

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

Form 10-K /A
Amendment No. 1

(Mark One)

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

For the fiscal year ended: **December 31, 2018**

or

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

For the transition period from _____ to _____

Commission file number **33-20111**

SPYR, INC.

(Exact Name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

75-2636283

(I.R.S. Employer Identification No.)

**4643 S. Ulster St. 1510
Denver, CO**

(Address of principal executive offices)

80237

(Zip Code)

Registrant's telephone number, including area code **(303) 991-8000**

Securities registered pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, \$.0001 par value

Title of Class

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes [] No [X]

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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 Act).

Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates, as of June 30, 2018, the last business day of the registrant's most recently completed second fiscal quarter, was \$28,602,554 based on 93,778,864 non affiliate shares outstanding at \$0.305 per share.

As of March 29, 2018, there were 199,555,131 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 1,624,431 common shares), par value \$0.0001.

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) any annual report to security holders; (2) any proxy or information statement; and (3) any prospectus filed pursuant to Rule 424(b) or (c) of the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980).

None

EXPLANATORY NOTE:

This Amendment No. 1 on Form 10-K/A amends the Registrants Form 10-K filed on April 1, 2019 with the Securities and Exchange Commission. Amendment No. 1 is being filed solely to amend Item 9A. Controls and Procedures. All other items remain unchanged.

SPYR, Inc.
Form 10-K

For the Fiscal Year Ended December 31, 2018

TABLE OF CONTENTS

	<u>Page</u>
<u>PART I</u>	
Item 1. Business	4
Item 1A. Risk Factors	6
Item 1B. Unresolved Staff Comments	6
Item 2. Properties	7
Item 3. Legal Proceedings	7
Item 4. Mine Safety Disclosures	8
<u>PART II</u>	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	8
Item 6. Selected Financial Data	9
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	9
Item 7A. Quantitative and Qualitative Disclosure About Market Risk	16
Item 8. Financial Statements and Supplementary Data	16
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	47
Item 9A. Controls and Procedures	47
Item 9B. Other Information	48
<u>PART III</u>	
Item 10. Directors, Executive Officers and Corporate Governance	48
Item 11. Executive Compensation	50
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	51
Item 13. Certain Relationships and Related Transactions, and Director Independence	52
Item 14. Principal Accountant Fees and Services	52
<u>PART IV</u>	
Item 15. Exhibits, Financial Statement Schedules	53
Item 16. Form 10-K Summary	53

PART I

ITEM 1. BUSINESS

Organization and Nature of Business

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.

The Company's common stock is traded on OTC Markets under the symbol "SPYR."

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.

The Company has the following wholly owned subsidiaries:

- SPYR APPS, LLC a Nevada Limited Liability Company;
- E.A.J.: PHL, Airport Inc. a Pennsylvania corporation; and
- Branded Foods Concepts, Inc. a Nevada corporation.

On March 24, 2015, the Company organized its wholly owned subsidiary SPYR APPS, LLC, ("Apps") a Nevada Limited Liability Company. 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.

Operating Losses

The Company has incurred net losses from operations of \$7,110,000 and \$15,643,000 for the years ended December 31, 2018 and 2017, respectively. Such operating losses reflect developmental and other administrative costs for 2018 and 2017. The Company expects to incur losses in the near future until profitability is achieved. The Company's operations are subject to numerous risks associated with establishing any new business, including unforeseen expenses, delays and complications. There can be no assurance that the Company will achieve or sustain profitable operations.

Future Capital Needs and Uncertainty of Additional Funding

Revenues are not yet sufficient to support the Company's operating expenses and are not expected to reach such levels until the Company completes its expansion plans of building a portfolio of mobile games published and/or developed under its umbrella.

Our Business and Strategy

Our current strategy is to publish and market games developed by third-party developers with the potential to develop our own games, either by contracting with third-party developers or by building or acquiring an in-house development team and to acquire revenue-producing games or companies. As of the date of this annual report, we have not built or acquired an in-house development team but are currently in the process of exploring acquisitions in the mobile games space that would include a development team. We intend to generate revenues from the games based upon users paying for additional features and levels of game play, and from the sale of advertising in our games. Our games use the "free to play" model, which allows users to download the games onto their devices and play them at no cost. "Free to play" is a business model that has existed in videogames (and other industries) for quite some time but one that has, in the last 3-5 years, been adopted by a large number of game developers and publishers both big and small. The "free to play" model allows us to offer games that have zero cost barriers preventing players from trying our games. Players that choose to not continue with the game nonetheless still become marketing channels to their friends, who may become a critical mass of players who do choose to pay for optional aspects of the games, including customization, faster game progress, additional content and more effective competition against other players. There are no limitations on potential purchases, thus catering to the financial capabilities/preferences of all players. We monetize the games by offering features and opportunities within the games that allow players to spend money to unlock new game levels, items and features, as well as in game advertising.

Our Games

Contracting with a third-party developer, we released three games: “Plucky,” “Plucky Rush” and Rune Guardian in April, May and December 2015, respectively. They are available for free download on mobile devices in the Apple App Store and Google Play Store.

We entered into our first publication and marketing agreement on October 21, 2015 with Superplus Games Oy for the publication of “Retro Shot.” “Retro Shot” was fully launched in February of 2016 and is available for free download on mobile devices in the Apple App Store and Google Play Store.

We entered into our second publishing and marketing agreement on December 17, 2015 with Spectacle Games Publishing (“Spectacle Games”), for its “Massively Multiplayer Online Role Playing Game,” “Pocket Starships,” which is available in Google Play Store and the Amazon App Store for free download, and can also be played in a web browser, via hundreds of web portals around the world or on Facebook’s “Game Room” and VK.com.

Pocket Starships is a space warfare themed game that is available to be played regardless of what operating system the player uses, whether that is a Google Android device, including phones and tablets from a variety of hardware manufacturers using the Android operating system, or an Amazon Fire OS device such as a Kindle. Pocket Starships is also available to play on the Internet in any web browser at www.pocketstarships.com. Pocket Starships’ software engine allows players worldwide to play against each other in real time and in the same game “universe,” regardless of what platform is used. Thus, players can play Pocket Starships in the same game universe regardless of whether they are playing in a web browser at their desk or using an iPhone on the other side of the planet. Pocket Starships’ game play is hardware and software agnostic, so regardless of device all users have the same game experience.

In June 2016, we obtained an exclusive option to purchase all assets pertaining to Pocket Starships (the “Option”) in consideration for 3,750,000 cash-based options, exercisable as follows: (a) 500,000 shares at \$1.00 per share, expiring on December 31, 2017; (b) 750,000 shares at \$2.50 per share, expiring on December 31, 2018; and (c) 2,500,000 shares at \$5.00 per share, expiring on December 31, 2019. Under the Option, had the Company decided to exercise the Option, it would have purchased the assets for a cash payment 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. The exclusive Option was exercisable by us at any time, in our sole discretion, through December 31, 2020.

On October 23, 2017, we restructured and exercised the Option by entering into a definitive agreement pursuant to which SPYR[®] acquired all of the game related assets of Pocket Starships in a cashless transaction, including the publishing agreement with Spectacle. The original terms of the Option were terminated. As a result, SPYR[®] acquired rights to retain 100% of the revenue generated from the game and will be the sole owner of all of the assets related to the game. The acquisition included, among other assets, all Pocket Starships related intellectual property, the userbase, artwork, software, internet domains, game store accounts (such as App Store, Play Store, Amazon, and Facebook Gameroom), web portal accounts (Facebook, VK.com, Kongregate, etc.) and internet domains (www.pocketstarships.com). Under the terms of the agreement, the game's owner received 8,000,000 restricted shares of SPYR[®] stock (subject to resale gating provisions) and 8,000,000 three-year cash-based options exercisable at \$0.50 per share.

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. 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 future release of an 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 The Next Generation, Deep Space Nine, and Voyager, through a trading card expansion.

During July 2017, the Company entered into an agreement with Reset Studios, LLC for the development of new idle tapper game called *Steven Universe: Tap Together*, which features characters and storylines from Cartoon Network's *Steven Universe*. The Company has secured the necessary license to use the *Steven Universe* IP in the game through a license agreement with Cartoon Network. The game allows players to play as a team of their favorite *Steven Universe* characters to battle increasingly difficult enemies in order to unlock new characters and rewards. By performing simple actions such as tapping the screen, players can progress in the game even when they're not actively playing. *Steven Universe: Tap Together* was launched globally on the Google Play Store on August 2, 2018 and on the IOS App Store on August 9, 2018.

The Company intends to utilize cash on hand, shareholder loans and other forms of financing such as the sale of additional equity and debt securities, capital leases and other credit facilities to conduct its ongoing business, and to also conduct strategic business development, marketing analysis, due diligence investigations into possible acquisitions, and software development costs 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.

Government Regulation

The Company is subject to all pertinent federal, state, local, and international 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.

Competition

The mobile game market is highly competitive and rapidly changing. Our ability to compete depends upon many factors within and outside our control, including the timely development and introduction of the mobile games we publish and market, and the related enhancements, functionality, performance, reliability, customer service and support and marketing efforts. Due to the relatively low barriers to entry in the mobile game market, we expect additional competition from other emerging companies. Many of our existing and potential competitors are substantially larger than us and have significantly greater financial, technical and marketing resources that will compete for available users, developers, talent and third-party games. As a result, they may be able to respond more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the publishing and promotion of their mobile games. There can be no assurance that we will be able to compete successfully against current or future competitors or that competitive pressure will not have a material adverse effect on our business, operating results and financial condition.

Employees

As of December 31, 2018, the Company had 4 employees, none of whom is represented by a labor union.

ITEM 1A. RISK FACTORS

Not applicable to smaller reporting companies.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable to smaller reporting companies.

ITEM 2. PROPERTIES

Our Offices

All administrative activities of the Company are conducted from the Company's headquarters located at 4643 South Ulster Street, Suite 1510, Denver, Colorado 80237.

The Company leases approximately 5,169 square feet at 4643 South Ulster Street, Denver, Colorado pursuant to an amended lease dated May 21, 2015. The lease expires December 31, 2020. Under the lease, the Company pays annual base rent on an escalating scale ranging from \$143,000 to \$152,000.

From October 17, 2016 to February 28, 2019 the Company leased shared office space for one employee in Redmond, Washington on a month to month basis at costs escalating from \$225 to \$325 per month per desk.

We believe that our existing office facilities are adequate for our needs. Should we require additional space at that time, or prior thereto, we believe that such space can be secured on commercially reasonable terms.

ITEM 3. 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. On July 12, 2018, the court approved a Joint Motion for Order Approving Settlement Agreement. Pursuant to the settlement, the Company will issue 3,500,000 common shares valued at \$1,050,000, warrants to purchase 1,000,000 common shares at \$0.25 per share valued at \$276,000, warrants to purchase 1,500,000 common shares at \$0.50 per share valued at \$398,000, and warrants to purchase 1,000,000 common shares at \$0.75 per share valued at \$259,000. The total value of the settlement, \$1,983,000 was recorded as litigation settlement liability on the accompanying consolidated balance sheet as of December 31, 2017. As of December 31, 2018, the above described common shares have been issued and warrants have been granted.

On June 18, 2018 the Company was named as a defendant in a case filed in the United States District Court for the Southern District of New York: Securities and Exchange Commission vs. Joseph A. Fiore, Berkshire Capital Management Co., Inc., and Eat at Joe's, Ltd. n/k/a SPYR, Inc. Joseph A. Fiore was the Chairman of our Board of Directors and is a significant shareholder. Mr. Fiore resigned from his positions as Chairman of the Board and as a Director of the Company effective August 1, 2018. The suit alleges that Mr. Fiore, during 2013 and 2014, while he was the Company's Chief Executive Officer, Chief Financial Officer and Chairman of the Board of Directors, engaged in improper conduct on behalf of the defendants named in the case related to the Company's sales of securities in Plandai Biotechnology, Inc. The Commission alleges that Mr. Fiore and the Company unlawfully benefited through the sales of those securities. The Commission also alleges that from 2013 to 2014, the Company's primary business was investing and that it failed to register as an investment company, resulting in an alleged violation of Section 7(a) of the Investment Company Act of 1940. The suit seeks to disgorge Joseph A. Fiore, Berkshire Capital Management Co., Inc., and the Company of alleged profits on the sale of the securities and civil fines related to the Company's failure to register as an investment company with the Commission.

The Company vehemently denies any wrongdoing. The allegations demonstrate a fundamental misunderstanding of existing precedent and a mischaracterization of the facts and transactions at issue, which were not violative of any securities laws, rules or regulations. The Company will answer these allegations in court.

