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

FORM 10-Q

(Mark One)

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2022

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: 001-32358

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

Delaware	**16-1694797**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
5911 Kingstowne Village Pkwy, 6th Floor Alexandria, Virginia	**22315**
(Address of principal executive offices)	**(Zip Code)**

(800) 611-8488
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value $0.0001 per share	SPOK	NASDAQ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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 ☒

19,703,800 shares of the registrant's common stock (par value $0.0001 per share) were outstanding as of October 21, 2022.

SPOK HOLDINGS, INC.
QUARTERLY REPORT ON FORM 10-Q

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. *CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*

SPOK HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)	September 30, 2022 (Unaudited)	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 37,165	$ 44,583
Short-term investments	—	14,999
Accounts receivable, net	26,920	26,908
Prepaid expenses	7,322	6,641
Other current assets	785	922
Total current assets	72,192	94,053
Non-current assets:		
Property and equipment, net	6,379	6,746
Operating lease right-of-use assets	16,148	15,821
Goodwill	99,175	99,175
Deferred income tax assets, net	31,494	31,653
Other non-current assets	1,153	706
Total non-current assets	154,349	154,101
Total assets	$ 226,541	$ 248,154
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 5,792	$ 5,292
Accrued compensation and benefits	10,560	13,948
Deferred revenue	26,203	25,608
Operating lease liabilities	5,139	5,405
Other current liabilities	5,013	4,745
Total current liabilities	52,707	54,998
Non-current liabilities:		
Asset retirement obligations	6,634	6,355
Operating lease liabilities	12,976	11,883
Other non-current liabilities	962	1,227
Total non-current liabilities	20,572	19,465
Total liabilities	73,279	74,463
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock	$ —	$ —
Common stock	2	2
Additional paid-in capital	99,035	97,291
Accumulated other comprehensive loss	(2,060)	(1,588)
Retained earnings	56,285	77,986
Total stockholders' equity	153,262	173,691
Total liabilities and stockholders' equity	$ 226,541	$ 248,154

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

SPOK HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited and in thousands except share and per share amounts)	For the Three Months Ended September 30, 2022	For the Three Months Ended September 30, 2021	For the Nine Months Ended September 30, 2022	For the Nine Months Ended September 30, 2021
Revenue:				
Wireless revenue	$ 19,054	$ 19,644	$ 56,601	$ 59,623
Software revenue	14,690	16,207	44,678	47,987
Total revenue	33,744	35,851	101,279	107,610
Operating expenses:				
Cost of revenue (exclusive of items shown separately below)	6,624	8,340	21,408	24,180
Research and development	2,223	4,063	11,344	12,663
Technology operations	6,719	7,287	20,612	21,513
Selling and marketing	3,440	5,404	12,629	15,727
General and administrative	8,868	11,664	28,922	32,425
Depreciation, amortization and accretion	828	2,568	2,633	7,752
Severance and restructuring	1,503	82	6,448	256
Total operating expenses	30,205	39,408	103,996	114,516
Operating income (loss)	3,539	(3,557)	(2,717)	(6,906)
Interest income	129	141	366	263
Other income	98	10	110	13
Income (loss) before income taxes	3,766	(3,406)	(2,241)	(6,630)
(Provision for) benefit from income taxes	(846)	912	(129)	1,120
Net income (loss)	$ 2,920	$ (2,494)	$ (2,370)	$ (5,510)
Basic and diluted net income (loss) per common share	$ 0.15	$ (0.13)	$ (0.12)	$ (0.28)
Basic weighted average common shares outstanding	19,693,659	19,464,893	19,661,849	19,378,543
Diluted weighted average common shares outstanding	19,901,267	19,464,893	19,661,849	19,378,543
Cash dividends declared per common share	$ 0.3125	$ 0.1250	$ 0.9375	$ 0.3750

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

SPOK HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited and in thousands)	For the Three Months Ended September 30, 2022	For the Three Months Ended September 30, 2021	For the Nine Months Ended September 30, 2022	For the Nine Months Ended September 30, 2021
Net income (loss)	$ 2,920	$ (2,494)	$ (2,370)	$ (5,510)
Other comprehensive loss, net of tax:				
Foreign currency translation adjustments	(268)	(163)	(472)	(146)
Other comprehensive loss	(268)	(163)	(472)	(146)
Comprehensive income (loss)	$ 2,652	$ (2,657)	$ (2,842)	$ (5,656)

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

SPOK HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited and in thousands except share amounts)	Outstanding Common Shares	Common Stock	Additional Paid-In Capital & Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
Balance, January 1, 2021	19,384,192	$ 2	$ 90,328	$ 110,283	$ 200,613
Net loss	—	—	—	(2,297)	(2,297)
Purchase of common stock for tax withholding	(132,281)	—	(1,444)	—	(1,444)
Amortization of stock-based compensation	—	—	2,239	—	2,239
Cash dividends declared	—	—	—	(2,553)	(2,553)
Issuance of restricted stock under the Equity Plans and other	20,952	—	—	—	—
Issuance of common stock in lieu of cash compensation	50,741	—	—	—	—
Cumulative translation adjustment	—	—	14	—	14
Balance, March 31, 2021	19,323,604	$ 2	$ 91,137	$ 105,433	$ 196,572
Net loss	—	—	—	(719)	(719)
Purchase of common stock for tax withholding	(19,874)	—	(212)	—	(212)
Amortization of stock-based compensation	—	—	1,781	—	1,781
Cash dividends declared	—	—	—	(2,553)	(2,553)
Issuance of restricted stock under the 2020 Equity Plan and other	39,010	—	132	—	132
Issuance of common stock in lieu of cash compensation	58,430	—	—	—	—
Cumulative translation adjustment	—	—	3	—	3
Balance, June 30, 2021	19,401,170	$ 2	$ 92,841	$ 102,161	$ 195,004
Net loss	—	—	—	(2,494)	(2,494)
Purchase of common stock for tax withholding	(20,439)	—	(204)	—	(204)
Amortization of stock-based compensation	—	—	2,016	—	2,016
Cash dividends declared	—	—	—	(2,545)	(2,545)
Issuance of restricted stock under the 2020 Equity Plans and other	26,772	—	—	—	—
Issuance of common stock in lieu of cash compensation	60,773	—	—	—	—
Cumulative translation adjustment	—	—	(163)	—	(163)
Balance, September 30, 2021	19,468,276	$ 2	$ 94,490	$ 97,122	$ 191,614

(Unaudited and in thousands except share amounts)	Outstanding Common Shares	Common Stock	Additional Paid-In Capital & Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
Balance, January 1, 2022	19,828,033	$ 2	$ 95,703	$ 77,986	$ 173,691
Net loss	—	—	—	(7,214)	(7,214)
Purchase of common stock for tax withholding and other	(134,354)	—	(1,209)	—	(1,209)
Amortization of stock-based compensation	—	—	1,115	—	1,115
Cash dividends declared	—	—	—	(6,513)	(6,513)
Cumulative translation adjustment	—	—	25	—	25
Balance, March 31, 2022	19,693,679	$ 2	$ 95,634	$ 64,259	$ 159,895
Net income	—	—	—	1,924	1,924
Purchase of common stock for tax withholding and other	(22)	—	—	—	—
Amortization of stock-based compensation	—	—	961	—	961
Cash dividends declared	—	—	—	(6,357)	(6,357)
Cumulative translation adjustment	—	—	(229)	—	(229)
Balance, June 30, 2022	19,693,657	$ 2	$ 96,366	$ 59,826	$ 156,194
Net income	—	—	—	2,920	2,920
Amortization of stock-based compensation	—	—	877	—	877
Cash dividends declared	—	—	—	(6,461)	(6,461)
Cumulative translation adjustment	—	—	(268)	—	(268)
Balance, September 30, 2022	19,693,657	$ 2	$ 96,975	$ 56,285	$ 153,262

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

SPOK HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited and in thousands)	For the Nine Months Ended September 30, 2022	2021
Operating activities:		
Net loss	$ (2,370)	$ (5,510)
Adjustments to reconcile net loss to net cash net (used) provided by operating activities:		
Depreciation, amortization and accretion	2,633	7,752
Deferred income tax expense (benefit)	157	(907)
Stock-based compensation	2,953	6,036
Provisions for credit losses, service credits and other	1,244	765
Changes in assets and liabilities:		
Accounts receivable	(1,276)	2,165
Prepaid expenses and other assets	(984)	202
Net operating lease liabilities	500	778
Accounts payable, accrued liabilities and other	(3,068)	300
Deferred revenue	63	(2,053)
Net cash (used in) provided by operating activities	(148)	9,528
Investing activities:		
Purchases of property and equipment	(1,773)	(3,103)
Capitalized software development	—	(8,239)
Purchase of short-term investments	(14,967)	(44,990)
Maturity of short-term investments	30,000	45,000
Net cash provided by (used in) investing activities	13,260	(11,332)
Financing activities:		
Cash distributions to stockholders	(18,849)	(7,590)
Proceeds from issuance of common stock under the Employee Stock Purchase Plan	—	132
Purchase of common stock for tax withholding on vested equity awards	(1,209)	(1,860)
Net cash used in financing activities	(20,058)	(9,318)
Effect of exchange rate on cash and cash equivalents	(472)	(146)
Net decrease in cash and cash equivalents	(7,418)	(11,268)
Cash and cash equivalents, beginning of period	44,583	48,729
Cash and cash equivalents, end of period	$ 37,165	$ 37,461
Supplemental disclosure:		
Income taxes paid/(refunded)	$ 212	$ (165)

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Spok Holdings, Inc. (NASDAQ: SPOK) ("Spok," "we," "our" or the "Company"), through its wholly owned subsidiary Spok, Inc., is proud to be the global leader in healthcare communications. We deliver clinical information to care teams when and where it matters most to improve patient outcomes. Top hospitals rely on Spok products and services to enhance workflows for clinicians, support administrative compliance, and provide a better experience for patients.

We offer a focused suite of unified clinical communication and collaboration solutions that include call center applications, clinical alerting and notifications, one-way and advanced two-way wireless messaging services, mobile communications and public safety solutions.

