

**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 June 30, 2021

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
(State or other jurisdiction of
incorporation or organization)

16-1694797
(I.R.S. Employer
Identification No.)

5911 Kingstown Village Pkwy, 6th Floor
Alexandria, Virginia
(Address of principal executive offices)

22315
(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:

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

19,467,300 shares of the registrant's common stock (par value \$0.0001 per share) were outstanding as of July 23, 2021.

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

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**SPOK HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands)

	June 30, 2021 (Unaudited)	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 38,127	\$ 48,729
Short-term investments	29,998	29,995
Accounts receivable, net	27,483	29,934
Prepaid expenses	8,369	8,958
Other current assets	1,197	1,269
Total current assets	105,174	118,885
Non-current assets:		
Property and equipment, net	7,861	7,815
Operating lease right-of-use assets	16,769	14,016
Capitalized software development, net	13,499	10,179
Goodwill	99,175	99,175
Intangible assets, net	—	417
Deferred income tax assets, net	25,969	25,826
Other non-current assets	792	978
Total non-current assets	164,065	158,406
Total assets	\$ 269,239	\$ 277,291
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,166	\$ 6,685
Accrued compensation and benefits	12,621	14,103
Deferred revenue	25,598	27,686
Operating lease liabilities	5,825	5,264
Other current liabilities	4,305	3,702
Total current liabilities	52,515	57,440
Non-current liabilities:		
Asset retirement obligations	7,465	7,289
Operating lease liabilities	12,211	9,456
Other non-current liabilities	2,044	2,493
Total non-current liabilities	21,720	19,238
Total liabilities	74,235	76,678
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock	\$ —	\$ —
Common stock	2	2
Additional paid-in capital	94,276	91,780
Accumulated other comprehensive loss	(1,435)	(1,452)
Retained earnings	102,161	110,283
Total stockholders' equity	195,004	200,613
Total liabilities and stockholders' equity	\$ 269,239	\$ 277,291

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 June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
Revenue:				
Wireless	\$ 19,859	\$ 21,078	\$ 39,979	\$ 42,465
Software	15,864	14,661	31,780	30,541
Total revenue	35,723	35,739	71,759	73,006
Operating expenses:				
Cost of revenue (exclusive of items shown separately below)	6,973	5,901	14,214	14,165
Research and development	4,278	2,754	8,784	8,203
Technology operations	7,087	7,212	14,339	15,115
Selling and marketing	4,980	3,831	9,880	10,192
General and administrative	11,557	10,810	22,707	22,061
Depreciation, amortization and accretion	2,457	2,072	5,184	4,218
Total operating expenses	37,332	32,580	75,108	73,954
Operating (loss) income	(1,609)	3,159	(3,349)	(948)
Interest income	61	146	122	509
Other income (expense)	29	101	2	(37)
(Loss) income before income taxes	(1,519)	3,406	(3,225)	(476)
Benefit from (provision for) income taxes	800	353	209	(304)
Net (loss) income	\$ (719)	\$ 3,759	\$ (3,016)	\$ (780)
Basic and diluted net (loss) income per common share	\$ (0.04)	\$ 0.20	\$ (0.16)	\$ (0.04)
Basic weighted average common shares outstanding	19,395,364	19,016,853	19,335,081	18,987,469
Diluted weighted average common shares outstanding	19,395,364	19,115,148	19,335,081	18,987,469
Cash dividends declared per common share	\$ 0.125	\$ 0.125	\$ 0.250	\$ 0.250

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

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

(Unaudited and in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
Net (loss) income	\$ (719)	\$ 3,759	\$ (3,016)	\$ (780)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	3	103	17	(117)
Other comprehensive income (loss)	3	103	17	(117)
Comprehensive (loss) income	\$ (716)	\$ 3,862	\$ (2,999)	\$ (897)

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, 2020	19,071,614	\$ 2	\$ 85,273	\$ 164,819	\$ 250,094
Net loss	—	—	—	(4,539)	(4,539)
Adoption of current expected credit loss ("CECL")	—	—	—	(365)	(365)
Purchase of common stock for tax withholding	(79,981)	—	(903)	—	(903)
Amortization of stock-based compensation	—	—	1,182	—	1,182
Cash dividends declared	—	—	—	(2,488)	(2,488)
Issuance of restricted stock under the 2012 Equity Plan and other	1,918	—	—	19	19
Cumulative translation adjustment	—	—	(220)	—	(220)
Balance, March 31, 2020	<u>18,993,551</u>	<u>\$ 2</u>	<u>\$ 85,332</u>	<u>\$ 157,446</u>	<u>\$ 242,780</u>
Net income	—	—	—	3,759	3,759
Amortization of stock-based compensation	—	—	1,362	—	1,362
Cash dividends declared	—	—	—	(2,491)	(2,491)
Issuance of restricted stock under the 2012 Equity Plan and other	30,244	—	166	2	168
Cumulative translation adjustment	—	—	103	—	103
Balance, June 30, 2020	<u>19,023,795</u>	<u>\$ 2</u>	<u>\$ 86,963</u>	<u>\$ 158,716</u>	<u>\$ 245,681</u>

(Unaudited and in thousands except share amounts)	Outstanding Common Shares	Common Stock	Additional Paid-In Capital & Accumulated Comprehensive Loss	Other	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 2020 Equity Plan and other	20,952	—	—		—	—
Issuance of common stock in lieu of cash compensation	50,741	—	—		—	—
Cumulative translation adjustment	—	—	14		—	14
Balance, March 31, 2021	<u>19,323,604</u>	<u>\$ 2</u>	<u>\$ 91,137</u>		<u>\$ 105,433</u>	<u>\$ 196,572</u>
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	<u>19,401,170</u>	<u>\$ 2</u>	<u>\$ 92,841</u>		<u>\$ 102,161</u>	<u>\$ 195,004</u>