On November 2, 2018, counsel for Defendants filed a joint motion to dismiss the SEC's suit in its entirety, primarily on the basis that the SEC's complaint fails to allege facts sufficient to state viable causes of action. All three defendants assert that the SEC has failed to satisfy its heightened pleadings requirement for stating viable claims for market manipulation. All three Defendants also sought dismissal based upon the expiration of the applicable statute of limitations and based upon the SEC's alleged failure to file suit within the statutory deadline for doing so as codified under the Dodd-Frank Act of 2010. This failure, Defendants argue, deprives the SEC of jurisdiction to pursue its claims against all Defendants. In addition to the foregoing, the Company further moved for dismissal of the alleged Section 7(a) Investment Company Act violation based upon the SEC's failure to establish that the Company fit the statutory definition of an Investment Company, as that term is defined under the Investment Company Act; i.e., the Company met one of the statutory exceptions to what is and is not an Investment Company for purposes of having to register as such under the Act. The Company does not expect a decision on its motion to dismiss for at least two to four months.

The Company is being represented by Alex Spiro, Esq., a partner with the firm of Quinn Emmanuel, Urquhart & Sullivan, LLP and Marc S. Gottlieb, Esq., a partner with the firm of Ortolini Rosenstadt LLP.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

The Company's Common Stock is traded on OTC Markets under the symbol "SPYR." The following table presents the high and low bid quotations for the Common Stock as reported by the NASD for each quarter during the last two years. Such prices reflect inter-dealer quotations without adjustments for retail markup, markdown or commission, and do not necessarily represent actual transactions.

	<u>High</u>	<u>Low</u>
2018		
First Quarter	\$0.50	\$0.25
Second Quarter	\$0.40	\$0.17
Third Quarter	\$0.33	\$0.13
Fourth Quarter	\$0.25	\$0.05
2017		
First Quarter	\$1.06	\$0.46
Second Quarter	\$0.70	\$0.40
Third Quarter	\$0.57	\$0.10
Fourth Quarter	\$0.40	\$0.18

Dividends

The Company has never declared or paid any cash dividends. It is the present policy of the Company to retain earnings to finance the growth and development of the business and, therefore, the Company does not anticipate paying dividends on its Common Stock in the foreseeable future.

Approximate Number of Equity Security Holders

As of March 29, 2019, there were 190 direct holders of record of our Common Stock. Because shares of the Company's Common Stock are held by depositaries, brokers and other nominees, the number of beneficial holders of the Company's shares is substantially larger than the number of stockholders of record.

The number of shareholders of record of the Company's Common Stock as of March 29, 2019 was approximately 1,885.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable to smaller reporting companies.

ITEM 7. 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-K.

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-K that could cause actual results to differ materially from those projected. Unless otherwise expressly indicated, the information set forth in this Form 10-K is as of December 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 2019 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. 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 future release of an 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. As of December 31, 2018, the company has not met certain development milestones and is in default under the licensing agreement with CBS. The Company is seeking an extension of time to meet these milestones and cure the default.

In addition, working together with the development team at Reset Studios LLC, we have developed *Steven Universe: Tap Together*, a new tapper game featuring characters and storylines from *Steven Universe*, a popular animated television series on Cartoon Network. *Steven Universe: Tap Together* was launched globally on the Google Play Store on August 2, 2018 and on the IOS App Store on August 9, 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 utilize the services of game developers 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 *Steven Universe: Tap Together*, 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 2018 To 2017

The consolidated results of continuing operations are as follows:

	<u>Digital Media</u>	<u>Corporate</u>	<u>Consolidated</u>
Year Ended December 31, 2018			
Revenues	\$ 258,000	130,000	\$ 388,000
Labor and related expenses	272,000	1,286,000	1,558,000
Rent	17,000	146,000	163,000
Depreciation and amortization	74,000	41,000	115,000
Professional fees	353,000	3,110,000	3,463,000
Research and development	746,000	—	746,000
Other general and administrative	214,000	252,000	466,000
Operating loss	<u>(1,418,000)</u>	<u>(4,705,000)</u>	<u>(6,123,000)</u>
Other income (expense)	(610,000)	(377,000)	(987,000)
Loss from continuing operations	<u>\$ (2,028,000)</u>	<u>\$ (5,082,000)</u>	<u>\$ (7,110,000)</u>
Year Ended December 31, 2017			
Revenues	\$ 128,000	\$ —	\$ 128,000
Labor and related expenses	889,000	1,469,000	2,358,000
Rent	43,000	143,000	186,000
Depreciation and amortization	56,000	49,000	105,000
Professional fees	680,000	4,875,000	5,555,000
Research and Development	1,666,000	—	1,666,000
Other general and administrative	288,000	214,000	502,000
Operating income (loss)	<u>(3,494,000)</u>	<u>(6,750,000)</u>	<u>(10,244,000)</u>
Other income (expense)	(5,385,000)	(14,000)	(5,399,000)
Income (loss) from continuing operations	<u>\$ (8,879,000)</u>	<u>\$ (6,764,000)</u>	<u>\$ (15,643,000)</u>

Results of Operations

For the year ended December 31, 2018 the Company had a loss from continuing operations of \$7,110,000 compared to a loss from continuing operations of \$15,643,000 for the year ended December 31, 2017. This \$8,533,000 decrease is due primarily to restricted stock awards granted to employees and third-party service providers as compensation, recorded at fair value of \$3,672,000 during the year ended December 31, 2018, compared to \$5,860,000 during the year ended December 31, 2017. Other items contributing to the change included increases in revenue of \$260,000, decreases in Labor and related costs settled in cash or accrued of \$36,000, decreased in rent of \$23,000, increases in depreciation and amortization of \$10,000, decreases in professional fees settled in cash of \$668,000, in software development costs of \$920,000, and decreases in other general and administrative expenses of \$36,000, and in other income and expenses of \$4,412,000.

More detailed explanation of the year ended December 31, 2018 and 2017 changes are included in the following discussions.

Total Revenues - For the years ended December 31, 2018 and 2017, the Company had total sales of \$388,000 and \$128,000, respectively, for an increase of \$260,000. This change is due to the launch of our new game *Steven Universe: Tap Together* on August 2, 2018 which contributed to game revenues of \$258,000 for the year ended December 31, 2018 compared to game revenues \$128,000 for the year ended December 31, 2017. Additionally, during the year ended December 31, 2018, the Company, received \$130,000 in revenue for professional services rendered to a related Limited Liability Company whose managers are also officers of SPYR, Inc. and whose majority owner is Berkshire Capital Management Co., Inc. Management plans to expand its mobile application and game development and monetization efforts and believes through continued promotion of and user acquisition for *Steven Universe: Tap Together*, anticipated updates to Pocket Starships with *Star Trek* IP, and the acquisition of new games during 2019 will bring increased revenues in the coming year.

Labor and related expenses include the costs of salaries, wages, leased employees, contract labor, and the fair value of common stock and options granted to employees for services. The cost of labor and related expenses decreased \$800,000 from \$2,358,000 in 2017 to \$1,558,000 in 2018. For the year ended December 31, 2018 the company had total labor and related expenses of \$1,558,000 with \$624,000 (\$250,000 Digital Media and \$374,000 Corporate) being settled in cash, \$695,000 (\$22,000 Digital Media and \$673,000 corporate) being paid in restricted stock recorded at fair value, and accrued salaries of \$239,000 (Corporate). For the year ended December 31, 2017 the company had total labor and related expenses of \$2,358,000 with \$899,000 (\$387,000 Digital Media and \$512,000 Corporate) being settled in cash and \$1,459,000 (\$502,000 Digital Media and \$957,000 corporate) being paid in restricted stock recorded at fair value. At the digital media level, cash compensation decreased by \$137,000, and the amounts paid in restricted stock recorded at fair value decreased by \$480,000 for a net decrease of \$617,000. At the corporate level, cash compensation decreased by \$138,000, amounts paid in restricted stock recorded at fair value decreased by \$284,000, while accrued compensation increased by \$239,000 for a net decrease of \$183,000. The cost of labor is expected to increase in conjunction with expansion of the digital media operations.

The cost of rent decreased \$23,000 from \$186,000 for the year ended December 31, 2017 to \$163,000 for the year ended December 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. From October 17, 2016 to February 28, 2019 the Company leased shared office space for one employee in Redmond, Washington on a month to month basis at costs escalating from \$225 to \$325 per month per desk. From September 1, 2016 to March 31, 2018 the Company leased shared office space in Berlin, Germany on a month to month basis at costs ranging from EUR 2,975 (\$3,256) to EUR 3,570 (\$4,190) per month for up to 10 people. The Berlin office was used by leased employees hired by the Company for the marketing and user acquisition for the Pocket Starships game.

Depreciation and amortization expenses increased by \$10,000 for the year ended December 31, 2018 compared to the year ended December 31, 2017. Depreciation and amortization expenses are attributable to depreciation of the \$247,000 of property and equipment acquired during 2015 and 2016, amortization of the \$481,000 of gaming assets acquired during fourth quarter 2017 and \$25,000 of capitalized licensing rights placed in service during third quarter 2018.

Professional fees decreased \$2,092,000 from \$5,555,000 for the year ended December 31, 2017 to \$3,463,000 for the year ended December 31, 2018. Professional fees during 2018 included the grant of 5,462,181 (net of cancellations of 642,500) shares of restricted common stock, 379,900 (net of forfeitures of 40,100) options and 8,400,000 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 \$2,977,000. The remaining \$486,000 is due to \$379,000 in legal, accounting and other professional service needs, \$81,000 for public relations, and \$26,000 in consulting services related to our digital media operations. Professional fees during 2017 included the grant of 13,441,924 shares of restricted common stock, 920,000 options and 1,700,000 warrants to purchase restricted common stock issued to third parties for legal, public relations, and consulting services, and vesting of shares of restricted common stock with a total fair value of \$4,401,000. The remaining \$1,154,000 is due to \$244,000 in legal, accounting and other professional service needs, \$617,000 for public relations, and \$293,000 in consulting services related to our digital media operations.

Research and development costs. During the year ended December 31, 2018, the Company incurred research and development costs of \$746,000 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 \$1,666,000 during the year ended December 31, 2017.

Other general and administrative expenses decreased \$36,000 for the year ended December 31, 2018 compared to the year ended December 31, 2017. The decrease can be attributed primarily to marketing costs which decreased by \$116,000, travel costs which decreased by \$35,000, game operating costs which increased by \$105,000 and various other general and administrative cost fluctuations.

The Company had interest expense on a related party line of credit, related party short-term advances, convertible notes payable and accrued expenses of \$486,000 for the year ended December 31, 2018. The company had interest expense on a related party line of credit and accrued expenses of \$11,000 for the year ended December 31, 2017.

As previously described, during 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." 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 assets acquired are 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 of \$5,381,000 for the year ended December 31, 2017. As of December 31, 2018, the Company had recorded total accumulated amortization \$81,000 on these assets. The remaining \$400,000 was recorded as a loss on write down of assets for the year ended December 31, 2018 based upon discounted cash flows.

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. As of December 31, 2018, the company has not met certain development milestones, is in default and has recognized an impairment loss of \$175,000 in the consolidated statement of operations for the year ended December 31, 2018. The Company is seeking an extension of time to meet these milestones and cure the default.

The Company cancelled an aggregate of 642,500 shares of restricted common stock with a total fair value on the date of cancellation of \$212,000. The Company recorded a gain on cancellation of \$118,000 during the year ended December 31, 2018. The company did not have a gain on cancellation of shares for the year ended December 31, 2017.

The Company had unrealized losses on trading securities of \$44,000 for the year ended December 31, 2018 compared to unrealized losses of \$11,000 for the year ended December 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.

As of December 31, 2018, the Company had deferred tax assets arising from net operating loss carry-forwards, capital loss carry-overs, unrealized losses on trading securities, and deductible temporary differences of approximately \$23,800,000 compared to \$23,400,000 at December 31, 2017. During the year ended December 31, 2018, the Company increased its net operating loss carry-forwards by approximately \$2,500,000 and decreased its other deductible temporary differences by approximately \$2,100,000. Management believes it is more likely than not that forecasted income, together with future reversals of existing taxable temporary differences, will not be sufficient to fully recover the deferred tax assets and has established a 100% valuation allowance of \$5,005,000 against these potential future tax benefits. The Company will continue to evaluate the realizability of deferred tax assets quarterly.

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 year ended December 31, 2018 of \$7,110,000 and utilized cash in operations of \$1,830,000. As of December 31, 2018, the Company had current assets of \$111,000, which included cash and cash equivalents of \$24,000, and trading securities of \$4,000. 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.

During the years ended December 31, 2018 and 2017, the Company has met its capital requirements through a combination of collection of receivables, the sale restricted common stock of \$905,000, borrowing from related party short-term advances of \$313,000, borrowing from a related party line of credit of \$200,000, borrowing from third-party convertible notes payable of \$400,000 and through the use of existing cash reserves.

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. The note holder has responded to an audit confirmation that he believes the note is in default, which the Company disputes. If it is determined that the note is in default, the amount of additional interest and damages would approximate \$87,000. The Company has established a contingent liability of \$87,000 which is included in accounts payable and accrued liabilities in the accompanying consolidated balance sheet as of December 31, 2018 and reported as interest expense on the accompanying consolidated statement of operations for the year ended December 31, 2018.

