

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: March 31, 2020

or

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

For the transition period from _____ to _____

Commission file number 33-20111

SPYR, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

75-2636283

(IRS Employer Identification No.)

4643 S. Ulster St., Suite 1510, Denver, CO 80237

(Address of principal executive offices)

(303) 991-8000

(Registrant's telephone number)

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

Yes No

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

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

As of May 15, 2020, there were 202,130,131 shares of the Registrant's common stock.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2020	December 31, 2019
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 11,000	\$ 10,000
Accounts receivable, net	14,000	77,000
Prepaid expenses	15,000	15,000
Trading securities, at market value	—	1,000
Total Current Assets	<u>40,000</u>	<u>103,000</u>
Property and equipment, net	55,000	59,000
Capitalized gaming assets and licensing rights, net	100,000	100,000
Intangible assets, net	5,000	6,000
Operating lease right-of-use asset	67,000	80,000
Other assets	13,000	13,000
TOTAL ASSETS	<u>\$ 280,000</u>	<u>\$ 361,000</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 1,927,000	\$ 1,834,000
Related party short-term advances	1,132,000	1,115,000
Related party line of credit	1,151,000	1,134,000
Convertible notes payable, net	560,000	550,000
Operating lease liability - current portion	76,000	92,000
Current liabilities of discontinued operations	22,000	22,000
Total Current Liabilities	<u>4,868,000</u>	<u>4,747,000</u>
Total Liabilities	<u>4,868,000</u>	<u>4,747,000</u>
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred stock, \$0.0001 par value, 10,000,000 shares authorized		
107,636 Class A shares issued and outstanding as of March 31, 2020 and December 31, 2019	11	11
20,000 Class E shares issued and outstanding as of March 31, 2020 and December 31, 2019	2	2
Common stock, \$0.0001 par value, 750,000,000 shares authorized		
202,130,131 and 200,880,131 shares issued and outstanding as of March 31, 2020 and December 31, 2019	20,213	20,088
Additional paid-in capital	53,534,774	53,509,899
Accumulated deficit	(58,143,000)	(57,916,000)
Total Stockholders' Equity (Deficit)	<u>(4,588,000)</u>	<u>(4,386,000)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	<u>\$ 280,000</u>	<u>\$ 361,000</u>

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

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

	For the Three Months Ended March 31,	
	2020	2019
Revenues	\$ 3,000	\$ 25,000
Related party service revenues	185,000	52,000
Gross Margin	<u>188,000</u>	<u>77,000</u>
Expenses		
Labor and related expenses	185,000	326,000
Rent	37,000	38,000
Depreciation and amortization	10,000	11,000
Professional fees	42,000	50,000
Research and development	—	17,000
Other general and administrative	85,000	80,000
Total Operating Expenses	<u>359,000</u>	<u>522,000</u>
Operating Loss	<u>(171,000)</u>	<u>(445,000)</u>
Other Expense		
Interest Expense	(55,000)	(3,000)
Unrealized loss on trading securities	(1,000)	(2,000)
Total Other Expense	<u>(56,000)</u>	<u>(5,000)</u>
Net Loss	<u>(227,000)</u>	<u>(450,000)</u>
Per Share Amounts		
Net Loss		
Basic and Diluted earnings per share	\$ (0.00)	\$ (0.00)
Weighted Average Common Shares		
Basic and Diluted	<u>201,690,571</u>	<u>199,110,687</u>

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

SPYR, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
For the Three Months Ended March 31, 2020
(Unaudited)

	Preferred Stock				Common Stock		Additional	Accumulated	Total
	Class A		Class E		Shares	Amount	Paid-in Capital	Deficit	
	Shares	Amount	Shares	Amount					
Balance at December 31, 2019	107,636	\$ 11	20,000	\$ 2	200,880,131	\$ 20,088	\$ 53,509,899	\$ (57,916,000)	\$ (4,386,000)
Fair value of common stock issued for employee compensation	—	—	—	—	1,250,000	125	24,875	—	25,000
Net loss	—	—	—	—	—	—	—	(227,000)	(227,000)
Balance at March 31, 2020	<u>107,636</u>	<u>\$ 11</u>	<u>20,000</u>	<u>\$ 2</u>	<u>202,130,131</u>	<u>\$ 20,213</u>	<u>\$ 53,534,774</u>	<u>\$ (58,143,000)</u>	<u>\$ (4,588,000)</u>

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

SPYR, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
For the Three Months Ended March 31, 2019
(Unaudited)