We provide one-way and advanced two-way wireless messaging services, including information services, throughout the United States. These services are offered on a local, regional and nationwide basis employing digital networks. One-way messaging consists of numeric and alphanumeric messaging services. Numeric messaging services enable subscribers to receive messages that are composed entirely of numbers, such as a phone number, while alphanumeric messages may include numbers and letters, which enable subscribers to receive text messages. Two-way messaging services enable subscribers to send and receive messages to and from other wireless messaging devices, including pagers, personal digital assistants and personal computers. We also offer voice mail, personalized greetings, message storage and retrieval, and equipment loss and/or maintenance protection to both one-way and two-way messaging subscribers. These services are commonly referred to as wireless messaging and information services.

We also develop, sell and support enterprise-wide systems for hospitals and other organizations needing to automate, centralize and standardize clinical communications. These solutions are used for contact centers, clinical alerting and notification, mobile communications and messaging and for public safety notifications. These areas of market focus complement the market focus of our wireless services outlined above.

Basis of Presentation

The accompanying Condensed Consolidated Financial Statements include our accounts and the accounts of our wholly owned direct and indirect subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Our Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) and the rules and regulations of the United States Securities and Exchange Commission (the “SEC”). In management's opinion, the unaudited Condensed Consolidated Financial Statements include all adjustments and accruals that are necessary for the presentation of the results of all interim periods reported herein and all such adjustments are of a normal, recurring nature.

Amounts shown in the Condensed Consolidated Statements of Operations within the operating expense categories of cost of revenue; research and development; technology operations; selling and marketing; and general and administrative are recorded exclusive of depreciation, amortization and accretion. These items are shown separately to the extent that they are considered material for the periods presented.

Certain prior period amounts in the Condensed Consolidated Financial Statements have been reclassified to conform to the current period's presentation. These reclassifications had no effect on the reported results of operations or the Condensed Consolidated Balance Sheets.

The financial information included herein, other than the Condensed Consolidated Balance Sheet as of December 31, 2021, is unaudited. The Condensed Consolidated Balance Sheet as of December 31, 2021, has been derived from, but does not include all, the disclosures contained in the audited Consolidated Financial Statements as of and for the year ended December 31, 2021.

These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 (the “2021 Annual Report”). The Condensed Consolidated Statements of Operations for the interim periods presented are not necessarily indicative of the results that may be expected for a full year.

Use of Estimates

The preparation of these Condensed Consolidated Financial Statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. On an ongoing basis, we evaluate estimates and assumptions, including, but not limited to, those related to the impairment of long-lived assets, goodwill, accounts receivable allowances, revenue recognition, determining the standalone selling price of performance obligations, variable consideration, restructuring related liabilities, depreciation expense, asset retirement obligations and income taxes. We base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

NOTE 2 - RISKS AND OTHER IMPORTANT FACTORS

See “Item 1A. Risk Factors” of Part II of this Quarterly Report on Form 10-Q (“Quarterly Report”) and "Item 1A. Risk Factors" of Part I of the 2021 Annual Report, which describe key risks associated with our operations and industry.

NOTE 3 - RECENT ACCOUNTING STANDARDS

The Company considers the applicability and impact of all Accounting Standards Updates ("ASUs") issued by the Financial Accounting Standards Board ("FASB"). The Company has determined that all recent ASUs issued by the FASB are either not applicable or are expected to have minimal impact on the Company's Condensed Consolidated Financial Statements.

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES UPDATE

Our significant accounting policies are detailed in Note 1, “Organization and Significant Accounting Policies” of the 2021 Annual Report.

NOTE 5 - RESTRUCTURING

In February 2022, the Company announced a new strategic business plan that includes a restructuring of its business to discontinue the integrated communications and collaboration platform, Spok Go®, eliminate all associated costs and optimize the Company’s existing structure to drive continued cost improvement. As part of the restructuring program, the Company initially estimated the elimination of approximately 175 positions, primarily in research and development, but also in professional services, selling and marketing, and back-office support functions. The Company currently expects total eliminations of approximately 183 positions, with the majority of positions having been terminated as of September 30, 2022. The following table provides a summary of our updated cost estimates by major type of expense associated with the strategic business plan. The restructuring activities associated with these changes are expected to be substantially completed by the fourth quarter of 2022.

Strategic Business Plan Estimates	Total Estimated Amount to be Incurred
Severance and personnel related costs	$5.7 million to $6.6 million
Contractual terminations	$1.3 million to $1.4 million
Total severance and restructuring related charges	$7.0 million to $8.0 million

For the three and nine months ended September 30, 2022, the Company incurred total severance and restructuring costs of $1.5 million and $6.4 million respectively, which are included within the Condensed Consolidated Statement of Operations. These costs are as follows:

(Dollars in thousands)	For the Three Months Ended September 30, 2022	For the Nine Months Ended September 30, 2022
Severance and personnel related costs	$ 791	$ 5,137
Contractual terminations	712	1,311
Total severance and restructuring costs	$ 1,503	$ 6,448

A summary of activity for the nine months ended September 30, 2022, for restructuring-related liabilities associated with the strategic business plan, which is included within accrued compensation and benefits and other current liabilities within the Condensed Consolidated Balance Sheet, is as follows:

	(Dollars in thousands)
Balance at December 31, 2021	$ —
Restructuring and other charges	4,495
Payments	(34)
Non-cash adjustment	(124)
Balance at March 31, 2022	$ 4,337
Restructuring and other charges	525
Payments	(2,302)
Non-cash adjustment	(188)
Balance at June 30, 2022	$ 2,372
Restructuring and other charges	807
Payments	(1,385)
Non-cash adjustment	(9)
Balance at September 30, 2022	$ 1,785

NOTE 6 - REVENUE, DEFERRED REVENUE AND PREPAID COMMISSIONS

Wireless Revenue

Wireless revenue consists of two primary components: paging revenue and product and other revenue. Paging revenue consists primarily of recurring fees associated with the provision of messaging services and fees for paging devices and is net of a provision for service credits. Product and other revenue reflects system sales, the sale of devices and charges for paging devices that are not returned and are net of anticipated credits. Our core offering includes subscriptions to one-way or two-way messaging services for a periodic (monthly, quarterly, semiannual, or annual) service fee. This is generally based upon the type of service provided, the geographic area covered, the number of devices provided to the customer and the period of commitment. A subscriber to one-way messaging services may select coverage on a local, regional or nationwide basis to best meet their messaging needs. Two-way messaging is generally offered on a nationwide basis. (See Item 1. “Business,” in the 2021 Annual Report for more details.)

Software Revenue

Software revenue consists of two primary components: operations revenue and maintenance revenue. Operations revenue consists primarily of license revenues for our healthcare communications solutions, revenue from the sale of equipment that facilitates the use of our software solutions, and professional services revenue related to the implementation of our solutions. Maintenance revenue is for ongoing support of our software solutions or related equipment and access to when-and-if available software updates. Maintenance is generally purchased and renewed on an annual basis.

Revenue Recognition

Revenues are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.

Our software licenses and hardware are generally recognized at a point in time when we have transferred control to the customer. For software licenses, revenue is not recognized until the related license(s) has been made available to the customer and the customer can begin to benefit from its right to use the license(s). Our software licenses represent a right to use Spok's intellectual property ("IP") as it exists at a point in time at which the license is granted. Many of our software licenses have significant standalone functionality due to their ability to process a transaction or perform a function or task, and we do not need to maintain those products, once provided to the customer, for value to exist. While the functionality of the IP that we license may substantively change during the license period, customers are not contractually or practically required to update their license as a result of those changes.

Our wireless, professional services, and maintenance are generally recognized over time due to a customer's simultaneous receipt and consumption of the benefit as we perform the work. As we transfer control over time, we recognize revenue based on the extent of progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires significant judgment and is based on the nature of the products or services to be provided. Generally, we use the time-elapsed measure of progress for performance obligations that include wireless or maintenance services. We believe this method best depicts the simultaneous transfer and consumption of the benefit based on our performance as these services are generally considered standby services. For professional services, we leverage an input methodology based on the number of hours worked on a project versus the total expected hours necessary to complete the project. Revenues are recognized proportionally as hours are incurred.

The following table presents our revenues disaggregated by revenue type:

(Dollars in thousands)	For the Three Months Ended September 30, 2022	2021	For the Nine Months Ended September 30, 2022	2021
Revenue:				
Paging revenue	$ 18,419	$ 18,844	$ 54,873	$ 57,332
Product and other revenue	635	800	1,728	2,291
Wireless revenue	$ 19,054	$ 19,644	$ 56,601	$ 59,623
License	$ 2,147	$ 1,807	$ 5,933	$ 4,267
Professional services	2,835	4,159	9,502	13,378
Hardware	530	596	1,626	1,694
Operations revenue	5,512	6,562	17,061	19,339
Maintenance	9,178	9,645	27,617	28,648
Software revenue	$ 14,690	$ 16,207	$ 44,678	$ 47,987
Total revenue	$ 33,744	$ 35,851	$ 101,279	$ 107,610

The U.S. was the only country that accounted for more than 10% of the Company's total revenue for the three and nine months ended September 30, 2022, and 2021. Revenue generated in the U.S. and internationally consisted of the following for the periods stated:

(Dollars in thousands)	For the Three Months Ended September 30, 2022	2021	For the Nine Months Ended September 30, 2022	2021
United States	$ 32,827	$ 34,758	$ 98,152	$ 104,730
International	917	1,093	3,127	2,880
Total revenue	$ 33,744	$ 35,851	$ 101,279	$ 107,610

Deferred Revenues

Our deferred revenues represent payments made by, or due from, customers in advance of our performance. Changes in the balance of total deferred revenue during the nine months ended September 30, 2022, are as follows:

(Dollars in thousands)	December 31, 2021	Additions	Revenue Recognized	September 30, 2022
Deferred Revenue	$ 26,406	$ 44,099	$ (44,035)	$ 26,470

During the nine months ended September 30, 2022, the Company recognized $20.8 million related to amounts deferred as of December 31, 2021.

Prepaid Commissions

Our prepaid commissions represent payments made to employees in advance of our performance on the related underlying contracts. These costs have been incurred directly in relation to obtaining a contract. As such, these costs are amortized over the estimated period of benefit. Changes in the balance of total prepaid commissions during the nine months ended September 30, 2022 are as follows:

(Dollars in thousands)	December 31, 2021	Additions	Commissions Recognized	September 30, 2022
Prepaid Commissions	$ 1,821	$ 2,966	$ (3,016)	$ 1,771

Prepaid commissions are included within prepaid expenses in the Condensed Consolidated Balance Sheets and commissions expense is included within selling and marketing in the Condensed Consolidated Statements of Operations.