On May 22, 2018, the Company signed a convertible promissory note with a third-party lender for up to \$250,000 (net of original issue discount of \$25,000). The note is for 8 months with a one-time interest charge of 8% on the issuance date outstanding balance. The note holder has the right, at any time on or after the issuance date, to convert all or any portion of the outstanding principal and interest into the Company's restricted common stock at \$0.25 per share. On May 22, 2018 the Company borrowed \$250,000 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. 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 future release of an 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. As of December 31, 2018, the company has not met certain development milestones and is in default under the licensing agreement with CBS. The Company is seeking an extension of time to meet these milestones and cure the default.

In addition, working together with the development team at Reset Studios LLC, we have developed of a new tapper game, *Steven Universe: Tap Together*, featuring characters and storylines from *Steven Universe*, a popular animated television series on Cartoon Network. *Steven Universe: Tap Together* was launched globally on the Google Play Store on August 2, 2018 and on the IOS App Store on August 9, 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 year ended December 31, 2018 and 2017, the Company used cash for operating activities of \$1,830,000 and \$4,118,000, respectively. Operating activities consist of corporate overhead and development of our digital games, advertising and game operations. Decreases are due to increased revenues combined with decreases in cash settled labor and related expenses, rent, professional fees, game development costs, and other general and administrative expenses. See the above results of operations discussion for more details.

Investing Activities - During the year ended December 31, 2017, the Company acquired \$175,000 in licensing rights from CBS Consumer Products. During 2017, the Company paid \$100,000 (of the \$175,000) and during 2018 the Company paid another \$50,000 leaving a balance due of \$25,000 as of December 31, 2018. As of December 31, 2018, the company has not met certain development milestones, is in default and has recognized an impairment loss of \$175,000 recorded as a loss on write down of assets in the consolidated statement of operations for the year ended December 31, 2018. The Company is seeking an extension of time from CBS to meet these milestones and cure the default. The licensing rights will allow the incorporation of intellectual property (IP) from various Star Trek television series into future Pocket Starships updates and expansions.

Financing Activities – During the year ended December 31, 2018, the Company sold 6,700,000 shares of restricted common stock to third parties and one related party for \$905,000, borrowed \$313,000 from related party short-term advances, borrowed \$200,000 from a related party line of credit, and borrowed \$400,000 from convertible debt from third-party lenders.

During the year ended December 31, 2017, the Company sold 750,000 shares of restricted common stock to an existing shareholder and former officer/employee for cash of \$300,000 and borrowed \$800,000 from a related party line of credit.

The Company currently does not have sufficient cash and liquidity to meet its anticipated working capital for the next twelve months. 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. 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. There can be no assurance that we will be able to obtain such financing on acceptable terms, or at all.

Government Regulations - The Company is subject to all pertinent federal, state, local and international 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

Index to Consolidated Financial Statements

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	17
Consolidated Balance Sheets as of December 31, 2018 and 2017	18
Consolidated Statements of Operations for the years ended December 31, 2018 and 2017	19
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2018 and 2017	20
Consolidated Statements of Cash Flows, for the years ended December 31, 2018 and 2017	21
Notes to Consolidated Financial Statements	23



Certified Public Accountants (a professional corporation)
50 West Broadway, Suite 600 Salt Lake City, UT 84101 (801) 532-7800 Fax (801) 328-4461

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of SPYR, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of SPYR, Inc. (the Company) as of December 31, 2018 and 2017, and the related statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the two-year period ended December 31, 2018, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Consideration of the Company's Ability to Continue as a Going Concern

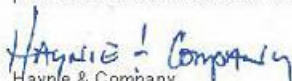
The accompanying financial statements have been prepared assuming that Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has recognized recurring losses, negative cash flows from operations, and currently has minimal revenue producing activities. This raises substantial doubt about the Company's ability to continue as a going concern. Management's plans with regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.


Haynie & Company
Littleton, Colorado
April 1, 2019

We have served as the Company's auditor since 2018.



SPYR, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2018	December 31, 2017
		(Restated)
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 24,000	\$ 86,000
Accounts receivable, net	62,000	4,000
Prepaid expenses	21,000	35,000
Trading securities, at market value	4,000	48,000
Total Current Assets	<u>111,000</u>	<u>173,000</u>
Property and equipment, net	94,000	134,000
Capitalized gaming assets and licensing rights, net	122,000	743,000
Intangible assets, net	9,000	12,000
Other assets	6,000	16,000
TOTAL ASSETS	<u>\$ 342,000</u>	<u>\$ 1,078,000</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 1,166,000	\$ 528,000
Related party short-term advances	320,000	—
Related party line of credit	1,068,000	—
Convertible notes payable, net	432,000	—
Litigation settlement liability	—	1,983,000
Current liabilities of discontinued operations	22,000	22,000
Total Current Liabilities	<u>3,008,000</u>	<u>2,533,000</u>
Non-current related party line of credit	—	807,000
Total Liabilities	<u>3,008,000</u>	<u>3,340,000</u>
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 December 31, 2018 and 2017	11	11
20,000 Class E shares issued and outstanding as of December 31, 2018 and 2017	2	2
Common Stock, \$0.0001 par value, 750,000,000 shares authorized		
198,305,131 and 181,128,950 shares issued and outstanding as of December 31, 2018 and 2017	19,830	18,112
Additional paid-in capital	53,265,157	46,561,875
Accumulated deficit	(55,951,000)	(48,842,000)
Total Stockholders' Equity	<u>(2,666,000)</u>	<u>(2,262,000)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 342,000</u>	<u>\$ 1,078,000</u>

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

SPYR, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31,	
	2018	2017 (Restated)
Revenues	\$ 258,000	\$ 128,000
Related party service revenues	130,000	—
Gross Margin	<u>388,000</u>	<u>128,000</u>
Expenses		
Labor and related expenses	1,558,000	2,358,000
Rent	163,000	186,000
Depreciation and amortization	115,000	105,000
Professional fees	3,463,000	5,555,000
Research and development	746,000	1,666,000
Other general and administrative	466,000	502,000
Total Operating Expenses	<u>6,511,000</u>	<u>10,372,000</u>
Operating Loss	<u>(6,123,000)</u>	<u>(10,244,000)</u>
Other Income (Expense)		
Interest and dividend income	—	4,000
Interest Expense	(486,000)	(11,000)
Loss on write-down of assets	(575,000)	(5,381,000)
Gain on cancellation of shares	118,000	—
Unrealized gain (loss) on trading securities	(44,000)	(11,000)
Total Other Expense	<u>(987,000)</u>	<u>(5,399,000)</u>
Loss from continuing operations	<u>(7,110,000)</u>	<u>(15,643,000)</u>
Income (Loss) on discontinued operations	1,000	(132,000)
Net Loss	<u>\$ (7,109,000)</u>	<u>\$ (15,775,000)</u>
Per Share Amounts		
Loss from continuing operations		
Basic and Diluted earnings per share	\$ (0.04)	\$ (0.09)
Income (Loss) on discontinued operations		
Basic and Diluted earnings per share	\$ —	\$ —
Net Loss		
Basic and Diluted earnings per share	\$ (0.04)	\$ (0.09)
Weighted Average Common Shares		
Basic and Diluted	<u>193,493,890</u>	<u>166,433,807</u>

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

SPYR, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2018 AND 2017

	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, 2016 (Restated)	107,636	\$ 11	20,000	\$ 2	157,637,026	\$ 15,763	\$ 34,752,224	\$ (33,067,000)	\$ 1,701,000
Common stock issued for cash	—	—	—	—	750,000	75	299,925	—	300,000
Compensation expense recorded upon sale of common stock	—	—	—	—	—	—	210,000	—	210,000
Fair value of common stock issued for employee compensation	—	—	—	—	2,050,000	205	1,108,795	—	1,109,000
Fair value of common stock and warrants issued for services	—	—	—	—	12,691,924	1,269	3,756,731	—	3,758,000
Fair value of common stock issued for game acquisition	—	—	—	—	8,000,000	800	3,199,200	—	3,200,000
Fair value of options granted for game acquisition	—	—	—	—	—	—	2,452,000	—	2,452,000
Vesting of options and warrants granted for services	—	—	—	—	—	—	737,000	—	737,000
Vesting of shares of common stock issued for services	—	—	—	—	—	—	46,000	—	46,000
Net loss (Restated)	—	—	—	—	—	—	—	(15,775,000)	(15,775,000)
Balance at December 31, 2017 (Restated)	<u>107,636</u>	<u>\$ 11</u>	<u>20,000</u>	<u>\$ 2</u>	<u>181,128,950</u>	<u>\$ 18,112</u>	<u>\$ 46,561,875</u>	<u>\$ (48,842,000)</u>	<u>\$ (2,262,000)</u>
Common stock issued to related party for cash	—	—	—	—	500,000	50	49,950	—	50,000
Common stock issued for cash	—	—	—	—	6,200,000	620	854,380	—	855,000
Fair value of common stock issued for employee compensation	—	—	—	—	1,550,000	155	672,845	—	673,000
Fair value of common stock and warrants issued for services	—	—	—	—	6,068,681	607	1,967,393	—	1,968,000
Vesting of options and warrants granted for services	—	—	—	—	—	—	1,031,000	—	1,031,000
Common stock cancelled on termination of service agreement	—	—	—	—	(642,500)	(64)	(117,936)	—	(118,000)
Fair value of common stock and warrants issued for litigation settlement	—	—	—	—	3,500,000	350	1,982,650	—	1,983,000
Debt discount on convertible notes payable	—	—	—	—	—	—	263,000	—	263,000
Net loss	—	—	—	—	—	—	—	(7,109,000)	(7,109,000)
Balance at December 31, 2018	<u>107,636</u>	<u>\$ 11</u>	<u>20,000</u>	<u>\$ 2</u>	<u>198,305,131</u>	<u>\$ 19,830</u>	<u>\$ 53,265,157</u>	<u>\$ (55,951,000)</u>	<u>\$ (2,666,000)</u>

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

SPYR, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,	
	2018	2017 (Restated)
Cash Flows From Operating Activities:		
Net loss for the period	\$ (7,109,000)	\$ (15,775,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
(Gain) loss on discontinued operations	(1,000)	132,000
Loss on write-down of assets	575,000	5,381,000
Depreciation and amortization	115,000	105,000
Compensation expense recorded upon sale of common stock	—	210,000
Common stock issued for employee compensation	673,000	1,109,000
Common stock issued for professional fees	1,968,000	3,758,000
Vesting of options and warrants granted for services	1,031,000	737,000
Gain on cancellation of common stock	(118,000)	—
Vesting of shares of common stock issued for services	—	46,000
Amortization of debt discounts on convertible notes payable	241,000	—
Unrealized loss on trading securities	44,000	11,000
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivables	(58,000)	27,000
Decrease in other receivables	—	100,000
(Increase) decrease in prepaid expenses	14,000	(10,000)
(Increase) decrease in other assets	10,000	(10,000)
Increase in accounts payable and accrued liabilities	663,000	152,000
Increase in accrued interest on short-term advances - related party	6,000	—
Increase in accrued interest on line of credit - related party	61,000	7,000
Increase in accrued interest and liquidated damages on convertible notes payable	54,000	—
Net Cash Used in Operating Activities from Continuing Operations	(1,831,000)	(4,020,000)
Net Cash Provided by (Used in) Operating Activities from Discontinued Operations	1,000	(98,000)
Net Cash Used in Operating Activities	(1,830,000)	(4,118,000)
Cash Flows From Investing Activities:		
Purchase of licensing rights	(50,000)	(100,000)
Net Cash Used in Investing Activities	(50,000)	(100,000)
Cash Flows From Financing Activities:		
Proceeds from sale of common stock	905,000	300,000
Proceeds from short-term advances - related party	313,000	—
Proceeds from line of credit - related party	200,000	800,000
Proceeds from convertible notes payable	400,000	—
Net Cash Provided by Financing Activities	1,818,000	1,100,000
Net decrease in Cash	(62,000)	(3,118,000)
Cash and cash equivalents at beginning of period	86,000	3,204,000
Cash and cash equivalents at end of period	\$ 24,000	\$ 86,000

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

SPYR, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,	
	2018	2017
Supplemental Disclosure of Interest and Income Taxes Paid:		
Interest paid during the year	\$ 6,000	\$ —
Income taxes paid during the year	\$ —	\$ —
Supplemental Disclosure of Non-cash Investing and Financing Activities:		
Common stock issued and options granted for litigation settlement	\$ 1,983,000	\$ —
Debt discounts on convertible notes payable	\$ 263,000	\$ —
Common stock issued and options granted for game acquisition	\$ —	\$ 5,652,000
Reclassification of other assets to capitalized licensing rights	\$ —	\$ 100,000

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

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDING DECEMBER 31, 2018 AND 2017

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of accounting policies for SPYR, Inc. and subsidiaries (the “Company”) is presented to assist in understanding the Company's financial statements. The accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the consolidated financial statements.