	Preferred Stock				Common Stock		Additional	Accumulated	Total
	Class A		Class E		Shares	Amount	Paid-in Capital	Deficit	
	Shares	Amount	Shares	Amount					
Balance at December 31, 2018	107,636	\$ 11	20,000	\$ 2	198,305,131	\$ 19,830	\$ 53,265,157	\$ (55,951,000)	\$ (2,666,000)
Fair value of common stock issued for employee compensation	—	—	—	—	1,250,000	125	130,875	—	131,000
Net loss	—	—	—	—	—	—	—	(450,000)	(450,000)
Balance at March 31, 2019	<u>107,636</u>	<u>\$ 11</u>	<u>20,000</u>	<u>\$ 2</u>	<u>199,555,131</u>	<u>\$ 19,955</u>	<u>\$ 53,396,032</u>	<u>\$ (56,401,000)</u>	<u>\$ (2,985,000)</u>

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

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

	For the Three Months Ended March 31,	
	2020	2019
Cash Flows From Operating Activities:		
Net loss	\$ (227,000)	\$ (450,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	10,000	11,000
Common stock issued for employee compensation	25,000	131,000
Amortization of debt discounts on convertible notes payable	—	53,000
Unrealized loss on trading securities	1,000	2,000
Changes in operating assets and liabilities:		
Decrease in accounts receivables	63,000	38,000
Decrease in prepaid expenses	—	2,000
Decrease in operating lease liability	(3,000)	(2,000)
Increase (Decrease) in accounts payable and accrued liabilities	92,000	(19,000)
Increase in accrued interest on short-term advances - related party	17,000	5,000
Increase in accrued interest on line of credit - related party	17,000	16,000
Increase in accrued interest and liquidated damages on convertible notes	10,000	6,000
Net Cash Provided by (Used) in Operating Activities	5,000	(207,000)
Cash Flows From Investing Activities:		
Purchase of property and equipment	(5,000)	—
Sale of property and equipment	1,000	—
Net Cash Used in Investing Activities	(4,000)	—
Cash Flows From Financing Activities:		
Proceeds from short-term advances - related party	—	209,000
Net Cash Provided by Financing Activities	—	209,000
Net increase in Cash	1,000	2,000
Cash and cash equivalents at beginning of period	10,000	24,000
Cash and cash equivalents at end of period	\$ 11,000	\$ 26,000
Supplemental Disclosure of Interest and Income Taxes Paid:		
Interest paid during the year	\$ 1,000	\$ —
Income taxes paid during the year	\$ —	\$ —

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

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(Unaudited)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interim Financial Statements

The accompanying condensed consolidated financial statements of SPYR, Inc. and subsidiaries (the "Company") are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019 filed with the SEC. The condensed consolidated balance sheet as of December 31, 2019 included herein was derived from the audited consolidated financial statements as of that date, but does not include all disclosures, including notes, required by GAAP.

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

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 6), and Branded Foods Concepts, Inc., a Nevada corporation. Intercompany accounts and transactions have been eliminated.

Going Concern

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

As shown in the accompanying financial statements, for the three months ended March 31, 2020, the Company recorded a net loss from continuing operations of \$227,000 and have current liabilities of \$4,868,000. As of March 31, 2020, our cash balance was \$11,000. These issues raise substantial doubt about the Company's ability to continue as a going concern.

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 also plans to diversify, through acquisition or otherwise, in other unrelated business areas and is exploring opportunities to do so.

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 financing goals for our products do not materialize as planned and if we are not able to achieve profitable operations at some point in the future, we may have insufficient working capital to maintain our operations as we presently intend to conduct them or to fund our expansion, marketing, and product development plans.

The ability of the Company to continue as a going concern is dependent upon the success of future capital offerings or alternative financing arrangements and expansion of its operations. The accompanying financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern. Management is actively pursuing additional sources of financing sufficient to generate enough cash flow to fund its operations through calendar year 2020. However, management cannot make any assurances that such financing will be secured.

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(Unaudited)

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 basic and fully diluted shares for the three months ended March 31, 2020 are the same because the inclusion of the potential shares (Class A – 26,909,028, Class E – 5,364,807, Options – 9,149,900, Warrants – 9,000,000) would have had an anti-dilutive effect due to the Company generating a loss for the three months ended March 31, 2020.

The basic and fully diluted shares for the three months ended March 31, 2019 are the same because the inclusion of the potential shares (Class A – 26,909,028, Class E – 1,588,310, Options – 12,449,900, Warrants – 9,000,000) would have had an anti-dilutive effect due to the Company generating a loss for the three months ended March 31, 2019.

Capitalized Gaming Assets and Licensing Rights

As of March 31, 2020, the Company’s capitalized gaming assets consist of Battlewack: Idle Lords which requires additional development before it can be released. As such, the Company does not expect further amortization expense related to capitalized gaming assets and licensing rights until existing or future gaming assets, through development or acquisition, are placed into service.