Remaining Performance Obligations

The balance of remaining performance obligations at September 30, 2022, was $44.0 million. We expect to recognize approximately $32.4 million of our remaining performance obligations over the next 12 months, with the remaining balance recognized thereafter.

NOTE 7 - LEASES

We have operating lease arrangements for corporate offices, cellular towers, storage units and small building space. The building space is used to house infrastructure, such as transmitters, antennae and other various equipment for the Company’s wireless paging services. For leases with a term of 12 months or less, renewal terms are generally of an evergreen nature (either month-to-month or year-to-year). For leases with a term greater than 12 months, renewal terms are generally explicit and provide for one to five optional renewals consistent with the initial term. Many of our leases, with the exception of those for our corporate offices, include options to terminate the lease within one year. Variable lease payments, residual value guarantees or purchase options are not generally present in these leases.

In May 2022, we extended twenty-three site leases on a Master License Agreement which included a term of 10 years with an option to terminate within 45 days of notification of termination. At that time, we recorded a $2.9 million right-of-use asset and a corresponding operating lease liability for these leases.

Lease costs are included in technology operations and general and administrative expenses in the Condensed Consolidated Statements of Operations. The following table presents lease costs disaggregated by type:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(Dollars in thousands)	2022	2021	2022	2021
Operating lease cost	$ 1,965	$ 1,651	$ 4,828	$ 4,612
Short-term lease cost	2,490	2,563	7,569	7,946
Total lease cost	$ 4,455	$ 4,214	$ 12,397	$ 12,558

The following table presents supplemental cash flow information:

(Dollars in thousands)	For the Nine Months Ended September 30, 2022	2021
Cash paid for amounts included in the measurement of lease liabilities - operating leases	$ 4,340	$ 4,125

The following table presents the weighted average remaining lease term and discount rate:

(Dollars in thousands)	September 30, 2022	2021
Weighted average remaining lease term - operating leases (in years)	5.00	4.82
Weighted average discount rate - operating leases	4.36%	4.53%

Maturities of lease liabilities as of September 30, 2022, were as follows:

For the Year Ended December 31,	(Dollars in thousands)
2022 (remaining three months)	$ 1,337
2023	4,966
2024	4,081
2025	3,059
2026	2,607
Thereafter	4,226
Total future lease payments	20,276
Imputed interest	(2,161)
Total	$ 18,115

NOTE 8 - CONSOLIDATED FINANCIAL STATEMENT COMPONENTS

Depreciation, Amortization and Accretion

Depreciation, amortization and accretion expenses consisted of the following for the periods stated:

(Dollars in thousands)	For the Three Months Ended September 30, 2022	2021	For the Nine Months Ended September 30, 2022	2021
Depreciation				
Leasehold improvements	$ 16	$ 18	$ 51	$ 52
Asset retirement costs	(176)	(22)	(526)	(66)
Paging and computer equipment	763	871	2,413	2,923
Furniture, fixtures and vehicles	55	65	185	185
Total depreciation	658	932	2,123	3,094
Amortization				
Intangible assets	—	—	—	417
Capitalized software development costs	—	1,482	—	3,779
Total amortization	—	1,482	—	4,196
Accretion	170	154	510	462
Total depreciation, amortization and accretion expense	$ 828	$ 2,568	$ 2,633	$ 7,752

Accounts Receivable, Net

Accounts receivable was recorded net of an allowance of $1.6 million at both September 30, 2022, and December 31, 2021. Accounts receivable, net includes $6.8 million and $7.1 million of unbilled receivables at September 30, 2022, and December 31, 2021, respectively. Unbilled receivables are defined as the Company's right to consideration in exchange for goods or services that we have transferred to the customer but have not yet billed for, generally as a result of contractual billing terms.

Property and Equipment, Net

Property and equipment, net consisted of the following as of the dates stated:

(Dollars in thousands)	Useful Life (In Years)	September 30, 2022	December 31, 2021
Leasehold improvements	shorter of useful life or lease term	$ 2,496	$ 3,307
Asset retirement costs	1-5	2,307	2,307
Paging and computer equipment	1-5	87,183	89,844
Furniture, fixtures and vehicles	3-5	3,321	3,668
Total property and equipment		95,307	99,126
Accumulated depreciation		(88,928)	(92,380)
Total property and equipment, net		$ 6,379	$ 6,746

NOTE 9 - GOODWILL

During the three months ended September 30, 2022, we performed a qualitative assessment of goodwill and determined that a triggering event had not occurred. While an impairment assessment is performed annually in the fourth quarter, the Company monitors its business environment for potential triggering events on a quarterly basis. There is potential for further impairment charges being recognized in future periods based on these ongoing assessments.

NOTE 10 - ASSET RETIREMENT OBLIGATIONS

The components of the changes in the asset retirement obligation liabilities were:

(Dollars in thousands)	Short-Term Portion	Long-Term Portion	Total
Balance at December 31, 2021	$ 130	$ 6,355	$ 6,485
Accretion	103	407	510
Amounts paid	(214)	—	(214)
Reclassifications	128	(128)	—
Balance at September 30, 2022	$ 147	$ 6,634	$ 6,781

The short-term portion of the balance above is included within other current liabilities in the Condensed Consolidated Balance Sheets at September 30, 2022, and December 31, 2021.

The cost associated with the estimated removal costs and timing refinements due to ongoing network rationalization activities is expected to accrete to a total liability of $7.8 million. The total estimated liability is based on the transmitter locations remaining after we have consolidated the number of networks we operate and assuming the underlying leases continue to be renewed to that future date. Accretion expense related solely to asset retirement obligations and was recorded based on the interest method.

NOTE 11 - STOCKHOLDERS' EQUITY

General

Our authorized capital stock consists of 75 million shares of common stock, par value $0.0001 per share, and 25 million shares of preferred stock, par value $0.0001 per share.

At September 30, 2022, and December 31, 2021, we had no stock options outstanding.

At September 30, 2022, and December 31, 2021, there were 19,693,657 and 19,828,033 shares of common stock outstanding, respectively, and no shares of preferred stock outstanding.

Dividends

Cash distributions to stockholders, as disclosed in the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2022, and 2021, include previously declared cash dividends on shares of vested restricted common stock ("restricted stock") issued to our non-executive directors and dividends related to vested restricted stock units ("RSUs") issued to eligible employees. Cash dividends on RSUs and restricted stock have been accrued and are paid when the applicable vesting conditions are met. Accrued cash dividends on forfeited restricted stock and RSUs are also forfeited. The following table details our cash dividends declared and paid in 2022 through the date hereof:

Declaration Date	Record Date	Payment Date	Per Share Amount	(Dollars in thousands) Total Declared[1]
February 16, 2022	March 16, 2022	March 30, 2022	$ 0.3125	$ 6,513
April 27, 2022	May 25, 2022	June 24, 2022	0.3125	6,357
July 27, 2022	August 17, 2022	September 9, 2022	0.3125	6,461
Total			$ 0.9375	$ 19,331

[1] The total declared reflects the cash dividends declared in relation to common stock, deferred stock units ("DSUs") and unvested RSUs.

On October 26, 2022, our Board of Directors declared a regular quarterly cash dividend of $0.3125 per share of common stock with a record date of November 16, 2022, and a payment date of December 9, 2022. Cash dividends related to common stock of approximately $6.2 million will be paid from available cash on hand.

Common Stock Repurchase Program

On February 16, 2022, our Board of Directors authorized a share repurchase program for up to $10 million of the Company’s common stock. Under the repurchase program, repurchases can be made from time to time using a variety of methods, which may include open market purchases, privately negotiated transactions or otherwise, all in accordance with the rules of the SEC and other applicable legal requirements. The specific timing, price and size of purchases will depend on prevailing stock prices, general economic and market conditions, legal requirements and other considerations. The repurchase program does not obligate the Company to acquire any particular amount of common stock, and the repurchase program may be suspended or discontinued at any time at the Company’s discretion. For the nine months ended September 30, 2022, we did not repurchase any common stock.

Net Income (Loss) per Common Share

Basic net income (loss) per common share is computed on the basis of the weighted average common shares outstanding. Diluted net income (loss) per common share is computed on the basis of the weighted average common shares outstanding plus the effect of all potentially dilutive common shares, including outstanding restricted stock and RSUs, which are treated as contingently issuable shares, using the “treasury stock” method.

The components of basic and diluted net income (loss) per common share were as follows for the periods stated:

(in thousands, except for share and per share amounts)	For the Three Months Ended September 30, 2022	For the Three Months Ended September 30, 2021	For the Nine Months Ended September 30, 2022	For the Nine Months Ended September 30, 2021
Numerator:				
Net income (loss)	$ 2,920	$ (2,494)	$ (2,370)	$ (5,510)
Denominator:				
Basic weighted average common shares outstanding	19,693,659	19,464,893	19,661,849	19,378,543
Diluted weighted average common shares outstanding	19,901,267	19,464,893	19,661,849	19,378,543
Basic and diluted net income (loss) per common share	$ 0.15	$ (0.13)	$ (0.12)	$ (0.28)

For the three and nine months ended September 30, 2022, and 2021 the following securities were excluded from the calculation of diluted shares outstanding as the effect would have been anti-dilutive:

	For the Three Months Ended September 30, 2022	For the Three Months Ended September 30, 2021	For the Nine Months Ended September 30, 2022	For the Nine Months Ended September 30, 2021
Restricted stock units	—	197,900	290,800	341,443

Stock-Based Compensation Plans

On March 23, 2012, our Board of Directors adopted the Spok Holdings, Inc. 2012 Equity Incentive Award Plan (the “2012 Equity Plan”) that our stockholders subsequently approved on May 16, 2012. A total of 2,194,986 shares of common stock were reserved for issuance under this plan.

On April 29, 2020, our Board of Directors adopted the Spok Holdings, Inc. 2020 Equity Incentive Award Plan (the “2020 Equity Plan” and, together with the 2012 Equity Plan, the "Equity Plans") that our stockholders subsequently approved on July 28, 2020. At July 28, 2020, a total of 1,699,950 shares of common stock had been reserved for issuance under the Equity Plans, including 1,600,000 shares available under the 2020 Equity Plan and 99,950 shares which, as of the stockholders approval date, remained available for issuance under the 2012 Equity Plan. No further grants will be made under the 2012 Equity Plan, although, the 2012 Equity Plan continues to govern all outstanding awards thereunder.

