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: March 31, 2018

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	☒
Emerging growth company	☐		

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

As of April 30, 2018, there were 191,793,398 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 295,003 common shares), par value $0.0001.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SPYR, INC., AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2018	December 31, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 78,000	$ 86,000
Accounts receivable, net	3,000	4,000
Prepaid expenses	19,000	35,000
Trading securities, at market value	37,000	48,000
Total Current Assets	137,000	173,000
Property and equipment, net	123,000	134,000
Capitalized gaming assets and licensing rights, net	726,000	743,000
Intangible assets, net	11,000	12,000
Other assets	16,000	16,000
TOTAL ASSETS	$ 1,013,000	$ 1,078,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 929,000	$ 878,000
Related party short-term advances	5,000	—
Related party line of credit	1,021,000	—
Current liabilities of discontinued operations	22,000	22,000
Total Current Liabilities	1,977,000	900,000
Non-current related party line of credit	—	807,000
Total Liabilities	1,977,000	1,707,000
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 March 31, 2018 and December 31, 2017	11	11
20,000 Class E shares issued and outstanding as of March 31, 2018 and December 31, 2017	2	2
Common Stock, $0.0001 par value, 750,000,000 shares authorized 191,520,892 and 181,128,950 shares issued and outstanding as of March 31, 2018 and December 31, 2017	19,151	18,112
Additional paid-in capital	50,176,836	46,561,875
Accumulated deficit	(51,160,000)	(47,209,000)
Total Stockholders' Equity	(964,000)	(629,000)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,013,000	$ 1,078,000

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 March 31, 2018	2017
Revenues	$ 6,000	$ 52,000
Expenses		
Labor and related expenses	886,000	1,370,000
Rent	49,000	38,000
Depreciation and amortization	29,000	15,000
Professional fees	2,556,000	1,592,000
Research and development	299,000	113,000
Other general and administrative	105,000	334,000
Total Operating Expenses	3,924,000	3,462,000
Operating Loss	(3,918,000)	(3,410,000)
Other Income (Expense)		
Interest and dividend income	—	3,000
Interest Expense	(20,000)	—
Unrealized loss on trading securities	(11,000)	(15,000)
Total Other Expense	(31,000)	(12,000)
Loss from continuing operations	(3,949,000)	(3,422,000)
Loss on discontinued operations	(2,000)	(35,000)
Net Loss	$ (3,951,000)	$ (3,457,000)
Per Share Amounts		
Loss from continuing operations		
Basic and Diluted earnings per share	$ (0.02)	$ (0.02)
Loss on discontinued operations		
Basic and Diluted earnings per share	$ —	$ —
Net Loss		
Basic and Diluted earnings per share	$ (0.02)	$ (0.02)
Weighted Average Common Shares		
Basic and Diluted	186,355,488	159,333,637

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
THREE MONTHS ENDED MARCH 31, 2018
(Unaudited)

	Preferred Stock						Additional		
	Class A		Class E		Common Stock		Paid-in	Accumulated	
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	Total
Balance at December 31, 2017	107,636	$ 11	20,000	$ 2	181,128,950	$18,112	$46,561,875	$(47,209,000)	$ (629,000)
Common stock issued to related party for cash	—	—	—	—	500,000	50	49,950	—	50,000
Common stock issued for cash	—	—	—	—	4,200,000	420	554,580	—	555,000
Fair value of common stock issued for employee compensation	—	—	—	—	1,250,000	125	624,875	—	625,000
Fair value of common stock, options and warrants issued for services	—	—	—	—	4,441,942	444	1,711,556	—	1,712,000
Vesting of options and warrants granted for services	—	—	—	—	—	—	674,000	—	674,000
Net loss	—	—	—	—	—	—	—	(3,951,000)	(3,951,000)
Balance at March 31, 2018	107,636	$ 11	20,000	$ 2	191,520,892	$19,151	$50,176,836	$(51,160,000)	$ (964,000)

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 Three Months Ended March 31, 2018	2017
Cash Flows From Operating Activities:		
Net loss for the period	$ (3,951,000)	$ (3,457,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on discontinued operations	2,000	35,000
Depreciation and amortization	29,000	15,000
Common stock issued for employee compensation	625,000	847,000
Common stock, options and warrants issued for services	1,712,000	1,065,000
Vesting of options and warrants granted for services	674,000	402,000
Vesting of shares of common stock issued for services	—	46,000
Unrealized loss on trading securities	11,000	15,000
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivables	1,000	(3,000)
Decrease in other receivables	—	100,000
Decrease (increase) in prepaid expenses	16,000	(5,000)
Increase in accounts payable and accrued liabilities	51,000	43,000
Increase in accrued interest on line of credit - related party	14,000	—
Net Cash Used in Operating Activities from Continuing Operations	(816,000)	(897,000)
Net Cash Used in Operating Activities from Discontinued Operations	(2,000)	(11,000)
Net Cash Used in Operating Activities	(818,000)	(908,000)
Cash Flows From Investing Activities:		
Net Cash (Used in) Provided by Investing Activities	—	—
Cash Flows From Financing Activities:		
Proceeds from sale of common stock	605,000	—
Proceeds from short-term advances - related party	5,000	—
Proceeds from line of credit - related party	200,000	—
Net Cash Provided by Financing Activities	810,000	—
Net Decrease in Cash	(8,000)	(908,000)
Cash and cash equivalents at beginning of period	86,000	3,204,000
Cash and cash equivalents at end of period	$ 78,000	$ 2,296,000
Supplemental Disclosure of Interest and Income Taxes Paid:		
Interest paid during the period	$ —	$ —
Income taxes paid during the period	$ —	$ —

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, 2017 filed with the SEC. The condensed consolidated balance sheet as of December 31, 2017 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.