During the three months ended March 31, 2020 and 2019, the Company recorded amortization expense of \$0 and \$1,000, respectively. As of March 31, 2020 and December 31, 2019, the accumulated amortization was \$0 and \$3,000, respectively.

Software Development Costs

Costs incurred for software development are expensed as incurred. During the three months ended March 31, 2020 and 2019, the Company incurred \$0 and \$17,000 in software development costs paid to independent gaming software developers.

Accounts Receivable

The following is a summary of receivables at March 31, 2020 and December 31, 2019:

	March 31, 2020	December 31, 2019
Game revenue due from in app purchases, net of app store fees and allowance for doubtful accounts	\$ 14,000	\$ 27,000
Game revenue due from in app advertising	—	—
Related party professional service revenues	—	50,000
Other Receivables	—	—
Total Accounts Receivable	\$ 14,000	\$ 77,000

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

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(Unaudited)

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 March 31, 2020 management has recorded an allowance for doubtful accounts in the amount of approximately \$12,000.

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.

Accounts Receivable

The Company grants credit to its game revenue and service revenue customers. The Company typically does not require collateral from customers. Credit risk is limited due to the financial strength of the customers comprising the Company's customer. The Company monitors exposure of credit losses and maintains allowances for anticipated losses considered necessary under the circumstances (See "Allowance for Doubtful Accounts" above).

Major Customers

The Company had two related party customers who comprised 0% and 98% of net revenue during the three months ended March 31, 2020, and 68% and 0% of net revenue during the three months ended March 31, 2019. The loss of these customers would adversely impact the business of the Company.

	Net Revenue %		Gross Accounts Receivable	
	Three Months Ended March 31,	Three Months Ended March 31,	As of March 31,	As of December 31,
	2020	2019	2020	2019
Customer A	0%	68%	\$ —	\$ —
Customer B	98%	0%	—	50,000
Total	<u>98%</u>	<u>68%</u>	<u>\$ —</u>	<u>\$ 50,000</u>

Recent Accounting Standards

The 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(Unaudited)

NOTE 2 - RELATED PARTY TRANSACTIONS

During 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 June 30, 2020. As of March 31, 2020, the Company has borrowed \$1,000,000 and accrued interest of \$151,000.

During 2018 and 2019 the Company received \$1,062,000 in the form of short-term advances from Berkshire Capital Management Co., Inc. The short-term advances are due upon demand. Interest on the short-term advances has been accrued at 6% per annum through March 31, 2020 in the amount of \$70,000 for a total balance due as of March 31, 2020 of \$1,132,000.

During the three months ended March 31, 2019, the Company, received \$52,000 in revenue for professional services rendered to a related Company whose directors are also officers of SPYR, Inc. and whose majority shareholder is Berkshire Capital Management Co., Inc.

During the three months ended March 31, 2020, the Company, received \$185,000 in revenue for professional services rendered to Berkshire Capital Management Co., Inc.

NOTE 3 – 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 amended maturity date of the note was June 1, 2019 and was 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 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 was 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. On May 10, 2019, the Company amended the note to extend the due date to June 1, 2019, provide for a partial conversion of \$25,000 of the outstanding principal balance into common shares of the Company at a conversion price of \$0.10 per share for a total of 250,000 shares, and waive any prior alleged or actual defaults under the note. The note is in default for late payment. The Company has accrued approximately \$124,000 in interest and liquidated damages for this note through March 31, 2020. At March 31, 2020 and December 31, 2019, the principal balance together with total accrued interest and liquidated damages is recorded on the Company's consolidated balance sheet net of discounts at \$264,000 and \$254,000, respectively.

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 amended maturity date of the note was December 31, 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 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 was 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. On May 10, 2019, the Company amended the note to extend the due date to September 1, 2019, provide for a partial conversion of \$25,000 of the outstanding principal balance into common shares of the Company at a conversion price of \$0.10 per share for a total of 250,000 shares, and waive any prior alleged or actual defaults under the note. On October 11, 2019, the Company amended the note to extend the due date to December 31, 2019, provide for a partial conversion of \$50,000 of the outstanding principal balance into common shares of the Company at a conversion price of \$0.10 per share for a total of 500,000 shares, and waive any prior alleged or actual defaults under the note. The Company has accrued approximately \$96,000 in interest and liquidated damages for this note through March 31, 2020. At March 31, 2020 and December 31, 2019, the principal balance together with total accrued interest and liquidated damages is recorded on the Company's consolidated balance sheet net of discounts at \$296,000 and \$296,000, respectively.

