shares	Life (Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$1.00	1,500,000	1.42 - 1.5	$1.00	500,000	$1.00
$2.50	2,250,000	2.42 - 2.5	$2.50	750,000	$2.50
$5.00	7,500,000	3.42 - 3.5	$5.00	2,500,000	$5.00
	11,250,000		$3.97	3,750,000	$3.97

At September 30, 2016, the Company's closing stock price was $0.65 per share. As all outstanding options had an exercise price greater than $0.65 per share, the aggregate intrinsic value of the options outstanding at September 30, 2016 was $0.

The table below represents the average assumptions used in valuing the stock options granted in fiscal 2016:

	Nine-Months Ended September 30, 2016
Expected life in years	0.71 – 3.5
Stock price volatility	132 - 141%
Risk free interest rate	0.64 % - 1.08%
Expected dividends	-
Forfeiture rate	-

The assumptions used in the Black Scholes models referred to above are based upon the following data: (1) the contractual life of the underlying non-employee options is the expected life. The expected life of the employee option is estimated by considering the contractual term of the option, the vesting period of the option, the employees' expected exercise behavior and the post-vesting employee turnover rate. (2) The expected stock price volatility was based upon the Company's historical stock price over the expected term of the option. (3) The risk free interest rate is based on published U.S. Treasury Department interest rates for the expected terms of the underlying options. (4) The expected dividend yield was based on the fact that the Company has not paid dividends to common shareholders in the past and does not expect to pay dividends to common shareholders in the future. (5) The expected forfeiture rate is based on historical forfeiture activity and assumptions regarding future forfeitures based on the composition of current grantees.

NOTE 6 – SEGMENT REPORTING

The Company operated in one segment as of the beginning of 2015, but concurrent with the organization of SPYR APPS, LLC on March 24, 2015, it operates in two segments: Digital Media and Restaurant, which provide different products or services.

Digital Media Segment - Through our wholly owned subsidiaries SPYR APPS, LLC and SPYR APPS Oy, we develop, publish and co-publish mobile games, and then generate revenue through those games by way of advertising and in-app purchases. The Company also recognizes revenues from fees received pursuant to licensing rights acquired during 2015 for two gaming applications.

Restaurant Segment - Through our wholly owned subsidiary E.A.J.: PHL, Airport, Inc. we own and operate one “American Diner” theme restaurant called “Eat at Joe’s ® located in the Philadelphia International Airport. Eat at Joe’s menu includes a variety of dishes including omelets, waffles and hotcakes, sandwiches, hot dogs, burgers, traditional Philly Steak sandwiches, custom wraps, fresh salads and a full complement of beverages and deserts, all made with top quality, fresh ingredients and all prepared to order.

Revenue and expenses earned and charged between segments are eliminated in consolidation. Corporate expenses, interest income, interest expense, gains and losses on trading or marketable securities and income taxes are managed on a total company basis.

Information related to these segments is as follows:

REPORTABLE SEGMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2016
(Unaudited)

	Digital Media	Restaurants	Corporate	Consolidated
Revenues	$ 88,232	$ 1,049,742	$ —	$ 1,137,974
Cost of sales	—	323,830	—	323,830
General and administrative	1,522,486	703,359	2,242,250	4,468,095
Depreciation and amortization	22,986	52,165	35,466	110,617
Operating loss	$ (1,457,240)	$ (29,612)	$ (2,277,716)	$ (3,764,568)
Current assets	$ 78,950	$ 327,253	$ 3,903,769	$ 4,309,972
Property and equipment, net	6,096	44,559	186,635	237,290
Intangible assets	—	—	18,606	18,606
Deposit on acquisition	471,574	—	—	471,574
Other non-current assets	267,500	16,610	5,689	289,799
Total assets	$ 824,120	$ 388,422	$ 4,114,699	$ 5,327,241

REPORTABLE SEGMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2015
(Unaudited)

	Digital Media	Restaurants	Corporate	Consolidated
Revenues	$ 6,040	$ 1,217,635	$ —	$ 1,223,675
Cost of sales	—	358,248	—	358,248
General and administrative	237,950	676,125	3,528,904	4,442,979
Depreciation and amortization	—	55,720	11,092	66,812
Operating income (loss)	$ (231,910)	$ 127,542	$ (3,539,996)	$ (3,644,364)
Current assets	$ 28,374	$ 271,126	$ 8,185,228	$ 8,484,728
Property and equipment, net	6,715	115,445	129,826	251,986
Intangible assets	—	—	25,202	25,202
Other non-current assets	—	16,610	5,689	22,299
Total assets	$ 35,089	$ 403,181	$ 8,345,945	$ 8,784,215

REPORTABLE SEGMENTS
THREE MONTHS ENDED SEPTEMBER 30, 2016
(Unaudited)

	Digital Media	Restaurants	Corporate	Consolidated
Revenues	$ 23,313	407,929	$ —	$ 431,242
Cost of sales	—	131,210	—	131,210
General and administrative	698,900	235,192	1,148,485	2,082,577
Depreciation and amortization	7,693	15,164	12,015	34,872
Operating income (loss)	$ (683,280)	$ 26,363	$ (1,160,500)	$ (1,817,417)

REPORTABLE SEGMENTS
THREE MONTHS ENDED SEPTEMBER 30, 2015
(Unaudited)

	Digital Media	Restaurants	Corporate	Consolidated
Revenues	$ 6,040	$ 444,507	$ —	$ 450,547
Cost of sales	—	155,083	—	155,083
General and administrative	143,379	254,207	379,579	777,165
Depreciation and amortization	—	19,146	5,682	24,828
Operating income (loss)	$ (137,339)	$ 16,071	$ (385,261)	$ (506,529)

NOTE 7 – DISCONTINUED OPERATIONS

On February 23, 2015 the Company entered into an agreement whereby, the Company issued an aggregate of 2.5 million shares of its restricted common stock valued at $1,700,000, in exchange for all of the issued and outstanding shares of Franklin Networks, Inc., a Tennessee corporation ("Franklin"), an internet company that began operations in September 2014. The acquisition of Franklin had been accounted for as a purchase and the operations of Franklin have been consolidated since the date of the acquisition. The $1.7 million purchase price was allocated based upon the fair value of the acquired assets which consisted of intangible assets of $671,131, deferred tax liability of $117,741 and goodwill of $1,146,610, as determined by management with the assistance of an independent valuation firm.