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 Six Months Ended June 30,	
	2021	2020
Operating activities:		
Net loss	\$ (3,016)	\$ (780)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, amortization and accretion	5,184	4,218
Deferred income tax (benefit) expense	(291)	290
Stock-based compensation	4,020	2,544
Provisions for doubtful accounts, service credits and other	657	673
Changes in assets and liabilities:		
Accounts receivable	1,775	(670)
Prepaid expenses and other assets	994	475
Net operating lease liabilities	563	(60)
Accounts payable, accrued liabilities and other	(3,538)	1,142
Deferred revenue	(2,482)	(1,373)
Net cash provided by operating activities	3,866	6,459
Investing activities:		
Purchases of property and equipment	(2,198)	(1,895)
Capitalized software development	(5,618)	(5,300)
Purchase of short-term investments	(29,993)	(29,877)
Maturity of short-term investments	30,000	30,000
Net cash used in investing activities	(7,809)	(7,072)
Financing activities:		
Cash distributions to stockholders	(5,152)	(5,008)
Proceeds from issuance of common stock under the Employee Stock Purchase Plan	132	166
Purchase of common stock for tax withholding on vested equity awards	(1,656)	(903)
Net cash used in financing activities	(6,676)	(5,745)
Effect of exchange rate on cash	17	(117)
Net decrease in cash and cash equivalents	(10,602)	(6,475)
Cash and cash equivalents, beginning of period	48,729	47,361
Cash and cash equivalents, end of period	\$ 38,127	\$ 40,886
Supplemental disclosure:		
Income taxes (refunds received) paid	\$ (42)	\$ 148

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 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. We offer a variety of solutions in both on-premise and Software as a Service ("SaaS") delivery models. The Spok Go[®] platform was made commercially available in early 2020. Spok Go features an integrated cloud-native platform that is built on a foundation of a single, best-in-class architecture with hosting and security handled through our partnership with Amazon Web Services[®]. These areas of market focus complement those of our wireless services outlined above. These products and services are commonly referred to as software solutions and services.

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 on 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.

Certain immaterial 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 statement of financial position.

The financial information included herein, other than the Condensed Consolidated Balance Sheet as of December 31, 2020, is unaudited. The Condensed Consolidated Balance Sheet as of December 31, 2020, 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, 2020.

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, 2020 (the "2020 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, intangible assets subject to amortization and goodwill, accounts receivable allowances, revenue recognition, determining the standalone selling price of performance obligations, variable consideration, depreciation expense, asset retirement obligations, income taxes and capitalization of software costs. 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 2020 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 2020 Annual Report.

NOTE 5 - 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 2020 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 and subscription 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.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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, subscription, and maintenance services 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, maintenance or subscription 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 June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
Wireless products and services	\$ 19,859	\$ 21,078	\$ 39,979	\$ 42,465
License	818	749	2,325	1,704
Services	4,865	3,812	9,219	8,359
Equipment	482	601	1,098	1,327
Subscription	90	—	135	—
Maintenance	9,609	9,499	19,003	19,151
Total revenue	\$ 35,723	\$ 35,739	\$ 71,759	\$ 73,006

The U.S. was the only country that accounted for more than 10% of the Company's total revenue for the three and six months ended June 30, 2021, and 2020. Revenue generated in the U.S. and internationally consisted of the following for the periods stated:

(Dollars in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
United States	\$ 34,799	\$ 35,328	\$ 69,973	\$ 71,831
International	924	411	1,786	1,175
Total revenue	\$ 35,723	\$ 35,739	\$ 71,759	\$ 73,006

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 six months ended June 30, 2021, are as follows:

(Dollars in thousands)	December 31, 2020	Additions	Revenue Recognized	June 30, 2021
Deferred Revenue	\$ 29,796	\$ 29,171	\$ (31,653)	\$ 27,314

During the six months ended June 30, 2021, the Company recognized \$17.5 million related to amounts deferred as of December 31, 2020.

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 six months ended June 30, 2021 are as follows:

(Dollars in thousands)	December 31, 2020	Additions	Commissions Recognized	June 30, 2021
Prepaid Commissions	\$ 2,290	\$ 2,143	\$ (2,349)	\$ 2,084

Prepaid commissions are included within Prepaid expenses on the Condensed Consolidated Balance Sheets and commissions expense is included within Selling and marketing on the Condensed Consolidated Statements of Operations.

Remaining Performance Obligations

The balance of remaining performance obligations at June 30, 2021, was \$45.6 million. We expect to recognize approximately \$33.2 million of our remaining performance obligations over the next 12 months, with the remaining balance recognized thereafter.

NOTE 6 - 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 types of 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.

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

(Dollars in thousands)	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2021	2020	2021	2020
Operating lease cost	\$ 1,491	\$ 1,392	\$ 2,961	\$ 2,774
Short-term lease cost	2,642	2,037	5,383	4,014
Short-term lease cost - related party ⁽¹⁾	—	899	—	1,789
Total lease cost	\$ 4,133	\$ 4,328	\$ 8,344	\$ 8,577

⁽¹⁾ A former member of our Board of Directors, who departed the Board during the third quarter of 2020, concurrently served as a director for an entity that leases transmission tower sites to the Company.

The following table presents supplemental cash flow information:

(Dollars in thousands)	For the Six Months Ended June 30,	
	2021	2020
Cash paid for amounts included in the measurement of lease liabilities - operating leases	\$ 2,641	\$ 2,711

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

(Dollars in thousands)	June 30, 2021
Weighted-average remaining lease term - operating leases (in years)	4.97
Weighted-average discount rate - operating leases	4.60%

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. At that time, we recorded \$4.4 million in a right-of-use asset and corresponding operating lease liability for this lease. Over the life of this lease, cash payments are expected to total approximately \$4.9 million.

Maturities of lease liabilities as of June 30, 2021, were as follows:

For the Year Ended December 31,	(Dollars in thousands)	
2021 (remaining six months)	\$	3,150
2022		4,849
2023		3,695
2024		2,815
2025		2,090
Thereafter		3,595
Total future lease payments		20,194
Imputed interest		(2,158)
Total	\$	18,036

NOTE 7 - 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 June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
Depreciation				
Leasehold improvements	\$ 18	\$ 14	\$ 34	\$ 30
Asset retirement costs	(22)	(160)	(44)	(321)
Paging and computer equipment	982	1,395	2,052	2,873
Furniture, fixtures and vehicles	62	81	120	151
Total depreciation	1,040	1,330	2,162	2,733
Amortization				
Intangible assets	—	625	417	1,250
Capitalized software development costs	1,263	—	2,297	—
Total amortization	1,263	625	2,714	1,250
Accretion				
Total depreciation, amortization and accretion expense	\$ 2,457	\$ 2,072	\$ 5,184	\$ 4,218

Accounts Receivable, Net

Accounts receivable was recorded net of an allowance of \$1.6 million and \$1.7 million at June 30, 2021, and December 31, 2020, respectively. Accounts receivable, net includes \$7.4 million and \$7.0 million of unbilled receivables at June 30, 2021, and December 31, 2020, 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)	June 30, 2021	December 31, 2020
Leasehold improvements	shorter of useful life or lease term	\$ 3,179	\$ 3,628
Asset retirement costs	1-5	3,717	3,717
Paging and computer equipment	1-5	91,856	92,608
Furniture, fixtures and vehicles	3-5	3,518	3,517
Total property and equipment		102,270	103,470
Accumulated depreciation		(94,409)	(95,655)
Total property and equipment, net		\$ 7,861	\$ 7,815

Capitalized Software Development

Capitalized software development costs at June 30, 2021, primarily consisted of costs related to the development of Spok Go. These costs are generally amortized on a straight-line basis over the estimated useful life of the asset, typically three years.