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(Unaudited)

The following table summarized the Company's convertible notes payable as of March 31, 2020 and December 31, 2019:

	March 31, 2020	December 31, 2019
Beginning Balance	\$ 550,000	\$ 432,000
Proceeds from the issuance of convertible notes, net of issuance discounts	—	—
Repayments	—	—
Conversion of notes payable into common stock	—	(100,000)
Amortization of discounts	—	62,000
Liquidated damages	3,000	134,000
Accrued Interest	7,000	22,000
Convertible notes payable, net	\$ 560,000	\$ 550,000
Convertible notes, short term	\$ 340,000	\$ 340,000
Accrued interest and damages	\$ 220,000	\$ 210,000
Debt discounts	\$ —	\$ —

NOTE 4 – COMMITMENTS AND CONTINGENCIES

Operating Leases

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. Subsequent to March 31, 2020, the Company entered into an amended lease agreement with its landlord. Under the terms of the amendment, the landlord agreed to waive rent, certain rent adjustments and parking for the period April 1, 2020 through June 30, 2020 and extend the term of the lease by three months. The lease term date, which was December 31, 2020, is now March 31, 2021. In addition, the due date of certain other rent adjustments due April 8, 2020 was deferred. The rent adjustments of approximately \$5,000 are due 50% on June 1, 2020 and 50% on July 1, 2020.

Legal Proceedings

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

Settlements

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. ("Defendants"). 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 alleged 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 alleged that Mr. Fiore and the Company unlawfully benefited through the sales of those securities. The Commission also alleged 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 sought 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(Unaudited)

Pursuant to a settlement agreement among the parties, on April 14, 2020, final judgment was entered in the case *Securities and Exchange Commission vs. Joseph A. Fiore, Berkshire Capital Management, Inc. and Eat at Joes, Inc., n/k/a SPYR, Inc.*, case number 7:18-cv-05474-KMK filed in the U.S. District Court for the Southern District of New York.

On April 23, 2020, Joseph Fiore/Berkshire Capital Management, Inc. satisfied the Company's joint and several liability obligation by paying to the Commission the agreed upon sum of Two Million Dollars pursuant to a settlement agreement between Joseph Fiore/Berkshire Capital Management, Inc. and the Company, which settlement agreement was entered into on April 15, 2020. The Company has until April 14, 2021 to satisfy its remaining financial obligation to the Commission, an agreed upon civil penalty of Five Hundred Thousand Dollars (\$500,000). The \$500,000 liability is reported as part of accounts payable and accrued liabilities on the accompanying condensed consolidated balance sheets as of March 31, 2020 and December 31, 2019 and was recorded as litigation settlement costs on the consolidated statements of operations on the Company's form 10K for the year ended December 31, 2019.

In electing to settle with the Commission, the Company neither admitted nor denied liability to any of the Commission's allegations in its complaint, and in consideration for the Commission discontinuing its action, the Company, along with the two other defendants Joseph Fiore and Berkshire Capital Management agreed to be jointly and severally liable for disgorgement of profits and prejudgment interest in the amount of two million dollars, and to each be solely liable to pay a civil penalty in the amount of five hundred thousand dollars.^[1]

Judgments

On or about January 24, 2019, SPYR APPS, LLC entered into an agreement with one of its vendors, Shatter Storm Studios, to whom it owed \$84,250 for artwork related to the Steven Universe game. Pursuant to the terms of that agreement, SPYR APPS, LLC needed to make payment in the amount of \$85,000 to cover the principal owed and attorneys' fees together plus 6% interest in that amount by December 1, 2019. Should SPYR APPS, LLC not make the required payment on or before December 1, 2019, it consented to entry of judgment in favor of Shatter Storm Studios for the amount owed. SPYR APPS, LLC did not make the payment and on January 27, 2020 Shatter Storm Studios initiated Case No. 1:200cv-00217 in the U.S. District Court for the District of Colorado seeking entry of the consent judgment against SPYR APPS, LLC. The judgment was not contested by SPYR APPS, LLC and judgment in the amount of \$85,000 plus post judgment interest at the rate of 6% was entered on March 17, 2020. The \$85,000 plus accrued interest and attorneys' fees has been reported as part of accounts payable and accrued liabilities. The balance due as of March 31, 2020 and December 31, 2019 was approximately \$91,000 and \$90,000, respectively.

Covid-19

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Company operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the company, the Company is anticipating potential reductions in revenue, labor and supply shortages, difficulty meeting debt covenants, delays in collecting accounts receivable and paying liabilities and changes in the fair value of assets and liabilities. Our concentrations due to major customers and the necessity for fund raising activities make it reasonably possible that we are vulnerable to the risk of a near-term severe impact.

Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions, including potential credit losses on receivables and investments; impairment losses related to capitalized gaming assets and other long-lived assets; and contingent obligations.

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(Unaudited)

NOTE 5 – EQUITY TRANSACTIONS

Common Stock:

Three Months Ended March 31, 2019

During the three months ended March 31, 2019, the Company issued an aggregate of 1,250,000 shares of restricted common stock to employees with a total fair value of \$131,000 for services rendered. The shares issued are non-refundable and deemed earned upon issuance. As a result, the Company expensed the entire \$131,000 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.