Through our wholly owned subsidiary, SPYR APPS, LLC we operate our mobile games and applications business. The focus of the SPYR APPS subsidiary 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 owned and operated the restaurant "Eat at Joe's®," which was located in the Philadelphia International Airport since 1997. Our lease in the Philadelphia Airport expired in April 2017. Concurrent with expiration of the lease the restaurant closed. Pursuant to current accounting guidelines, the assets and liabilities of EAJ as well as the results of its operations were presented in these financial statements as discontinued operations.

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, E.A.J.: PHL, Airport Inc., a Pennsylvania corporation (discontinued operations, see Note 7), and Branded Foods Concepts, Inc., a Nevada corporation. Intercompany accounts and transactions have been eliminated.

Going Concern

The accompanying financial statements have been prepared under the assumption that the Company will continue as a going concern. Such assumption contemplates the realization of assets and satisfaction of liabilities in the normal course of business, however, the issues described below raise substantial doubt about the Company's ability to do so.

As shown in the accompanying financial statements, for the three months ended March 31, 2018, the Company recorded a net loss from continuing operations of $3,951,000 and utilized cash in continuing operations of $816,000. As of March 31, 2018, our cash balance was $78,000 and we had trading securities of $37,000. These issues raise substantial doubt about the Company's ability to continue as a going concern.

The Company plans to expand its mobile games and application development and publishing activities, such as Pocket Starships and Steven Universe Tap Together, through acquisition and/or development of its own intellectual property and publishing agreements with developers.

Historically, we have financed our operations primarily through private sales of our trading securities or through sales of our common stock. If our sales goals for our products do not materialize as planned, we believe that the Company can reduce its operating and product development costs that would allow us to maintain sufficient cash levels to continue operations. However, if we are not able to achieve profitable operations at some point in the future, we may have insufficient working capital to maintain our operations as we presently intend to conduct them or to fund our expansion, marketing, and product development plans.

The ability of the Company to continue as a going concern is dependent upon the success of future capital offerings or alternative financing arrangements and expansion of its operations. The accompanying financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern. Management is actively pursuing additional sources of financing sufficient to generate enough cash flow to fund its operations through calendar year 2018. However, management cannot make any assurances that such financing will be secured.

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 trading securities, fixed assets, intangible assets, capitalized licensing rights, 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 months ended March 31, 2018 are the same because the inclusion of the potential shares (Class A – 26,909,028, Class E – 253,678, Options – 13,740,000, Warrants – 3,600,000) would have had an anti-dilutive effect due to the Company generating a loss for the three months ended March 31, 2018.

The basic and fully diluted shares for the three months ended March 31, 2017 are the same because the inclusion of the potential shares (Class A – 26,909,028, Class E – 150,775, Options – 5,970,000, Warrants – 1,200,000) would have had an anti-dilutive effect due to the Company generating a loss for the three months ended March 31, 2017.

Capitalized Gaming Assets and Licensing Rights

Capitalized gaming assets and licensing rights represent costs to acquire 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.

On October 23, 2017, the Company completed the acquisition of all assets that refer, relate or pertain to the real—time cross-platform MMO game commonly known and referred to as “Pocket Starships,” including but not limited to all intellectual property, know how, “urls,” websites, game engines, game store accounts, prior versions, company names and trade names, business plans, financial reports, financial data, employee data, customer lists, forecasts, strategies, and all other business information; manufacturing or other technical or scientific know-how, specifications, technical drawings, drawings, artwork, music, diagrams, schematics, technology, processes, and any other trade secrets, discoveries, ideas, concepts, know-how, techniques, materials, formulae, compositions, information, data, results, plans, surveys and/or reports of a technical nature; and software programs (including all forms of code), software documentation, software development kits, game design documents, and formulae related to the current, future and proposed products and services, including any additions, enhancements or modifications to the foregoing or derivatives thereof after the date hereof.

As consideration for the acquisition, the Company issued eight million shares of the Company’s restricted common stock valued at $3,200,000, options to purchase up to eight million shares of the Company’s restricted common stock valued at $2,452,000 and assumed liabilities of $210,000 for a total purchase price of $5,862,000. The options are fully vested, exercisable at a price per share of $0.50 and will expire starting August 31, 2020. The acquisition of “Pocket Starships” was reported as part of capitalized gaming assets and licensing rights valued at $481,000 based upon discounted cash flows. The difference between purchase price and the capitalized value was recorded as loss on write down on assets during 4th quarter 2017. The Company amortizes the capitalized cost on a straight-line basis over an estimated life of seven to ten years.