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 subsidiaries, SPYR APPS, LLC we operate our mobile games and applications business. The focus of the SPYR APPS subsidiary is the development and publication of electronic games that are downloaded for free by users of mobile devices such as cellular telephones and tablets, including those using Apple’s iOS and Google’s Android mobile operating systems.

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 year ended December 31, 2018, the Company recorded a net loss from continuing operations of \$7,110,000 and utilized cash in operations of \$1,831,000. As of December 31, 2018, our cash balance was \$24,000 and we had trading securities of \$4,000. 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 sales of our common stock and debt financing. 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 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.

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDING DECEMBER 31, 2018 AND 2017

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 2019. 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 year ended December 31, 2018 are the same because the inclusion of the potential shares (Class A – 26,909,028, Class E – 1,445,504, Options – 12,449,900 and Warrants – 9,000,000) would have had an anti-dilutive effect due to the Company generating a loss for the year ended December 31, 2018.

The basic and fully diluted shares for the year ended December 31, 2017 are the same because the inclusion of the potential shares (Class A – 26,909,028, Class E – 415,559, Options – 13,320,000, Warrants – 1,700,000) would have had an anti-dilutive effect due to the Company generating a loss for the year ended December 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.

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDING DECEMBER 31, 2018 AND 2017

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 8,000,000 shares of the Company’s restricted common stock valued at \$3,200,000, options to purchase up to 8,000,000 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 as of December 31, 2017. The difference between purchase price and the capitalized value was recorded as loss on write down on assets of \$5,381,000 during the year ended December 31, 2017. As of December 31, 2018, the unamortized balance of \$400,000 was recorded as a loss on write down of assets during the year ended December 31, 2018.

Further, 2,500,000 of the 3,750,000 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 through December 31, 2019.

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. As of December 31, 2018, the company has not met certain development milestones, is in default and has recognized an impairment loss of \$175,000 recorded as a loss on write down of assets in the consolidated statement of operations for the year ended December 31, 2018. The Company is seeking an extension of time to meet these milestones and cure the default.

In addition, during 2017 we also acquired the game titled Battlewack: Idle Lords for cash of \$100,000, pursuant to settlement with the game owner and developer. Battlewack: Idle Lords requires additional development before it can be released.

During August 2018, the Company capitalized \$25,000 pursuant to a licensing agreement for the non-exclusive, limited right to incorporate certain intellectual property (IP) from *Steven Universe*, a popular animated television series on Cartoon Network into our game *Steven Universe: Tap Together*. *Steven Universe: Tap Together* was launched globally on the Google Play Store on August 2, 2018 and on the IOS App Store in August 9, 2018. The Company amortizes the capitalized cost on a straight-line basis over an estimated life of 4.42 years, which approximates the term of the license.

During the year ended December 31, 2018, the Company recorded amortization expense of \$71,000. As of December 31, 2018 and December 31, 2017, the accumulated amortization was \$84,000 and \$52,000, respectively and the unamortized capitalized gaming assets and licensing rights amounted to \$122,000 and \$743,000 respectively.

The expected annual amortization expense related to capitalized gaming assets and licensing rights as of December 31, 2018, is as follows:

2019	\$	6,000
2020		6,000
2021		6,000
2022		6,000
2023		—
Thereafter		—
Total	\$	<u>24,000</u>

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDING DECEMBER 31, 2018 AND 2017

Software Development Costs

Costs incurred for software development are expensed as incurred. During the years ended December 31, 2018 and 2017, the Company incurred \$746,000 and \$1,666,000 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 principles-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 its 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.

Game Revenues

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.

Service Revenues

We recently offered professional legal and accounting services to a related Limited Liability Company (see note 4). Our professional services arrangements are either fixed-fee billing or time-and-material billing arrangements. In fixed-fee billing arrangements, we agree to a predetermined fee for a predetermined set of professional services. We set the fee based upon our estimate of the time and costs necessary to complete the engagements. Under time-and-materials billing arrangements, the fee is based on the number of hours worked at the agreed upon billing rates. We recognized service revenue upon completion of the service and billing of the client.

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDING DECEMBER 31, 2018 AND 2017

Accounts Receivable

The following is a summary of receivables at December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
Game revenue due from in app purchases, net of app store fees	\$ 51,000	\$ 4,000
Game revenue due from in app advertising	10,000	—
Other Receivables	1,000	—
Total Accounts Receivable	\$ 62,000	\$ 4,000

Accounts receivable are carried at their estimated collectible amounts and are not subject to any interest or finance charges.

Allowance for Doubtful Accounts

The Company evaluates the collectability of accounts receivable based on a combination of factors. In cases where the Company becomes aware of circumstances that may impair a specific customer's ability to meet its financial obligations subsequent to the original sale, the Company will recognize an allowance against amounts due, and thereby reduce the net recognized receivable to the amount the Company reasonably believes will be collected. For all other customers, the Company recognizes an allowance for doubtful accounts based on the length of time the receivables are past due and consideration of other factors such as industry conditions, the current business environment and the Company's historical payment experience. An allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. This evaluation is inherently subjective and requires estimates that are susceptible to significant revisions as more information becomes available.

As of both December 31, 2018 and 2017, management has determined that accounts receivable are fully collectible. As such, management has not recorded an allowance for doubtful accounts.

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.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents to the extent the funds are not being held for investment purposes.

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDING DECEMBER 31, 2018 AND 2017

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation or amortization. Depreciation is recorded at the time property and equipment is placed in service using the straight-line method over the estimated useful lives of the related assets, which range from three to ten years. Leasehold improvements are amortized over the shorter of the expected useful lives of the related assets or the lease term. The estimated economic useful lives of the related assets as follows:

Furniture and fixtures	5-10 years
Equipment	5-7 years
Computer equipment	3 years
Leasehold improvements	5-6 years

Maintenance and repairs are charged to operations; betterments are capitalized. The cost of property sold or otherwise disposed of and the accumulated depreciation and amortization thereon are eliminated from the property and related accumulated depreciation and amortization accounts, and any resulting gain or loss is credited or charged to operations.

Intangible Assets

The Company accounts for its intangible assets in accordance with the authoritative guidance issued by the ASC Topic 350 –*Goodwill and Other*. Intangibles are valued at their fair market value and are amortized taking into account the character of the acquired intangible asset and the expected period of benefit. The Company evaluates non-amortizing intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable from its estimated undiscounted future cash flows.

The cost of internally developing, maintaining and restoring intangible assets that are not specifically identifiable, that have indeterminate lives, or that are inherent in a continuing business and related to an entity as a whole, are recognized as an expense when incurred.

An intangible asset with a definite useful life is amortized; an intangible asset with an indefinite useful life is not amortized until its useful life is determined to be no longer indefinite. The remaining useful lives of intangible assets not being amortized are evaluated at least annually to determine whether events and circumstances continue to support an indefinite useful life.

During the year ended December 31, 2018, the Company recorded amortization expense of \$3,000. As of December 31, 2018, total intangible assets amounted to \$20,000 which consist of website development costs. There were no indications of impairment based on management's assessment of these assets at December 31, 2018. Factors we consider important that could trigger an impairment review include significant underperformance relative to historical or projected future operating results, significant changes in the manner of the use of our assets or the strategy for our overall business, and significant negative industry or economic trends. If current economic conditions worsen causing decreased revenues and increased costs, we may have to record impairment to our intangible assets.

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.

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDING DECEMBER 31, 2018 AND 2017

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.

Concentration of Credit Risk

The Company has no significant off-balance-sheet concentrations of credit risk such as foreign exchange contracts, options contracts or other foreign hedging arrangements. The Company maintains the majority of its cash balances with financial institutions, in the form of demand deposits. The Company believes that no significant concentration of credit risk exists with respect to these cash balances because of its assessment of the creditworthiness and financial viability of this financial institution.

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, prepaid expenses, accounts payable and accrued expenses, related party short-term advances, related party line of credit and convertible notes payable approximate their fair value because of the short maturity of those instruments.

The Company's trading securities and money market funds are measured at fair value using level 1 fair values.

Advertising Costs

Advertising, marketing and promotional costs are expensed as incurred and included in general and administrative expenses.

Advertising, marketing and promotional expense was \$79,000 and \$195,000 for the years ended December 31, 2018, and 2017, respectively and was reflected as part of Other General and Administrative Expenses on the accompanying consolidated statements of operations.

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDING DECEMBER 31, 2018 AND 2017

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.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows" which was issued to improve uniformity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments in ASU 2016-15 were effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted this guidance effective January 1, 2018, and it did not have any impact on the Company's consolidated statements of cash flows.

The Company adopted ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)" (ASU 2016-18), effective January 1, 2018. This update clarified that transfers between cash and restricted cash are not reported as cash flow activities in the statements of cash flows. As such, restricted cash amounts are included with cash and cash equivalents in the beginning-of-period and end-of-period total amounts on the statements of cash flows. The Company adopted this guidance effective January 1, 2018, and it did not have any impact on the Company's consolidated statements of cash flows.

In June 2018, the FASB issued ASU 2018-07, "Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting", which expands the scope of Topic 718 to include all share-based payment transactions for acquiring goods and services from nonemployees. ASU 2018-07 specifies that Topic 718 applies to all share-based payment transactions in which the grantor acquires goods and services to be used or consumed in its own operations by issuing share-based payment awards. ASU 2018-07 also clarifies that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under ASC 606. The amendments in ASU 2018-07 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently assessing the impact of this guidance on its consolidated financial statements.

In July 2017, the FASB issued Accounting Standards Update (ASU) No. 2017-11, *Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception*. ("ASU 2017-11"). ASU 2017-11 allows companies to exclude a down round feature when determining whether a financial instrument is considered indexed to the entity's own stock. As a result, financial instruments with down round features are no longer classified as liabilities and embedded conversion options with down round features are no longer bifurcated. For equity-classified freestanding financial instruments, such as warrants, an entity will treat the value of the effect of the down round, when triggered, as a dividend and a reduction of income available to common shareholders in computing basic earnings per share. For convertible instruments with embedded conversion options that have down round features, an entity will recognize the intrinsic value of the feature only when the feature becomes beneficial. The guidance in ASU 2017-11 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. We early adopted ASU 2017-11 effective January 1, 2018 without a material impact on our consolidated financial statements.

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.

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDING DECEMBER 31, 2018 AND 2017

NOTE 2 - TRADING SECURITIES

Investments in securities are summarized as follows:

Year	Fair Value at Beginning of Year	Purchases	Proceeds from Sale	Loss on Sale	Contributed Capital	Unrealized Loss	Fair Value at December 31, 2018
2018	\$ 48,000	\$ —	\$ —	\$ —	\$ —	\$ (44,000)	\$ 4,000
2017	\$ 59,000	\$ —	\$ —	\$ —	\$ —	\$ (11,000)	\$ 48,000

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 December 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	\$ 4,000	\$ 4,000	\$ —	\$ —
Money market funds	1,196	1,196	—	—
Total	\$ 5,196	\$ 5,196	\$ —	\$ —

	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).

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDING DECEMBER 31, 2018 AND 2017

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	December 31, 2018	December 31, 2017
Equipment	\$ 28,000	\$ 28,000
Furniture & fixtures	112,000	114,000
Leasehold improvements	107,000	107,000
	247,000	249,000
Less: accumulated depreciation and amortization	(153,000)	(115,000)
Property and Equipment, Net	\$ 94,000	\$ 134,000

Depreciation and amortization expense for the years ended December 31, 2018 and 2017 was \$40,000 and \$105,000, respectively.

NOTE 4 - RELATED PARTY TRANSACTIONS

During May 2017, the Company sold 750,000 restricted common shares to a former officer/employee of the company for cash of \$300,000. These shares were recorded at fair value of \$510,000 with \$210,000 being recorded in the statement of operations and comprehensive income as part of professional fees for the year ended December 31, 2017.

On September 5, 2017, the Company obtained a revolving line of credit from Berkshire Capital Management Co., Inc. Berkshire is controlled by Joseph Fiore, majority shareholder and former chairman of the board of directors of the Company. 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 July 1, 2019. As of December 31, 2018, the Company has borrowed \$1,000,000 and accrued interest of \$68,000.

During January 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 year ended December 31, 2018, the Company received an additional \$313,000 in the form of short-term advances from Berkshire Capital Management Co., Inc. The \$313,000 short-term advances are due upon demand.

During the year ended December 31, 2018, the Company, received \$130,000 in revenue for professional services rendered to a related Limited Liability Company whose managers are also officers of SPYR, Inc. and whose majority owner is Berkshire Capital Management Co., Inc.

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDING DECEMBER 31, 2018 AND 2017

NOTE 5 - INCOME TAXES

The Company did not provide any Federal and State income tax for the years ended December 31, 2018 and 2017 due to the Company's net losses.