Three Months Ended March 31, 2020

During the three months ended March 31, 2020, the Company issued an aggregate of 1,250,000 shares of restricted common stock to employees with a total fair value of \$25,000 for services rendered. The shares issued are non-refundable and deemed earned upon issuance. As a result, the Company expensed the entire \$25,000 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.

Options:

The following table summarizes common stock options activity:

	Options		Weighted Average Exercise Price
December 31, 2019	9,299,900	\$	0.57
Granted	—		—
Exercised	—		—
Expired	(150,000)		1.00
Outstanding, March 31, 2020	9,149,900	\$	0.56
Exercisable, March 31, 2020	9,149,900	\$	0.56

The weighted average exercise prices, remaining lives for options granted, and exercisable as of March 31, 2020 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	0.42	\$0.50	8,000,000	\$0.50
\$1.00	1,149,900	0.07 – 1.85	\$1.00	1,149,900	\$1.00
	9,149,900		\$0.56	9,149,900	\$0.56

At March 31, 2020, the Company's closing stock price was \$0.02 per share. As all outstanding options had an exercise price greater than \$0.02 per share, there was no intrinsic value of the options outstanding at March 31, 2020.

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(Unaudited)

Warrants:

The following table summarizes common stock warrants activity:

	Warrants		Weighted Average Exercise Price
Outstanding, December 31, 2019	9,000,000	\$	0.46
Granted	—		—
Exercised	—		—
Forfeited	—		—
Outstanding, March 31, 2020	9,000,000	\$	0.46
Exercisable, March 31, 2020	9,000,000	\$	0.46

The weighted average exercise prices, remaining lives for warrants granted, and exercisable as of March 31, 2020, were as follows:

Warrants Exercise Price Per Share	Outstanding and Exercisable Warrants	
	Shares	Life (Years)
\$0.01	600,000	0.75
\$0.15	1,200,000	0.78
\$0.25	1,000,000	3.28
\$0.375	200,000	1.05
\$0.40	1,200,000	0.78
\$0.50	3,000,000	0.58 – 3.28
\$0.625	100,000	1.05
\$0.75	1,250,000	0.75 – 3.28
\$1.00	250,000	1.16
\$2.00	200,000	3.14
	9,000,000	

At March 31, 2020, the Company's closing stock price was \$0.02 per share. The Company had 600,000 warrants outstanding with exercise prices less than \$0.01 with an intrinsic value of \$6,000 at March 31, 2020.

Shares Reserved:

At March 31, 2020, 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 in connection with the court approved settlement agreement for a total of 33,500,000 reserved shares of common stock.

NOTE 6 – 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 assets and liabilities of our discontinued restaurant segment's discontinued operations as of March 31, 2020 and December 31, 2019 consisted of \$0 assets and \$22,000 in accounts payable and accrued liabilities.

There were no operations for our discontinued restaurant segment during the three months ended March 31, 2020 and 2019.

SPYR, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(Unaudited)

NOTE 7 – SUBSEQUENT EVENTS

Subsequent to March 31, 2020, the Company entered into amended lease agreement with its landlord. Under the terms of the amendment, the landlord agreed to waive rent, certain rent adjustments and parking for the period April 1, 2020 through June 30, 2020 and extend the term of the lease by three months. The lease term date, which was December 31, 2020, is now March 31, 2021. In addition, the due date of certain other rent adjustments due April 8, 2020 has been deferred. The rent adjustments of approximately \$5,000 are now due 50% on June 1, 2020 and 50% on July 1, 2020.

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

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

This discussion contains forward-looking statements that involve risks and uncertainties. Such statements, which include statements concerning revenue sources and concentration, selling, general and administrative expenses and capital resources, are subject to risks and uncertainties, including, but not limited to, those discussed elsewhere in this Form 10-Q that could cause actual results to differ materially from those projected. Unless otherwise expressly indicated, the information set forth in this Form 10-Q is as of March 31, 2020, 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 2020 to help with the development and marketing of existing and future games and applications.

During the past several 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. 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.

In addition, working together with the development team at Reset Studios LLC, we 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. As of December 31, 2019, the Cartoon Network license was terminated and the game was removed from the stores.

Management's plan for the next 12 months is to seek and obtain additional capital from outside investors for operations and expansion, including but not necessarily limited to refining and better monetizing Pocket Starships and seeking out and pursuing acquisition opportunities within and without the gaming space. 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 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, shareholder loans and other forms of financing such as the sale of additional equity and debt securities, capital leases and other credit facilities. The Company also plans to diversify, through acquisition or otherwise, in other unrelated business areas and is exploring opportunities to do so.