On December 31, 2015, the Company and the former owners of Franklin agreed to unwind the agreement and return the original consideration exchanged in the contract. Pursuant to ASC 2014-08, Reporting of Discontinued Operations, the Company reported the gain (loss) from operations as a gain (loss) from discontinued operations in the accompanying statements of operations since the Company considered its decision to rescind the Franklin acquisition as a strategic shift that has a major effect in the Company's operations and financial results.

During the nine months ended September 30, 2016, the Company incurred additional expenses of $4,494 related to the winding-up of Franklin. During the nine months ended September 30, 2015, Franklin generated a loss from operations of $603,309. The following table provides additional detail of these losses which are reflected as a loss on discontinued operations.

	September 30, 2016	September 30, 2015
Revenues	$ —	$ 386,513
General and administrative	4,494	989,822
Loss from discontinued operations	$ (4,494)	$ (603,309)

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Legal Proceedings

We are involved in certain legal proceedings that arise from time to time in the ordinary course of our business. Except for income tax contingencies, we record accruals for contingencies to the extent that our management concludes that the occurrence is probable and that the related amounts of loss can be reasonably estimated. Legal expenses associated with the contingency are expensed as incurred. A material legal proceeding that is currently pending is as follows:

On October 14, 2015, the Company was named as a defendant in a case filed in the United States District Court for the District of Delaware case: Zakeni Limited v. SPYR, Inc., f/k/a Eat at Joe's., Ltd. The suit relates to the Company's issuance of two convertible debentures in the aggregate principal amount of $1,500,000 in 1998. The plaintiff is seeking payment or conversion of said convertible debentures together with accrued interest and unspecified damages. The Company believes the claim is not a valid debt and is vigorously defending this lawsuit. On December 4, 2015, the Company filed a motion to dismiss the suit based on the statute of limitations. In evaluating a motion to dismiss, the Court is only allowed to view the allegations set forth in the plaintiff's complaint and documents referenced therein, must assume that those allegations are true, and must construe all evidence contained in the referenced documents in a light most favorable to the plaintiff. On August 24, 2016, under this standard, the Court determined that the legal requirements to grant the motion to dismiss had not been fully satisfied and denied the Company's Motion to Dismiss. Accordingly, no final determinations regarding liability have been made, the case will proceed to be litigated in the normal course, and, if the Company elects, it will have the ability to again present its arguments for dismissal prior to trial through a motion for summary judgment, which will allow for a determination to be made based on a legal standard that is slightly less favorable to the plaintiff. If that motion is denied, the Company will still have the opportunity to present all of its arguments and defenses at trial, at which Zakeni will have to prove its case by a preponderance of the evidence. The case is scheduled for trial on January 8, 2018. Based upon available information at this very early stage of litigation, it is still the opinion of management and belief of in-house counsel that the Company will obtain a favorable ruling and no amount will be awarded to the plaintiff in this action. Accordingly, Management believes the likelihood of material loss resulting from this lawsuit to be remote.

NOTE 9 – SUBSEQUENT EVENTS

Subsequent to September 30, 2016, the Company issued an aggregate of 1,479,147 shares of common stock to consultants and employees with a total fair value of $872,918 for services rendered. The shares issued are non-refundable and deemed earned upon issuance.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and supplementary data referred to in this Form 10-Q.

This discussion contains forward-looking statements that involve risks and uncertainties. Such statements, which include statements concerning revenue sources and concentration, selling, general and administrative expenses and capital resources, are subject to risks and uncertainties, including, but not limited to, those discussed elsewhere in this Form 10-Q that could cause actual results to differ materially from those projected. Unless otherwise expressly indicated, the information set forth in this Form 10-Q is as of September 30, 2016, and we undertake no duty to update this information.

Plan of Operations – SPYR, Inc. operates in two separate and distinct segments: Digital Media and Restaurant. The Digital Media segment includes developing, publishing, co-publishing and marketing mobile games and applications. The Restaurant segment includes owning and operating an "American Diner" theme restaurant called "Eat at Joe's"®.

Through our wholly owned subsidiaries SPYR APPS, LLC and SPYR APPS Oy, we develop, publish and co-publish mobile games, and then generate revenue through those games by way of advertising and in-app purchases. Our primary focus is on the development and expansion of our mobile games and applications. We anticipate we will need to hire additional employees during 2016 to help with the development and marketing of existing and future games and application.

Though our wholly owned subsidiary E.A.J.: PHL, Airport, Inc. we generate revenue from the sale of food and beverage products through our theme restaurant located in Philadelphia, Pennsylvania. We plan to maintain the restaurant operations as they currently exist and do not anticipate the hiring of new full-time employees or the need for additional funds to satisfy cash requirements for the restaurant operations.

The Company intends to utilize cash on hand to conduct its ongoing business, and to also conduct strategic business development, marketing analysis, due diligence investigations into possible acquisitions, and research and development and implementation of our business plans generally.

The Company may also decide to diversify, through acquisition or otherwise, in other unrelated business areas if opportunities present themselves.

In June 2016, the Company obtained an exclusive option to purchase all the assets of the developer of the electronic game commonly known and referred to as "Pocket Starships" (the "Option"). This exclusive Option is exercisable by the Company at any time, in the Company's sole discretion, through December 31, 2020, on fixed terms favorable to the Company.

