

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2020

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 No. 001-31720

PIPER SANDLER COMPANIES

(Exact Name of Registrant as specified in its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

800 Nicollet Mall, Suite 900

Minneapolis, Minnesota

(Address of Principal Executive Offices)

30-0168701

(IRS Employer Identification No.)

55402

(Zip Code)

(612) 303-6000

(Registrant's Telephone Number, Including Area Code)

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 \$0.01 per share	PIPR	The New York Stock Exchange

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 checked="" type="checkbox"/>	Accelerated filer	<input 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

As of October 30, 2020, the registrant had 17,868,182 shares of Common Stock outstanding.

**Piper Sandler Companies**  
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**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS.**

**Piper Sandler Companies  
Consolidated Statements of Financial Condition**

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
	(Unaudited)	
<i>(Amounts in thousands, except share data)</i>		
<b>Assets</b>		
Cash and cash equivalents	\$ 371,826	\$ 250,018
Receivables from brokers, dealers and clearing organizations	151,912	283,108
Financial instruments and other inventory positions owned	258,452	434,088
Financial instruments and other inventory positions owned and pledged as collateral	191,484	205,674
Total financial instruments and other inventory positions owned	449,936	639,762
Fixed assets (net of accumulated depreciation and amortization of \$73,590 and \$65,991, respectively)	38,991	29,850
Goodwill	215,309	87,649
Intangible assets (net of accumulated amortization of \$73,986 and \$40,864, respectively)	156,164	16,686
Investments	171,248	158,141
Net deferred income tax assets	87,217	68,035
Right-of-use lease asset	84,931	40,030
Other assets	93,640	55,440
Total assets	\$ 1,821,174	\$ 1,628,719
<b>Liabilities and Shareholders' Equity</b>		
Short-term financing	\$ 74,966	\$ 49,978
Long-term financing	195,000	175,000
Payables to brokers, dealers and clearing organizations	13,008	7,514
Financial instruments and other inventory positions sold, but not yet purchased	152,190	185,425
Accrued compensation	355,820	300,527
Accrued lease liability	102,366	57,169
Other liabilities and accrued expenses	69,449	46,578
Total liabilities	962,799	822,191
Shareholders' equity:		
Common stock, \$0.01 par value:		
Shares authorized: 100,000,000 at September 30, 2020 and December 31, 2019;		
Shares issued: 19,532,686 at September 30, 2020 and 19,526,533 at December 31, 2019;		
Shares outstanding: 13,751,430 at September 30, 2020 and 13,717,315 at December 31, 2019	195	195
Additional paid-in capital	826,719	757,669
Retained earnings	234,055	258,669
Less common stock held in treasury, at cost: 5,781,256 shares at September 30, 2020 and 5,809,218 shares at December 31, 2019	(290,440)	(284,378)
Accumulated other comprehensive loss	(1,035)	(872)
Total common shareholders' equity	769,494	731,283
Noncontrolling interests	88,881	75,245
Total shareholders' equity	858,375	806,528
Total liabilities and shareholders' equity	\$ 1,821,174	\$ 1,628,719

*See Notes to the Consolidated Financial Statements*

**Piper Sandler Companies**  
**Consolidated Statements of Operations**  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<i>(Amounts in thousands, except per share data)</i>				
<b>Revenues:</b>				
Investment banking	\$ 203,235	\$ 151,192	\$ 562,060	\$ 410,992
Institutional brokerage	86,764	46,814	265,246	113,983
Interest income	2,095	6,481	11,225	20,911
Investment income/(loss)	15,080	(1,575)	4,987	17,622
Total revenues	307,174	202,912	843,518	563,508
Interest expense	3,455	2,177	11,193	7,813
Net revenues	303,719	200,735	832,325	555,695
<b>Non-interest expenses:</b>				
Compensation and benefits	209,660	126,868	611,344	346,471
Outside services	9,395	7,842	27,733	24,864
Occupancy and equipment	13,849	9,594	39,356	26,368
Communications	11,169	7,885	33,899	22,599
Marketing and business development	537	6,528	13,164	21,355
Deal-related expenses	13,543	6,387	29,687	17,840
Trade execution and clearance	3,666	3,770	15,129	6,593
Restructuring and integration costs	1,592	6,143	7,218	12,538
Intangible asset amortization	11,607	1,229	33,122	2,735
Other operating expenses	4,052	3,454	23,656	9,235
Total non-interest expenses	279,070	179,700	834,308	490,598
<b>Income/(loss) from continuing operations before income tax expense/(benefit)</b>	<b>24,649</b>	<b>21,035</b>	<b>(1,983)</b>	<b>65,097</b>
Income tax expense/(benefit)	5,674	6,717	(1,400)	10,729
<b>Income/(loss) from continuing operations</b>	<b>18,975</b>	<b>14,318</b>	<b>(583)</b>	<b>54,368</b>
<b>Discontinued operations:</b>				
Income from discontinued operations, net of tax	—	26,077	—	23,772
<b>Net income/(loss)</b>	<b>18,975</b>	<b>40,395</b>	<b>(583)</b>	<b>78,140</b>
Net income/(loss) applicable to noncontrolling interests	7,358	(2,847)	1,073	5,087
<b>Net income/(loss) applicable to Piper Sandler Companies</b>	<b>\$ 11,617</b>	<b>\$ 43,242</b>	<b>\$ (1,656)</b>	<b>\$ 73,053</b>
<b>Net income/(loss) applicable to Piper Sandler Companies' common shareholders</b>	<b>\$ 11,617</b>	<b>\$ 42,442</b>	<b>\$ (1,656)</b>	<b>\$ 69,529</b>