COMPARISON OF THE THREE MONTHS ENDED MARCH 31, 2020 TO 2019

The consolidated results of continuing operations for the three months ended March 31, 2020 and 2019 are as follows:

	<u>Digital Media</u>	<u>Corporate</u>	<u>Consolidated</u>
Three Months Ended March 31, 2020			
Revenues	\$ 3,000	\$ —	\$ 3,000
Related party service revenues	—	185,000	185,000
Labor and related expenses	(8,000)	(177,000)	(185,000)
Rent	—	(37,000)	(37,000)
Depreciation and amortization	—	(10,000)	(10,000)
Professional fees	—	(42,000)	(42,000)
Research and development	—	—	—
Other general and administrative	(23,000)	(62,000)	(85,000)
Operating loss	<u>(28,000)</u>	<u>(143,000)</u>	<u>(171,000)</u>
Interest Expense	(10,000)	(45,000)	(55,000)
Unrealized loss on trading securities	—	(1,000)	(1,000)
Other expense	(10,000)	(46,000)	(56,000)
Loss from continuing operations	<u>\$ (38,000)</u>	<u>\$ (189,000)</u>	<u>\$ (227,000)</u>

	<u>Digital Media</u>	<u>Corporate</u>	<u>Consolidated</u>
Three Months Ended March 31, 2019			
Revenues	\$ 25,000	\$ —	\$ 25,000
Related party service revenues	—	52,000	52,000
Labor and related expenses	(50,000)	(276,000)	(326,000)
Rent	(1,000)	(37,000)	(38,000)
Depreciation and amortization	(2,000)	(9,000)	(11,000)
Professional fees	—	(50,000)	(50,000)
Research and Development	(17,000)	—	(17,000)
Other general and administrative	(18,000)	(62,000)	(80,000)
Operating loss	<u>(63,000)</u>	<u>(382,000)</u>	<u>(445,000)</u>
Interest Expense	(9,000)	6,000	(3,000)
Unrealized loss on trading securities	—	(2,000)	(2,000)
Other expense	(9,000)	4,000	(5,000)
Loss from continuing operations	<u>\$ (72,000)</u>	<u>\$ (378,000)</u>	<u>\$ (450,000)</u>

Results of Operations

For the three months ended March 31, 2020 the Company had a loss from continuing operations of \$227,000 compared to a loss from continuing operations of \$450,000 for the three months ended March 31, 2019. This change is due primarily to increases in revenue of \$111,000 and other general and administrative costs of \$5,000 and decreases in labor and related expenses of \$141,000, rent of \$1,000, depreciation and amortization of \$1,000, professional fees of \$8,000, research and development of \$17,000 during the three months ended March 31, 2020 compared to the three months ended March 31, 2019. Other items contributing to the change included increases in interest expense of \$52,000.

More detailed explanation of the three months ended March 31, 2020 and 2019 changes are included in the following discussions.

Total Revenues - For the three months ended March 31, 2020 and 2019, the Company had total revenue of \$188,000 and \$77,000, respectively, for an increase of \$111,000. This change is primarily due to increased related party service revenues, partially offset by reduced games revenues.

Related Party Service Revenues - During the three months ended March 31, 2020 and 2019, the Company received \$185,000 and \$52,000, respectively, in revenue for professional services rendered to related parties. During 2020, the Company received \$185,000 in revenue for professional services rendered to Berkshire Capital Management Co., Inc, a company controlled by Joseph Fiore, majority shareholder and former chairman of the board of directors of the Company. During 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.

Games Revenues – During the three months ended March 31, 2020 and 2019, the Company received \$3,000 and \$25,000, respectively in revenue from games.

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 also plans to diversify, through acquisition or otherwise, in other unrelated business areas and is exploring opportunities to do so.

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. For the three months ended March 31, 2020 the company had total labor and related expenses of \$185,000 with \$74,000 being settled in cash and \$86,000 in accrued salaries and \$25,000 being paid in restricted stock recorded at fair value. For the three months ended March 31, 2019 the company had total labor and related expenses of \$326,000 with \$127,000 being settled in cash, \$68,000 in accrued salaries and \$131,000 being paid in restricted stock and vesting of options recorded at fair value. The cost of labor is expected to increase in conjunction with expansion of the digital media operations.

The cost of rent decreased \$1,000 from \$38,000 for the three months ended March 31, 2019 to \$37,000 for the three months ended March 31, 2020. 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. Subsequent to March 31, 2020, the Company entered into amended lease agreement with its landlord. Under the terms of the amendment, the landlord agreed to waive rent, certain rent adjustments and parking for the period April 1, 2020 through June 30, 2020 and extend the term of the lease by three months. The lease term date, which was December 31, 2020, is now March 31, 2021. In addition, the due date of certain other rent adjustments due April 8, 2020 was deferred. The rent adjustments of approximately \$5,000 are due 50% on June 1, 2020 and 50% on July 1, 2020.