A reconciliation of the provision for income taxes computed using the US statutory federal income tax rate is as follows:

	December 31,	
	2018	2017
Tax provision at US statutory federal income tax rate	\$ (558,000)	\$ (468,000)
State income tax, net of federal benefit	—	—
Change in valuation allowances	558,000	468,000
Provision for Income Taxes	<u>\$ —</u>	<u>\$ —</u>

The significant components of the Company's deferred tax assets were:

	December 31,	
	2018	2017
Deferred Tax Assets:		
Net operating loss carry forward	\$ 4,376,000	\$ 3,849,000
Capital loss carry over	630,000	630,000
Accrued expenses	16,000	—
Unrealized losses on marketable securities	9,000	2,000
Depreciation and other	(26,000)	434,000
	<u>5,005,000</u>	<u>4,915,000</u>
Less valuation allowance	(5,005,000)	(4,915,000)
Net Deferred Tax Asset	<u>\$ —</u>	<u>\$ —</u>

Deferred tax assets and liabilities reflect the effects of tax losses, credits and the future income tax effects of temporary differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases and are measured using enacted tax rates that apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

As of December 31, 2018, the Company recorded a valuation allowance of \$5,005,000 for its deferred tax assets. The Company believes that such assets did not meet the more likely than not criteria to be recoverable through projected future profitable operations in the foreseeable future.

Effective January 1, 2007, the Company adopted FASB guidance that addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The FASB also provides guidance on de-recognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. As of December 31, 2018 and 2017, the Company does not have a liability for unrecognized tax benefits.

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDING DECEMBER 31, 2018 AND 2017

The Company's net operating loss carry forward for income tax purposes as of December 31, 2018 was approximately \$20,800,000, of which \$18,300,000 and may be offset against future taxable income through 2037 and \$2,500,000 can be carried forward indefinitely. Utilization of the Company's net operating losses may be subject to substantial annual limitation if the Company experiences a 50% change in ownership, as provided by the Internal Revenue Code and similar state provisions. Such an ownership change would substantially increase the possibility of net operating losses expiring before complete utilization.

In December 2017, new tax known as Tax Cut and Jobs Act of 2017 was enacted. The new tax law includes significant changes to the U.S. corporate tax systems including a rate reduction from 35% to 21% beginning in January of 2018, a change in the treatment of foreign earnings going forward, a deemed repatriation transition tax, and changes to allow net operating losses to be carried forward indefinitely. In addition, net operating losses arising after December 31, 2017 will be limited to the lesser of the available net operating loss or 80% of the pre-net operating loss taxable income.

In accordance with ASC 740, the impact of a change in tax law is recorded in the period of enactment. During the fourth quarter of 2017, the Company recorded a non-cash, change in its net deferred tax balances of approximately \$2,429,000 related to the tax rate change. The Company estimates that its deemed repatriation liability will not be material due to its limited international operations.

Uncertain Tax Positions

ASC 740 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. In many cases the Company's uncertain tax positions are related to tax years that remain subject to examination by relevant tax authorities. The Company is generally no longer subject to U.S. federal, state or local income tax examinations by tax authorities for years before 2015. However, as of December 31, 2018, the years subsequent to 2014 remain open and could be subject to examination by tax authorities including the U.S. Internal Revenue Service and major state and local tax jurisdictions in the United States.

Interest costs related to unrecognized tax benefits are classified as "Interest expense, net" in the accompanying consolidated statements of operations. Penalties, if any, would be recognized as a component of "General and administrative expenses."

As of December 31, 2018, the Company had no liability for unrecognized tax benefits and no accrual for the payment of related interest and penalties, nor did the Company recognized any interest or penalties expense related to unrecognized tax benefits during the years ended December 31, 2018 or 2017.

NOTE 6 – CONVERTIBLE NOTES

On April 20, 2018, (modified May 22, 2018) the Company issued a \$165,000 (originally \$158,000) convertible note with original issue discount (OID) of \$15,000 and bearing interest at 8% per annum. The note matures on April 20, 2019 and is convertible on or after October 17, 2018 into the Company's restricted common stock at \$0.20 per share at the holder's request. The OID is recorded as a discount to the debt agreement. The Company has determined the note to contain a beneficial conversion feature valued as \$104,000 based on the intrinsic per share value of the conversion feature. This beneficial conversion feature is recorded as a discount to the debt agreement. The noteholder was also granted detachable 3-year warrants to purchase 200,000 shares of the company's restricted common stock at an exercise price of \$0.375 per share, 200,000 shares of the company's restricted common stock at an exercise price of \$0.50 per share, and 100,000 shares of the company's restricted common stock at an exercise price of \$0.625 per share. The warrants were valued at \$126,000 using the Black-Scholes pricing model and were recorded as a discount to the debt agreement. The noteholder was also issued 116,000 shares of the company's restricted common stock valued at \$34,000 based upon the closing price of the Company stock on the date of the modified agreement and recorded as a discount to the debt agreement. During the year ended December 31, 2018 the Company has accrued interest for this note in the amount of \$9,000. At December 31, 2018, the principal balance together with total accrued interest is recorded on the Company's consolidated balance sheets net of discounts at \$124,000. The note holder has responded to an audit confirmation that he believes the note is in default, which the Company disputes. If it is determined that the note is in default, the amount of additional interest and damages would approximate \$87,000. The Company has established a contingent liability of \$87,000 which is included in accounts payable and accrued liabilities in the accompanying consolidated balance sheet as of December 31, 2018 and reported as interest expense on the accompanying consolidated statement of operations for the year ended December 31, 2018.

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDING DECEMBER 31, 2018 AND 2017

On May 22, 2018, the Company issued a \$275,000 convertible note with original issue discount (OID) of \$25,000 and bearing a one-time interest charge at 8%. The note matured on February 22, 2019 and is convertible into the Company's restricted common stock at \$0.25 per share at the holder's request. The OID is recorded as a discount to the debt agreement. The Company has determined the note to contain a beneficial conversion feature valued as \$40,000 based on the intrinsic per share value of the conversion feature. This beneficial conversion feature is recorded as a discount to the debt agreement. The noteholder was also granted detachable 5-year warrants to purchase 500,000 shares of the company's restricted common stock at an exercise price of \$2.00 per share. The warrants were valued at \$45,000 using the Black-Scholes pricing model and were recorded as a discount to the debt agreement. The noteholder was also issued 200,000 shares of the company's restricted common stock valued at \$58,000 based upon the closing price of the Company stock on the date of the agreement and recorded as a discount to the debt agreement. During the year ended December 31, 2018 the Company has accrued interest for this note in the amount of \$20,000. At December 31, 2018, the principal balance together with total accrued interest of \$20,000 and liquidated damages of \$25,000 is recorded on the Company's consolidated balance sheets net of discounts at \$308,000.

The following table summarized the Company's convertible notes payable as of December 31, 2018 and December 31, 2017:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Beginning Balance	\$ —	\$ —
Proceeds from the issuance of convertible notes, net of issuance discounts	137,000	—
Repayments	—	—
Conversion of notes payable into common stock	—	—
Amortization of discounts	241,000	—
Liquidated damages	25,000	—
Accrued Interest	29,000	—
Ending Balance	<u>\$ 432,000</u>	<u>\$ —</u>
Convertible notes, short term	<u>\$ 440,000</u>	<u>\$ —</u>
Debt discounts	<u>\$ 62,000</u>	<u>\$ —</u>

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Rent

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 \$143,000 to \$152,000.

Beginning September 1, 2016, we began leasing office space in Berlin, Germany on a month to month basis at a cost of EUR 250 (\$271) plus 19% tax per person up to a maximum of 10 people. On June 29, 2017, we signed a new lease for the Berlin office space for EUR 3,570 (\$4,190) per month beginning July 2017 through March 31, 2018. The Berlin office was used by leased employees hired by the Company for the marketing and user acquisition for the 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 \$225 per month per desk, increasing to \$275 per month starting in December 2016 and \$325 per month July 2018 through February 2019.

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDING DECEMBER 31, 2018 AND 2017

The minimum future lease payments under these leases for the next five years are:

Year Ended December 31,	Amount
2019	\$ 150,000
2020	152,000
2021	—
2022	—
2023	—
Thereafter	—
Total Five Year Minimum Lease Payments	\$ 302,000

Rent expense for the years ended December 31, 2018 and 2017 was \$163,000 and \$186,000, respectively. In addition to the minimum basic rent, rent expense also includes approximately \$200 per month for other items charged by the landlord in connection with rent.

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. Material settled and pending legal proceedings are as follows:

Settlements

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. On July 12, 2018, the court approved a Joint Motion for Order Approving Settlement Agreement. Pursuant to the settlement, the Company will issue 3,500,000 common shares valued at \$1,050,000, warrants to purchase 1,000,000 common shares at \$0.25 per share valued at \$276,000, warrants to purchase 1,500,000 common shares at \$0.50 per share valued at \$398,000, and warrants to purchase 1,000,000 common shares at \$0.75 per share valued at \$259,000. The total value of the settlement, \$1,983,000 was computed using the Black-Scholes Option Pricing Model and was recorded as litigation settlement liability on the accompanying consolidated balance sheet as of December 31, 2017 and recognized on the settlement date as a reduction to the litigation settlement liability. There is no further litigation settlement liability on the accompanying consolidated balance sheets as of December 31, 2018.

Pending

On June 18, 2018 the Company was named as a defendant in a case filed in the United States District Court for the Southern District of New York: Securities and Exchange Commission vs. Joseph A. Fiore, Berkshire Capital Management Co., Inc., and Eat at Joe's, Ltd. n/k/a SPYR, Inc. Joseph A. Fiore was the Chairman of our Board of Directors and is a significant shareholder. Mr. Fiore resigned from his positions as Chairman of the Board and as a Director of the Company effective August 1, 2018. The suit alleges that Mr. Fiore, during 2013 and 2014, while he was the Company's Chief Executive Officer, Chief Financial Officer and Chairman of the Board of Directors, engaged in improper conduct on behalf of the defendants named in the case related to the Company's sales of securities in Plandai Biotechnology, Inc. The Commission alleges that Mr. Fiore and the Company unlawfully benefited through the sales of those securities. The Commission also alleges that from 2013 to 2014, the Company's primary business was investing and that it failed to register as an investment company, resulting in an alleged violation of Section 7(a) of the Investment Company Act of 1940. The suit seeks to disgorge Joseph A. Fiore, Berkshire Capital Management Co., Inc., and the Company of alleged profits on the sale of the securities and civil fines related to the Company's failure to register as an investment company with the Commission.

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDING DECEMBER 31, 2018 AND 2017

The Company vehemently denies any wrongdoing. The allegations demonstrate a fundamental misunderstanding of existing precedent and a mischaracterization of the facts and transactions at issue, which were not violative of any securities laws, rules or regulations. Based upon available information at this very early stage of litigation, management believes that the Company will obtain a favorable ruling. Accordingly, Management believes the likelihood of material loss resulting from this lawsuit to be remote.

On November 2, 2018, counsel for Defendants filed a joint motion to dismiss the SEC's suit in its entirety, primarily on the basis that the SEC's complaint fails to allege facts sufficient to state viable causes of action. All three defendants assert that the SEC has failed to satisfy its heightened pleadings requirement for stating viable claims for market manipulation. All three Defendants also sought dismissal based upon the expiration of the applicable statute of limitations and based upon the SEC's alleged failure to file suit within the statutory deadline for doing so as codified under the Dodd-Frank Act of 2010. This failure, Defendants argue, deprives the SEC of jurisdiction to pursue its claims against all Defendants. In addition to the foregoing, the Company further moved for dismissal of the alleged Section 7(a) Investment Company Act violation based upon the SEC's failure to establish that the Company fit the statutory definition of an Investment Company, as that term is defined under the Investment Company Act; i.e., the Company met one of the statutory exceptions to what is and is not an Investment Company for purposes of having to register as such under the Act. The Company does not expect a decision on its motion to dismiss for at least two to four months.

The Company is being represented by Alex Spiro, Esq., a partner with the firm of Quinn Emmanuel, Urquhart & Sullivan, LLP and Marc S. Gottlieb, Esq., a partner with the firm of Ortolini Rosenstadt LLP.

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 agreements, 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.

NOTE 8 – EQUITY TRANSACTIONS

Common Stock:

Year Ended December 31, 2017

During the year ended December 31, 2017, the Company issued an aggregate of 750,000 shares of restricted common stock to an existing shareholder and former officer/employee for cash of \$300,000. The common shares had a fair value of \$510,000 at the date of sale, and as a result, the Company reflected an additional expense of \$210,000 to account the difference between the sale price and the fair market value of common shares sold.

During the year ended December 31, 2017, the Company issued an aggregate of 2,050,000 shares of restricted common stock to employees with a total fair value of \$1,109,000 for services rendered. The shares issued are non-refundable and deemed earned upon issuance. As a result, the Company expensed the entire \$1,109,000 upon issuance. The shares issued were valued at the date earned under the respective agreements.