The net consolidated balance of capitalized software development consisted of the following at June 30, 2021:

(Dollars in thousands)	Useful Life (In Years)	Gross Carrying Amount	Accumulated Amortization	Net Balance
Capitalized software development	3	\$ 16,869	\$ (3,370)	\$ 13,499

For the three and six months ended June 30, 2021, capitalized software development costs were \$2.7 million and \$5.6 million, respectively. For the three and six months ended June 30, 2020, capitalized software development costs were \$3.6 million and \$5.3 million, respectively.

NOTE 8 - GOODWILL AND INTANGIBLE ASSETS, NET**Goodwill**

During the three months ended June 30, 2021, 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.

Intangible Assets

Amortizable intangible assets at June 30, 2021, related primarily to customer relationships that resulted from our acquisition of Amcom Software, Inc. in 2011. These intangibles, with an original gross carrying amount of \$25.0 million, were being amortized over a period of 10 years and became fully amortized during the quarter ended March 31, 2021.

NOTE 9 - 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, 2020	\$ 335	\$ 7,289	\$ 7,624
Accretion	(63)	371	308
Amounts paid	(148)	—	(148)
Reclassifications	195	(195)	—
Balance at June 30, 2021	\$ 319	\$ 7,465	\$ 7,784

The short-term portion of the balance above is included within other current liabilities on the Condensed Consolidated Balance Sheet at June 30, 2021, and December 31, 2020.

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 \$9.3 million. The total estimated liability is based on the transmitter locations remaining after we have consolidated the number of networks we operate and assume 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 10 - 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 June 30, 2021, and December 31, 2020, we had no stock options outstanding.

At June 30, 2021, and December 31, 2020, there were 19,401,170 and 19,384,192 shares of common stock outstanding, respectively, and no shares of preferred stock outstanding.

Dividends

The following table details our cash dividends declared in 2021. Cash dividends paid as disclosed in the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2021, and 2020 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.

Declaration Date	Record Date	Payment Date	Per Share Amount	(Dollars in thousands) Total Declared ⁽¹⁾
February 17, 2021	March 16, 2021	March 30, 2021	\$ 0.125	\$ 2,553
April 28, 2021	May 25, 2021	June 24, 2021	0.125	2,553
Total			\$ 0.250	\$ 5,106

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

On July 28, 2021, our Board of Directors declared a regular quarterly cash dividend of \$0.125 per share of common stock with a record date of August 17, 2021, and a payment date of September 10, 2021. This cash dividend of approximately \$2.4 million will be paid from available cash on hand.

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 June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
Numerator:				
Net (loss) income	\$ (719)	\$ 3,759	\$ (3,016)	\$ (780)
Denominator:				
Basic weighted average common shares outstanding	19,395,364	19,016,853	19,335,081	18,987,469
Diluted weighted average common shares outstanding	19,395,364	19,115,148	19,335,081	18,987,469
Basic and diluted net (loss) income per common share	\$ (0.04)	\$ 0.20	\$ (0.16)	\$ (0.04)

For the three and six months ended June 30, 2021, and 2020 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 June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
Restricted stock units	181,592	—	318,248	232,825

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. As of that date, a total of 1,699,950 shares of common stock have been reserved for issuance under the 2020 Equity Plan, and no further grants will be made under the 2012 Equity Plan. However, the 2012 Equity Plan will continue 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 June 30, 2021, the aggregate amount of unvested RSUs and restricted stock outstanding under the 2012 Equity Plan was 510,211.

The following table summarizes the activities under the Equity Plans from January 1, 2021, through June 30, 2021:

	Activity
Total equity securities available at January 1, 2021	1,699,314
RSU, DSU, and restricted stock awarded to eligible employees, net of forfeitures	(520,359)
Issuance of common stock in lieu of cash compensation	(109,171)
Total equity securities available at June 30, 2021	1,069,784

The following table details activities with respect to outstanding RSUs, DSUs, and restricted stock under the Equity Plans for the six months ended June 30, 2021:

	Shares	Weighted-Average Grant Date Fair Value
Unvested at January 1, 2021	636,722	\$ 12.16
Granted	616,743	11.09
Vested	(17,097)	11.16
Forfeited	(96,384)	12.34
Unvested at June 30, 2021	1,139,984	\$ 11.58

Of the 1,139,984 unvested RSUs, DSUs and restricted stock outstanding at June 30, 2021, 535,239 RSUs include contingent performance requirements for vesting purposes. At June 30, 2021, there was \$7.1 million of unrecognized net compensation cost related to RSUs and restricted stock, which is expected to be recognized over a weighted average period of 1.9 years.

For 2021, qualified employees are receiving a portion of their compensation in the form of shares of the Company's common stock in lieu of cash. These awards are made in advance on a quarterly basis and vest immediately. For the six months ended June 30, 2021, 109,171 shares of common stock were issued, with a weighted average grant date fair value of \$11.35.

Employee Stock Purchase Plan

In 2016, our Board of Directors adopted the Spok Holdings, Inc. Employee Stock Purchase Plan ("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 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.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

For the three months ended June 30, 2021, and 2020, employees purchased 16,015 and 18,586 shares of the Company's common stock for a total cost of \$0.1 million and \$0.2 million, respectively.