Awards under the 2020 Equity Plan may be in the form of stock options, restricted common stock, RSUs, performance awards, dividend equivalents, stock payment awards, deferred stock, DSUs, stock appreciation rights or other stock or cash-based awards.

Restricted stock awards generally vest one year from the date of grant. Related dividends accumulate during the vesting period and are paid at the time of vesting.

Contingent RSUs generally vest over a three-year performance period upon successful completion of the performance objectives. Non-contingent RSUs generally vest in thirds, annually, over a three-year period. Dividend equivalent rights generally accompany each RSU award and those rights accumulate and vest along with the underlying RSU.

Dividend equivalent rights generally accompany each DSU award and are paid to participants in cash on the Company's applicable dividend payment date whether the DSU is vested or unvested. The dividend equivalent right associated with a DSU continues until delivery of the underlying shares of common stock is made.

Payment of the underlying shares of common stock occurs at the earliest of a participant's separation from service, disability, death, or a change in control. Any shares subject to an award under the 2012 Equity Plan that are forfeited or expire will be available for the future grant of awards under the 2020 Equity Plan. As of September 30, 2022, there was an aggregate of 247,123 unvested RSUs under the 2012 Equity Plan.

The following table summarizes the activities under the Equity Plans from January 1, 2022, through September 30, 2022:

	Activity
Total equity securities available at January 1, 2022	990,129
RSU, DSU, and restricted stock awarded to eligible employees, net of forfeitures	(299,447)
Total equity securities available at September 30, 2022	690,682

The following table details activities with respect to outstanding RSUs, DSUs, and restricted stock under the Equity Plans for the nine months ended September 30, 2022:

	Shares	Weighted Average Grant Date Fair Value
Unvested at January 1, 2022	771,171	$ 11.24
Granted	454,429	8.65
Vested	(70,429)	10.24
Forfeited	(154,982)	10.96
Unvested at September 30, 2022	1,000,189	$ 10.18

Of the 1,000,189 unvested RSUs, DSUs and restricted stock outstanding at September 30, 2022, 531,685 RSUs include contingent performance requirements for vesting purposes. At September 30, 2022, there was $3.4 million of unrecognized net compensation cost related to RSUs and restricted stock, which is expected to be recognized over a weighted average period of 1.7 years.

For the first three quarters of 2021, qualified employees received a portion of their compensation in the form of shares of the Company's common stock in lieu of cash. These awards were made in advance on a quarterly basis and vested immediately. For the nine months ended September 30, 2021, 169,944 shares of common stock were issued, with a weighted average grant date fair value of $10.87.

Employee Stock Purchase Plan

In 2016, our Board of Directors adopted the Spok Holdings, Inc. Employee Stock Purchase Plan (the "ESPP") that our stockholders subsequently approved on July 25, 2016. A total of 250,000 shares of common stock were reserved for issuance under this plan.

The ESPP allows employees to purchase shares of common stock at a discounted rate, subject to plan limitations. Under the ESPP, eligible participants can voluntarily elect to have contributions withheld from their pay for the duration of an offering period, subject to the ESPP limits. At the end of an offering period, contributions will be used to purchase the Company's common stock at a discount to the market price based on the first or last day of the offering period, whichever is lower.

Participants are required to hold common stock for a minimum period of two years from the grant date. Participants will begin earning dividends on shares after the purchase date. Each offering period will generally last for no longer than six months. Once an offering period begins, participants cannot adjust their withholding amount. If a participant chooses to withdraw, any previously withheld funds will be returned to the participant, with no stock purchased, and that participant will be eligible to participate in the ESPP during the next offering period. If the participant terminates employment with the Company during the offering period, all contributions will be returned to the employee and no stock will be purchased.

The Company uses the Black-Scholes model to calculate the fair value of the common stock to be purchased during each offering period on the offer date. The Black-Scholes model requires the use of estimates for the expected term, the expected volatility of the underlying common stock over the expected term, the risk-free interest rate and the expected dividend payment.

For the nine months ended September 30, 2022, no shares of the Company's stock were purchased, as compared to 16,015 shares purchased for a total cost of $0.1 million during the same period in 2021 . The following table summarizes the activities under the ESPP from January 1, 2022, through September 30, 2022:

	Activity
Total ESPP equity securities available at January 1, 2022	133,184
ESPP common stock purchased by eligible employees	—
Total ESPP securities available at September 30, 2022	133,184

Amounts withheld from participants will be classified as accrued compensation and benefits in the Condensed Consolidated Balance Sheets until funds are used to purchase shares. This liability amount is immaterial to the Condensed Consolidated Financial Statements.

Stock-Based Compensation Expense

We record all stock-based compensation, which consist of RSUs, DSUs, restricted stock, equity in lieu of salary, and the option to purchase common stock under the ESPP, at fair value as of the grant date. Stock-based compensation expense is recognized based on a straight-line amortization basis over the respective service period. Forfeitures and withdrawals are accounted for as incurred.

The following table reflects the items for stock-based compensation expense in the Condensed Consolidated Statements of Operations for the periods stated:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(Dollars in thousands)	**2022**	**2021**	**2022**	**2021**
Performance-based RSUs	$ 362	$ 447	$ 1,205	$ 1,202
Time-based RSUs, DSUs and restricted stock	515	939	1,748	2,920
Equity in lieu of salary	—	607	—	1,847
ESPP	—	23	—	67
Total stock-based compensation	$ 877	$ 2,016	$ 2,953	$ 6,036

NOTE 12 - INCOME TAXES

The Coronavirus Aid, Relief, and Economic Security ("CARES") Act was signed into law on March 27, 2020, to provide stimulus and relief in response to the coronavirus disease 2019 ("COVID-19") pandemic and resulting economic collapse. The CARES Act allows for the deferral of payment on the Company's share of the 6.2% Social Security tax on wages paid beginning on March 27, 2020 and ending on December 31, 2020. Deferred amounts are payable in two installments, with 50% of such taxes due on December 31, 2021, and the remainder due on December 31, 2022. This resulted in a total deferral of approximately $2.1 million of payroll taxes under this provision, of which $1.0 million remains due by December 31, 2022, and is included within current liabilities in the Condensed Consolidated Balance Sheet.

Spok files a consolidated U.S. federal income tax return and income tax returns in various state, local and foreign jurisdictions as required.

Our quarterly tax provision and our quarterly estimate of our annual effective tax rate are subject to significant variation due to several factors, including variability in accurately predicting our pre-tax and taxable income and loss and the mix of jurisdictions to which they relate, changes in how we do business, changes in our stock price, foreign currency gains (losses), tax law developments (including changes in statutes, regulations, case law, and administrative practices), and relative changes of expenses or losses for which tax benefits are not recognized. Additionally, our effective tax rate can be more or less volatile based on the amount of pre-tax income or loss. For example, the impact of discrete items and non-deductible expenses on our effective tax rate is greater when our pre-tax income is lower.

For 2022, the anticipated effective income tax rate is expected to continue to differ from the federal statutory rate of 21%, primarily due to the effect of state income taxes, permanent differences between book and taxable income, and certain discrete items.

We had total net deferred income tax assets ("DTAs") of $31.5 million and $31.7 million as of September 30, 2022, and December 31, 2021, respectively. We had a valuation allowance of $26.2 million and $24.2 million as of September 30, 2022, and December 31, 2021, respectively.

We assess the recoverability of our deferred income tax assets, which represent the tax benefits of future tax deductions, based on available positive and negative evidence and by considering the adequacy of future taxable income from all sources, including prudent and feasible tax planning strategies. This assessment is required to determine whether, based on all available evidence, it is "more likely than not" (meaning a probability of greater than 50%) that all or some portion of the deferred income tax assets will be realized in future periods. During the fourth quarter of each year, we update our multi-year forecast of taxable income for our operations, which assists in analyzing the recoverability of our DTAs.

Deferred income tax assets which are not currently covered by a valuation allowance are those that are indefinite-lived, or whose temporary differences would reverse in the future and may result in the creation of an indefinite-lived deferred income tax asset, which we consider to be realized through future taxable income despite near-term uncertainties. The amount of deferred income tax assets considered realizable, however, could be adjusted in the future if objective negative evidence in the form of cumulative losses is no longer present, additional weight is given to subjective evidence such as our projections for future profitability and growth, or other relevant factors arise.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

There have been no material changes during the nine months ended September 30, 2022, to the commitments and contingencies previously reported in the 2021 Annual Report.

NOTE 14 - RELATED PARTIES

A member of our Board of Directors, who was appointed at the beginning of 2020, serves as Chief Information Officer for an entity that is also a customer of the Company. For the three months ended September 30, 2022, and 2021, we recognized revenues of $0.1 million and $0.2 million respectively, related to contracts from the entity at which the individual is employed. For the nine months ended September 30, 2022, and 2021, we recognized revenues of $0.5 million and $0.6 million, respectively related to the contracts from the entity at which the individual is employed.

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q ("Quarterly Report") contains forward-looking statements and information relating to Spok Holdings, Inc. and its subsidiaries (collectively, “we,” "us," “Spok,” “our” or the “Company”) that set forth anticipated results based on management’s current plans, known trends and assumptions. These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “will,” “target,” “forecast” and similar expressions, as they relate to Spok are forward-looking statements.

Although these statements are based upon current plans, known trends and assumptions that management considers reasonable, they are subject to certain risks, uncertainties and assumptions, including, but not limited to, those discussed in this section and "Risk Factors" below and under the captions “Business,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”),” and “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2021 ("2021 Annual Report"). Should known or unknown risks or uncertainties materialize, known trends change, or underlying assumptions prove inaccurate, actual results or outcomes may differ materially from past results and those described herein as anticipated, believed, estimated, expected, intended, targeted or forecasted. Investors are cautioned not to place undue reliance on these forward-looking statements.

The Company undertakes no obligation to update forward-looking statements. Investors are advised to consult all further disclosures the Company makes in its subsequent Quarterly Reports on Form 10-Q and Current Reports on Form 8-K that it will file with the SEC. Also note that, in the 2021 Annual Report, the Company provides a cautionary discussion of risks, uncertainties and possibly inaccurate assumptions relevant to its business. These are factors that, individually or in the aggregate, could cause the Company's actual results to differ materially from past results as well as those results that may be anticipated, believed, estimated, expected, intended, targeted or forecasted. It is not possible to predict or identify all such risk factors. Consequently, investors should not consider the risk factor discussion to be a complete discussion of all of the potential risks or uncertainties that could affect Spok's business, statement of operations or financial condition, subsequent to the filing of this Quarterly Report.