Since January 1, 2016, the Company has been publishing Pocket Starships through an exclusive publishing agreement (the "Publishing Agreement") with the game's former publisher, Spectacle Games Publishing ("Spectacle"). The exclusive Publishing Agreement runs for a term of five years, expiring on December 17, 2020, and provides for the Company to fund advanced development and marketing of Pocket Starships in exchange for 50% of the revenue generated by Pocket Starships, plus a recoupment, out of Spectacle's share of the revenue, of the development money advanced by the Company. Should the Company decide to exercise the Option, the Company will receive 100% of the revenue generated by Pocket Starships.

Spectacle is a California corporation that is under common ownership and control of MMOJoe, as defined below. Spectacle maintains a proper registered agent in California, but otherwise has no formal presence in the U.S. The developer and owner of Pocket Starships, MMOJoe UG, maintains its physical offices out of which its employees perform their work at Pintschstrasse 13, 10249 Berlin, Germany and has incorporated a related entity in the U.S. under common ownership and control by the name of MMOJoe USA, a California corporation, which maintains a proper registered agent, but otherwise has no formal presence in the U.S. (collectively "MMOJoe"). All services and work by Spectacle and MMOJoe are performed by employees working out of offices in Berlin, Germany and/or third party contractors overseas. Should the Company decide to exercise the Option, it will pay to MMOJoe $5,000,000 in cash plus $10,000,000 worth of shares of the Company's common stock, valued at the time of closing of the purchase. In exchange for the Option, the Company granted MMOJoe stock options to purchase an aggregate of 3.75 million shares of common stock with a fair value of $471,574 using the Black-Scholes Option Pricing Model. The stock options are fully vested, exercisable at a price per share of $1.00, $2.50 and $5.00 and will expire starting in December 31, 2017 through December 31, 2019.

The Company accounted for the entire fair value of $471,574 at grant date as a deposit on acquisition based upon the Company's determination that the acquisition of MMOJoe will occur on or before June 30, 2017, otherwise, the amount will be reflected as an expense if the acquisition is deemed not to occur. Once the acquisition of MMOJoe occurs, the $471,574 will be included as part of its acquisition cost. The fair value of $471,574 was reported as deposit on acquisition in the accompanying Consolidated Balance Sheets at September 30, 2016.

COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 2016 TO 2015

The consolidated results of continuing operations for the nine months ended September 30, 2016 and 2015 are as follows:

	Digital Media	Restaurants	Corporate	Consolidated
Nine Months Ended September 30, 2016				
Revenues	$ 88,232	$ 1,049,742	$ —	$ 1,137,974
Cost of sales	—	323,830	—	323,830
Labor and related expenses	317,945	352,923	631,029	1,301,897
Rent	1,672	190,776	102,721	295,169
Depreciation and amortization	22,986	52,165	35,466	110,617
Professional fees	166,173	4,869	1,321,964	1,493,006
Other general and administrative	1,036,696	154,791	186,536	1,378,023
Operating loss	(1,457,240)	(29,612)	(2,277,716)	(3,764,568)
Other income (expense)	—	75	(206,376)	(206,301)
Loss from continuing operations	$ (1,457,240)	$ (29,537)	$ (2,484,092)	$ (3,970,869)

Nine Months Ended September 30, 2015

Revenues	$ 6,040	$ 1,217,635	$ —	$ 1,223,675
Cost of sales	—	358,248	—	358,248
Labor and related expenses	36,183	322,522	944,712	1,303,417
Rent	—	214,997	27,507	242,504
Depreciation and amortization	—	55,720	11,092	66,812
Professional fees	19,500	6,772	2,262,125	2,288,397
Other general and administrative	182,267	131,834	294,560	608,661
Operating income (loss)	(231,910)	127,542	(3,539,996)	(3,644,364)
Other income (expense)	—	41	(2,269,530)	(2,269,489)
Income (loss) from continuing operations	$ (231,910)	$ 127,583	$ (5,809,526)	(5,913,853)

Results of Operations - For the nine months ended September 30, 2016 the Company had a loss from continuing operations of approximately $3,971,000 compared to a loss from continuing operations of approximately $5,914,000 for the nine months ended September 30, 2015. This change is due primarily to decreases in the amount of realized and unrealized losses on the sale of marketable securities of approximately $2,066,000, in labor and related costs of approximately $1,000 and in professional fees of approximately $795,000, partially offset by increases in rent of approximately $52,000, in depreciation and amortization of approximately $44,000, and in other general and administrative expenses of approximately $769,000. The 2016 and 2015 losses are due to the Company's change of focus and investment into the digital media business. Management believes that its plans for the digital media operations will be successful and start to generate meaningful income from operations within the next 12-24 months.

More detailed explanation of the nine months ended September 30, 2016 and 2015 changes are included in the applicable segment discussions following.

Total Revenues - Total revenues decreased $86,000, to $1,138,000 from $1,224,000 for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. This change is primarily the due to fluctuations in airport traffic resulting in lower restaurant revenues. For the nine months ended September 30, 2016, revenues included approximately $88,000 in revenues from our Digital Media Mobile Games Publishing and Advertising segment and approximately $1,050,000 in restaurant revenues. For the nine months ended September 30, 2015, revenues included approximately $6,000 in revenues from our Digital Media Mobile Games Publishing and Advertising segment and approximately $1,218,000 in restaurant revenues. Management plans to expand its mobile application and game development and monetization efforts and expects increased revenues in this segment in the coming months. We believe restaurant revenues will continue to fluctuate in the future as airport traffic fluctuates.

Costs and Expenses - Costs of sales, include the costs of food, beverage, and kitchen supplies and relates solely to our restaurant business.

The cost of labor decreased approximately $1,000 to $1,302,000 from $1,303,000 for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. This decrease is primarily due to restricted stock awards granted to executive officers recorded at fair value of approximately $278,000 for the nine months ended September 30, 2016 compared to approximately $732,000 in restricted stock awards granted to executive officers recorded at fair value for the nine months ended September 30, 2015. The cost of labor increased in our Digital Media Mobile Games Publishing and Advertising segment by approximately $282,000 due to hiring additional employees for our digital media operations. Of this amount, approximately $203,000 was settled in cash and $79,000 was paid in restricted stock recorded at fair value. The remaining difference is attributed to hiring dates and changes in pay rates and the overall number of employees. The cost of labor is expected to increase in conjunction with expansion of the digital media operations.