Depreciation and amortization expenses decreased by approximately \$1,000 for the three months ended March 31, 2020 compared to the three months ended March 31, 2019. Depreciation and amortization expenses are attributable to depreciation of the \$248,000 of property and equipment and amortization of gaming assets and capitalized licensing rights in service during respective periods.

Professional fees decreased \$8,000 from \$50,000 for the three months ended March 31, 2019 to \$42,000 for the three months ended March 31, 2020. Professional fees during the three months ended March 31, 2020 included \$41,000 legal, accounting and other professional service needs and \$1,000 for public relations. Professional fees during the three months ended March 31, 2019 included \$44,000 in legal, accounting and other professional service needs and \$6,000 for public relations.

Research and development costs during the three months ended March 31, 2019 included \$17,000 in connection with fees paid to game developers for the development of its games, compared to research and development costs of \$0 during the three months ended March 31, 2020.

Other general and administrative expenses increased \$5,000 for the three months ended March 31, 2020 compared to the three months ended March 31, 2019. The increase can be attributed primarily to increases in insurance costs.

The Company had interest expense on a related party line of credit, related party short-term advances, convertible notes payable and accrued expenses of \$55,000 for the three months ended March 31, 2020. The company had interest expense on a related party line of credit, related party short-term advances, convertible notes payable and accrued expenses of \$3,000 for the three months ended March 31, 2019. In addition, pursuant to an amended convertible note whereby the note holder agreed to waive any prior alleged or actual defaults under the note, the Company recorded a reversal of previously reported default interest and penalties of \$87,000.

The Company had unrealized losses on trading securities of \$1,000 for the three months ended March 31, 2020 compared to unrealized losses of \$2,000 for the three months ended March 31, 2019. Unrealized gains and losses are the result of fluctuations in the quoted market price of the underlying securities at the respective reporting dates.

LIQUIDITY AND CAPITAL RESOURCES

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

The Company has generated a net loss from continuing operations for the three months ended March 31, 2020 of \$227,000. As of March 31, 2020, the Company had current assets of \$40,000, which included cash and cash equivalents of \$11,000, accounts receivable of \$14,000 and prepaid expenses of \$15,000.

During the three months ended March 31, 2020, the Company has met its capital requirements through collection of revenues and accounts receivable.

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.

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.

Operating Activities - For the three months ended March 31, 2020, the Company provided cash in operating activities of \$5,000. For the three months ended March 31, 2019, the Company used cash in operating activities of \$207,000. Operating activities consist of corporate overhead and development of our mobile games and applications. Decreases are due to a combination of increased revenues and decreases in operating expenses. See the above results of operations discussion for more details.

Investing Activities - During the three months ended March 31, 2020, the Company purchased property and equipment for \$5,000 and sold property and equipment for \$1,000. The Company had no investing activities during the three months ended March 31, 2019.

Financing Activities - The Company had no financing activities during the three months ended March 31, 2020. During the three months ended March 31, 2019, the Company borrowed \$209,000 from related party short-term advances.

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

Critical Accounting Policies - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Note 1 to the quarterly and annual 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.

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 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

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 recognize service revenue upon completion of the service.

Stock-Based Compensation

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

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

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

Loss Contingencies

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

Recent Accounting Pronouncements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

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

As of March 31, 2020, an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13(a)-15(e) and 15(d)-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act") was carried out under the supervision and with the participation of our Chief Executive Officer, Chief Financial Officer, and other persons carrying out similar functions for the Company. In making this assessment, Management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (Revised 2013) in Internal Control over Financial Reporting - Guidance for Smaller Public Companies. Based on the evaluation of the Company's disclosure controls and procedures, Management concluded that during the period covered by this report, such disclosure controls and procedures were not effective, due to certain identified material weaknesses. These identified material weaknesses include, (i) insufficient accounting staff, (ii) inadequate segregation of duties, (iii) limited checks and balances in processing cash and other transactions, and (iv) the lack of independent directors and independent audit committee.

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

The Company continues to employ and refine a structure in which critical accounting policies, issues and estimates are identified, and together with other complex areas, are subject to multiple reviews by accounting personnel. In addition, the Company evaluates and assesses its internal controls and procedures regarding its financial reporting as necessary and on an on-going basis.

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

Changes in Internal Controls Over Financial Reporting

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

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Settlements

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. ("Defendants"). 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 alleged 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 alleged that Mr. Fiore and the Company unlawfully benefited through the sales of those securities. The Commission also alleged 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 sought 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.