*Continued on next page*

**Piper Sandler Companies**  
**Consolidated Statements of Operations – Continued**  
**(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<i>(Amounts in thousands, except per share data)</i>				
<b>Amounts applicable to Piper Sandler Companies</b>				
Net income/(loss) from continuing operations	\$ 11,617	\$ 17,165	\$ (1,656)	\$ 49,281
Net income from discontinued operations	—	26,077	—	23,772
Net income/(loss) applicable to Piper Sandler Companies	\$ 11,617	\$ 43,242	\$ (1,656)	\$ 73,053
<b>Earnings/(loss) per basic common share</b>				
Income/(loss) from continuing operations	\$ 0.84	\$ 1.23	\$ (0.12)	\$ 3.46
Income from discontinued operations	—	1.87	—	1.69
Earnings/(loss) per basic common share	\$ 0.84	\$ 3.09	\$ (0.12)	\$ 5.15
<b>Earnings/(loss) per diluted common share</b>				
Income/(loss) from continuing operations	\$ 0.78	\$ 1.20	\$ (0.12)	\$ 3.37
Income from discontinued operations	—	1.82	—	1.64
Earnings/(loss) per diluted common share	\$ 0.78	\$ 3.01	\$ (0.12)	\$ 5.01
<b>Dividends declared per common share</b>	\$ 0.30	\$ 0.38	\$ 1.63	\$ 2.14
<b>Weighted average common shares outstanding</b>				
Basic	13,778	13,708	13,789	13,502
Diluted	14,853	14,085	14,580	13,882

*See Notes to the Consolidated Financial Statements*

**Piper Sandler Companies**  
**Consolidated Statements of Comprehensive Income**  
**(Unaudited)**

<i>(Amounts in thousands)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Net income/(loss)</b>	<b>\$ 18,975</b>	<b>\$ 40,395</b>	<b>\$ (583)</b>	<b>\$ 78,140</b>
<b>Other comprehensive income/(loss), net of tax:</b>				
Foreign currency translation adjustment	<u>577</u>	<u>(179)</u>	<u>(163)</u>	<u>(65)</u>
<b>Comprehensive income/(loss)</b>	<b>19,552</b>	<b>40,216</b>	<b>(746)</b>	<b>78,075</b>
Comprehensive income/(loss) applicable to noncontrolling interests	<u>7,358</u>	<u>(2,847)</u>	<u>1,073</u>	<u>5,087</u>
<b>Comprehensive income/(loss) applicable to Piper Sandler Companies</b>	<b><u>\$ 12,194</u></b>	<b><u>\$ 43,063</u></b>	<b><u>\$ (1,819)</u></b>	<b><u>\$ 72,988</u></b>