The cost of rent increased approximately $52,000 from 2015 to 2016. The Company's wholly owned subsidiary, E.A.J.: PHL, Airport, pays $14,000 per month basic rent plus percentage rent equal to 20% of gross revenues above $1,200,000 under the lease based on sales for the 12 month period from July to June of each year. Basic rent is a fixed cost and percentage rent is variable, so the total rent paid is expected to vary from year to year in conjunction with restaurant sales. Beginning May 1, 2015, the Company moved into its new corporate offices in Denver, Colorado and began recording lease expense of $5,000 per month pursuant to this lease agreement. On October 1, 2015, we added additional square footage that more than doubled our administrative office space in Denver and further increased our corporate rent expense to $12,000 per month. Beginning September 1, 2016, the company began leasing 25 square meters of office space, at Rosenstrasse 17, 10178 Berlin, Germany. The lease in on a month to month basis at a cost of EUR 250 plus 19% tax per person up to a maximum of 10 people. For the month of September 2016 we accrued $1,672 in rent pursuant to this lease agreement.

Depreciation and amortization expenses increased by approximately $44,000 for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. This is attributable to depreciation and amortization expenses on the purchase of office equipment, furniture and fixtures and leasehold improvements for the new corporate headquarters in Denver Colorado of approximately $243,000, new restaurant equipment of approximately $16,000, new digital media equipment of approximately $7,000 and amortization of our capitalized licensing rights of $23,000.

Professional fees decreased approximately $795,000 from approximately $2,288,000 in 2015 to approximately $1,493,000 in 2016. Professional fees during 2016 included $393,000 for investor and public relations, $79,000 for accounting and auditing services, $68,000 for legal fees, $166,000 for consulting and professional fees related to our digital media segment, $27,000 for other professional service needs and 492,500 shares of restricted common stock issued to third parties for consulting services recorded at fair value of $760,000. Professional fees during 2015 included $574,000 for investor and public relations, $131,000 for accounting and auditing services, $61,000 for legal fees, $30,000 for other professional service needs, and the issuance of 3,170,000 shares of restricted common stock issued for consulting services and employee signing bonuses recorded at fair value of $1,492,000.

Other general and administrative expenses increased approximately $769,000 for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. The increase can be attributed primarily to software licensing costs of approximately $760,000, and increases in various other general and administrative costs of $9,000.

Other income (loss) - The Company had unrealized losses on trading securities of approximately $295,000 for the nine months ended September 30, 2016 compared to unrealized losses of $1,315,000 for the nine months ended September 30, 2015. Unrealized gains and losses are the result of fluctuations in the quoted market price of the underlying securities at the respective reporting dates. The Company realized gains from the sale of trading securities of approximately $75,000 for the nine months ended September 30, 2016, compared to realized losses of approximately $971,000 for the nine months ended September 30, 2015. Realized gains and losses are the difference between the selling prices and the underlying fair value of these securities at the corresponding reporting date prior to sale.

Digital Media Segment:

	2016	2015	Difference	%
Revenues	$ 88,232	$ (6,040)	$ 94,272	100%
General and administrative	1,522,486	237,950	1,284,536	540%
Depreciation and amortization	22,986	—	22,986	100%
Operating Loss	$ (1,457,240)	$ (243,990)	$ (1,213,250)	497%

Results of Operations – For the nine months ended September 30, 2016 the Digital Media segment had a net loss from continuing operations of approximately $1,457,000. During the period since the incorporation of SPYR APPS, LLC on March 24, 2015 to September 30, 2015, the Digital Media segment had a net loss from continuing operations of approximately $244,000.

Revenues – For the nine months ended to September 30, 2016, the Digital Media segment had total sales of approximately $88,000. Management plans to expand its mobile games and application development activities by developing and/or publishing mobile games and/or applications through acquisition and/or development of its own intellectual property and publishing agreements with developers.

General and Administrative Expenses – For the nine months ended September 30, 2016, the Digital Media segment had total selling, general and administrative expenses of approximately $1,522,000, which included Labor and related expenses of approximately $318,000, of which approximately $239,000 was paid in cash and $79,000 was paid in restricted stock recorded at fair value, professional expenses of approximately $166,000, marketing and promotional expenses of approximately $187,000, software licensing costs of approximately $760,000, and other general and administrative costs of approximately $91,000.

Depreciation and Amortization Expenses – For the nine months ended September 30, 2016 the Digital Media segment had total depreciation and amortization expense of approximately $23,000 relating to its capitalized licensing rights. The capitalized licensing rights are being amortized of the estimated useful life of the related games of 2-5 years.

Restaurant Segment:

	2016	2015	Difference	%
Revenues	$ 1,049,742	$ 1,217,635	$ (167,893)	-14%
Cost of sales	323,830	358,248	(34,418)	-10%
General and administrative	703,359	676,125	27,234	4%
Depreciation and amortization	52,165	55,720	(3,555)	-6%
Operating income (loss)	$ (29,612)	$ 127,542	$ (157,154)	-123%

Results of Operations – For the nine months ended September 30, 2016 the Restaurant segment had a net loss from continuing operations of approximately $30,000 compared to net operating income of approximately $128,000 for the nine months ended September 30, 2015 This change is due primarily to a decrease in revenues of approximately $168,000 and a decreased in cost of sales of approximately $34,000 and increased operating costs (general and administrative costs including depreciation and amortization) of approximately $23,000.

Revenues – For the nine months ended September 30, 2016 and 2015, the Restaurant segment had sales of approximately $1,050,000 and $1,218,000, respectively, for a decrease of approximately $168,000 or 14%. We believe restaurant revenues will continue to fluctuate in the future as airport traffic fluctuates.