Further, the options previously issued pursuant to a purchase option agreement dated June 25, 2016, which provided for the option to purchase up to three million, seven hundred and fifty thousand shares of Registrant’s common stock, are fully vested and remain in effect in accordance with the terms of the purchase option agreement.

Also during 2017, the Company capitalized $175,000 pursuant to a licensing agreement for the non-exclusive, limited right to incorporate certain intellectual property (IP) from various *STAR TREK* television series in to future updates to and expansions of the Pocket Starships game. The Company estimates that the IP will have an estimated life of 1.6 years, which approximates the term of the license. In addition, we also acquired the game titled Battlewack: Idle Lords for $100,000, pursuant to settlement with the game owner and developer. Battlewack: Idle Lords requires additional development before it can be released.

During the three months ended March 31, 2018, the Company recorded amortization expense of $18,000. As of March 31, 2018 and December, 2017, the unamortized capitalized gaming assets and licensing rights amounted to $726,000 and $743,000 respectively.

Software Development Costs

Costs incurred for software development are expensed as incurred. During the three months ended March 31, 2018 and 2017, the Company incurred $299,000 and $113,000 in software development costs paid to independent gaming software developers.

Revenue Recognition

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 superseded nearly all existing revenue recognition guidance under prior U.S. GAAP and replace it with a principle based approach for determining revenue recognition. The core principle of the standard is the recognition of revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

We adopted this new revenue recognition standard along with is related amendments on January 1, 2018 and have updated our accounting policy for revenue recognition. As expected, at our current level of revenue, the adoption of this new standard did not impact our financial position or results of operations operating cash flows.

We determine revenue recognition by: (1) identifying the contract, or contracts, with our customer; (2) identifying the performance obligations in the contract; (3) determining the transaction price; (4) allocating the transaction price to performance obligations in the contract; and (5) recognizing revenue when, or as, we satisfy performance obligations by transferring the promised goods or services.

Through our wholly owned subsidiary SPYR APPS, LLC, d/b/a SPYR GAMES, 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.

We operate our games as live services that allow players to play for free. Within these games players can purchase virtual items to enhance their game-playing experience. Our identified performance obligation is to display the virtual items within the game. Payment is required at time of purchase and the purchase price is a fixed amount.

Players can purchase our virtual items through various widely accepted payment methods offered in the games, including Apple iTunes accounts, Google Play accounts, Facebook local currency payments, PayPal and credit cards. Payments from players for virtual items are non-refundable and relate to non-cancellable contracts that specify our obligations.

For revenue earned through app stores, players utilize the app store's local currency-based payments program to purchase virtual items in our games. For all payment transactions on these app store platforms, the app store remits to us 70% of the price we request to be charged to the player for each transaction, which represents the transaction price. We recognize revenue net of the amounts retained by the app stores for platform and payment processing fees.

Recent Accounting Standards

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.

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	Gain on Sale	Unrealized Loss	Fair Value at March 31, 2018
2018	$ 48,000	$ —	$ (11,000)	$ 37,000

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

	Fair Value at March 31, 2018	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Trading securities	$ 37,000	$ 37,000	$ —	$ —
Money market funds	36,000	36,000	—	—
Total	$ 73,000	$ 73,000	$ —	$ —

	Fair Value at December 31, 2017	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Trading securities	$ 48,000	$ 48,000	$ —	$ —
Money market funds	36,000	36,000	—	—
Total	$ 84,000	$ 84,000	$ —	$ —

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:

	March 31, 2018	December 31, 2017
Equipment	$ 28,000	$ 28,000
Furniture & fixtures	114,000	114,000
Leasehold improvements	107,000	107,000
	249,000	249,000
Less: accumulated depreciation and amortization	(126,000)	(115,000)
Property and Equipment, Net	$ 123,000	$ 134,000

Depreciation expense for the three months ended March 31, 2018 and 2017 was $11,000 and $12,000, respectively.

NOTE 4 - RELATED PARTY TRANSACTIONS

On September 5, 2017, the Company obtained a revolving line of credit from Berkshire Capital Management Co., Inc. The line of credit allows the Company to borrow up to $1,000,000 with interest at 6% per annum. The loan is secured by a first lien on all the assets of the Company and its wholly owned subsidiary SPYR APPS, LLC. Repayment on the loan is due February 28, 2019. As of March 31, 2018, the Company has borrowed $1,000,000 and accrued interest of $21,000.

During the three months ended March 31, 2018, the Company issued 500,000 shares of restricted common stock to the father of an executive officer of the Company for cash of $50,000.

NOTE 5 – 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 October 30, 2018 and the Company has recorded anticipated litigation and court costs in accrued expenses. Based upon available information at this stage of litigation, it is still the belief of management and opinion of in-house counsel that the Company will obtain a favorable ruling. Management does not expect any loss resulting from this lawsuit to be material.

Employment Agreements

Pursuant to employment agreements entered in December 2014 and October 2015, the Company agreed to compensate three officers with a base salary in the aggregate of $450,000 per year through 2020. In addition, as part of the employment agreement, the Company also agreed to grant these officers an aggregate of 1.55 million shares of common stock at the beginning of each employment year.