Pursuant to a settlement agreement among the parties, on April 14, 2020, final judgment was entered in the case Securities and Exchange Commission vs. Joseph A. Fiore, Berkshire Capital Management, Inc. and Eat at Joes, Inc., n/k/a SPYR, Inc., case number 7:18-cv-05474-KMK filed in the U.S. District Court for the Southern District of New York.

On April 23, 2020, Joseph Fiore/Berkshire Capital Management, Inc. satisfied the Company's joint and several liability obligation by paying to the Commission the agreed upon sum of Two Million Dollars pursuant to a settlement agreement between Joseph Fiore/Berkshire Capital Management, Inc. and the Company, which settlement agreement was entered into on April 15, 2020. The Company has until April 14, 2021 to satisfy its remaining financial obligation to the Commission, an agreed upon civil penalty of Five Hundred Thousand Dollars (\$500,000). The \$500,000 liability is reported as part of accounts payable and accrued liabilities on the accompanying condensed consolidated balance sheets as of March 31, 2020 and December 31, 2019 and was recorded as litigation settlement costs on the consolidated statements of operations on the Company's form 10K for the year ended December 31, 2019.

In electing to settle with the Commission, the Company neither admitted nor denied liability to any of the Commission's allegations in its complaint, and in consideration for the Commission discontinuing its action, the Company, along with the two other defendants Joseph Fiore and Berkshire Capital Management agreed to be jointly and severally liable for disgorgement of profits and prejudgment interest in the amount of two million dollars, and to each be solely liable to pay a civil penalty in the amount of five hundred thousand dollars.^[2]

Judgments

On or about January 24, 2019, SPYR APPS, LLC entered into an agreement with one of its vendors, Shatter Storm Studios, to whom it owed \$84,250 for artwork related to the Steven Universe game. Pursuant to the terms of that agreement, SPYR APPS, LLC needed to make payment in the amount of \$85,000 to cover the principal owed and attorneys' fees together plus 6% interest in that amount by December 1, 2019. Should SPYR APPS, LLC not make the required payment on or before December 1, 2019, it consented to entry of judgment in favor of Shatter Storm Studios for the amount owed. SPYR APPS, LLC did not make the payment and on January 27, 2020 Shatter Storm Studios initiated Case No. 1:200cv-00217 in the U.S. District Court for the District of Colorado seeking entry of the consent judgment against SPYR APPS, LLC. The judgment was not contested by SPYR APPS, LLC and judgment in the amount of \$85,000 plus post judgment interest at the rate of 6% was entered on March 17, 2020. The \$85,000 plus accrued interest and attorneys' fees has been reported as part of accounts payable and accrued liabilities. The balance due as of March 31, 2020 and December 31, 2019 was approximately \$91,000 and \$90,000, respectively.

ITEM 1A. RISK FACTORS

Not applicable to smaller reporting companies.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibits are included as part of this report:

Exhibit Number	Exhibit Description
3.1	Articles of Incorporation (1)
3.2	By-laws (1)
3.3	Amended Articles of Incorporation(1)
10.2	Registration Rights Agreement(1)
14	Code of Ethics (1)
21	Subsidiaries of the Company(1)
31**	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32***	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

** Filed herewith

*** Furnished Herewith

(1) Incorporated by reference.

SIGNATURES

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

Dated: May 15, 2020

SPYR, INC.

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

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

^[1] In addition, an injunction was entered against the Company enjoined it from violating the antifraud, market manipulation, beneficial ownership reporting, and other provisions of the federal securities laws charged in the SEC's complaint.

^[2] In addition, an injunction was entered against the Company enjoined it from violating the antifraud, market manipulation, beneficial ownership reporting, and other provisions of the federal securities laws charged in the SEC's complaint.

EXHIBIT 31.1

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

I, James R. Thompson, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended March 31, 2020 of SPYR, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles,
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 15, 2020

/s/ James R. Thompson

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

EXHIBIT 31.2

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

I, Barry D. Loveless, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended March 31, 2020 of SPYR, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles,
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrants other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 15, 2020

/s/ Barry D. Loveless

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

EXHIBIT 32.1

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

In connection with the Quarterly Report of SPYR (the "Company") on Form 10-Q for the quarter ended March 31, 2020 as filed with the Securities and Exchange Commission (the "Report"), I, James R. Thompson, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. SS. 1350, as adopted pursuant to SS. 906 of the Sarbanes-Oxley Act of 2002, that:

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

May 15, 2020

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

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

EXHIBIT 32.2

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

In connection with the Quarterly Report of SPYR, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2020 as filed with the Securities and Exchange Commission (the "Report"), I, Barry D. Loveless, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. SS. 1350, as adopted pursuant to SS. 906 of the Sarbanes-Oxley Act of 2002, that:

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

May 15, 2020

/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.