Costs of Sales – For the nine months ended September 30, 2016 and 2015, the Restaurant segment had costs of sales of approximately $324,000 and $358,000, respectively, for a decrease of approximately $34,000 or 10%. Costs of sales include the costs of food, beverage, and kitchen supplies.

General and Administrative Expenses – For the nine months ended September 30, 2016 and 2015, the Restaurant segment had general and administrative expenses of approximately $703,000 compared to approximately $676,000 for the nine months ended September 30, 2015.

COMPARISON OF THE THREE MONTHS ENDED SEPTEMBER 30, 2016 TO 2015

The consolidated results of continuing operations for the three months ended September 30, 2016 and 2015 are as follows:

	Digital Media	Restaurants	Corporate	Consolidated
Three Months Ended September 30, 2016				
Revenues	$ 23,313	$ 407,929	$ —	$ 431,242
Cost of sales	—	131,210	—	131,210
Labor and related expenses	160,738	118,456	132,445	411,639
Rent	1,672	62,090	35,176	98,938
Depreciation and amortization	7,693	15,164	12,015	34,872
Professional fees	27,756	2,100	922,366	952,222
Other general and administrative	508,734	52,546	58,498	619,778
Operating income (loss)	(683,280)	26,363	(1,160,500)	(1,817,417)
Other Income	—	25	(206,158)	(206,133)
Income (loss) from continuing operations	$ (683,280)	$ 26,388	$ (1,366,658)	$ (2,023,550)
Three Months Ended September 30, 2015				
Revenues	$ 6,040	$ 444,507	$ —	$ 450,547
Cost of sales	—	155,083	—	155,083
Labor and related expenses	36,183	121,129	113,271	270,583
Rent	—	84,794	16,533	101,327
Depreciation and amortization	—	19,146	5,682	24,828
Professional fees	19,500	59,702	87,272	166,474
Other general and administrative	87,696	62,095	88,990	238,781
Operating income (loss)	(137,339)	(57,442)	(311,748)	(506,529)
Other Income (Expense)	—	21	(707,791)	(707,770)
Loss from continuing operations	$ (137,339)	$ (57,421)	$ (1,019,539)	$ (1,214,299)

Results of Operations - For the three months ended September 30, 2016 the Company had a loss from continuing operations of approximately $2,024,000 compared to a loss from continuing operations of approximately $1,214,000 for the three months ended September 30, 2015. This change is due primarily to increases in labor and related costs of approximately $141,000, in depreciation and amortization of approximately $10,000, in professional fees of approximately $786,000, and in other general and administrative expenses of approximately $381,000, partially offset by decreases in rent of approximately $2,000, in the amount of realized and unrealized losses on the sale of marketable securities of approximately $503,000.

More detailed explanation of the three months ended September 30, 2016 and 2015 changes are included in the applicable segment discussions following.

Total Revenues - Total revenues decreased $20,000, to $431,000 from $451,000 for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. This change is primarily the due to fluctuations in airport traffic resulting in lower restaurant revenues. For the three months ended September 30, 2016, revenues included approximately $23,000 in revenues from our Digital Media Mobile Games Publishing and Advertising segment and approximately $408,000 in restaurant revenues. For the three months ended September 30, 2015, revenues included approximately $6,000 in revenues from our Digital Media Mobile Games Publishing and Advertising segment and approximately $445,000 in restaurant revenues. Management plans to expand its mobile application and game development and monetization efforts and expects increased revenues in this segment in the coming months. We believe restaurant revenues will continue to fluctuate in the future as airport traffic fluctuates.

Costs and Expenses - Costs of sales, include the costs of food, beverage, and kitchen supplies and relates solely to our restaurant business.

The cost of labor increased approximately $141,000 to $412,000 from $271,000 for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. This increase is primarily due to hiring additional employees for our digital media operations. During the three months ended September 30, 2016, our Digital Media Mobile Games Publishing and Advertising segment incurred labor and related expenses of approximately $161,000, compared to $36,000 for the three months ended September 30, 2015. Of this amount, approximately $101,000 was paid in cash and $60,000 was paid in restricted stock recorded at fair value. The remaining difference is attributed to hiring dates and changes in pay rates and the overall number of employees. The cost of labor is expected to increase in conjunction with expansion of the digital media operations.

The cost of rent decreased approximately $2,000 from 2015 to 2016. The Company's wholly owned subsidiary, E.A.J.: PHL, Airport, pays $14,000 per month basic rent plus percentage rent equal to 20% of gross revenues above $1,200,000 under the lease based on sales for the 12 month period from July to June of each year. Basic rent is a fixed cost and percentage rent is variable, so the total rent paid is expected to vary from year to year in conjunction with restaurant sales. Beginning May 1, 2015, the Company moved into its new corporate offices in Denver, Colorado and began recording lease expense of $5,000 per month pursuant to this lease agreement. On October 1, 2015, we added additional square footage that more than doubled our administrative office space in Denver and further increased our corporate rent expense to $12,000 per month. Beginning September 1, 2016, the company began leasing 25 square meters of office space, at Rosenstrasse 17, 10178 Berlin, Germany. The lease in on a month to month basis at a cost of EUR 250 plus 19% tax per person up to a maximum of 10 people. For the month of September 2016 we accrued $1,672 in rent pursuant to this lease agreement.

Depreciation and amortization expenses increased by approximately $10,000 for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. This is attributable to depreciation and amortization expenses on the purchase of office equipment, furniture and fixtures and leasehold improvements for the new corporate headquarters in Denver Colorado of approximately $243,000, new restaurant equipment of approximately $16,000, new digital media equipment of approximately $7,000 and amortization of our capitalized licensing rights of $23,000.