During year ended December 31, 2017, the Company issued an aggregate of 12,691,924 shares of restricted common stock to consultants with a total fair value of \$3,758,000. The shares issued are non-refundable and deemed earned upon issuance. As a result, the Company expensed the entire \$3,758,000 upon issuance. The shares issued were valued at the date earned under the respective agreements.

During year ended December 31, 2017, the Company issued an aggregate of 8,000,000 shares of restricted common stock to third parties with a total fair value of \$3,320,000. The shares issued are non-refundable and deemed earned upon issuance. As a result, the Company expensed the entire \$3,320,000 upon issuance. The shares issued were valued at the date earned under the respective agreements. (See Note 1 "Capitalized Gaming Assets and Licensing Rights").

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDING DECEMBER 31, 2018 AND 2017

Year Ended December 31, 2018

During the year ended December 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 year ended December 31, 2018, the Company issued an aggregate of 6,200,000 shares of restricted common stock to third parties for cash of \$855,000.

During the year ended December 31, 2018, the Company issued an aggregate of 1,550,000 shares of restricted common stock to employees with a total fair value of \$673,000 for services rendered. The shares issued are non-refundable and deemed earned upon issuance. As a result, the Company expensed the entire \$673,000 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 year ended December 31, 2018, the Company issued an aggregate of 6,068,681 shares of restricted common stock to consultants with a total fair value of \$1,968,000. The shares issued are non-refundable and deemed earned upon issuance. As a result, the Company expensed the entire \$1,968,000 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.

During the year ended December 31, 2018, the Company cancelled an aggregate of 625,000 shares of restricted common stock on termination of a third-party service agreement with a total fair value on the date of termination of \$207,000. The Company recorded a gain on cancellation of \$113,000 for the portion of shares (375,000) issued during 2017 and reversed expenses of \$94,000 for the portion of shares (250,000) issued during 2018. The shares issued were valued at the termination date of the agreement based upon closing market price of the Company's common stock.

During the year ended December 31, 2018, the Company cancelled an aggregate of 17,500 shares of restricted common stock due to the violation of certain gating provisions of a third-party service agreement. The total fair value on the date of termination was \$5,000 based upon closing market price of the Company's common stock. The Company recorded a gain on cancellation of \$5,000.

On July 12, 2018, the court approved a Joint Motion for Order Approving Settlement Agreement. Pursuant to the settlement, the Company issued 3,500,000 common shares valued at \$1,050,000. The shares issued were valued at the July 12, 2018 court approval date based upon closing market price of the Company's common stock. Total fair value of the shares was computed using the Black-Scholes Option Pricing Model and was fully recognized on the issuance date as a \$1,983,000 reduction to the litigation settlement liability on the accompanying consolidated balance sheets as of December 31, 2018.

Common Stock with Vesting Terms:

The following table summarizes common stock with vesting terms activity:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested, January 1, 2017	20,833	\$ 0.47
Granted	-	-
Vested	(20,833)	0.47
Forfeited	-	-
Non-vested, December 31, 2017	-	\$ -

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDING DECEMBER 31, 2018 AND 2017

In During 2015, the Company granted and issued 600,000 shares of its restricted common stock to employees and third-party service providers. The 600,000 shares were forfeitable and deemed earned upon completion of service over a period of twelve to twenty-four months. The Company recognized the fair value of these shares as they vested. As of January 1, 2017, 579,167 of these shares had vested and 20,833 common shares were unvested. During the year ended December 31, 2017, the remaining 20,833 of these shares vested and as a result, the Company recognized compensation cost of \$46,000. As of December 31, 2017, there were no unvested shares and no unearned compensation costs to be recorded.

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, if dilutive, are included in weighted average common shares outstanding as of their grant date.

Options:

The following table summarizes common stock options activity:

	Options		Weighted Average Exercise Price
Outstanding, January 1, 2017	12,900,000	\$	2.94
Granted	8,920,000		0.55
Exercised	—		—
Expired	(1,000,000)		1.00
Forfeited	(7,500,000)		3.97
Outstanding, December 31, 2017	13,320,000	\$	1.74
Granted	420,000		1.00
Exercised	—		—
Expired	(1,250,000)		2.50
Forfeited	(40,100)		1.00
Outstanding, December 31, 2018	12,449,900	\$	1.64
Exercisable, December 31, 2017	12,250,000	\$	1.58
Exercisable, December 31, 2018	11,949,900	\$	1.50

The weighted average grant date fair value of options granted during the years ended December 31, 2018 and 2017, was \$1.00 and \$0.55 respectively.

During the year ended December 31, 2017, the Company granted stock options to consultants to purchase a total of 420,000 shares of common stock. A total of 350,000 options vested during 2017 while the remaining 70,000 options vested through February 2018 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 year ended December 31, 2017, the Company recognized \$210,000 in compensation expense based upon the vesting of outstanding options. As of December 31, 2017, the unamortized compensation expense for unvested options was \$42,000 which was recognized during 2018.

During year ended December 31, 2017, the Company granted stock options to purchase up to 8,000,000 shares of the Company's restricted common stock to third parties valued at \$2,452,000. The options are fully vested, exercisable at a price per share of \$0.50 and will expire starting August 31, 2020. The fair values of the options were computed using the Black-Scholes Option Pricing Model and recorded at the date of grant. (See Note 1 "Capitalized Gaming Assets and Licensing Rights")

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDING DECEMBER 31, 2018 AND 2017

During the year ended December 31, 2018, the Company granted stock options to consultants to purchase a total of 420,000 shares of common stock. A total of 379,900 options vested during 2017 while the remaining 40,100 options were forfeited concurrent with the termination of the consulting agreement. 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 year ended December 31, 2018, the Company recognized \$104,000 in compensation expense based upon the vesting of outstanding options. As of December 31, 2018, there was no additional unearned compensation costs to be recorded.

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

Options Exercise Price Per Share	Outstanding Options			Exercisable Options	
	Shares	Life (Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
\$0.50	8,000,000	1.67	\$0.50	8,000,000	\$0.50
\$1.00	1,449,900	0.81 – 3.10	\$1.00	1,449,900	\$1.00
\$5.00	3,000,000	1	\$5.00	2,500,000	\$5.00
	<u>12,449,900</u>		<u>\$1.64</u>	<u>11,949,900</u>	<u>\$1.50</u>

At December 31, 2018, the Company's closing stock price was \$0.08 per share. As all outstanding options had an exercise price greater than \$0.08 per share, there was no intrinsic value of the options outstanding at December 31, 2018.

The following table summarizes options granted with vesting terms activity:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested, January 1, 2017	-	\$ -
Granted	420,000	1.00
Vested	(350,000)	1.00
Forfeited	-	-
Non-vested, December 31, 2017	70,000	\$ -
Granted	420,000	1.00
Vested	(449,900)	1.00
Forfeited	(40,100)	1.00
Non-vested, December 31, 2018	<u>-</u>	<u>\$ -</u>

Warrants:

The following table summarizes common stock warrants activity:

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDING DECEMBER 31, 2018 AND 2017

	Warrants		Weighted Average Exercise Price
Outstanding, January 1, 2017	200,000	\$	0.50
Granted	1,700,000		1.06
Exercised	—		—
Expired	(200,000)		0.50
Outstanding, December 31, 2017	1,700,000	\$	1.06
Granted	8,400,000		0.49
Exercised	0		—
Expired	(1,100,000)		1.64
Outstanding, December 31, 2018	9,000,000	\$	0.46
Exercisable, December 31, 2017	1,700,000	\$	1.06
Exercisable, December 31, 2018	9,000,000	\$	0.46

In March 2017, pursuant to an employee separation agreement, the Company granted warrants to purchase a total of 1,000,000 shares of restricted common stock with an exercise price of \$1.50 and \$2.00 which expired December 31, 2018. The warrants are fully vested and exercisable upon grant. Total fair value of the warrants at grant date amounted to \$290,000 computed using the Black-Scholes Option Pricing Model and was fully recognized on the date of grant.

In October 2017, pursuant to advisory services agreement, the Company granted warrants to purchase a total of 100,000 shares of restricted common stock with an exercise price of \$0.50 and expired 12 months after date of grant. The options are fully vested and exercisable upon grant. Total fair value of the options at grant date amounted to \$20,000 computed using the Black-Scholes Option Pricing Model and was fully recognized on the date of grant.

In October 2017, pursuant to a services agreement, the Company granted warrants to purchase a total of 600,000 shares of restricted common stock with an exercise price of \$0.01 and will expire December 31, 2020. The options are fully vested and exercisable upon grant. Total fair value of the options at grant date amounted to \$188,000 computed using the Black-Scholes Option Pricing Model and was fully recognized on the date of grant.

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.

In April 2018, in combination with a 12-month convertible promissory note, the Company granted warrants to purchase a total of 500,000 shares of restricted common stock with exercise prices ranging from \$0.375 to \$0.625 and will expire April 20, 2021. The warrants are fully vested and exercisable upon grant. The proceeds of the note were allocated between the note and the warrants based on the relative fair values which resulted in proceeds of \$61,000 allocated to the warrants and recorded as paid in capital and debt discount. The debt discount will be amortized over the life of the note as interest expense. During the year ended December 31, 2018, the Company recognized \$43,000 of debt discount interest. As of December 31, 2018, the unamortized debt discount was \$18,000 which will be recognized over the life of the note.

In May 2018, in combination with an 8-month convertible promissory note, the Company granted warrants to purchase a total of 200,000 shares of restricted common stock with an exercise prices of \$2.00 and will expire May 22, 2023. The warrants are fully vested and exercisable upon grant. The proceeds of the note were allocated between the note and the warrants based on the relative fair values which resulted in proceeds of \$32,000 allocated to the warrants and recorded as paid in capital and debt discount. The debt discount will be amortized over the life of the note as interest expense. During the year ended December 31, 2018, the Company recognized \$29,000 of debt discount interest. As of December 31, 2018, the unamortized debt discount was \$3,000 which will be recognized over the life of the note.

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDING DECEMBER 31, 2018 AND 2017

In May 2018, pursuant to a stock purchase agreement, the Company granted warrants to purchase a total of 1,000,000 shares of restricted common stock with exercise prices ranging from \$0.50 to \$1.00 and will expire May 29, 2021. The warrants are fully vested and exercisable upon grant. Total fair value of the warrants at grant date amounted to \$184,000 computed using the Black-Scholes Option Pricing Model and was fully recognized on the date of grant.

On July 12, 2018, pursuant to a court approved Joint Motion for Order Approving Settlement Agreement, the Company issued warrants to purchase a total of 3,500,000 shares of common stock with exercise prices ranging from \$0.25 to \$0.75 and will expire July 11, 2023. The warrants are fully vested and exercisable upon grant. Total fair value of the warrants at grant date amounted to \$933,000 computed using the Black-Scholes Option Pricing Model and was fully recognized on the date of grant as a reduction to the litigation settlement liability on the accompanying consolidated balance sheets as of December 31, 2018.

In October 2018, pursuant to advisory services agreement, the Company granted warrants to purchase a total of 100,000 shares of restricted common stock with an exercise price of \$0.50 and will expire January 11, 2021. The warrants are fully vested and exercisable upon grant. Total fair value of the options at grant date amounted to \$4,000 computed using the Black-Scholes Option Pricing Model and was fully recognized on the date of grant.

In December 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 \$0.15 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 \$58,000 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 December 31, 2018, were as follows:

Warrants Exercise Price Per Share	Outstanding and Exercisable Warrants	
	Shares	Life (Years)
\$0.01	600,000	2.00
\$0.15	1,200,000	2.03
\$0.25	1,000,000	4.53
\$0.375	200,000	2.30
\$0.40	1,200,000	2.03
\$0.50	3,000,000	0.83 – 4.53
\$0.625	100,000	2.30
\$0.75	1,250,000	2.41 – 4.53
\$1.00	250,000	2.41
\$2.00	200,000	4.39
	9,000,000	

At December 31, 2018, the Company's closing stock price was \$0.08 per share. The Company had 600,000 warrants outstanding with exercise prices less than \$0.08 with an intrinsic value of \$42,000 at December 31, 2018.

The table below represents the average assumptions used in valuing the stock options and warrants granted in fiscal 2017:

	Year Ended December 31, 2017
Expected life in years	1.00 – 3.19
Stock price volatility	127% - 157%
Risk free interest rate	1.26 % - 1.70%
Expected dividends	—
Forfeiture rate	—

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDING DECEMBER 31, 2018 AND 2017

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

	Year Ended December 31, 2018
Expected life in years	1.00 – 5.00
Stock price volatility	138% - 153%
Risk free interest rate	2.12 % - 2.90%
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.

Shares Reserved:

At December 31, 2018, the Company has reserved 30,000,000 shares of common stock in connection with 2 convertible notes with detachable warrants and 3,500,000 shares of common stock underlying warrants issued in connection with the court approved settlement agreement for a total of 33,500,000 reserved shares of common stock.