Game Development Agreements

The Company is party to various game development agreements. Payments are contingent upon the developer(s) meeting specified milestones and game performance. Pursuant to these agreements, the Company has agreed to pay up to $585,000 during the period from April 2018 through January 2019.

Common Stock To Be Issued

The Company is party to various third-party service agreements to be paid through the issuance of the company's restricted common stock. Contingent upon the third parties providing the agreed upon services, the Company will issue up to 980,116 restricted common shares at various intervals during the period from April 2018 through February 2019. The shares will be recorded at fair value on the date earned under the respective agreements.

NOTE 6 – EQUITY TRANSACTIONS

Common Stock:

Three Months Ended March 31, 2018:

During the three months ended March 31, 2018, the Company issued an aggregate of 4,200,000 shares of restricted common stock to third parties for cash of $555,000.

During the three months ended March 31, 2018, the Company issued 500,000 shares of restricted common stock to the father of an executive officer of the Company for cash of $50,000.

During the three months ended March 31, 2018, the Company issued an aggregate of 1,250,000 shares of restricted common stock to employees with a total fair value of $625,000 for services rendered. The shares issued are non-refundable and deemed earned upon issuance. As a result, the Company expensed the entire $625,000 upon issuance. The shares issued were valued at the date earned under the respective agreement based upon closing market price of the Company's common stock.

During the three months ended March 31, 2018, the Company issued an aggregate of 4,441,942 shares of restricted common stock to consultants with a total fair value of $1,712,000. The shares issued are non-refundable and deemed earned upon issuance. As a result, the Company expensed the entire $1,712,000 upon issuance. The shares issued were valued at the date earned under the respective agreements based upon closing market price of the Company's common stock.

Options:

The following table summarizes common stock options activity:

	Options	Weighted Average Exercise Price
December 31, 2017	13,320,000	$ 1.74
Granted	420,000	1.00
Exercised	—	—
Forfeited	—	—
Outstanding, March 31, 2018	13,740,000	$ 1.72
Exercisable, March 31, 2018	12,855,000	$ 1.61

During the year ended December 31, 2017, the Company granted stock options to a consultant to purchase a total of 420,000 shares of common stock. During the three months ended March 31, 2018, the Company renewed the contract for an additional year and granted the consultant an additional 420,000 stock options with a total fair value of $115,000. A total of 105,000 options vested during three months ended March 31, 2018 while the remaining 385,000 options will vest through February 2019 at a rate of 35,000 shares per month. The options are exercisable at $1.00 per share and will expire over 4 years. The fair values of the options are recorded at their respective grant dates computed using the Black-Scholes Option Pricing Model. During the three months ended March 31, 2018, the Company recognized $52,000 in compensation expense based upon the vesting of outstanding options. As of March 31, 2018, the unamortized compensation expense for unvested options was $106,000 which will be over the vesting period.

The weighted average exercise prices, remaining lives for options granted, and exercisable as of March 31, 2018 were as follows:

	Outstanding Options			Exercisable Options	
Options Exercise Price Per Share	Shares	Life (Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$0.50	8,000,000	2.42	$0.50	8,000,000	$0.50
$1.00	1,490,000	1.57 – 3.93	$1.00	1,105,000	$1.00
$2.50	1,250,000	.75	$2.50	1,250,000	$2.50
$5.00	3,000,000	1.75	$5.00	2,500,000	$5.00
	13,740,000		$1.72	12,855,000	$1.61

At March 31, 2018, the Company's closing stock price was $0.395 per share. As all outstanding options had an exercise price greater than $0.395 per share, there was no intrinsic value of the options outstanding at March 31, 2018.

The following table summarizes options granted with vesting terms activity:

	Number of Shares		Weighted Average Grant Date Fair Value
Non-vested, December 31, 2017	70,000	$	1.00
Granted	420,000		1.00
Vested	(105,000)		1.00
Forfeited	—		—
Non-vested, March 31, 2018	385,000	$	1.00

Warrants:

The following table summarizes common stock warrants activity:

	Warrants		Weighted Average Exercise Price
Outstanding, December 31, 2017	1,700,000	$	1.06
Granted	1,900,000		0.44
Exercised	—		—
Forfeited	—		—
Outstanding, March 31, 2018	3,600,000	$	0.73
Exercisable, March 31, 2018	3,600,000	$	0.73

In January 2018, pursuant to a services agreement, the Company granted warrants to purchase a total of 1,200,000 shares of restricted common stock with an exercise price of $0.40 and will expire 36 months after date of grant. The warrants are fully vested and exercisable upon grant. Total fair value of the warrants at grant date amounted to $383,000 computed using the Black-Scholes Option Pricing Model and was fully recognized on the date of grant.

In March 2018, pursuant to a stock purchase agreement, the Company granted warrants to purchase a total of 700,000 shares of restricted common stock with an exercise price of $0.50 and will expire March 18, 2023. The warrants are fully vested and exercisable upon grant. Total fair value of the options at grant date amounted to $234,000 computed using the Black-Scholes Option Pricing Model and was fully recognized on the date of grant.