Overview

The following MD&A is intended to help the reader understand the results of operations and financial condition of Spok. This MD&A is provided as a supplement to, and should be read in conjunction with, our 2021 Annual Report and our unaudited Condensed Consolidated Financial Statements and accompanying notes. A reference to a "Note" in this section refers to the accompanying Unaudited Notes to Condensed Consolidated Financial Statements.

Spok, acting through its indirect wholly owned operating subsidiary, Spok, Inc., delivers smart, reliable clinical communication and collaboration solutions to organizations, primarily in the U.S. healthcare industry, to help protect the health, well-being and safety of individuals. Organizations rely on Spok for workflow improvement, secure messaging, paging services, contact center optimization and public safety response.

Business

See Note 1, "Organization and Significant Accounting Policies" in Item 1 of Part I of this Quarterly Report and Item 1. "Business" of Part I of the 2021 Annual Report, which describe our business in further detail.

New Strategic Business Plan

In February 2022, our Board of Directors announced a new strategic business plan that includes restructuring of our business to discontinue Spok Go®, eliminate all associated costs and optimize the Company's existing structure to drive continued cost improvement. The strategic business plan includes a renewed focus on our existing and established business, including the Spok Care Connect Suite and our wireless service offerings. While there are numerous factors that went into this decision, the ongoing challenge of the COVID-19 pandemic made it difficult for the Spok Go platform to gain sufficient traction with customers or for our business to continue operating with our current level of costs and personnel. This shift in focus will allow us to prioritize cash flow generation and the return of capital to stockholders. As a result of this new strategic business plan, our Board of Directors increased the regular quarterly dividend from $0.1250 to $0.3125 and authorized a share repurchase program of up to $10 million of our common stock.

As part of the restructuring program, the Company initially estimated the elimination of approximately 175 positions, primarily in research and development, but also in professional services, selling and marketing, and back-office support functions. The Company currently expects total eliminations of approximately 183 positions, with the majority of positions having been terminated as of September 30, 2022. We expect to incur pre-tax restructuring charges of approximately $7.0 million to $8.0 million, comprised of approximately $5.7 million to $6.6 million in severance and personnel related costs and approximately $1.3 million to $1.4 million in contractual terminations.

As we continue to optimize costs as a part of the strategic business plan, the expected number of eliminated positions increased, which will result in future savings, and was partially responsible for the change in the estimated range for severance and personnel related costs. Additionally, during the third quarter, we accelerated lease expenses related to a satellite office lease which we no longer use and do not anticipate extending the lease for, which will also lead to future savings. This drove an increase in the estimated range for contractual terminations. As of September 30, 2022, of the estimates, $5.1 million has been incurred in severance and personnel related costs and $1.3 million in contractual termination related costs. Future cash payments related to these charges are expected to generally be within the same range. The restructuring activities associated with these changes are expected to be substantially completed by the fourth quarter of 2022. Further details can be found in Note 5 "Restructuring" in the Notes to Condensed Consolidated Financial Statements.

COVID-19

In March 2020, the World Health Organization declared COVID-19 a global pandemic. In the ensuing months, the global economy was significantly impacted, as schools and businesses shut down in an effort to prevent the spread of the virus. We began to experience a direct impact on our sales cycle in late February 2020 as hospitals, our largest customer segment, began to delay purchasing decisions and address staff reductions. These delays continued to affect our software bookings, which directly impacted license and equipment revenues during 2021. We also experienced delays in our ability to deliver on-site implementation services, which impacted our services revenue resulting in delays in the timing of revenue recognition during 2021, as the associated revenue corresponds to our backlog of performance obligations ready for delivery in the future.

During 2021, we continued to prudently manage operating expenses and liquidity, with the goal of neutralizing the impact of the pandemic on our cash flows. We enacted a Company-wide plan that reduced work schedules, resulting in a temporary reduction in compensation expenses during the second, third and fourth quarters of 2020 and continuing through the first half of 2021. We also enacted a plan for the first three quarters of 2021 whereby qualified employees received a portion of their compensation in the form of shares of the Company's common stock in lieu of cash. Under this alternative payment plan, which was in effect from the third quarter of 2020 through the third quarter of 2021, all non-employee directors voluntarily elected to receive either DSUs or restricted stock in lieu of the entire cash portion of their compensation.

Barring the emergence of a severe COVID-19 variant in the near future, which might have significant negative effects on the overall economy and our customer base specifically, we believe we are and will continue operating at pre-pandemic levels in 2022.

Results of Operations

The following table is a summary of our Condensed Consolidated Statement of Operations for the three and nine months ended September 30, 2022, and 2021:

(Dollars in thousands)	For the Three Months Ended September 30, 2022	2021	Change Total	%	For the Nine Months Ended September 30, 2022	2021	Change Total	%
Revenue:								
Wireless revenue	$ 19,054	$ 19,644	$ (590)	(3.0)%	$ 56,601	$ 59,623	$ (3,022)	(5.1)%
Software revenue	14,690	16,207	(1,517)	(9.4)%	44,678	47,987	(3,309)	(6.9)%
Total revenue	33,744	35,851	(2,107)	(5.9)%	101,279	107,610	(6,331)	(5.9)%
Operating expenses:								
Cost of revenue (exclusive of items shown separately below)	6,624	8,340	(1,716)	(20.6)%	21,408	24,180	(2,772)	(11.5)%
Research and development	2,223	4,063	(1,840)	(45.3)%	11,344	12,663	(1,319)	(10.4)%
Technology operations	6,719	7,287	(568)	(7.8)%	20,612	21,513	(901)	(4.2)%
Selling and marketing	3,440	5,404	(1,964)	(36.3)%	12,629	15,727	(3,098)	(19.7)%
General and administrative	8,868	11,664	(2,796)	(24.0)%	28,922	32,425	(3,503)	(10.8)%
Depreciation, amortization and accretion	828	2,568	(1,740)	(67.8)%	2,633	7,752	(5,119)	(66.0)%
Severance and restructuring	1,503	82	1,421	1,732.9 %	6,448	256	6,192	2,418.8 %
Total operating expenses	30,205	39,408	(9,203)	(23.4)%	103,996	114,516	(10,520)	(9.2)%
Operating income (loss)	3,539	(3,557)	7,096	(199.5)%	(2,717)	(6,906)	4,189	(60.7)%
Interest income	129	141	(12)	(8.5)%	366	263	103	39.2 %
Other income	98	10	88	880.0 %	110	13	97	746.2 %
Income (loss) before income taxes	3,766	(3,406)	7,172	(210.6)%	(2,241)	(6,630)	4,389	(66.2)%
(Provision for) benefit from income taxes	(846)	912	(1,758)	(192.8)%	(129)	1,120	(1,249)	(111.5)%
Net income (loss)	$ 2,920	$ (2,494)	$ 5,414	(217.1)%	$ (2,370)	$ (5,510)	$ 3,140	(57.0)%
Supplemental Information								
Full-Time Equivalent ("FTE") Employees	390	581	(191)	(32.9)%				
Active transmitters	3,353	3,497	(144)	(4.1)%				

Revenue

We offer a focused suite of unified clinical communications and collaboration solutions that include call center applications, clinical alerting and notifications, one-way and advanced two-way wireless messaging services, mobile communications and public safety solutions.

We develop, sell and support enterprise-wide systems for healthcare, government, large enterprise and other organizations needing to automate, centralize and standardize their approach to clinical communications and collaboration. Our solutions can be found in prominent hospitals, large government agencies, leading public safety institutions, colleges and universities, large hotels, resorts and casinos, and well-known manufacturers. Our primary market is the healthcare provider industry, particularly hospitals. While we have historically identified hospitals with 200 or more beds as the primary targets for our software solutions, as well as our paging services, we have expanded our focus to include smaller hospitals with shorter sales cycles, including academic medical centers.

Revenue generated by wireless messaging services (including voice mail, personalized greeting, message storage and retrieval), equipment, maintenance plans and/or equipment loss protection for both one-way and two-way messaging subscribers is presented as wireless revenue in our Statement of Operations. Revenue generated by the sale of our software solutions, which includes software license, professional services (installation, consulting and training), equipment (to be used in conjunction with the software), and post-contract support (ongoing maintenance), is presented as software revenue in our Condensed Consolidated Statement of Operations. Our software is licensed to end users under an industry standard software license agreement.

Refer to Note 6, "Revenue, Deferred Revenue and Prepaid Commissions" in the Notes to Condensed Consolidated Financial Statements for additional information on our wireless and software revenue streams.

The table below details revenue for the periods stated:

	For the Three Months Ended September 30,		Change		For the Nine Months Ended September 30,		Change	
(Dollars in thousands)	**2022**	**2021**	**Total**	**%**	**2022**	**2021**	**Total**	**%**
Revenue - wireless:								
Paging revenue	$ 18,419	$ 18,844	$ (425)	(2.3)%	$ 54,873	$ 57,332	$ (2,459)	(4.3)%
Product and other revenue	635	800	(165)	(20.6)%	1,728	2,291	(563)	(24.6)%
Total wireless revenue	19,054	19,644	(590)	(3.0)%	56,601	59,623	(3,022)	(5.1)%
Revenue - software:								
License	2,147	1,807	340	18.8 %	5,933	4,267	1,666	39.0 %
Professional services	2,835	4,159	(1,324)	(31.8)%	9,502	13,378	(3,876)	(29.0)%
Hardware	530	596	(66)	(11.1)%	1,626	1,694	(68)	(4.0)%
Operations revenue	5,512	6,562	(1,050)	(16.0)%	17,061	19,339	(2,278)	(11.8)%
Maintenance revenue	9,178	9,645	(467)	(4.8)%	27,617	28,648	(1,031)	(3.6)%
Total software revenue	14,690	16,207	(1,517)	(9.4)%	44,678	47,987	(3,309)	(6.9)%
Total revenue	$ 33,744	$ 35,851	$ (2,107)	(5.9)%	$ 101,279	$ 107,610	$ (6,331)	(5.9)%

Wireless Revenue

The decrease in wireless revenue for the three and nine months ended September 30, 2022, compared to the same periods in 2021, reflects the secular decrease in demand for our wireless services. Wireless revenue is generally reflective of the number of units in service and measured monthly as Average Revenue Per User ("ARPU"). On a consolidated basis, ARPU is affected by several factors, including the mix of units in service and the pricing of the various components of our services. The number of units in service changes based on subscribers added, referred to as gross placements, less subscriber cancellations, or disconnects.