The following table summarizes the activities under the ESPP from January 1, 2021, through June 30, 2021:

	<u>Activity</u>
Total ESPP equity securities available at January 1, 2021	149,199
ESPP common stock purchased by eligible employees	(16,015)
Total ESPP securities available at June 30, 2021	<u>133,184</u>

Amounts withheld from participants will be classified as Accrued compensation and benefits on 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 on the Condensed Consolidated Statements of Operations for the periods stated:

(Dollars in thousands)	<u>For the Three Months Ended</u> <u>June 30,</u>		<u>For the Six Months Ended</u> <u>June 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Performance-based RSUs	\$ 182	\$ 516	\$ 755	\$ 860
Time-based RSUs, DSUs and restricted stock	958	815	1,981	1,628
Equity in lieu of salary	618	—	1,240	—
ESPP	23	31	44	56
Total stock-based compensation	<u>\$ 1,781</u>	<u>\$ 1,362</u>	<u>\$ 4,020</u>	<u>\$ 2,544</u>

NOTE 11 - INCOME TAXES

The Coronavirus Aid, Relief, and Economic Security ("CARES") Act was signed into law on March 27, 2020. The CARES Act was initiated to provide stimulus and relief in response to the coronavirus disease 2019 ("COVID-19") pandemic and resulting economic collapse. While the CARES Act provides a number of potential benefits to companies, the Company has made use of the following provisions:

- **Payroll Tax Deferral** - 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, as of December 31, 2020. We do not anticipate additional deferrals in 2021.
- **Employee Retention Credits** - Allows for a refundable tax credit for the Company's share of the 6.2% Social Security tax on wages. This tax credit applies to the first \$10,000 in qualified wages paid to each employee commencing on March 13, 2020. To be eligible, the Company must (i) have had operations fully or partially suspended because of a shut-down order from a governmental authority related to COVID-19, or (ii) have had gross receipts decline by more than 50% in a calendar quarter when compared to the same quarter in 2019. Qualified wages are limited to wages paid to employees who were not providing services due to the COVID-19 pandemic. This resulted in a total claim of approximately \$1.3 million in employee retention credits under this provision, as of December 31, 2020. We do not anticipate additional material employee retention credits in 2021.
- **Alternative Minimum Tax ("AMT") Credit** - Allows for an immediate refund of all refundable AMT credits resulting from passage of the Tax Cuts and Jobs Act of 2017. This resulted in accelerated collection of approximately \$1.3 million of other current assets which was received during the third quarter of 2020.

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 2021, 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, research and development credits and related valuation allowance, permanent differences between book and taxable income, and certain discrete items.

We had total net deferred income tax assets ("DTAs") of \$26.0 million and \$25.8 million at June 30, 2021, and December 31, 2020, respectively. We had a valuation allowance of \$23.1 million and \$22.1 million at June 30, 2021, and December 31, 2020, 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 12 - COMMITMENTS AND CONTINGENCIES

There have been no material changes during the six months ended June 30, 2021, to the commitments and contingencies previously reported in the 2020 Annual Report.

NOTE 13 - 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 both the three months ended June 30, 2021, and 2020, we recognized revenues of \$0.2 million related to contracts from the entity at which the individual is employed. For the six months ended June 30, 2021, and 2020, we recognized revenues of \$0.4 million and \$0.3 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," "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 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, 2020 ("2020 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 risk factors disclosed in the Company's 2020 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 2020 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 help protect the health, well-being and safety of people primarily in the United States. 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 2020 Annual Report, which describe our business in further detail.

COVID-19

In March 2020, the World Health Organization declared COVID-19 a global pandemic, and the virus has significantly impacted the global economy. Although federal and state restrictions were not widely adopted until late in the first quarter of 2020, we began to experience a direct impact on our sales cycle in late February 2020 as hospitals began to delay purchasing decisions and address staff reductions. These delays have continued to affect our software bookings, which directly impact license and equipment revenues.

We have also experienced delays in our ability to deliver on-site implementation services, which impacted our services revenue throughout the remainder of 2020 and into the first half of 2021. While much of our implementation process can be performed remotely, the on-premise nature of certain of our solutions requires some level of on-site availability to complete and finalize customer software solutions. These impacts have primarily resulted in delays in timing of revenue recognition, as associated revenue corresponds to our backlog of performance obligations ready for delivery at some point in the future.

Many hospitals continue to maintain restrictive capacity and social distancing guidelines to ensure the safety of their personnel and patients. These restrictions can make it difficult for external personnel who are not critical to the immediate operating needs of a hospital, such as our implementation staff, to gain access. These factors can vary considerably depending on the size of an organization, geographical location and local regulations. Given that we anticipate some level of continued disruptions to our business, we believe our software revenues will continue to be impacted by the pandemic for the remainder of 2021, although at a pace that continues to improve on a quarterly basis.

Our ability to return to normal operating levels is largely driven by our customers and their ability to bring operations back to levels beyond just critical needs and emergency services. Many hospitals initially reduced the number of elective surgeries as a result of government restrictions, as well as patients delaying or canceling elective procedures during the pandemic. While these organizations began to see improved operating levels during the second half of 2020 as they better managed their admissions process and capacity constraints, and into the first half of 2021 as the number of virus cases declined, any significant spikes in U.S. virus cases could further delay progress towards returning to normal operational levels.

The length and severity of pandemic-related restrictions affecting our customer base remain uncertain, and we continue to monitor any COVID-19 variants of concern that may indicate risks of increased transmission and more severe disease. With continued distribution of effective vaccines, however, we are optimistic that a spike in virus cases will be mitigated and that our customers' operating levels will improve as pandemic-related restrictions continue to be lifted.

Although we are likely to see some lingering and continued effects from COVID-19 throughout the remainder of 2021, we are cautiously optimistic that normal operating levels could be achieved by the end of the year. Over the last several months of 2020 and into the first half of 2021, we began to see modest improvements in each of the aforementioned areas that have been impacted by the pandemic, and we remain cautiously optimistic that we will continue seeing sequential improvement in these areas over the next several quarters. We are also optimistic that any lingering effects from COVID-19 will have a lesser impact on our financial results in 2021 than they did in 2020.

As facts and circumstances continue to evolve over the coming months, we will continue to assess and communicate the anticipated impact on our business, and we will continue to diligently pursue countermeasures to prudently manage operating expenses and liquidity during this time, with a goal of neutralizing the impact of the pandemic on our cash flows. Each of these measures is described in further detail below and is subject to actual operating conditions experienced during the year.