The weighted average exercise prices, remaining lives for warrants granted, and exercisable as of March 31, 2018, were as follows:

	Outstanding and Exercisable Warrants	
Warrants Exercise Price Per Share	Shares	Life (Years)
$0.01	600,000	2.76
$0.40	1,200,000	2.79
$0.50	800,000	0.58 – 4.97
$1.50	500,000	0.75
$2.00	500,000	0.75
	3,600,000	

At March 31, 2018, the Company’s closing stock price was $0.395 per share. As all outstanding warrants had an exercise price greater than $0.395 per share, there was no intrinsic value of the warrants outstanding at March 31, 2018.

The table below represents the average assumptions used in valuing the stock options and warrants granted in fiscal 2018:

	Three Months Ended March 31, 2018
Expected life in years	3.00 – 5.00
Stock price volatility	138% - 153%
Risk free interest rate	2.12 % - 2.65%
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 7 – DISCONTINUED OPERATIONS

Restaurant

Through our other wholly owned subsidiary, E.A.J.: PHL Airport, Inc., we owned and operated the restaurant "Eat at Joe's®," which was located in the Philadelphia International Airport since 1997. Our lease in the Philadelphia Airport expired in April 2017. Concurrent with expiration of the lease the restaurant closed. Pursuant to current accounting guidelines, the restaurant segment is reported as discontinued operations.

The following table summarizes the assets and liabilities of our discontinued restaurant segment's discontinued operations as of March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
Assets:		
Accounts receivable, net	$ —	$ —
Inventory	$ —	$ —
Prepaid expenses	$ —	$ —
Property and equipment, net	$ —	$ —
Other assets	$ —	$ —
Total Assets	$ —	$ —
Liabilities:		
Accounts payable and accrued liabilities	$ 22,000	$ 22,000
Total Liabilities	$ 22,000	$ 22,000

The following table summarizes the results of operations of our discontinued restaurant for the three months ended March 31, 2018 and 2017 and is included in the consolidated statements of operations as discontinued operations:

	For the Three Months Ended March 31, 2018	2017
Revenues	$ —	$ 312,000
Cost of sales	—	99,000
Gross Margin	—	213,000
Expenses		
Labor and related expenses	—	123,000
Rent	1,000	61,000
Depreciation and amortization	—	15,000
Professional fees	—	—
Other general and administrative	1,000	49,000
Total Operating Expenses	2,000	248,000
Operating Income (Loss)	(2,000)	(35,000)
Other Income (Expense)		
Loss on disposal of assets	—	—
Income (Loss) on discontinued operations	$ (2,000)	$ (35,000)

NOTE 8 – SUBSEQUENT EVENTS

Subsequent to March 31, 2018, the Company issued an aggregate of 272,506 shares of common stock to consultants with a total fair value of $104,000 for services rendered. The shares issued are non-refundable and deemed earned upon issuance.

Subsequent to March 31, 2018, on April 20, 2018. the Company signed a convertible promissory note with a third party lender for up to $475,000 (net of original issue discount of $25,000). The note is for 12 months with interest at 8% per annum on the unpaid principal amount. The note holder has the right, at any time on or after 181 calendar days after the date of the note, to convert all or any portion of the outstanding principal and interest into the Company’s restricted common stock at $0.20 per share. On April 26, 2018 the Company borrowed $150,000 on this note.

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 Condensed 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 March 31, 2018, and we undertake no duty to update this information.

Plan of Operations – Through our wholly owned subsidiary SPYR APPS, LLC, d/b/a SPYR GAMES 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 2018 to help with the development and marketing of existing and future games and applications.

During the past two years we have invested in the Company's future by working closely with the development team at Spectacle Games to optimize game play and expand the availability of our game Pocket Starships to more users through new and existing game portals, social networking sites and app stores throughout the world. During 2017, we signed an agreement with CBS Consumer Products that will allow the incorporation of intellectual property (IP) from various Star Trek television series into future Pocket Starships updates and expansions. Our Pocket Starships development team is already working on expansions of Pocket Starships to include the *Star Trek* IP, which we expect will be released during the second half of 2018. In Pocket Starships, players can build and pilot several ships and forge alliances on their quest for galactic domination. Players can perform or initiate various activities ranging from fighting pirates to participating in Faction Alerts. With the release of the expansion, those playing Pocket Starships will be able to explore new sectors and engage in exciting battles with the Borg and will be able to staff their ships with their favorite Star Trek characters from the Star Trek TV series franchise – including *Star Trek: The Next Generation*, *Star Trek: Deep Space Nine*, and *Star Trek: Voyager*, through a trading card expansion. In addition, working together with the development team at Reset Studios LLC, we have developed of a new tapper game to feature characters and storylines from *Steven Universe*, a popular animated television series on Cartoon Network. This new tapper game is currently in the soft launch stage of development and is scheduled to be released during second quarter 2018.