NOTE 9 - PREFERRED STOCK

The Class A Preferred Stock carries the following rights and preferences:

Dividends

The Company shall, in its discretion, determine when and if dividends will be paid on the Class A Preferred Shares, and whether it will be paid in cash, shares of Common Stock, or a combination of both. All Class A Preferred Stockholders shall be treated the same with respect to the payment of dividends. In the event the Company elects to pay a portion or all of the dividends on the Class A Preferred Stock by issuing shares of the Company's Common Stock, the shares of common stock issued as dividends will be restricted, unregistered shares, and will be subject to the same transfer restrictions that apply to the shares of Class A Preferred Stock. The dividend is payable as may be determined by the Board of Directors, out of funds legally available therefor. The Class A Preferred Stock will have priority as to dividends over the Common Stock.

Voting Rights

The holders of the Class A Preferred Stock shall vote for the election of directors, and shall have full voting rights, except that each Class A Preferred share shall entitle the holder to exercise ten thousand (10,000) votes for each one (1) Class A Preferred Share held.

Redemptive Rights

The Class A Preferred Stock shall not be redeemable.

Conversion Rights

The holders of the Class A Preferred Stock will be entitled at any time to convert their shares of Class A Preferred Stock into shares of the Company's Common Stock at the rate of one (1) share of Class A Preferred Stock be converted into common shares of the Company at an agreed price of forty cents (\$0.40) per share (the "Conversion Price"), which, based upon the recorded fair value of the Class A Preferred Stock, results in a conversion ratio of 1 share of Class A Preferred Stock to approximately 250 shares of common stock. No fractional shares will be issued.

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDING DECEMBER 31, 2018 AND 2017

The Conversion Ratio of the Class A Preferred Stock shall be adjusted in certain circumstances, including the payment of a stock dividend on shares of the Common Stock and combinations and subdivisions of the Common Stock.

In the case of any share exchange, capital reorganization, consolidation, merger or reclassification, whereby the Common Stock is converted into other securities or property, the Company will make appropriate provisions so that the holder of each share of Class A Preferred Stock then outstanding, will have the right thereafter to convert such share of Class A Preferred Stock into the kind and amount of shares of stock and other securities and property receivable upon such consolidation, merger, share exchange, capital reorganization or reclassification by a holder of the number of shares of Common Stock into which such shares of Class A Preferred Stock might have been converted immediately prior to such consolidation, merger, share exchange, capital reorganization or reclassification. If the shares of Common Stock are subdivided or combined into a greater or smaller number of shares of Common Stock, the Conversion Ratio shall be proportionately increased in the case of subdivision of shares. If the shares of Common Stock are combined, consolidated or reverse split into a smaller number of shares of Common Stock, the Conversion Ratio shall be proportionally decreased. The kind and type of Common Shares issuable upon conversion of the Class A Preferred Stock both before and after combination, consolidation or reverse split of the Common Shares shall be the same.

The same transfer restrictions imposed on the Class A Preferred Stock shall be applicable to the Common Stock into which the Class A Preferred Stock is converted, although for purposes of Rule 144 as presently in effect, the holding period requirement may be met by adding together the period in which the Class A Preferred Stock is held and the period in which the Common Stock into which the Class A Preferred Stock is converted, is held.

Other Provisions

The shares of Class A Preferred Stock to be issued and any Common Shares into which it is converted, shall be duly and validly issued, fully paid and non-assessable. The holders of the Class A Preferred Stock shall not have pre-emptive rights with respect to any shares of capital stock of the Company or any other securities of the Company convertible into Common Stock or rights or options to purchase any such shares.

The Class E Convertible Preferred Stock carries the following rights and preferences:

- * No dividends.
- * Convertible to common stock based upon proceeds received upon issuance of the shares, divided by the average closing bid price for the Company's common stock for the 5 trading days prior to the conversion date, and is adjustable to prevent dilution. At December 31, 2018, the 20,000 Class E preferred shares were convertible to 1,445,504 common shares.
- * Convertible at the Option of the Company at par value only after repayment of the shareholder loans from Joseph Fiore and subject to the holder's option to convert.
- * Entitled to vote 1,000 votes per share of Series E Convertible Preferred Shares.
- * Entitled to liquidation preference at par value.
- * Is senior to all other share of preferred or common shares issued past, present and future.

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDING DECEMBER 31, 2018 AND 2017

NOTE 10 – 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 December 31, 2018 and December 31, 2017:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
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 years ended December 31, 2018 and 2017 and is included in the consolidated statements of operations as discontinued operations:

	<u>For the Year Ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Revenues	\$ —	\$ 420,000
Cost of sales	—	133,000
Gross Margin	—	287,000
Expenses		
Labor and related expenses	—	177,000
Rent	1,000	77,000
Depreciation and amortization	—	20,000
Professional fees	—	33,000
Other general and administrative	(1,000)	102,000
Total Operating Expenses	—	409,000
Operating Income (Loss)	—	(122,000)
Other Income (Expense)		
Gain (Loss) on disposal of assets	1,000	(10,000)
Income (Loss) on discontinued operations	\$ 1,000	\$ (132,000)

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDING DECEMBER 31, 2018 AND 2017

NOTE 11 – RESTATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

On July 12, 2018, the court approved a Joint Motion for Order Approving Settlement Agreement in the Zakeni Limited v. SPYR, Inc. case. Pursuant to the settlement, the Company will issue to Zakeni Limited 3,500,000 common shares, warrants to purchase 1,000,000 common shares at \$0.25 per share, warrants to purchase 1,500,000 common shares at \$0.50 per share, and warrants to purchase 1,000,000 common shares at \$0.75 per share. The shares and warrants were valued at the date the court signed the settlement agreement. The total value of the settlements, \$1,983,000 has been recorded as litigation settlement liability with a corresponding charge to accumulated deficit on the accompanying consolidated balance sheet as of December 31, 2017. In addition, the Company recorded a reduction in professional fees on the 2017 consolidated statement of operations in the amount of \$350,000 to remove the pre-settlement estimated legal and trial costs with a corresponding reduction in accounts payable and accrued liabilities on the accompanying consolidated balance sheet as of December 31, 2017. The shares and warrants were issued on July 12, 2018.

NOTE 12 - SUBSEQUENT EVENTS

On February 1, 2019, the Company issued 1.25 million shares of common stock with a fair value of \$131,000 pursuant to existing employment and consulting agreements.

On February 21, 2019, the Company amended its revolving line of credit with Berkshire Capital Management Co., Inc. to extend the repayment date from February 28, 2019 to July 1, 2019.

Subsequent to December 31, 2018, the Company received \$169,000 in the form of short-term advances from Berkshire Capital Management Co., Inc. The short-term advances are due upon demand.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There are not and have not been any disagreements between the Company and its accountants on any matter of accounting principles, practices or financial statements disclosure.

ITEM 9A. 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 December 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 described below .

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for maintaining internal control over financial reporting for the Company as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. As of December 31, 2018, an evaluation of the effectiveness of the Company's internal control over financial reporting 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 this evaluation, Management concluded that during the period covered by this report, such internal control over financial reporting was not effective, due to certain identified material weaknesses described below.

Material Weaknesses

(1) insufficient accounting staff, (2) inadequate segregation of duties, (3) limited checks and balances in processing cash and other transactions, and (4) the lack of independent directors and independent audit committee.

Changes in Internal Controls Over Financial Reporting

The Company is committed to improving its disclosure controls and procedures , its internal controls over financial reporting, 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.

This Annual Report on Form 10-K does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only management's report in this Annual Report on Form 10-K.

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.

ITEM 9B. OTHER INFORMATION

None

PART III**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE****Executive Officers and Directors**

The following table sets forth the name, age, and position of each executive officer and director of the Company:

Director's Name	Age	Office	Term Expires
James R. Thompson, Esq	57	President, Chief Executive Officer & General Counsel	January 31, 2020
Joseph Fiore	57	Former Chairman of the Board of Directors	Resigned 8/1/18
Jennifer Duettra, Esq	40	Executive Vice President, Assistant General Counsel & Secretary	January 31, 2020
Barry D. Loveless, CPA	52	Chief Financial Officer	October 15, 2020
James Mylock, Jr.	52	Director	Next annual meeting
Tim Matula	57	Director	Next annual meeting

James R. Thompson - Effective February 1, 2015, James R. Thompson, Esq., was appointed the Company's President and Chief Executive Officer for a term of five years. There was no arrangement or understanding between Mr. Thompson and any other person pursuant to which he was selected as an officer. There exists no family relationship between any director, executive officer, and Mr. Thompson. Since graduating law school in 1986, Mr. Thompson has been engaged in the private practice of law with an emphasis in the areas of business, real estate and construction law, representing clients in both transactional and litigation matters. Prior to completing his legal studies, Mr. Thompson was awarded a Bachelor of Science Degree in Business Administration from the University of Denver in 1983. Since the beginning of the Company's last fiscal year, Mr. Thompson was not involved in any transaction with any related person, promoter or control person of the Company that is required to be disclosed pursuant to Item 404 of Regulation S-K.

Joseph Fiore - Joseph Fiore was the Company's Chairman until his resignation on August 1, 2018. In 1982, Mr. Fiore formed East Coast Equipment and Supply Co., Inc., a restaurant supply company that he still owns. Between 1982 and 1993, Mr. Fiore established 9 restaurants (2 owned and 7 franchised) which featured a 1950's theme restaurant concept offering a traditional American menu. Since the beginning of the Company's last fiscal year, Mr. Fiore was not involved in any transaction with any related person, promoter or control person of the Company that is required to be disclosed pursuant to Item 404 of Regulation S-K.

Jennifer Duettra - Effective February 9, 2015, Jennifer Duettra was appointed the Company's Vice President and Assistant General Counsel for a term of five years. Effective April 1, 2015, Jennifer Duettra was appointed the Company's Secretary. There was no arrangement or understanding between Ms. Duettra and any other person pursuant to which she was selected as an officer. There exists no family relationship between any director, executive officer, and Ms. Duettra. Since graduating from Harvard Law School in 2004, Ms. Duettra has been actively engaged in the practice of law. Prior to completing her law studies, Ms. Duettra attended Colorado State University where in 2001 she was awarded a Bachelor of Arts Degree in Speech Communication and Political Science. Since the beginning of the Company's last fiscal year, Ms. Duettra was not involved in any transaction with any related person, promoter or control person of the Company that is required to be disclosed pursuant to Item 404 of Regulation S-K.

Barry D. Loveless - Effective October 16, 2015, Barry D. Loveless was appointed the Company's Chief Financial Officer for a term of five years. There was no arrangement or understanding between Mr. Loveless and any other person pursuant to which he was selected as an officer. There exists no family relationship between any director, executive officer, and Mr. Loveless. Mr. Loveless is a licensed Certified Public Accountant, graduating with a Bachelor of Arts degree in Accounting from the University of Utah in 1992. Mr. Loveless completed his Masters of Professional Accountancy degree from the University of Utah in 1993. Mr. Loveless has practiced as a licensed Certified Public Accountant since 1995. Since 1998, Mr. Loveless served as an officer and shareholder of Robison, Hill & Co. While at Robison, Hill & Co. Mr. Loveless focused on providing professional accounting services for various public company clients including financial statement audits and registration statements along with the annual, interim and information filings required by the Securities Exchange Commission. He is a member of the American Institute of Certified Public Accountants and the Utah Association of Certified Public Accountants. Since the beginning of the Company's last fiscal year, Mr. Loveless was not involved in any transaction with any related person, promoter or control person of the Company that is required to be disclosed pursuant to Item 404 of Regulation S-K.

James Mylock, Jr., has worked with Joseph Fiore in marketing and business development since graduating from the State University of New York at Buffalo in 1990. Since the beginning of the Company's last fiscal year, Mr. Mylock was not involved in any transaction with any related person, promoter or control person of the Company that is required to be disclosed pursuant to Item 404 of Regulation S-K.

Tim Matula joined Shearson Lehman Brothers as a financial consultant in 1992. In 1994 he joined Prudential Securities and when he left Prudential in 1997, he was Associate Vice President, Investments, Quantum Portfolio Manager. Since the beginning of the Company's last fiscal year, Mr. Matula was not involved in any transaction with any related person, promoter or control person of the Company that is required to be disclosed pursuant to Item 404 of Regulation S-K.

The Company's Certificate of Incorporation provides that the board of directors shall consist of from one to nine members as elected by the shareholders. Each director shall hold office until the next annual meeting of stockholders and until his successor shall have been elected and qualified.

Board Meetings and Committees

The Directors and Officers will not receive remuneration from the Company for attendance at Board Meetings or participation on Committees until a subsequent offering has been successfully completed, or cash flow from operations permits, all in the discretion of the Board of Directors. Directors may be paid their expenses, if any, of attendance at such meetings of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as Director. No such payment shall preclude any Director from serving the Corporation in any other capacity and receiving compensation therefore. No compensation has been paid to the Directors. The Board of Directors may designate from among its members an executive committee and one or more other committees. No such committees have been appointed.