- **Reduced work schedules:** 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 for the first half of 2021, whereby each of our employees, including our executive officers, was subject to one to two weeks of a reduced work schedule per quarter. For the six months ended June 30, 2021, these reduced work schedules resulted in realized savings of \$1.8 million in compensation expense. While we originally enacted this plan for the full-year 2021, we subsequently concluded that continuing the plan for the second half of the year was unnecessary, given our positive results during the first half of the year, as well as management's confidence in mitigating short-term uncertainties with regard to the pandemic.
- **Equity in Lieu of Cash Compensation:** For 2021, qualified employees are receiving a portion of their compensation in the form of shares of the Company's common stock in lieu of cash. These awards, affecting approximately 450 of our employees, are made in advance on a quarterly basis and vest immediately. For the six months ended June 30, 2021, we achieved cash savings of \$1.2 million, and we expect to achieve a total of between \$2.3 million and \$2.7 million in cash savings for the full year.
- **Non-Employee Director Alternative DSU or Restricted Stock Plan:** Since inception of this alternative payment plan, which began in the third quarter of 2020, all non-employee directors have voluntarily elected to receive either DSUs or restricted stock in lieu of the entire cash portion of their compensation. As a result, for the six months ended June 30, 2021, we achieved cash savings of \$0.2 million, and we expect to achieve between \$0.4 million and \$0.6 million in cash savings for the full year. (Refer to Note 10, "Stockholder's Equity" in the Notes to Condensed Consolidated Financial Statements for further detail related to the alternative DSU or restricted stock plan).

As we continue to see improvements in our operating levels, we are confident that the need to mitigate cash flow impacts through direct expense management will also continue to decline. While the Company has the ability to continue its countermeasures for the foreseeable future, we anticipate re-evaluating our position on a quarterly basis based on the progression of COVID-19, impacts on our business, and other facts and circumstances as deemed relevant by management.

We believe our cost mitigation efforts, in addition to relief provided by the CARES Act and natural cost savings that will materialize as a result of COVID-19 (e.g., reduced travel and events), will allow us to continue to offset any negative cash flow impact resulting from the pandemic during 2021.

Results of Operations

The following table is a summary of our Condensed Consolidated Statement of Operations for the Three and Six Months Ended June 30, 2021, and 2020:

(Dollars in thousands)	For the Three Months Ended June 30,		Change		For the Six Months Ended June 30,		Change	
	2021	2020	Total	%	2021	2020	Total	%
Revenue:								
Wireless	\$ 19,859	\$ 21,078	\$ (1,219)	(5.8)%	\$ 39,979	\$ 42,465	\$ (2,486)	(5.9)%
Software	15,864	14,661	1,203	8.2 %	31,780	30,541	1,239	4.1 %
Total revenue	35,723	35,739	(16)	— %	71,759	73,006	(1,247)	(1.7)%
Operating expenses:								
Cost of revenue (exclusive of items shown separately below)	6,973	5,901	1,072	18.2 %	14,214	14,165	49	0.3 %
Research and development	4,278	2,754	1,524	55.3 %	8,784	8,203	581	7.1 %
Technology operations	7,087	7,212	(125)	(1.7)%	14,339	15,115	(776)	(5.1)%
Selling and marketing	4,980	3,831	1,149	30.0 %	9,880	10,192	(312)	(3.1)%
General and administrative	11,557	10,810	747	6.9 %	22,707	22,061	646	2.9 %
Depreciation, amortization and accretion	2,457	2,072	385	18.6 %	5,184	4,218	966	22.9 %
Total operating expenses	37,332	32,580	4,752	14.6 %	75,108	73,954	1,154	1.6 %
Operating (loss) income	(1,609)	3,159	(4,768)	(150.9)%	(3,349)	(948)	(2,401)	253.3 %
Interest income	61	146	(85)	(58.2)%	122	509	(387)	(76.0)%
Other income (expense)	29	101	(72)	(71.3)%	2	(37)	39	(105.4)%
(Loss) income before income taxes	(1,519)	3,406	(4,925)	(144.6)%	(3,225)	(476)	(2,749)	577.5 %
Benefit from (provision for) income taxes	800	353	447	126.6 %	209	(304)	513	(168.8)%
Net (loss) income	\$ (719)	\$ 3,759	\$ (4,478)	(119.1)%	\$ (3,016)	\$ (780)	\$ (2,236)	286.7 %

Supplemental Information

Full-Time Equivalent ("FTE") Employees	590	610	(20)	(3.3)%
Active transmitters	3,580	3,770	(190)	(5.0)%

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 has been the healthcare industry, particularly hospitals. While we continue to identify hospitals with 200 or more beds as the primary targets for our software solutions as well as our paging services, we have recently 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) and equipment loss and/or maintenance 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, SaaS, 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 Statement of Operations. Our software is licensed to end users under an industry standard software license agreement.

Refer to Note 5, "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 total revenue for the periods stated:

(Dollars in thousands)	For the Three Months Ended June 30,		Change		For the Six Months Ended June 30,		Change	
	2021	2020	Total	%	2021	2020	Total	%
Revenue - wireless:								
Paging revenue	\$ 19,135	\$ 19,990	\$ (855)	(4.3)%	\$ 38,488	\$ 40,441	\$ (1,953)	(4.8)%
Product and other revenue	724	1,088	(364)	(33.5)%	1,491	2,024	(533)	(26.3)%
Total wireless revenue	19,859	21,078	(1,219)	(5.8)%	39,979	42,465	(2,486)	(5.9)%
Revenue - software:								
License	818	749	69	9.2 %	2,325	1,704	621	36.4 %
Services	4,865	3,812	1,053	27.6 %	9,219	8,359	860	10.3 %
Equipment	482	601	(119)	(19.8)%	1,098	1,327	(229)	(17.3)%
Subscription	90	—	90	— %	135	—	135	— %
Operations revenue	6,255	5,162	1,093	21.2 %	12,777	11,390	1,387	12.2 %
Maintenance revenue	9,609	9,499	110	1.2 %	19,003	19,151	(148)	(0.8)%
Total software revenue	15,864	14,661	1,203	8.2 %	31,780	30,541	1,239	4.1 %
Total revenue	\$ 35,723	\$ 35,739	\$ (16)	— %	\$ 71,759	\$ 73,006	\$ (1,247)	(1.7)%

Wireless Revenue

The decrease in wireless revenue for the three and six months ended June 30, 2021, compared to the same periods in 2020, 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 \$7.32 and \$7.24 for the three months ended June 30, 2021, and 2020, respectively. Total units in service were 0.9 million as of both June 30, 2021, and 2020. The increase in ARPU was primarily due to the Telecommunications Relay Service Charge ("TRS") which we began to recover from customers in 2021, as well as general increases of Universal Service Fees ("USF"), offset by lower variable revenue and an expected decline in service revenue. USF and TRS fees are effectively pass-through items that have corresponding costs associated with them. Excluding these pass-through items, ARPU would have declined in-line with historical trends.

While demand for wireless services continues to decline, the rate of decline has continued to improve relative to historical trends. While we are optimistic that this trend will continue in future periods, 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, our wireless revenue will continue to decline.