Management's plan for the next 12 months is to build upon this foundation and focus our efforts on marketing and optimizing user acquisition and retention. We will also continue to provide the monthly advances to Spectacle and Reset for further development, enhancement and maintenance of the games as needed to meet the needs of the users and maximize revenue into the future. In addition to our plans for Pocket Starships and the new tapper, we will continue to seek additional games and apps to publish as we strive to broaden our range of products and increase revenues and operating cash flows. We expect these marketing, development and expansion plans will be financed through existing cash, operating cash flows from game revenues and other forms of financing such as the sale of additional equity and debt securities, capital leases and other credit facilities. The Company may also decide to expand and/or diversify, through acquisition or otherwise, in other related or unrelated business areas if opportunities present themselves.

COMPARISON OF THE THREE MONTHS ENDED MARCH 31, 2018 TO 2017

The consolidated results of continuing operations for the nine months ended March 31, 2018 and 2017 are as follows:

	Digital Media		Corporate		Consolidated	
Three Months Ended March 31, 2018						
Revenues	$	6,000	$	—	$	6,000
Labor and related expenses		81,000		805,000		886,000
Rent		13,000		36,000		49,000
Depreciation and amortization		18,000		11,000		29,000
Professional fees		103,000		2,453,000		2,556,000
Research and development		299,000		—		299,000
Other general and administrative		46,000		59,000		105,000
Operating loss		(554,000)		(3,364,000)		(3,918,000)
Other expense		(6,000)		(25,000)		(31,000)
Loss from continuing operations	$	(560,000)	$	(3,389,000)	$	(3,949,000)
Three Months Ended March 31, 2017						
Revenues	$	52,000	$	—	$	52,000
Labor and related expenses		383,000		987,000		1,370,000
Rent		3,000		35,000		38,000
Depreciation and amortization		3,000		12,000		15,000
Professional fees		93,000		1,499,000		1,592,000
Research and development		113,000		—		113,000
Other general and administrative		272,000		62,000		334,000
Operating income (loss)		(815,000)		(2,595,000)		(3,410,000)
Other income (expense)		—		(12,000)		(12,000)
Loss from continuing operations	$	(815,000)	$	(2,607,000)		(3,422,000)

Results of Operations - For the three months ended March 31, 2018 the Company had a loss from continuing operations of $3,949,000 compared to a loss from continuing operations of approximately $3,422,000 for the three months ended March 31, 2017. This change is due primarily to the issuance of restricted common stock, options and warrants in exchange for services. During the three months ended March 31, 2018 we issued 5,691,942 common shares, 420,000 options, and 1,900,000 warrants with a total fair value of $3,011,000 compared to 2,810,000 common shares, 570,000 options, and 1,000,000 warrants with a total fair value of $2,360,000 during the three months ended March 31, 2017.

More detailed explanation of the three months ended March 31, 2018 and 2017 changes are included in the following discussions.

Total Revenues - For the three months ended March 31, 2018 and 2017, the Company had total sales of $6,000 and $52,000, respectively, for a decrease of $46,000. This change is due to the cessation of marketing during the latter part of 2017 and first quarter 2018 for updates and expansion of our existing games. Management plans to expand its mobile application and game development and monetization efforts and believes the anticipated updates to Pocket Starships with *Star Trek* IP and the release two new idle tapper games planned during 2018 will bring increased revenues in the coming year.

Labor and related expenses includes the costs of salaries, wages, leased employees, contract labor, and the fair value of common stock and options granted to employees for services. For the three months ended March 31, 2018 the company had total labor and related expenses of $886,000 with $255,000 being settled in cash and $631,000 being paid in restricted common stock and vesting of options recorded at fair value. For the three months ended March 31, 2017 the company had total labor and related expenses of $1,370,000 with $217,000 being settled in cash and $1,153,000 being paid in restricted stock recorded at fair value. The cost of labor is expected to increase in conjunction with expansion of the digital media operations.

The cost of rent increased $11,000 from $38,000 for the three months ended March 31, 2017 to $49,000 for the three months ended March 31, 2018. The Company leases approximately 5,169 square feet at 4643 South Ulster Street, Denver, Colorado pursuant to an amended lease dated May 21, 2015 and expiring on December 31, 2020. Under the lease, the Company pays annual base rent on an escalating scale ranging from $142,000 to $152,000. Beginning July 2017, we began leasing office space in Berlin, Germany for EUR 3,570 per month through March 31, 2018. The Berlin office is being used by leased employees hired by the Company for the operation of our Pocket Starships game. Beginning October 17, 2016, we began leasing shared office for one employee in Redmond, Washington on a month to month basis at a cost of $275 per month per desk.

Depreciation and amortization expenses increased by approximately $14,000 for the three months ended March 31, 2018 compared to the three months ended March 31, 2017. This increase is primarily attributable to amortization of the $481,000 of gaming assets acquired during fourth quarter 2017.