ARPU was $7.40 and $7.29 for the three months ended September 30, 2022 and 2021, respectively. Total units in service were 0.8 million and 0.9 million as of September 30, 2022, and 2021, respectively. The increase in ARPU was primarily driven by increases in Universal Service Fund ("USF") fees, which are effectively pass-through items that have corresponding costs associated with them.

We believe that demand will continue to decline for the foreseeable future in line with recent and historical trends, as our wireless products and services are replaced with other competing technologies, such as the shift from narrowband wireless service offerings to broadband technology services.

The following reflects the impact of subscribers and ARPU on the change in paging revenue:

	For the Three Months Ended September 30,			Change Due To:	
(in thousands)	**2022**	**2021**	**Change**	**ARPU**	**Units**
Paging revenue	$ 18,419	$ 18,844	$ (425)	$ 271	$ (696)
	For the Nine Months Ended September 30,			**Change Due To:**	
(in thousands)	**2022**	**2021**	**Change**	**ARPU**	**Units**
Paging revenue	$ 54,873	$ 57,332	$ (2,459)	$ (250)	$ (2,209)

As demand for one-way and two-way messaging has declined, we have developed or added service offerings such as encrypted paging and Spok Mobile with a pager number to increase our revenue potential and mitigate the decline in our wireless revenue. We will continue to explore ways to innovate and provide customers with the highest value possible.

In late 2021, we began offering our newest pager, GenA. This one-way alphanumeric pager features a high resolution ePaper display, intuitive modern user interface, advanced encryption and security features, over-the-air remote programming, and an antimicrobial housing. Users can select from various font sizes, and the large GenA display also leverages proportional fonts to maximize key information on a single screen.

The GenA pager is the only product available on the market with these capabilities, and we maintain an exclusive arrangement with the product's manufacturer. Given the product differentiation of the GenA pager, its development is a key initiative providing a competitive advantage, and we expect this new technology will be popular with our customers in clinical environments and may help slow our wireless revenue attrition.

Software Revenue

Software revenue consists of two components: operations revenue and maintenance revenue. Operations revenue consists primarily of license revenues for our healthcare communications solutions, revenue from the sale of equipment that facilitates the use of our software solutions, and professional services revenue related to the implementation of our solutions. Maintenance revenue is generated from our ongoing support of our software solutions or related equipment, typically for a period of one year after project completion.

To a large degree, software revenue corresponds to our backlog of performance obligations ready to deliver at some point in the future, and any delays in implementation may affect the timing of revenue recognition. Our software projects generally originate from fixed-bid contracts, although many involve a protracted sales cycle and may result in unforeseen complexity and deviation from original scope. The time needed to complete projects, therefore, may not align with our original expectations, which affects our backlog. As a result, software revenue may fluctuate on a short-term basis, and we generally evaluate longer-term trends when managing this business.

Operations Revenue

Software operations revenue decreased during the three and nine months ended September 30, 2022, when compared to the same periods in 2021. Professional services revenue decreased primarily from having less billable resources as a result of our restructuring program. These changes were made in conjunction with our efforts to better align staffing levels with our backlog as well as to drive greater profitability through more efficient services delivery. The decline in professional services revenue was partially offset by an increase in license revenue. This was in large part due to our new strategic business plan and the resulting shift in priorities which now allows our sales team to exclusively focus on selling the Care Connect Suite of products ("CCS") combined with an improving economy and selling environment when compared to the same period in 2021.

Maintenance Revenue

Compared to the same periods in 2021, maintenance revenue decreased for the three and nine months ended September 30, 2022. Current trends in revenue churn rates remain relatively stable and are in line with historical trends. However, the deterioration of maintenance revenue from new license bookings has created an environment where churn is greater than the inflow of new revenue.

While we have not seen a meaningful increase in our normal customer churn, our ability to replace this churn with new revenues will not likely replicate what we have accomplished historically nor do we expect to fully offset this with annual increases of our existing base. Given these dynamics, we believe annual maintenance revenue is likely to be down slightly until such time that we are able to enhance our existing software solutions, which would provide an avenue to reduce levels of gross churns and result in additional maintenance revenue.

Operating Expenses

Our operating expenses are presented in functional categories. Certain of our functional categories are especially important to overall expense control and management. These operating expenses are categorized as follows:

- **Cost of Revenue.** These are expenses we incur for the delivery of products and services to our customers and consist primarily of hardware, third-party software, outside services expenses and payroll and related expenses for our professional services, logistics, customer support and maintenance staff.
- **Research and Development.** These expenses relate primarily to the development of new software products and the ongoing maintenance and enhancement of existing products. This classification consists primarily of employee payroll and related expenses, outside services related to the design, development, testing and enhancement of our solutions and to a lesser extent hardware equipment. Research and development expenses exclude any development costs that qualify for capitalization.
- **Technology Operations.** These are expenses associated with the operation of our paging networks. Expenses consist largely of site rent expenses for transmitter locations, telecommunication expenses to deliver messages over our paging networks, and payroll and related expenses for our engineering and pager repair functions. We actively pursue opportunities to consolidate transmitters and other service, rental and maintenance expenses in order to maintain an efficient network while simultaneously ensuring adequate service for our customers. We believe continued reductions in these expenses will occur for the foreseeable future as we continue to consolidate our networks, although the benefits of such network rationalization efforts and resulting costs savings will continue to decline.
- **Selling and Marketing.** The sales and marketing staff are involved in selling our communication solutions primarily in the United States. These expenses support our efforts to maintain gross placements of units in service, which mitigated the impact of disconnects on our wireless revenue base, and to identify business opportunities for additional or future software sales. We maintain a centralized marketing function that is focused on supporting our products and vertical sales efforts by strengthening our brand, generating sales leads and facilitating the sales process. These marketing functions are accomplished through targeted email campaigns, webinars, regional and national user conferences, monthly newsletters and participation at industry trade shows. Expenses consist largely of payroll and related expenses, commissions and other costs such as travel and advertising costs.
- **General and Administrative.** These are expenses associated with information technology and administrative functions, including finance and accounting, human resources and executive management. This classification consists primarily of payroll and related expenses, outside services expenses, taxes, licenses and permit expenses, and facility rent expenses.
- **Depreciation, Amortization and Accretion.** These are expenses that may be associated with one or more of the aforementioned functional categories. This classification generally consists of depreciation from capital expenditures or other assets that are core to our ongoing operations, amortization of intangible assets, amortization of capitalized software development costs, and accretion of asset retirement obligations.

The following is a review of our operating expense categories for the three and nine months ended September 30, 2022, and 2021. Certain prior period amounts have been reclassified to conform to the current period's presentation.

Cost of Revenue

Cost of revenue consisted primarily of the following items:

	For the Three Months Ended September 30,		Change		For the Nine Months Ended September 30,		Change	
(Dollars in thousands)	**2022**	**2021**	**Total**	**%**	**2022**	**2021**	**Total**	**%**
Payroll and related	$ 3,817	$ 5,208	$ (1,391)	(26.7)%	$ 13,349	$ 15,067	$ (1,718)	(11.4)%
Cost of sales	1,429	1,699	(270)	(15.9)%	4,448	4,717	(269)	(5.7)%
Recoverable taxes and fees	929	792	137	17.3 %	2,318	2,562	(244)	(9.5)%
Stock-based compensation	64	220	(156)	(70.9)%	269	774	(505)	(65.2)%
Other	385	421	(36)	(8.6)%	1,024	1,060	(36)	(3.4)%
Total cost of revenue	$ 6,624	$ 8,340	$ (1,716)	(20.6)%	$ 21,408	$ 24,180	$ (2,772)	(11.5)%
FTE Employees	143	187	(44)	(23.5)%				

For the three months ended September 30, 2022, cost of revenue decreased compared to the same period in 2021, driven by decreases in payroll and related, cost of sales and stock-based compensation, offset by increase in recoverable taxes and fees.

The decrease in payroll and related and stock-based compensation is attributable to the restructuring activities and the related elimination of positions. Additionally, stock-based compensation decreased as we discontinued the cash saving measure to provide a portion of compensation for certain employees in the form of shares of the Company's common stock in lieu of cash. Cost of sales expenses decreased primarily due to reduced use of third-party professional services that we utilize to augment company resources when short-term capacity constraints exist. Recoverable taxes and fees increased as compared to the same period in 2021 due to general increases in USF fees, which are pass-through costs that fluctuate quarterly,

For the nine months ended September 30, 2022, cost of revenue also decreased compared to the same period in 2021, driven by decreases in payroll and related, cost of sales and stock-based compensation as described above. The decrease in recoverable taxes and fees over the same period in 2021 was due to overall year-to-date decreases in USF fees, which are pass-through costs.

Research and Development

Research and development expenses consisted of the following items:

	For the Three Months Ended September 30,		Change		For the Nine Months Ended September 30,		Change	
(Dollars in thousands)	**2022**	**2021**	**Total**	**%**	**2022**	**2021**	**Total**	**%**
Payroll and related	$ 1,193	$ 4,291	$ (3,098)	(72.2)%	$ 7,239	$ 13,099	$ (5,860)	(44.7)%
Outside services	907	1,759	(852)	(48.4)%	3,541	6,096	(2,555)	(41.9)%
Capitalized software development	—	(2,621)	2,621	(100.0)%	—	(8,239)	8,239	(100.0)%
Stock-based compensation	28	435	(407)	(93.6)%	190	1,215	(1,025)	(84.4)%
Other	95	199	(104)	(52.3)%	374	492	(118)	(24.0)%
Total research and development	$ 2,223	$ 4,063	$ (1,840)	(45.3)%	$ 11,344	$ 12,663	$ (1,319)	(10.4)%
FTE Employees	36	105	(69)	(65.7)%				

For the three and nine months ended September 30, 2022, research and development expenses decreased compared to the same periods in 2021, driven by the decision to discontinue Spok Go and the resulting elimination of positions and associated outside services.