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

(in thousands)	For the Three Months Ended June 30,			Change Due To:	
	2021	2020	Change	ARPU	Units
Paging revenue	\$ 19,135	\$ 19,990	\$ (855)	\$ 208	\$ (1,063)

(in thousands)	For the Six Months Ended June 30,			Change Due To:	
	2021	2020	Change	ARPU	Units
Paging revenue	\$ 38,488	\$ 40,441	\$ (1,953)	\$ 201	\$ (2,154)

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 the highest value possible.

Software Revenue

Operations Revenue

For the three and six months ended June 30, 2021, as compared to the same period in 2020, license revenue increased as a result of an increase in bookings coinciding with modest improvements in sales as our customer base experienced improved operating levels. For the three months ended June 30, 2021, services revenue increased, primarily as a result of higher professional services, in-line with the increase in operational activity that we've seen over the last several quarters as customers continue to re-engage on-site implementations and projects. These results also were reflective of an improving economy and selling environment in 2021 on a year-over-year basis due to the weakness experienced in 2020 during the early months of the pandemic.

Maintenance Revenue

Compared to the same periods in 2020, maintenance revenue increased for the three months ended June 30, 2021, although revenue declined overall for the six months ended June 30, 2021. While our quarterly results were attributable to the timing of certain renewals as compared to the same period in 2020, our six-month results were reflective of the continued historical decline in license bookings, from which maintenance revenues are derived. 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. Historically, this revenue churn had been offset by the growth in our license sales.

As we continue to focus the majority of our development efforts on Spok Go, we anticipate a continued decline in our ability to sell new licenses for the Care Connect Suite of products. 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. Our intent is to replace this churn with the sale of Spok Go as well as transition existing on-premise customers to our cloud-based solution over the next several years. Given these dynamics, we believe annual maintenance revenue is likely to be relatively flat or slightly down as we move forward, especially as we begin the process of transitioning existing customers to a subscription model.

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 which 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 operations 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 our networks continue to consolidate, 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 six months ended June 30, 2021, and 2020. 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:

(Dollars in thousands)	For the Three Months Ended June 30,		Change		For the Six Months Ended June 30,		Change	
	2021	2020	Total	%	2021	2020	Total	%
Payroll and related	\$ 4,920	\$ 4,350	\$ 570	13.1 %	\$ 10,289	\$ 10,135	\$ 154	1.5 %
Cost of sales	1,427	1,098	329	30.0 %	2,678	3,038	(360)	(11.8)%
Stock-based compensation	285	134	151	112.7 %	608	253	355	140.3 %
Other	341	319	22	6.9 %	639	739	(100)	(13.5)%
Total cost of revenue	\$ 6,973	\$ 5,901	\$ 1,072	18.2 %	\$ 14,214	\$ 14,165	\$ 49	0.3 %
FTE Employees	190	200	(10)	(5.0)%				

For the three months ended June 30, 2021, cost of revenue increased compared to the same period in 2020, driven by increases in payroll and related expenses, and cost of sales. Payroll and related costs were lower in 2020 relative to historical trend and normal operating costs as a result of our utilization of certain provisions under the CARES Act for payroll and employee taxes last year which were not available in 2021. Refer to Note 11 - Income Taxes for additional information on our temporary use of the CARES Act provisions in the Notes to Condensed Consolidated Financial Statements. Additionally, we recognized less cost savings from reduced work schedules during the three months ended June 30, 2021 as compared to the same period in 2020. Cost of sales expenses grew primarily from greater use of third party professional services which we utilize to augment Company resources when short-term capacity constraints exist.

For the six months ended June 30, 2021, cost of revenue also increased compared to the same period in 2020, driven by an increase in stock-based compensation. This increase was the result of our plan to provide a portion of compensation for certain employees in the form of shares of the Company's common stock in lieu of cash, which we implemented at the beginning of 2021. This temporary cash savings measure is outlined in more detail within our earlier discussion on COVID-19.

Research and Development

Research and development expenses consisted of the following items:

(Dollars in thousands)	For the Three Months Ended June 30,		Change		For the Six Months Ended June 30,		Change	
	2021	2020	Total	%	2021	2020	Total	%
Payroll and related	\$ 4,333	\$ 4,115	\$ 218	5.3 %	\$ 8,808	\$ 8,876	\$ (68)	(0.8)%
Outside services	2,060	1,803	257	14.3 %	4,337	3,387	950	28.0 %
Capitalized software development	(2,698)	(3,596)	898	(25.0)%	(5,618)	(5,300)	(318)	6.0 %
Stock-based compensation	305	243	62	25.5 %	780	479	301	62.8 %
Other	278	189	89	47.1 %	477	761	(284)	(37.3)%
Total research and development	\$ 4,278	\$ 2,754	\$ 1,524	55.3 %	\$ 8,784	\$ 8,203	\$ 581	7.1 %
FTE Employees	109	122	(13)	(10.7)%				

For the three months ended June 30, 2021, research and development expenses increased compared to the same period in 2020, driven by lower capitalized software development and higher outside services and payroll and related expenses.

Research and development expenses that qualify for capitalization are limited to certain of our Spok Go development activities which are a subset of our total research and development spend. For the three months ended June 30, 2021, we capitalized lower amounts for software development compared to the same period in 2020, reflecting lower headcount and outside services activity specific to Spok Go development as well as less development activities which qualified for capitalization. As the research and development of Spok Go matures, we anticipate costs which qualify for capitalization will decrease as a percentage of total research and development expenses.

Outside service costs increased due to the timing of professional services costs compared to the same period in 2020, attributable to our full suite of products (not limited to Spok Go). Payroll and related costs grew primarily due to our curtailment of reduced work schedules compared to the same period in 2020.

For the six months ended June 30, 2021, research and development increased compared to the same period in 2020, also driven by higher outside services expenses, as explained above in our quarterly discussion, and by higher stock-based compensation. This increase in stock-based compensation was the result of our plan to provide a portion of compensation for certain employees in the form of shares of the Company's common stock in lieu of cash, which we implemented at the beginning of 2021. This temporary cash savings measure is outlined in more detail within our earlier discussion on COVID-19.

We continue to focus on the development efforts of our software solutions and intend to maintain these efforts based on their importance to our continued success. While development costs have continued to grow, they have done so at a slower pace when compared to prior years. Excluding the effects of capitalization, these costs will continue to substantially impact margins and our cash flow from operations. The benefits from our development efforts are contingent upon successful adoption of Spok Go in the marketplace, which we expect to gradually take place over the next several years.