Professional fees increased $964,000 from $1,592,000 for the three months ended March 31, 2017 to $2,556,000 for the three months ended March 31, 2018. This increase is Professional fees during 2018 included the grant of 4,441,942 shares of restricted common stock, 420,000 options and 1,900,000 warrants to purchase restricted common stock issued to third parties for consulting services, public relations, and other professional fees with a total fair value of $2,381,000. The remaining $175,000 is due to $137,000 in legal, accounting and other professional service needs, $29,000 for public relations, and $9,000 in consulting services related to our digital media operations. Professional fees during the three months ended March 31, 2017 included the grant of 1,560,000 shares of restricted common stock and 570,000 options issued to third parties for consulting services, public relations and vesting of shares of restricted common stock recorded at fair value of $1,207,000. The remaining $385,000 is due to $95,000 in legal, accounting and other professional service needs, $245,000 for public relations, and $45,000 in consulting services related to our digital media operations.

Research and development costs. During the three months ended March 31, 2018, the Company incurred research and development costs of $299,000 in connection with fees paid to game developers for the development of its current and soon to be released games, compared to research and development costs of $113,000 during the three months ended March 31, 2017.

Other general and administrative expenses decreased $229,000 for the three months ended March 31, 2018 compared to the three months ended March 31, 2017. The decrease can be attributed primarily to marketing costs which decreased by $39,000, travel costs which decreased by $5,000 and various other general and administrative cost increases.

The Company had interest expense on a related party line of credit and accrued expenses of $20,000 for the three months ended March 31, 2018. The company did not have interest expense for the three months ended March 31, 2017.

The Company had unrealized losses on trading securities of $11,000 for the three months ended March 31, 2018 compared to unrealized losses of $15,000 for the three months ended March 31, 2017. Unrealized gains and losses are the result of fluctuations in the quoted market price of the underlying securities at the respective reporting dates.

DISCONTINUED OPERATIONS

Through our other wholly owned subsidiary, E.A.J.: PHL Airport, Inc., we owned and operated the restaurant "Eat at Joe's®," which was located in the Philadelphia International Airport since 1997. Our lease in the Philadelphia Airport expired in April 2017. Concurrent with expiration of the lease the restaurant closed. Pursuant to current accounting guidelines, the assets and liabilities of EAJ as well as the results of its operations were presented in the accompanying financial statements as discontinued operations.

LIQUIDITY AND CAPITAL RESOURCES

The accompanying financial statements have been prepared under the assumption that the Company will continue as a going concern. Such assumption contemplates the realization of assets and satisfaction of liabilities in the normal course of business.

The Company has generated a net loss from continuing operations for the three months ended March 31, 2018 of approximately $3,949,000. As of March 31, 2018, the Company had current assets of $137,000, which included cash and cash equivalents of $78,000, accounts receivable of $3,000 and trading securities of approximately $37,000.

During the three months ended March 31, 2018, the Company has met its capital requirements through a combination of collection of receivables, the sale of restricted common stock of $605,000, related party short-term advances of $5,000, and borrowing from a related party line of credit of $200,000, and through the use of existing cash reserves. Subsequent to March 31, 2018, on April 20, 2018. the Company signed a convertible promissory note with a third party lender for up to $475,000 (net of original issue discount of $25,000). The note is for 12 months with interest at 8% per annum on the unpaid principal amount. The note holder has the right, at any time on or after 181 calendar days after the date of the note, to convert all or any portion of the outstanding principal and interest into the Company's restricted common stock at $0.20 per share. On April 26, 2018 the Company borrowed $150,000 on this note.

As previously described, during the past two years we have invested in the Company's future by working closely with the development team at Spectacle Games to optimize game play and expand the availability of our game Pocket Starships to more users through new and existing game portals, social networking sites and app stores throughout the world. During 2017, we signed an agreement with CBS Consumer Products that will allow the incorporation of intellectual property (IP) from various Star Trek television series into future Pocket Starships updates and expansions. Our Pocket Starships development team is already working on expansions of Pocket Starships to include the *Star Trek* IP, which we expect will be released during the second half of 2018. In Pocket Starships, players can build and pilot several ships and forge alliances on their quest for galactic domination. Players can perform or initiate various activities ranging from fighting pirates to participating in Faction Alerts. With the release of the expansion, those playing Pocket Starships will be able to explore new sectors and engage in exciting battles with the Borg and will be able to staff their ships with their favorite Star Trek characters from the Star Trek TV series franchise – including *Star Trek: The Next Generation*, *Star Trek: Deep Space Nine*, and *Star Trek: Voyager*, through a trading card expansion.

In addition, working together with the development team at Reset Studios LLC, we have developed of a new tapper game to feature characters and storylines from *Steven Universe*, a popular animated television series on Cartoon Network. This new tapper game is currently in the soft launch stage of development and is scheduled to be released during second quarter 2018.

The Company will continue to seek additional capital through the sale of its common stock, debt financing and through expansion of its existing and new products. If these goals do not materialize as planned, we believe that the Company can reduce its operating and product development costs and that would allow us to maintain sufficient cash levels to continue operations. However, if we are not able to achieve profitable operations at some point in the future, we may have insufficient working capital to maintain our operations as we presently intend to conduct them or to fund our expansion, marketing, and product development plans. There can be no assurance that we will be able to obtain such financing on acceptable terms, or at all.