Professional fees increased approximately $786,000 from approximately $166,000 in 2015 to approximately $952,000 in 2016. Professional fees during 2016 included $224,000 for investor and public relations, $15,000 for accounting and auditing services, $35,000 for legal fees, $28,000 for consulting and professional fees related to our digital media segment, $6,000 for other professional service needs and 1,589,098 shares of restricted common stock issued to third parties for consulting services recorded at fair value of $644,000. Professional fees during 2015 included $126,000 for investor and public relations, $37,000 for accounting and auditing services, $10,000 for legal fees, $11,000 for other professional service needs, and a decrease of $18,000 in the recorded fair value of 500,000 vesting shares of restricted common stock issued previously on February 1, 2015 for consulting services.

Other general and administrative expenses increased approximately $381,000 for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. The increase can be attributed primarily to software licensing costs of approximately $390,000, and decreases in various other general and administrative costs of $9,000.

The Company had unrealized losses on trading securities of approximately $211,000 for the three months ended September 30, 2016 compared to unrealized losses of $228,000 for the three months ended September 30, 2015. Unrealized gains and losses are the result of fluctuations in the quoted market price of the underlying securities at the respective reporting dates.

The Company realized gains from the sale of trading securities of approximately $0 for the three months ended September 30, 2016, compared to realized losses of approximately $486,000 for the three months ended September 30, 2015. Realized gains and losses are the difference between the selling prices and the underlying fair value of these securities at the corresponding reporting date prior to sale.

Digital Media Segment:

	2016	2015	Difference	%
Revenues	$ 23,313	$ (6,040)	$ 29,353	100%
General and administrative	698,900	143,379	555,521	387%
Depreciation and amortization	7,693	—	7,693	100%
Operating Loss	$ (683,280)	$ (149,419)	$ (533,861)	357%

Results of Operations – For the three months ended September 30, 2016 the Digital Media segment had a net loss from continuing operations of approximately $683,000 compared to a net loss from continuing operations of approximately $149,000 for the three months ended September 30, 2015.

Revenues – For the three months ended to September 30, 2016, the Digital Media segment had total sales of approximately $23,000. Management plans to expand its mobile games and application development activities by developing and/or publishing mobile games and/or applications through acquisition and/or development of its own intellectual property and publishing agreements with developers.

General and Administrative Expenses – For the three months ended September 30, 2016, the Digital Media segment had total selling, general and administrative expenses of approximately $699,000, which included Labor and related expenses of approximately $161,000, of which approximately $101,000 was paid in cash and $60,000 was paid in restricted stock recorded at fair value, professional expenses of approximately $28,000, marketing and promotional expenses of approximately $69,000, software licensing costs of approximately $390,000, and other general and administrative costs of approximately $51,000.

Depreciation and Amortization Expenses – For the three months ended September 30, 2016 the Digital Media segment had total depreciation and amortization expense of approximately $8,000 relating to its capitalized licensing rights. The capitalized licensing rights are being amortized of the estimated useful life of the related games of 2-5 years.

Restaurant Segment:

	2016	2015	Difference	%
Revenues	$ 407,929	$ 444,507	$ (36,578)	-8%
Cost of sales	131,210	155,083	(23,873)	-15%
General and administrative	235,192	327,720	(92,528)	-28%
Depreciation and amortization	15,164	19,146	(3,982)	-21%
Operating income (loss)	$ 26,363	$ (57,442)	$ 83,805	-146%

Results of Operations – For the three months ended September 30, 2016 the Restaurant segment had income from continuing operations of approximately $26,000 compared to a loss from continuing operations of approximately $57,000 for the three months ended September 30, 2015 This change is due primarily to a decrease in revenues of approximately $37,000 and a decreased in cost of sales of approximately $24,000 and increased operating costs (general and administrative costs including depreciation and amortization) of approximately $97,000.

Revenues – For the three months ended September 30, 2016 and 2015, the Restaurant segment had sales of approximately $408,000 and $445,000, respectively, for a decrease of approximately $37,000 or 8%. We believe restaurant revenues will continue to fluctuate in the future as airport traffic fluctuates.

Costs of Sales – For the three months ended September 30, 2016 and 2015, the Restaurant segment had costs of sales of approximately $131,000 and $155,000, respectively, for a decrease of approximately $24,000 or 15%. Costs of sales include the costs of food, beverage, and kitchen supplies.

General and Administrative Expenses – For the three months ended September 30, 2016 and 2015, the Restaurant segment had general and administrative expenses of approximately $235,000 compared to approximately $328,000 for the three months ended September 30, 2015.

The decrease in revenue is attributed to changes in the timing and flow of airport traffic.

DISCONTINUED OPERATIONS

On February 23, 2015 the Company entered into an agreement whereby, the Company issued an aggregate of 2.5 million shares of its restricted common stock valued at $1,700,000, in exchange for all of the issued and outstanding shares of Franklin Networks, Inc., a Tennessee corporation ("Franklin"), an internet company that began operations in September 2014. The acquisition of Franklin had been accounted for as a purchase and the operations of Franklin have been consolidated since the date of the acquisition. The $1.7 million purchase price was allocated based upon the fair value of the acquired assets which consists of intangible assets of $671,131, deferred tax liability of $117,741 and goodwill of $1,146,610, as determined by management with the assistance of an independent valuation firm.

On December 31, 2015, the Company and the former owners of Franklin agreed to unwind the agreement and return the original consideration exchanged in the contract. The Company reported the gain (loss) from operations from Franklin as a gain (loss) from discontinued operations in the accompanying statements of operations since the Company considered its decision to rescind the Franklin acquisition as a strategic shift that has a major effect in the Company's operations and financial results.

During the nine months ended September 30, 2016, the Company incurred expenses of $4,494 related to Franklin. During the nine months ended September 30, 2015, Franklin generated a loss from operations of $603,309.