While we will continue to focus on the development efforts of our software solutions, we expect total research and development costs will continue to decrease in 2022 as part of our new strategic business plan and our intent to eliminate all Spok Go related costs.

Technology Operations

Technology operations expenses consisted primarily of the following items:

(Dollars in thousands)	For the Three Months Ended September 30, 2022	2021	Change Total	%	For the Nine Months Ended September 30, 2022	2021	Change Total	%
Payroll and related	$ 2,261	$ 2,585	$ (324)	(12.5)%	$ 7,159	$ 7,375	$ (216)	(2.9)%
Site rent	2,990	3,122	(132)	(4.2)%	9,060	9,461	(401)	(4.2)%
Telecommunications	721	828	(107)	(12.9)%	2,233	2,490	(257)	(10.3)%
Stock-based compensation	55	139	(84)	(60.4)%	164	405	(241)	(59.5)%
Other	692	613	79	12.9 %	1,996	1,782	214	12.0 %
Technology Operations	$ 6,719	$ 7,287	$ (568)	(7.8)%	$ 20,612	$ 21,513	$ (901)	(4.2)%
FTE Employees	78	87	(9)	(10.3)%				

For the three and nine months ended September 30, 2022, technology operations expenses decreased compared to the same periods in 2021, driven primarily by a decrease in stock-based compensation as well as lower site rent and telecommunications costs, which resulted from cost savings initiatives applicable to our wireless network. The decrease in payroll and related expenses is attributable to the restructuring activities and the related elimination of positions. This decrease was partially offset by an increase in costs resulting from the discontinuation of the cash saving measure of compensation in the form of shares as well as reduced work schedules.

The number of active transmitters, which directly affects our site rent expenses, declined 4.1% from September 30, 2021, to September 30, 2022, as a result of our network rationalization efforts. As we reach certain minimum frequency commitments, as outlined by the United States Federal Communications Commission, we may be unable to continue our efforts to rationalize and consolidate our networks. Stock-based compensation decreased as a result of discontinuing our plan to provide a portion of compensation for certain employees in the form of shares of our common stock in lieu of cash. Payroll and related expenses increased primarily due to increased payroll resulting from the discontinuation of reduced work schedules as of the third quarter of 2021.

Selling and Marketing

Selling and marketing expenses consisted of the following items:

(Dollars in thousands)	For the Three Months Ended September 30, 2022	2021	Change Total	%	For the Nine Months Ended September 30, 2022	2021	Change Total	%
Payroll and related	$ 2,163	$ 3,592	$ (1,429)	(39.8)%	$ 8,013	$ 10,318	$ (2,305)	(22.3)%
Commissions	945	924	21	2.3 %	3,016	3,273	(257)	(7.9)%
Stock-based compensation	88	264	(176)	(66.7)%	260	889	(629)	(70.8)%
Advertising and events	201	527	(326)	(61.9)%	1,062	935	127	13.6 %
Other	43	97	(54)	(55.7)%	278	312	(34)	(10.9)%
Total selling and marketing	$ 3,440	$ 5,404	$ (1,964)	(36.3)%	$ 12,629	$ 15,727	$ (3,098)	(19.7)%
FTE Employees	59	100	(41)	(41.0)%				

For the three months ended September 30, 2022, selling and marketing expenses decreased compared to the same period in 2021, driven primarily by decreases in payroll and related expenses, stock-based compensation and advertising and events.

Payroll and related expenses declined for the three months ended September 30, 2022, largely due to restructuring activities and the related elimination of positions, partially offset by increased payroll resulting from the discontinuation of reduced work schedules as of the third quarter of 2021.

Stock-based compensation for the three months ended September 30, 2022 decreased due to the discontinuation of the cash saving measure to provide a portion of compensation for certain employees in the form of shares of our common stock in lieu of cash. Additionally, there was a general decrease in employees compensated with stock-based compensation in 2022, attributable to the restructuring activities and the related elimination of positions.

The decrease in advertising and events for the three months ended September 30, 2022, largely reflects changes in timing of trade show participation as compared to the same period in 2021. Nationwide travel and in-person participation in larger marketing events has improved but continues to remain below pre-pandemic levels.

For the nine months ended September 30, 2022, selling and marketing also decreased compared to the same period in 2021, driven by decreases in payroll and related, and stock-based compensation as described above.

General and Administrative

General and administrative expenses consisted of the following items:

	For the Three Months Ended September 30,		Change		For the Nine Months Ended September 30,		Change	
(Dollars in thousands)	2022	2021	Total	%	2022	2021	Total	%
Payroll and related	$ 3,249	$ 3,911	$ (662)	(16.9)%	$ 10,957	$ 11,293	$ (336)	(3.0)%
Stock-based compensation	643	958	(315)	(32.9)%	2,071	2,752	(681)	(24.7)%
Facility rent, office and technology costs	2,196	2,692	(496)	(18.4)%	7,197	7,656	(459)	(6.0)%
Outside services	1,604	3,078	(1,474)	(47.9)%	5,274	7,122	(1,848)	(25.9)%
Taxes, licenses and permits	258	211	47	22.3 %	777	639	138	21.6 %
Bad debt	213	(29)	242	(834.5)%	369	405	(36)	(8.9)%
Other	705	843	(138)	(16.4)%	2,277	2,558	(281)	(11.0)%
Total general and administrative	$ 8,868	$ 11,664	$ (2,796)	(24.0)%	$ 28,922	$ 32,425	$ (3,503)	(10.8)%
FTE Employees	74	102	(28)	(27.5)%				

For the three and nine months ended September 30, 2022, general and administrative expenses decreased compared to the same period in 2021, driven primarily by decreases in outside services, payroll and related, facility rent, office and technology costs and stock-based compensation.

Outside Services decreased as a result of lower legal and other professional services for both the three and nine months ended September 30, 2022.

Payroll and related expenses decreased due to savings from the reduction of headcount due to restructuring activities, offset by the increase in costs resulting from the discontinuation of the aforementioned cash saving measure of compensation in the form of shares, as well as reduced work schedules.

The decrease in facility rent, office and technology costs was primarily due to the closing of the Minnesota office in February 2022.

Stock-based compensation decreased as we discontinued the cash saving measure to provide a portion of compensation for certain employees in the form of shares of our common stock in lieu of cash, which ended as of the fourth quarter of 2021. Additionally, there was an overall decrease in the number of employees compensated with stock-based compensation in 2022, attributable to the restructuring activities.

Depreciation, Amortization and Accretion

For the three months ended September 30, 2022, and 2021, depreciation, amortization and accretion expenses were $0.8 million and $2.6 million, respectively. For the nine months ended September 30, 2022, and 2021, depreciation, amortization and accretion expenses were $2.6 million and $7.8 million, respectively. These expenses decreased for the three and nine months ended September 30, 2022, compared to the same periods in 2021, primarily due to software development costs no longer being amortized beginning with the fourth quarter of 2021 as a result of discontinuation of Spok Go. Depreciation, amortization and accretion expenses also decreased due to lower depreciation for certain computer hardware and software assets that became fully depreciated in 2021.

Severance and Restructuring

For the three and nine months ended September 30, 2022, severance and restructuring expenses were $1.5 million and $6.4 million, respectively . Expenses increased for the three and nine months ended September 30, 2022, primarily due to an increase in severance and personnel related costs and costs related to contractual terminations, resulting from the implementation of the new strategic business plan. Further details can be found in Note 5 "Restructuring" in the Notes to Condensed Consolidated Financial Statements.

Income Taxes

(Provision for) benefit from income taxes was $(0.8) million and $0.9 million for the three months ended September 30, 2022, and 2021, respectively. (Provision for) benefit from income taxes was $(0.1) million and $1.1 million for the nine months ended September 30, 2022, and 2021, respectively. (Provision for) benefit from income taxes changed for the three and nine months ended September 30, 2022, compared to the same periods in 2021 due to the difference in the anticipated annual effective tax rate as a result of certain permanent tax differences, estimated research and development tax credits and related valuation allowance, and certain discrete items. Further details can be found in Note 12, "Income Taxes" in the Notes to Condensed Consolidated Financial Statements.

Liquidity and Capital Resources

Cash and Cash Equivalents

As of September 30, 2022, we held cash and cash equivalents of $37.2 million. The available cash and cash equivalents consist of cash in our operating accounts and cash invested in interest-bearing funds managed by third-party financial institutions. These funds invest in U.S. Treasury securities and are therefore classified as held-to-maturity and are reported at amortized cost in our Condensed Consolidated Balance Sheets. To date, we have experienced no loss or lack of access to our invested cash or cash equivalents; however, we can provide no assurance that access to our invested cash and cash equivalents will not be impacted by adverse market conditions.

Cash Sources

Our primary sources of liquidity have been our cash flows generated from operations and existing cash and cash equivalents. We maintain a level of liquidity sufficient to allow us to meet our cash needs in both the short term (next 12 months) and long term (beyond 12 months). At any point in time, we maintain approximately $5.0 million to $10.0 million in our operating accounts that are with third-party financial institutions. While we monitor daily the cash balances in our operating accounts and adjust the cash balances as appropriate, these cash balances could be impacted if the underlying financial institutions fail or are subject to other adverse conditions in the financial markets. To date, we have experienced no loss or lack of access to cash in our operating accounts.

Cash Uses

We intend to use our cash on hand to provide working capital, to support operations, to invest in our business, and to return value to stockholders through cash dividends and repurchases of our common stock. We may also consider using cash to fund or complete opportunistic investments and acquisitions that we believe will provide a measure of growth or revenue stability while supporting our existing operations. As a result of our discontinuation of Spok Go, we will no longer invest heavily in its development, and, as a result, we anticipate that we will have more cash available for other uses than in prior years.

On February 16, 2022, the Board authorized a share repurchase program for up to $10 million of the Company's common stock. Under the repurchase program, repurchases can be made from time to time using a variety of methods, which may include open market purchases, privately negotiated transactions or otherwise, all in accordance with the rules of the SEC and other applicable legal requirements. The specific timing, price and size of purchases will depend on prevailing stock prices, general economic and market conditions, legal requirements and other considerations. The repurchase program does not obligate the Company to acquire any particular amount of common stock, and the repurchase program may be suspended or discontinued at any time at the Company's discretion.