Operating Activities - For the three months ended March 31, 2018, the Company used cash in operating activities from continuing operations of $816,000. For the three months ended March 31, 2017, the Company used cash in operating activities of $897,000. Operating activities consist of corporate overhead and development of our digital media publishing, advertising and gaming operations. Decreases are due primarily to decreases in cash settled professional fees, game development costs, and other general and administrative expenses partially offset by increased in rent and cash settled labor and related costs. See the above results of operations discussion for more details.

Financing Activities - During the three months ended March 31, 2018, the Company sold 4,700,000 shares of restricted common stock to third parties and one related party for $605,000, borrowed $5,000 from a related party short-term advance and borrowed $200,000 from a related party line of credit. The Company did not have any financing activities during the three months ended March 31, 2017.

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

We determine revenue recognition by: (1) identifying the contract, or contracts, with our customer; (2) identifying the performance obligations in the contract; (3) determining the transaction price; (4) allocating the transaction price to performance obligations in the contract; and (5) recognizing revenue when, or as, we satisfy performance obligations by transferring the promised goods or services.

Through our wholly owned subsidiary SPYR APPS, LLC, d/b/a SPYR GAMES, 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.

We operate our games as live services that allow players to play for free. Within these games players can purchase virtual items to enhance their game-playing experience. Our identified performance obligation is to display the virtual items within the game. Payment is required at time of purchase and the purchase price is a fixed amount.

Players can purchase our virtual items through various widely accepted payment methods offered in the games, including Apple iTunes accounts, Google Play accounts, Facebook local currency payments, PayPal and credit cards. Payments from players for virtual items are non-refundable and relate to non-cancellable contracts that specify our obligations.

For revenue earned through app stores, players utilize the app store's local currency-based payments program to purchase virtual items in our games. For all payment transactions on these app store platforms, the app store remits to us 70% of the price we request to be charged to the player for each transaction, which represents the transaction price. We recognize revenue net of the amounts retained by the app stores for platform and payment processing fees.

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.

Loss Contingencies

The Company is subject to various loss contingencies arising in the ordinary course of business. The Company considers the likelihood of loss or impairment of an asset or the incurrence of a liability, as well as its ability to reasonably estimate the amount of loss in determining loss contingencies. An estimated loss contingency is accrued when management concludes that it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. The Company regularly evaluates current information available to us to determine whether such accruals should be adjusted.

Recent Accounting Pronouncements

See Note 1 of the 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 March 31, 2018, 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. In making this assessment, Management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (Revised 2013) in Internal Control over Financial Reporting - Guidance for Smaller Public Companies. Based on the evaluation of the Company's disclosure controls and procedures, Management concluded that during the period covered by this report, such disclosure controls and procedures were not effective, due to certain identified material weaknesses. These identified material weaknesses include, (i) insufficient accounting staff, (ii) inadequate segregation of duties, (iii) limited checks and balances in processing cash and other transactions, and (iv) the lack of independent directors and independent audit committee.

The Company is committed to improving its disclosure controls and procedures and the remediation of identified control weaknesses. As capital becomes available, Management plans to increase the accounting and financial reporting staff, add independent directors to the Board of Directors and establish an independent audit committee. We cannot provide assurance that these procedures will be successful in identifying material errors that may exist in the financial statements, nor can we make assurances that additional material weaknesses in its internal control over financial reporting will not be identified in the future.

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 as necessary and on an on-going basis.

Because of its inherent limitations, internal control over financial reporting cannot provide absolute assurance of the prevention or detection of misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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 on a continuing basis. 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 October 30, 2018. Based upon available information at this stage of litigation, it is still the belief of management and opinion of in-house counsel that the Company will obtain a favorable ruling. Management does not expect any loss resulting from this lawsuit to be material.

ITEM 1A. RISK FACTORS

Not applicable to smaller reporting companies.

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

During January 2018, the Company issued 500,000 restricted common shares pursuant to stock purchase agreements with a related party for cash of $50,000. The Company relied upon the Section 4(a)(2) exemption from registration provided by Rule 506(b) of Regulation D.

During February, and March 2018, the Company issued 4,200,000 restricted common shares pursuant to stock purchase agreements with third party investors for cash of $555,000. The Company relied upon the Section 4(a)(2) exemption from registration provided by Rule 506(b) of Regulation D.

During February 2018, the Company issued 1,250,000 restricted common shares as part of the base salary pursuant to employment contracts with two officers of the Company. These shares were recorded at fair value of $625,000 in the statement of operations and comprehensive income as part of Labor and related expenses for the three months ended March 31, 2018. The Company relied upon the Section 4(a)(2) exemption from registration provided by Rule 506(b) of Regulation D.

During January, February, and March 2018, the Company issued 4,441,942 restricted common shares pursuant to third party service agreements. These shares were recorded at fair value of $1,712,000 in the statement of operations and comprehensive income as part of Professional fees for the three months ended March 31, 2018. 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)
10.2	Registration Rights 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: May 15, 2018

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 March 31, 2018 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.

May 15, 2018

/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 March 31, 2018 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.

May 15, 2018

/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 March 31, 2018 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.

May 15, 2018

/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 March 31, 2018 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.

May 15, 2018

/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.