LIQUIDITY AND CAPITAL RESOURCES

The Company has generated a net loss from continuing operations for the nine months ended September 30, 2016 of approximately $3,975,000. As of September 30, 2016, the Company had current assets of approximately $4,577,000, which included cash and cash equivalents of approximately $3,865,000, and trading securities of approximately $331,000. While the Company believes it has sufficient cash and cash equivalents to carry out its operating plans for the next twelve to twenty-four months, there can be no assurance the Company will be able to successfully execute its plans at the anticipated level or that additional debt or equity financing will not be needed, or will be available on terms acceptable to the Company.

During the nine months ended September 30, 2016 and 2015, the Company has met its capital requirements through a combination of collection of revenues, the sale of its trading securities, and utilization of cash reserves.

Operating Activities - For the nine months ended September 30, 2016, the Company used cash in operating activities of $2,569,247. For the nine months ended September 30, 2015, the Company used cash in operating activities of $2,130,213. This increase is due primarily to our expansion efforts into the digital media publishing, advertising and gaming industry, the addition of new management and operations personnel and the resulting increases in operating expenses.

Investing Activities - During the nine months ended September 30, 2016, the Company used $510,000 in cash to purchase trading securities, $210,000 to purchase software licensing rights, $47,821 for the purchase of property plant and equipment, and received $283,255 in cash proceeds from sales of trading securities. During the nine months ended September 30, 2015, the Company received $2,576,667 in cash proceeds from sales of trading securities, and used cash of $184,197 for the purchase of property plant and equipment and domain names. As of September 30, 2016, the Company owns trading securities valued at $330,631.

Financing Activities - During the nine months ended September 30, 2016 and 2016, the Company sold 100,000 shares of restricted common stock to a service provider for $15,000. The shares were recorded at fair value of $19,000 with the remaining $4,000 recorded as professional fees.

The Company expects future development and expansion will be financed through cash flows from operations and other forms of financing such as the sale of additional equity and debt securities, capital leases and other credit facilities. There are no assurances that such financing will be available on terms acceptable or favorable to the Company.

Government Regulations - The Company is subject to all pertinent Federal, State, and Local laws governing its business. Each subsidiary is subject to licensing and regulation by a number of authorities in its State or municipality. These may include health, safety, and fire regulations. The Company's operations are also subject to Federal and State minimum wage laws governing such matters as working conditions, overtime and tip credits.

Critical Accounting Policies - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Note 1 to the Consolidated Financial Statements describes the significant accounting policies and methods used in the preparation of the Consolidated Financial Statements. Estimates are used for, but not limited to, contingencies and taxes. Actual results could differ materially from those estimates. The following critical accounting policies are impacted significantly by judgments, assumptions, and estimates used in the preparation of the Consolidated Financial Statements.

Revenue Recognition

The Company generates revenues from its wholly owned subsidiaries, which operate separate and distinct businesses. The following is a summary of our revenue recognition policies.

Through our wholly owned subsidiary SPYR APPS, LLC, we develop, publish and co-publish mobile games, and then generate revenue through those games by way of advertising and in-app purchases. The Company's dedicated mobile gaming applications can be downloaded through the app stores maintained by Apple and Google. The Company's cross platform gaming application which can be played on personal computers, Facebook and mobile devices, can be downloaded from the internet and Facebook as well as through the app stores maintained by Apple, Google and Amazon. The Company receives revenue from sale of advertising provided with games and through in-app purchases. The Company also receives revenue from publishing agreements entered into during 2015 for one mobile game and one cross platform game. The Company recognizes revenue using four basic criteria that must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured, which is typically after receipt of payment and delivery.

Though our wholly owned subsidiary E.A.J.: PHL, Airport, Inc. we generate revenue from the sale of food and beverage products through our restaurant. Revenue from the restaurant is recognized upon sale to a customer and receipt of payment.

Stock-Based Compensation

The Company periodically issues stock options and warrants to employees and non-employees in non-capital raising transactions for services and for financing costs. The Company accounts for stock option and warrant grants issued and vesting to employees based on the authoritative guidance provided by the Financial Accounting Standards Board (FASB) whereas the value of the award is measured on the date of grant and recognized over the vesting period. The Company accounts for stock option and warrant grants issued and vesting to non-employees in accordance with the authoritative guidance of the FASB whereas the value of the stock compensation is based upon the measurement date as determined at either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete. Non-employee stock-based compensation charges generally are amortized over the vesting period on a straight-line basis. In certain circumstances where there are no future performance requirements by the non-employee, option grants are immediately vested and the total stock-based compensation charge is recorded in the period of the measurement date.

The fair value of the Company's stock option and warrant grants is estimated using the Black-Scholes Option Pricing model, which uses certain assumptions related to risk-free interest rates, expected volatility, expected life of the stock options or warrants, and future dividends. Compensation expense is recorded based upon the value derived from the Black-Scholes Option Pricing model, and based on actual experience. The assumptions used in the Black-Scholes Option Pricing model could materially affect compensation expense recorded in future periods.

The Company also issues restricted shares of its common stock for share-based compensation programs to employees and non-employees. The Company measures the compensation cost with respect to restricted shares to employees based upon the estimated fair value at the date of the grant, and is recognized as expense over the period which an employee is required to provide services in exchange for the award. For non-employees, the Company measures the compensation cost with respect to restricted shares based upon the estimated fair value at measurement date which is either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete.

Recent Accounting Pronouncements

See Note 1 of the condensed consolidated financial statements for discussion of recent accounting pronouncements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Management of the Company is responsible for maintaining disclosure controls and procedures that are designed to ensure that financial information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 (the “Exchange Act”) is recorded, processed, summarized and reported within the timeframes specified in the Securities and Exchange Commission’s rules and forms, consistent with Items 307 and 308 of Regulation S-K.

In addition, the disclosure controls and procedures must ensure that such financial information is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial and other required disclosures.