Compliance with Section 16(a) of the Exchange Act

Based solely upon a review of forms 3, 4, and 5 and amendments thereto, furnished to the Company during or respecting its last fiscal year, no director, officer, beneficial owner of more than 10% of any class of equity securities of the Company or any other person known to be subject to Section 16 of the Exchange Act of 1934, as amended, failed to file on a timely basis reports required by Section 16(a) of the Exchange Act for the last fiscal year.

Audit Committee Financial Expert

The Company's board of directors does not have an "audit committee financial expert," within the meaning of such phrase under applicable regulations of the Securities and Exchange Commission, serving on its audit committee. The board of directors believes that all members of its audit committee are financially literate and experienced in business matters, and that one or more members of the audit committee are capable of: (i) understanding generally accepted accounting principles ("GAAP") and financial statements; (ii) assessing the general application of GAAP principles in connection with our accounting for estimates, accruals and reserves; (iii) analyzing and evaluating our financial statements; (iv) understanding our internal controls and procedures for financial reporting; and (v) understanding audit committee functions, all of which are attributes of an audit committee financial expert. However, the board of directors believes that there is not any audit committee member who has obtained these attributes through the experience specified in the SEC's definition of "audit committee financial expert." Further, like many small companies, it is difficult for the Company to attract and retain board members who qualify as "audit committee financial experts," and competition for these individuals is significant. The board believes that its current audit committee is able to fulfill its role under SEC regulations despite not having a designated "audit committee financial expert."

ITEM 11. EXECUTIVE COMPENSATION

Our primary objective for of our senior officer compensation is to attract, motivate and retain qualified officers to lead the Company in the pursuit of its business goals and combine strategic thinking, creative talent, and strict corporate governance in order to position the Company to capitalize on a wide variety of business opportunities without being limited by any single industry or platform.

Compensation for executive officers is based upon their individual employment contracts with such base salary and annual bonuses as may be determined by the Chairman of the Board from time to time, payable in accordance with the regular practices of the Company.

The following table set forth the compensation of the Company's executive officers for the year ended 2018 and 2017.

Summary Compensation Table									
Name & Principal Position	Year	Salary \$			Stock Awards \$		All Others \$		Total \$
James R. Thompson	2018	\$	286,000	(1)	\$	500,000	(2)	\$	786,000
Chief Executive Officer & General Counsel	2017	\$	194,000		\$	678,000	(3)	\$	872,000
Barry D. Loveless	2018	\$	159,000	(4)	\$	48,000	(5)	\$	207,000
Chief Financial Office	2017	\$	159,000		\$	110,000	(6)	\$	269,000
Jennifer D Duettra	2018	\$	125,000	(7)	\$	125,000	(8)	\$	250,000
Executive Vice President, Assistant General Counsel & Secretary	2017	\$	127,000		\$	169,000	(9)	\$	296,000

(1) 2018 Salary includes \$175,000 unpaid accrued salaries for the year ended December 31, 2018.

(2) 2018 Stock Award includes 1,000,000 shares of restricted common stock valued at fair value on grant date February 1, 2018.

(3) 2017 Stock Award includes 1,000,000 shares of restricted common stock valued at fair value on grant date February 1, 2017.

(4) 2018 Salary includes \$26,000 unpaid accrued salaries for the year ended December 31, 2018.

(5) 2018 Stock Award includes 300,000 shares of restricted common stock valued at fair value on grant date October 16, 2018.

(6) 2017 Stock Award includes 300,000 shares of restricted common stock valued at fair value on grant date October 16, 2017.

(7) 2018 Salary includes \$21,000 unpaid accrued salaries for the year ended December 31, 2018.

(8) 2018 Stock Award includes 250,000 shares of restricted common stock valued at fair value on grant date February 1, 2018.

(9) 2017 Stock Award includes 250,000 shares of restricted common stock valued at fair value on grant date February 1, 2017.

Employment Agreements

Effective February 1, 2015 the Company entered into an employment Agreement with James R. Thompson in which Mr. Thompson agreed to render services and assume fiduciary duties to protect and advance the best interests of the Company as Chief Executive Officer of the Company for a period of five years. Mr. Thompson's duties include but are not limited to: employing and terminating key employees, signing agreements and otherwise committing the Company consistent with policies and budgets established by the Company. The Company agreed to compensate Mr. Thompson with a base salary of \$180,000 with annual predetermined increases paid in accordance with the regular payroll practices of the Company for executives, less such deductions or amounts as are required to be deducted or withheld by applicable laws or regulations. In addition, at the beginning of each employment year, the Company agreed to issue to Mr. Thompson One Million (1,000,000) shares of the Company's common stock. All common stock issued to Mr. Thompson was agreed to be restricted pursuant to Rule 144 and contained additional restrictions on Mr. Thompson's re-sale limiting his sales to no more than 10,000 shares per day, plus an additional 10,000 shares per day for every 250,000 shares of daily trading volume. The Company also agreed to pay Mr. Thompson a signing bonus in the amount of \$360,000.00 and to issue to Mr. Thompson 5,000,000 shares of the Company's restricted common stock.

Effective February 1, 2015 the Company entered into an employment Agreement with Jennifer Duettra in which Ms. Duettra agreed to render services as Vice President and Assistant General Counsel to the Company for a period of five years. Ms. Duettra's duties include but are not limited to: providing such services and fiduciary duties as are necessary and desirable to protect and advance the best interests of the Company, signing agreements, and otherwise committing the Company consistent with policies and budgets established by the Company. The Company agreed to compensate Ms. Duettra with an annual base salary of \$120,000.00, increased to \$125,000 on February 1, 2016, paid in accordance with the regular payroll practices of the Company for executives, less such deductions or amounts as are required to be deducted or withheld by applicable laws or regulations. In addition, at the beginning of each employment year, the Company agreed to issue to Ms. Duettra 250,000 shares of the Company's common stock. All common stock issued to Ms. Duettra was agreed to be restricted pursuant to Rule 144, and contained additional restrictions limiting Ms. Duettra's sales to no more than 5,000 shares per day for every 250,000 shares of daily trading volume. The Company also agreed to pay Ms. Duettra a signing bonus in the amount of \$25,000.00, and issue to her 500,000 shares of the Company's restricted common stock.

Effective October 16, 2015 the Company entered into an employment Agreement with Barry D. Loveless in which Mr. Loveless agreed to render services as Chief Financial Officer to the Company for a period of five years. Mr. Loveless's duties include but are not limited to: providing such services and fiduciary duties as are provided by a Chief Financial Officer of a publicly traded fully reporting company in compliance with the 1934 Securities and Exchange Act, the 2002 Sarbanes-Oxley Act, and the Rules and Regulations promulgated by the Securities and Exchange Commission. The Company agreed to compensate Mr. Loveless with an annual base salary of \$150,000.00, increased to \$155,000 on October 16, 2016, paid in accordance with the regular payroll practices of the Company for executives, less such deductions or amounts as are required to be deducted or withheld by applicable laws or regulations. In addition, at the beginning of each employment year, the Company agreed to issue to Mr. Loveless 300,000 shares of the Company's common stock. All common stock issued to Mr. Loveless was agreed to be restricted pursuant to Rule 144, and contained additional restrictions limiting Mr. Loveless's sales to no more than 5,000 shares per day for every 250,000 shares of daily trading volume. The Company also agreed to pay Mr. Loveless a signing bonus in the amount of 300,000 shares of the Company's restricted common stock.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Principal Shareholders

The table below sets forth information as to each person owning of record or who was known by the Company to own beneficially more than 5% of the 199,555,131 shares of issued and outstanding Common Stock of the Company as of March 29, 2019, and information as to the ownership of the Company's Stock by each of its directors and executive officers and by the directors and executive officers as a group. Except as otherwise indicated, all shares are owned directly, and the persons named in the table have sole voting and investment power with respect to shares shown as beneficially owned by them.

Name and Address of Beneficial Owners & Directors	Nature of Ownership	# of Shares Owned	Percent
Joseph Fiore	Common Stock	100,028,194 *	50%
Tim Matula	Common Stock	11,000,000	6%
James R. Thompson	Common Stock	10,000,000	5%
James Mylock, Jr.	Common Stock	4,760,184	2%
Jennifer Duettra	Common Stock	1,750,000	1%
Barry D. Loveless	Common Stock	1,500,000	1%
All Executive Officers and Directors as a Group (5 persons)	Common Stock	29,010,184	15%

* Included 71,802,684 shares of common stock, 107,636 shares of Series A preferred stock (convertible to 26,909,028 common shares), and 20,000 shares of Series E preferred stock (convertible to 1,624,431 common shares).

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During May 2017, the Company sold 750,000 restricted common shares to a former officer/employee of the company for cash of \$300,000. These shares were recorded at fair value of \$510,000 with \$210,000 being recorded in the statement of operations and comprehensive income as part of professional fees for the three months ended June 30, 2017.

On September 5, 2017, the Company obtained a revolving line of credit from Berkshire Capital Management Co., Inc. Berkshire is controlled by Joseph Fiore, majority shareholder and former chairman of the board of directors of the Company. 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 July 1, 2019. As of March 29, 2019, the Company has borrowed \$1,000,000 and accrued interest of \$84,000. During 2018 and 2019, the Company has received an additional \$450,500 in the form of short-term advances from Berkshire Capital Management Co., Inc. The \$522,000 short-term advances are due upon demand.

During the year ended December 31, 2018, the Company, received \$130,000 in revenue for professional services rendered to a related Limited Liability Company whose managers are also officers of SPYR, Inc. and whose majority owner is Berkshire Capital Management Co., Inc.

During the period from January 1 through March 29, 2019, the Company, received \$52,000 in revenue for professional services rendered to a related Limited Liability Company whose managers are also officers of SPYR, Inc. and whose majority owner is Berkshire Capital Management Co., Inc.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following is a summary of the fees billed to us by Weinberg & Company, P.A., Soles, Heyn and Company, LLP, and Haynie & Company for professional services rendered during the years ended December 31, 2018 and 2017:

Service	2018	2017
Audit Fees	\$ 181,000	\$ 158,000
Audit-Related Fees	—	—
Tax Fees	—	—
All Other Fees	—	—
Total	\$ 181,000	\$ 158,000

Audit Fees. Consists of fees billed for professional services rendered for the audits of our consolidated financial statements, reviews of our interim consolidated financial statements included in quarterly reports, services performed in connection with filings with the Securities & Exchange Commission and related comfort letters and other services that are normally provided by Weinberg & Company, P.A., Soles, Heyn and Company, LLP, and Haynie & Company in connection with statutory and regulatory filings or engagements.

Tax Fees. Consists of fees billed for professional services for tax compliance, tax advice and tax planning. These services include assistance regarding federal, state and local tax compliance and consultation in connection with various transactions and acquisitions.

Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

The Audit Committee is to pre-approve all audit and non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services as allowed by law or regulation. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specifically approved amount. The independent auditors and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent auditors in accordance with this pre-approval and the fees incurred to date. The Audit Committee may also pre-approve particular services on a case-by-case basis.

The Audit Committee pre-approved 100% of the Company's 2018 audit fees, audit-related fees, tax fees, and all other fees to the extent the services occurred after May 6, 2004, the effective date of the Securities and Exchange Commission's final pre-approval rules.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENTS SCHEDULES

The following documents are filed as part of this report.

1. All Financial Statements

Index to Consolidated Financial Statements

	Page
Report of Independent Registered Public Accounting Firm	17
Consolidated Balance Sheets as of December 31, 2018 and 2017	18
Consolidated Statements of Operations for the years ended December 31, 2018 and 2017	19
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2018 and 2017	20
Consolidated Statements of Cash Flows, for the years ended December 31, 2018 and 2017	21
Notes to Consolidated Financial Statements	23

2. Financial Statement Schedules

All financial statement schedules have been omitted, since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto included in this Form 10-K.

3. Exhibits required by Item 601 of Regulation S-K

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.

ITEM 16. FORM 10-K SUMMARY. None.

SIGNATURES

Pursuant to the requirements of section 13 or 15(d) 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: September 3, 2019

SPYR, INC.

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and dates indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/S/ James R. Thompson</u> James R. Thompson	President & Chief Executive Officer (Principal Executive Officer)	September 3, 2019
<u>/S/ Barry D. Loveless</u> Barry D. Loveless	Chief Financial Officer (Principal Financial and Accounting Officer)	September 3, 2019
<u>/S/ James Mylock, Jr.</u> James Mylock, Jr.	Director	September 3, 2019
<u>/S/ Tim Matula</u> Tim Matula	Director	September 3, 2019

EXHIBIT 31.1

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

I, James R. Thompson, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 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.

September 3, 2019

/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 annual report on Form 10-K for the year ended December 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 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.

September 3, 2019

/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 Annual Report of SPYR, Inc. (the "Company") on Form 10-K for the year ended December 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.

September 3, 2019

/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 Annual Report of SPYR, Inc. (the "Company") on Form 10-K for the year ended December 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.

September 3, 2019

/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.