Technology Operations

Technology operations expenses consisted primarily of the following items:

(Dollars in thousands)	For the Three Months Ended June 30,		Change		For the Six Months Ended June 30,		Change	
	2021	2020	Total	%	2021	2020	Total	%
Payroll and related	\$ 2,323	\$ 2,213	\$ 110	5.0 %	\$ 4,790	\$ 4,925	\$ (135)	(2.7)%
Site rent	3,143	3,399	(256)	(7.5)%	6,339	6,797	(458)	(6.7)%
Telecommunications	825	961	(136)	(14.2)%	1,662	1,962	(300)	(15.3)%
Stock-based compensation	131	47	84	178.7 %	267	90	177	196.7 %
Other	665	592	73	12.3 %	1,281	1,341	(60)	(4.5)%
Technology Operations	\$ 7,087	\$ 7,212	\$ (125)	(1.7)%	\$ 14,339	\$ 15,115	\$ (776)	(5.1)%
FTE Employees	87	88	(1)	(1.1)%				

For the three months ended June 30, 2021, technology operations expenses decreased compared to the same period in 2020, driven by lower site rent. The number of active transmitters, which directly affects our site rent expenses, declined 5.0% from June 30, 2020, to June 30, 2021, 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.

For the six months ended June 30, 2021, technology operations decreased compared to the same period in 2020, driven by lower site rent, as explained above in our quarterly discussion, and by lower telecommunications costs, which resulted from cost savings initiatives applicable to our wireless network.

Selling and Marketing

Selling and marketing expenses consisted of the following items:

(Dollars in thousands)	For the Three Months Ended June 30,		Change		For the Six Months Ended June 30,		Change	
	2021	2020	Total	%	2021	2020	Total	%
Payroll and related	\$ 3,161	\$ 2,538	\$ 623	24.5 %	\$ 6,296	\$ 6,121	\$ 175	2.9 %
Commissions	1,244	852	392	46.0 %	2,349	2,064	285	13.8 %
Stock-based compensation	254	194	60	30.9 %	572	366	206	56.3 %
Advertising and events	247	160	87	54.4 %	408	945	(537)	(56.8)%
Other	74	87	(13)	(14.9)%	255	696	(441)	(63.4)%
Total selling and marketing	\$ 4,980	\$ 3,831	\$ 1,149	30.0 %	\$ 9,880	\$ 10,192	\$ (312)	(3.1)%
FTE Employees	102	99	3	3.0 %				

For the three months ended June 30, 2021, selling and marketing expenses increased compared to the same period in 2020, driven by increases in payroll and related expenses as well as commissions. Payroll and related costs increased as we recognized lower cost savings from reduced work schedules during the three months ended June 30, 2021 as compared to the same period in 2020. Additionally, payroll and related costs were lower in 2020 relative to historical trend and normal operating costs as a result of our utilization of certain provisions under the CARES Act for payroll and employee taxes last year which were not available in 2021. Refer to Note 11 - Income Taxes for additional information on our temporary use of the CARES Act provisions in the Notes to Condensed Consolidated Financial Statements. The increase in commissions was largely the result of an increase in sales of our software products as compared to the same period in 2020 during the early stages of the pandemic.

For the six months ended June 30, 2021, selling and marketing expenses decreased compared to the same period in 2020, driven by decreases in advertising and events and other expenses. These decreases were mostly offset by increases in commissions and payroll and related expenses, as explained above in our quarterly discussion, and stock-based compensation.

The decrease in advertising and events and other expenses reflects the weakness in our sales markets due to the lingering effects of COVID-19 during the first quarter of 2021 as compared to the pre-pandemic environment in the early months of 2020. Nationwide travel and participation in larger marketing events continues to remain low relative to historical levels and that is reflected in our lower costs for the six months ended June 30, 2021. The increase in stock-based compensation was the result of our plan to provide a portion of compensation for certain employees in the form of shares of the Company's common stock in lieu of cash, which we implemented at the beginning of 2021. This temporary cash savings measure is outlined in more detail within our earlier discussion on COVID-19.

General and Administrative

General and administrative expenses consisted of the following items:

(Dollars in thousands)	For the Three Months Ended June 30,		Change		For the Six Months Ended June 30,		Change	
	2021	2020	Total	%	2021	2020	Total	%
Payroll and related	\$ 3,564	\$ 3,355	\$ 209	6.2 %	\$ 7,382	\$ 7,489	\$ (107)	(1.4)%
Stock-based compensation	806	744	62	8.3 %	1,793	1,356	437	32.2 %
Facility rent, office and technology costs	2,484	2,276	208	9.1 %	4,964	4,345	619	14.2 %
Outside services	2,219	2,043	176	8.6 %	4,044	4,079	(35)	(0.9)%
Taxes, licenses and permits	1,117	804	313	38.9 %	2,198	1,663	535	32.2 %
Bad debt	328	628	(300)	(47.8)%	434	671	(237)	(35.3)%
Other	1,039	960	79	8.2 %	1,892	2,458	(566)	(23.0)%
Total general and administrative	\$ 11,557	\$ 10,810	\$ 747	6.9 %	\$ 22,707	\$ 22,061	\$ 646	2.9 %
FTE Employees	102	101	1	1.0 %				

For the three months ended June 30, 2021, general and administrative expenses increased compared to the same period in 2020, driven by increases in taxes, licenses and permits; payroll and related costs; and facility rent, office and technology costs. These increases were partially offset by a decrease in bad debt expenses.

The increases in taxes, licenses and permits was primarily due to general year over year increases by the Federal Communications Commission ("FCC") in the universal service contribution factor for USF as well as the inclusion of TRS fees which did not go into effect until the fourth quarter of 2020. Payroll and related costs increased as we recognized lower cost savings from reduced work schedules during the three months ended June 30, 2021 as compared to the same period in 2020. The increase in facility rent, office and technology costs was primarily due to additional rent for our new headquarters lease, effective March 2021, as well as an increase in back office software costs. Refer to Note 6 - Leases in the Notes to Condensed Consolidated Financial Statements for additional information on the new headquarters lease.

For the six months ended June 30, 2021, general and administrative expenses increased compared to the same period in 2020, driven by increases in taxes, licenses and permits as well as facility rent, office and technology costs, as explained in our quarterly discussion above, and by an increase in stock-based compensation. This increase in stock-based compensation was the result of our plan to provide a portion of compensation for certain employees in the form of shares of the Company's common stock in lieu of cash, which we implemented at the beginning of 2021. This temporary cash savings measure is outlined in more detail within our earlier discussion on COVID-19.