*See Notes to the Consolidated Financial Statements*

**Piper Sandler Companies**  
**Consolidated Statements of Changes in Shareholders' Equity**  
**(Unaudited)**

<i>(Amounts in thousands, except share amounts)</i>	Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Common Shareholders' Equity	Noncontrolling Interests	Total Shareholders' Equity
<b>Balance at December 31, 2019</b>	<b>13,717,315</b>	<b>\$ 195</b>	<b>\$ 757,669</b>	<b>\$ 258,669</b>	<b>\$(284,378)</b>	<b>\$ (872)</b>	<b>\$ 731,283</b>	<b>\$ 75,245</b>	<b>\$ 806,528</b>
Net loss	—	—	—	(14,727)	—	—	(14,727)	(7,528)	(22,255)
Dividends	—	—	—	(16,066)	—	—	(16,066)	—	(16,066)
Amortization/issuance of restricted stock (1)	—	—	44,195	—	—	—	44,195	—	44,195
Repurchase of common stock through share repurchase program	(128,865)	—	—	—	(9,225)	—	(9,225)	—	(9,225)
Issuance of treasury shares for restricted stock vestings	254,111	—	(12,551)	—	12,551	—	—	—	—
Issuance of treasury shares for deal consideration	34,205	—	1,049	—	1,674	—	2,723	—	2,723
Repurchase of common stock from employees	(94,615)	—	—	—	(8,068)	—	(8,068)	—	(8,068)
Shares reserved/issued for director compensation	1,779	—	116	—	—	—	116	—	116
Other comprehensive loss	—	—	—	—	—	(672)	(672)	—	(672)
Fund capital distributions, net	—	—	—	—	—	—	—	(1,201)	(1,201)
<b>Balance at March 31, 2020</b>	<b>13,783,930</b>	<b>\$ 195</b>	<b>\$ 790,478</b>	<b>\$ 227,876</b>	<b>\$(287,446)</b>	<b>\$ (1,544)</b>	<b>\$ 729,559</b>	<b>\$ 66,516</b>	<b>\$ 796,075</b>
Net income	—	—	—	1,454	—	—	1,454	1,243	2,697
Dividends	—	—	—	(2,753)	—	—	(2,753)	—	(2,753)
Amortization/issuance of restricted stock (1)	—	—	17,654	—	—	—	17,654	—	17,654
Issuance of treasury shares for restricted stock vestings	17,778	—	(890)	—	890	—	—	—	—
Repurchase of common stock from employees	(3,521)	—	—	—	(189)	—	(189)	—	(189)
Shares reserved/issued for director compensation	5,738	—	299	—	—	—	299	—	299
Other comprehensive loss	—	—	—	—	—	(68)	(68)	—	(68)
Fund capital distributions, net	—	—	—	—	—	—	—	(3)	(3)
<b>Balance at June 30, 2020</b>	<b>13,803,925</b>	<b>\$ 195</b>	<b>\$ 807,541</b>	<b>\$ 226,577</b>	<b>\$(286,745)</b>	<b>\$ (1,612)</b>	<b>\$ 745,956</b>	<b>\$ 67,756</b>	<b>\$ 813,712</b>
Net income	—	—	—	11,617	—	—	11,617	7,358	18,975
Dividends	—	—	—	(4,139)	—	—	(4,139)	—	(4,139)
Amortization/issuance of restricted stock (1)	—	—	19,689	—	—	—	19,689	—	19,689
Repurchase of common stock through share repurchase program	(59,454)	—	—	—	(3,905)	—	(3,905)	—	(3,905)
Issuance of treasury shares for restricted stock vestings	10,829	—	(544)	—	544	—	—	—	—
Repurchase of common stock from employees	(4,420)	—	—	—	(334)	—	(334)	—	(334)
Shares reserved/ issued for director compensation	550	—	33	—	—	—	33	—	33
Other comprehensive income	—	—	—	—	—	577	577	—	577
Fund capital contributions, net	—	—	—	—	—	—	—	13,767	13,767
<b>Balance at September 30, 2020</b>	<b>13,751,430</b>	<b>\$ 195</b>	<b>\$ 826,719</b>	<b>\$ 234,055</b>	<b>\$(290,440)</b>	<b>\$ (1,035)</b>	<b>\$ 769,494</b>	<b>\$ 88,881</b>	<b>\$ 858,375</b>

(1) Includes amortization of restricted stock issued as part of deal consideration. See Note 3 for further discussion.