As part of the restructuring program in connection with our new strategic business plan, we expect to record one-time pre-tax restructuring charges of approximately $7.0 million to $8.0 million, comprised of approximately $5.7 million to $6.6 million in severance and personnel related costs and approximately $1.3 million to $1.4 million in contractual terminations. Future cash payments related to these charges are expected to generally be within the same range. The restructuring actions associated with these charges are expected to be substantially complete in 2022. Because of these cash payments related to the restructuring program, we anticipate that our cash on hand will decrease during 2022. However, our restructuring efforts are meant to refocus our operational efforts towards cash flow generation and the return of capital to our stockholders. Should our restructuring efforts be successful, we anticipate future operating periods will return to historically positive cash flow generation.

Cash Flows Overview

In the event that net cash provided by operating activities and cash on hand are not sufficient to meet future cash requirements, we may be required to reduce planned capital expenses, reduce or eliminate our cash dividends to stockholders, not repurchase shares of our common stock under the share repurchase program, sell assets or seek additional financing. We can provide no assurance that reductions in planned capital expenses or proceeds from asset sales would be sufficient to cover shortfalls in available cash or that outside financing would be available on acceptable terms.

Based on current and anticipated levels of operations, we anticipate that net cash provided by operating activities, together with the available cash on hand at September 30, 2022, should be adequate to meet our anticipated cash requirements for the short term (next 12 months) and long term (beyond 12 months).

The following table sets forth information on our net cash flows from operating, investing, and financing activities for the periods stated:

	Nine Months Ended September 30,		
(Dollars in thousands)	**2022**	**2021**	**Change**
Net cash (used in) provided by operating activities	$ (148)	$ 9,528	$ (9,676)
Net cash provided by (used in) investing activities	13,260	(11,332)	24,592
Net cash used in financing activities	(20,058)	(9,318)	(10,740)

Operating Activities

As discussed above, we are dependent on cash flows from operating activities to meet our cash requirements. Cash from operations varies depending on changes in various working capital items, including deferred revenues, accounts payable, accounts receivable, prepaid expenses and various accrued expenses.

For the nine months ended September 30, 2022, net cash used in operating activities was $0.1 million primarily due to the net loss of $2.4 million, changes in accounts payable, accrued liabilities and other of $3.1 million, accounts receivable of $1.3 million,and in prepaid expenses and other assets of $1.0 million. This was partially offset by changes in stock-based compensation of $3.0 million, depreciation, amortization and accretion of $2.6 million, and provision for credit losses, service credits and other of $1.2 million.

For the nine months ended September 30, 2021, net cash provided by operating activities was $9.5 million due primarily to non-cash items such as depreciation, amortization and accretion of $7.8 million, stock-based compensation of $6.0 million, changes in accounts receivable of $2.2 million, change in prepaid expenses and other assets of $0.2 million and changes in lease liability $0.8 million . This was partially offset by a net loss of $5.5 million, deferred income tax benefit of $0.9 million and deferred revenue of $2.1 million.

Investing Activities

For the nine months ended September 30, 2022, net cash provided by investing activities was $13.3 million and cash used for investing activities was $11.3 million for the same period in 2021. Our 2021 investing activities reflected the capitalization of software development costs, however with the discontinuation of Spok Go, we did not incur such costs in 2022. Net cash used in investing activities also reflects purchases of property and equipment, and the purchase and maturity of short-term investments in both periods.

Financing Activities

For the nine months ended September 30, 2022, and 2021, net cash used in financing activities was $20.1 million and $9.3 million, respectively, primarily due to cash distributions to stockholders and the purchase of common stock for tax withholding purposes on vested equity awards.

On October 26, 2022, our Board of Directors declared a regular quarterly cash dividend of $0.3125 per share of common stock with a record date of November 16, 2022, and a payment date of December 9, 2022. This cash dividend of approximately $6.2 million, applicable to our common stock outstanding, will be paid from available cash on hand. We expect to continue paying dividends of $0.3125 per share of common stock for the fourth quarter of 2022, subject to declaration by the Board of Directors.

Commitments and Contingencies

In the ordinary course of our operations, we enter into certain contractual obligations. Such obligations include data processing services, operating leases for premises and equipment, agreements with respect to borrowed funds and deposit liabilities.

Purchase obligations are defined as agreements to purchase goods or services that are enforceable, legally binding, non-cancelable, have a remaining term in excess of one year and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable pricing provisions; and the approximate timing of transactions. The amounts of such obligations are based on our contractual commitments, however, it is possible that we may be able to negotiate lower payments if we choose to exit these contracts before their expiration date.

Our contractual payment obligations for operating leases apply to leases for office space and transmitter locations. Substantially all of these leases have lease terms ranging from one month to five years. We continue to review our office and transmitter locations and intend to replace, reduce or consolidate leases where possible. As we reach certain minimum frequency commitments, as outlined by the United States Federal Communications Commission, we may be unable to continue our efforts to rationalize and consolidate our networks.

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that may have arisen if we had engaged in such relationships.

The Company evaluates contingencies on an ongoing basis and establishes loss provisions for matters in which losses are probable and the amount of loss can be reasonably estimated.

In March 2021, we relocated our corporate headquarters to office space located in Alexandria, Virginia, consisting of approximately 26,000 square feet of space under a lease that will expire on September 30, 2026. Over the life of this lease, cash payments are expected to total approximately $4.9 million.

The following table provides the Company's significant commitments and contractual obligations as of September 30, 2022:

	Payments Due by Period				
(Dollars in thousands)	**Total**	**Less than 1 year**	**1 to 3 years**	**3 to 5 years**	**More than 5 years**
Operating lease obligations	$ 16,530	$ 1,681	$ 8,636	$ 3,821	$ 2,392
Unconditional purchase obligations	6,148	3,513	2,600	35	—
Total contractual obligations	$ 22,678	$ 5,194	$ 11,236	$ 3,856	$ 2,392

Refer to Note 7, "Leases," and Note 13, "Commitments and Contingencies" in the Notes to Condensed Consolidated Financial Statements for further discussion on our commitments and contingencies.

Related Party Transactions

See Note 14, "Related Parties" in the Notes to Condensed Consolidated Financial Statements for a discussion regarding our related party transactions.

Critical Accounting Policies and Estimates

The preceding discussion and analysis of financial condition and operations is based on our Condensed Consolidated Financial Statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). The preparation of our Condensed Consolidated Financial Statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. On an ongoing basis, we evaluate estimates and assumptions, including, but not limited to, those related to the impairment of long-lived assets and intangible assets subject to amortization and goodwill, accounts receivable, revenue recognition, asset retirement obligations, and income taxes. We base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

There have been no changes to the critical accounting policies reported in the 2021 Annual Report that affect our significant judgments and estimates used in the preparation of our Condensed Consolidated Financial Statements.

ITEM 3. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

Interest Rate Risk

As of September 30, 2022, we had no outstanding debt and no revolving credit facility.

Foreign Currency Exchange Rate Risk

We conduct a limited amount of business outside the United States. The financial impact of transactions billed in foreign currencies is immaterial to our financial results and, consequently, we do not have any material exposure to the risk of foreign currency exchange rate fluctuations.

ITEM 4. *CONTROLS AND PROCEDURES*

Evaluation of Disclosure Controls and Procedures

Our management carried out an evaluation, as required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), with the participation of our principal executive officer and our principal financial officer, of the effectiveness of our disclosure controls and procedures, as of the end of our last fiscal quarter. Disclosure controls and procedures are defined under Rule 13a-15(e) under the Exchange Act as controls and other procedures of an issuer that are designed to ensure that the information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to the issuer’s management, including its principal executive officer and principal financial officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Based upon this evaluation, our principal executive officer and our principal financial officer have concluded that our disclosure controls and procedures were effective as of September 30, 2022.

Changes in Internal Control over Financial Reporting

There were no changes made to the Company’s internal control over financial reporting during the three months ended September 30, 2022, that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. *LEGAL PROCEEDINGS*

Refer to Note 13, "Commitments and Contingencies" in the Notes to Condensed Consolidated Financial Statements for information regarding legal proceedings in which we are involved.

ITEM 1A. *RISK FACTORS*

The risk factors included in “Part I – Item 1A – Risk Factors” of the Part I of the 2021 Annual Report have not materially changed during the nine months ended September 30, 2022.

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

The Company did not repurchase any shares of its common stock during the three months ended September 30, 2022.

ITEM 6. *EXHIBITS*

The exhibits listed in the accompanying Exhibit Index below are filed or incorporated by reference as part of this report.

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed/Furnished Herewith
		Form	File No.	Exhibit/Appendix	Filing Date	
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended					Filed
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended					Filed
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350					Furnished
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350					Furnished
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document*					Filed
101.SCH	Inline XBRL Taxonomy Extension Schema*					Filed
101.CAL	Inline XBRL Taxonomy Extension Calculation*					Filed
101.DEF	Inline XBRL Taxonomy Extension Definition*					Filed
101.LAB	Inline XBRL Taxonomy Extension Labels*					Filed
101.PRE	Inline XBRL Taxonomy Extension Presentation*					Filed
104	Cover Page Interactive Data File (the cover page XBRL tags are embedded within the Inline XBRL document and included Exhibit 101)					Filed

* The financial information contained in these XBRL documents is unaudited.

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.

SPOK HOLDINGS, INC.

Dated: October 27, 2022

/s/ Calvin C. Rice

Name: Calvin C. Rice

Title: Chief Financial Officer

(Principal Financial Officer and duly authorized officer)

Exhibit 31.1

CERTIFICATION PURSUANT TO RULE 13A-14(A) OR 15D-14(A)
OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Vincent D. Kelly, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Spok Holdings, 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; 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.

Date: October 27, 2022

/s/ Vincent D. Kelly
Vincent D. Kelly
President and Chief Executive Officer

Exhibit 31.2

**CERTIFICATION PURSUANT TO RULE 13A-14(A) OR 15D-14(A)
OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael W. Wallace, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Spok Holdings, 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; 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.

Date: October 27, 2022

/s/ Calvin C. Rice

Calvin C. Rice
Chief Financial 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**

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Spok Holdings, Inc. (the "Company") hereby certifies, to such officer's knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2022 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 27, 2022

/s/ Vincent D. Kelly
Vincent D. Kelly
President and Chief Executive Officer

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**

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Spok Holdings, Inc. (the "Company") hereby certifies, to such officer's knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2022 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 27, 2022

/s/ Calvin C. Rice

Calvin C. Rice
Chief Financial Officer