Depreciation, Amortization and Accretion

For the three months ended June 30, 2021, and 2020, depreciation, amortization and accretion expenses were \$2.5 million and \$2.1 million, respectively. For the six months ended June 30, 2021, and 2020, depreciation, amortization and accretion expenses were \$5.2 million and \$4.2 million, respectively. Expenses increased for both the three and six months ended June 30, 2021, compared to the same periods in 2020, primarily due to increased amortization of software development costs, partially offset by lower depreciation for certain computer hardware and software assets becoming fully depreciated in 2020. The capitalization of software development costs began in the first quarter of 2020 and amortization of those costs began in the third quarter of 2020. For additional details regarding depreciation, amortization and accretion expenses refer to Note 7 - Consolidated Financial Statement Components in the Notes to Condensed Consolidated Financial Statements.

Income Taxes

Benefit from income taxes was \$0.8 million and \$0.4 million for the three months ended June 30, 2021, and 2020, respectively. Benefit from (provision for) income taxes was \$0.2 million and \$(0.3) million for the six months ended June 30, 2021, and 2020, respectively. Benefit from (provision for) income taxes changed for the three and six months ended June 30, 2021, compared to the same periods in 2020 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 11, "Income Taxes" in the Notes to Condensed Consolidated Financial Statements.

Liquidity and Capital Resources

Cash and Cash Equivalents

At June 30, 2021, we held cash, cash equivalents and short-term investments of \$68.1 million. The available cash and cash equivalents consist of invested cash and in our operating accounts. The invested cash is invested in interest-bearing funds managed by third-party financial institutions. These funds invest in U.S. Treasury securities which are classified as held-to-maturity and are measured at amortized cost on 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.

We maintain a level of liquidity sufficient to allow us to meet our cash needs in both the short- and long-term. At any point in time, we typically 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.

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 possible 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. Because we intend to continue to invest heavily in the development of Spok Go over the next several years, commensurate with declining revenues from our wireless business, we anticipate that our cash on hand will decrease significantly during that period, and possibly longer until revenues from Spok Go begin to be realized.

Cash Flows Overview

In response to COVID-19, management has enacted certain cost mitigation measures, as previously discussed, that it believes will allow the Company to operate in a cash flow positive manner for the remainder of the year. While we had previously mentioned the potential impact on our revenues, we do not expect COVID-19 will have a material impact on our liquidity at this time given our ability to reduce costs further, if necessary.

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 resume our common stock 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 June 30, 2021, should be adequate to meet our anticipated cash requirements for the foreseeable future.

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

(Dollars in thousands)	Six Months Ended June 30,		
	2021	2020	Change
Net cash provided by operating activities	\$ 3,866	\$ 6,459	\$ (2,593)
Net cash used in investing activities	(7,809)	(7,072)	(737)
Net cash used in financing activities	(6,676)	(5,745)	(931)

Operating Activities

For the six months ended June 30, 2021, cash provided by operating activities was \$3.9 million due primarily to non-cash items such as depreciation, amortization and accretion of \$5.2 million, stock-based compensation of \$4.0 million, changes in accounts receivable of \$1.8 million, change in prepaid expenses and other assets of \$1.0 million, changes in lease liability of \$0.6 million and other non-cash items of \$0.4 million. This was partially offset by a net loss of \$3.0 million, a change in accounts payable, accrued liabilities and other of \$3.5 million and deferred revenue of \$2.5 million.

For the six months ended June 30, 2020, cash provided by operating activities was \$6.5 million due primarily to non-cash items such as depreciation, amortization and accretion of \$4.2 million, stock-based compensation of \$2.5 million, deferred income tax expense of \$0.3 million, and other non-cash items of \$1.0 million, partially offset by net loss of \$0.8 million and changes in account receivable of \$0.6 million. Cash provided by operating activities also increased resulting from the change in prepaid expenses and other assets of \$0.5 million, and accounts payable, accrued liabilities and other of \$1.1 million partially offset by change in deferred revenue of \$1.4 million.

Investing Activities

For the six months ended June 30, 2021, and 2020, cash used in investing activities was \$7.8 million and \$7.1 million, respectively, due primarily to the capitalization of software development costs, purchases of property and equipment, and purchase and maturity of short-term investments.

Financing Activities

For the six months ended June 30, 2021, and 2020, cash used in financing activities was \$6.7 million and \$5.7 million, respectively, due primarily to cash distributions to stockholders and the purchase of common stock for tax withholding purposes on vested equity awards.

We currently expect to pay dividends of \$0.125 per common share each quarter for the remainder of 2021, subject to declaration by the Board of Directors. On July 28, 2021, our Board of Directors declared a regular quarterly cash dividend of \$0.125 per share of common stock with a record date of August 17, 2021, and a payment date of September 10, 2021. This cash dividend of approximately \$2.4 million will be paid from available cash on hand.

Commitments and Contingencies

See Note 12, "Commitments and Contingencies" in the Notes to Condensed Consolidated Financial Statements for further discussion on our commitments and contingencies.

Operating Leases

We have operating leases for office 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. Total rent expense under operating leases was \$4.1 million and \$4.3 million for the three months ended June 30, 2021, and 2020, respectively, and \$8.3 million and \$8.6 million for the six months ended June 30, 2021, and 2020, respectively.

Off-Balance Sheet Arrangements

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, that 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 could arise if we had engaged in such relationships.

Related Party Transactions

See Note 13, "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 2020 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 June 30, 2021, 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 June 30, 2021.

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 June 30, 2021, 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 12, "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 2020 Annual Report have not materially changed during the six months ended June 30, 2021.

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 June 30, 2021.

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, dated June 30, 2021					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, dated June 30, 2021					Filed
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 dated June 30, 2021					Furnished
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 dated June 30, 2021					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.

Dated: July 29, 2021

SPOK HOLDINGS, INC.

/s/ Michael W. Wallace

Name:

Michael W. Wallace

Title:

Chief Financial Officer
(Principal Financial Officer and duly authorized officer)

**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.

Dated: July 29, 2021

/s/ Vincent D. Kelly

Vincent D. Kelly

President and Chief Executive Officer

**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: July 29, 2021

/s/ Michael W. Wallace

Michael W. Wallace
Chief Financial Officer

**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 June 30, 2021 (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.

Dated: July 29, 2021

/s/ Vincent D. Kelly

Vincent D. Kelly

President and Chief Executive Officer

**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 June 30, 2021 (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.

Dated: July 29, 2021

/s/ Michael W. Wallace

Michael W. Wallace
Chief Financial Officer