As of September 30, 2016, an evaluation of the effectiveness of the Company’s disclosure controls and procedures (as defined in Rules 13(a)-15(e) and 15(d)-15(e) of the Securities Exchange Act of 1934 (the “Exchange Act”) was carried out under the supervision and with the participation of our Chief Executive Officer, Chief Financial Officer, and other persons carrying out similar functions for the Company. Based on the evaluation of the Company’s disclosure controls and procedures, the Company concluded that during the period covered by this report, such disclosure controls and procedures were effective.

The Company continues to employ and refine a structure in which critical accounting policies, issues and estimates are identified, and together with other complex areas, are subject to multiple reviews by accounting personnel. In addition, the Company evaluates and assesses its internal controls and procedures regarding its financial reporting, utilizing standards incorporating applicable portions of the Public Company Accounting Oversight Board’s *2009 Guidance for Smaller Public Companies in Auditing Internal Controls Over Financial Reporting* as necessary and on an on-going basis.

Changes in Internal Controls Over Financial Reporting

The Company has no reportable changes to its internal controls over financial reporting for the period covered by this report.

The Company will continually enhance and test its internal controls over financial reporting. Additionally, the Company's management, under the control of its Chief Executive Officer and Chief Financial Officer, will increase its review of its disclosure controls and procedures on an ongoing basis. Finally, the Company plans to designate, in conjunction with its Chief Financial Officer, individuals responsible for identifying reportable developments and the process for resolving compliance issues related to them. The Company believes these actions will focus necessary attention and resources in its internal accounting functions.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On October 14, 2015, the Company was named as a defendant in a case filed in the United States District Court for the District of Delaware case: Zakeni Limited v. SPYR, Inc., f/k/a Eat at Joe's., Ltd. The suit relates to the Company's issuance of two convertible debentures in the aggregate principal amount of $1,500,000 in 1998. The plaintiff is seeking payment or conversion of said convertible debentures together with accrued interest and unspecified damages. The Company believes the claim is not a valid debt and is vigorously defending this lawsuit. On December 4, 2015, the Company filed a motion to dismiss the suit based on the statute of limitations. In evaluating a motion to dismiss, the Court is only allowed to view the allegations set forth in the plaintiff's complaint and documents referenced therein, must assume that those allegations are true, and must construe all evidence contained in the referenced documents in a light most favorable to the plaintiff. On August 24, 2016, under this standard, the Court determined that the legal requirements to grant the motion to dismiss had not been fully satisfied and denied the Company's Motion to Dismiss. Accordingly, no final determinations regarding liability have been made, the case will proceed to be litigated in the normal course, and, if the Company elects, it will have the ability to again present its arguments for dismissal prior to trial through a motion for summary judgment, which will allow for a determination to be made based on a legal standard that is slightly less favorable to the plaintiff. If that motion is denied, the Company will still have the opportunity to present all of its arguments and defenses at trial, at which Zakeni will have to prove its case by a preponderance of the evidence. The case is scheduled for trial on January 8, 2018. Based upon available information at this very early stage of litigation, it is still the opinion of management and belief of in-house counsel that the Company will obtain a favorable ruling and no amount will be awarded to the plaintiff in this action. Accordingly, Management believes the likelihood of material loss resulting from this lawsuit to be remote.

ITEM 1A. RISK FACTORS

Not applicable to smaller reporting companies.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During July, August, and September 2016, the Company issued 1,589,098 restricted common shares pursuant to consulting agreements with a third party. These shares were recorded at fair value of $467,933 in the statement of operations and comprehensive income as part of professional fees for the nine months ended September 30, 2016. The Company relied upon the Section 4(a)(2) exemption from registration provided by Rule 506(b) of Regulation D.

During July, August, and September 2016, the Company issued 118,987 restricted common shares pursuant to leased employees. These shares were recorded at fair value of $32,488 in the statement of operations and comprehensive income as part of professional fees for the nine months ended September 30, 2016. The Company relied upon the Section 4(a)(2) exemption from registration provided by Rule 506(b) of Regulation D.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibits are included as part of this report:

Exhibit Number	Exhibit Description
3.1	Articles of Incorporation (1)
3.2	By-laws (1)
3.3	Amended Articles of Incorporation (1)
10.1	Lease Information Form between E.A.J.: PHL, Airport Inc. and Marketplace Redwood Limited Partnership(1)
10.2	Registration of trade name for Eat at Joe's(1)
10.2	Registration Rights Agreement(1)
10.3	Franklin Networks Acquisition Agreement (1)
14	Code of Ethics (1)
21	Subsidiaries of the Company (1)
31**	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32***	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

** Filed herewith
*** Furnished Herewith
(1) Incorporated by reference.

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.

Dated: November 14, 2016

SPYR, INC.

By: /S/ James R. Thompson
James R. Thompson
President & Chief Executive Officer
(Principal Executive Officer)

By: /S/ Barry D. Loveless
Barry D. Loveless
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 31.1

RULE 13a-14(a)/15d-14(a) CERTIFICATION

I, James R. Thompson, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended September 30, 2016 of SPYR, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of 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.

November 14, 2016

/S/ James R. Thompson
James R. Thompson
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

RULE 13a-14(a)/15d-14(a) CERTIFICATION

I, Barry D. Loveless, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended September 30, 2016 of SPYR, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-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.

5. The registrants other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of 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.

November 14, 2016

/s/ Barry D. Loveless
Barry D. Loveless, Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32.1

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

In connection with the Quarterly Report of SPYR (the "Company") on Form 10-Q for the quarter ended September 30, 2016 as filed with the Securities and Exchange Commission (the "Report"), I, James R. Thompson, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. SS. 1350, as adopted pursuant to SS. 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

November 14, 2016

/S/ James R. Thompson
James R. Thompson
Chief Executive Officer
(Principal Executive Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

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

In connection with the Quarterly Report of SPYR, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2016 as filed with the Securities and Exchange Commission (the "Report"), I, Barry D. Loveless, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. SS. 1350, as adopted pursuant to SS. 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

November 14, 2016

/S/ Barry D. Loveless
Barry D. Loveless
Chief Financial Officer
(Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.