**Piper Sandler Companies**  
**Consolidated Statements of Changes in Shareholders' Equity**  
**(Unaudited)**

<i>(Amounts in thousands, except share amounts)</i>	Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Common Shareholders' Equity	Noncontrolling Interests	Total Shareholders' Equity
<b>Balance at December 31, 2018</b>	<b>12,995,397</b>	<b>\$ 195</b>	<b>\$ 796,363</b>	<b>\$ 182,552</b>	<b>\$(300,268)</b>	<b>\$ (1,398)</b>	<b>\$ 677,444</b>	<b>\$ 52,972</b>	<b>\$ 730,416</b>
Net income/(loss)	—	—	—	19,422	—	—	19,422	(616)	18,806
Dividends	—	—	—	(19,947)	—	—	(19,947)	—	(19,947)
Amortization/issuance of restricted stock	—	—	23,826	—	—	—	23,826	—	23,826
Repurchase of common stock through share repurchase program	(501)	—	—	—	(32)	—	(32)	—	(32)
Issuance of treasury shares for restricted stock vestings	1,035,360	—	(48,092)	—	48,092	—	—	—	—
Repurchase of common stock from employees	(563,284)	—	—	—	(39,695)	—	(39,695)	—	(39,695)
Shares reserved/issued for director compensation	1,263	—	87	—	—	—	87	—	87
Other comprehensive income	—	—	—	—	—	215	215	—	215
Fund capital distributions, net	—	—	—	—	—	—	—	(5)	(5)
<b>Balance at March 31, 2019</b>	<b>13,468,235</b>	<b>\$ 195</b>	<b>\$ 772,184</b>	<b>\$ 182,027</b>	<b>\$(291,903)</b>	<b>\$ (1,183)</b>	<b>\$ 661,320</b>	<b>\$ 52,351</b>	<b>\$ 713,671</b>
Net income	—	—	—	10,389	—	—	10,389	8,550	18,939
Dividends	—	—	—	(5,234)	—	—	(5,234)	—	(5,234)
Amortization/issuance of restricted stock	—	—	1,448	—	—	—	1,448	—	1,448
Issuance of treasury shares for restricted stock vestings	365,908	—	(17,703)	—	17,703	—	—	—	—
Repurchase of common stock from employees	(133,127)	—	—	—	(10,499)	—	(10,499)	—	(10,499)
Shares reserved/issued for director compensation	4,299	—	334	—	—	—	334	—	334
Other comprehensive loss	—	—	—	—	—	(101)	(101)	—	(101)
Fund capital contributions, net	—	—	—	—	—	—	—	7,227	7,227
<b>Balance at June 30, 2019</b>	<b>13,705,315</b>	<b>\$ 195</b>	<b>\$ 756,263</b>	<b>\$ 187,182</b>	<b>\$(284,699)</b>	<b>\$ (1,284)</b>	<b>\$ 657,657</b>	<b>\$ 68,128</b>	<b>\$ 725,785</b>
Net income/(loss)	—	—	—	43,242	—	—	43,242	(2,847)	40,395
Dividends	—	—	—	(5,221)	—	—	(5,221)	—	(5,221)
Amortization/issuance of restricted stock	—	—	1,208	—	—	—	1,208	—	1,208
Issuance of treasury shares for restricted stock vestings	4,871	—	(238)	—	238	—	—	—	—
Repurchase of common stock from employees	(1,654)	—	—	—	(117)	—	(117)	—	(117)
Shares reserved/ issued for director compensation	1,976	—	151	—	—	—	151	—	151
Other comprehensive loss	—	—	—	—	—	(179)	(179)	—	(179)
Fund capital contributions, net	—	—	—	—	—	—	—	82	82
<b>Balance at September 30, 2019</b>	<b>13,710,508</b>	<b>\$ 195</b>	<b>\$ 757,384</b>	<b>\$ 225,203</b>	<b>\$(284,578)</b>	<b>\$ (1,463)</b>	<b>\$ 696,741</b>	<b>\$ 65,363</b>	<b>\$ 762,104</b>

*See Notes to the Consolidated Financial Statements*



**Piper Sandler Companies**  
**Consolidated Statements of Cash Flows**  
**(Unaudited)**

	Nine Months Ended September 30,	
	2020	2019
<i>(Amounts in thousands)</i>		
<b>Operating Activities:</b>		
Net income/(loss)	\$ (583)	\$ 78,140
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Depreciation and amortization of fixed assets	8,047	7,011
Deferred income taxes	(19,182)	17,997
Gain on sale of Advisory Research, Inc. ("ARI"), net of tax	—	(33,026)
Stock-based compensation	80,292	18,964
Amortization of intangible assets	33,122	8,200
Amortization of forgivable loans	2,554	3,322
Decrease/(increase) in operating assets:		
Receivables from brokers, dealers and clearing organizations	323,871	61,567
Net financial instruments and other inventory positions owned	156,591	(6,480)
Investments	(12,422)	(3,662)
Other assets	(25,334)	(38,715)
Increase/(decrease) in operating liabilities:		
Payables to brokers, dealers and clearing organizations	5,494	(3,800)
Accrued compensation	(14,399)	(121,148)
Other liabilities and accrued expenses	(5,246)	16,830
Decrease in assets held for sale	—	20,901
Decrease in liabilities held for sale	—	(7,915)
Net cash provided by operating activities	<u>532,805</u>	<u>18,186</u>
<b>Investing Activities:</b>		
Business acquisitions, net of cash acquired	(393,522)	(18,617)
Proceeds from sale of ARI	—	52,881
Purchases of fixed assets, net	(10,158)	(4,990)
Net cash provided by/(used in) investing activities	<u>(403,680)</u>	<u>29,274</u>
<b>Financing Activities:</b>		
Increase in short-term financing	24,988	9
Payment of cash dividend	(22,958)	(30,402)
Increase in noncontrolling interests	12,563	7,304
Repurchase of common stock	(21,721)	(50,343)
Net cash used in financing activities	<u>(7,128)</u>	<u>(73,432)</u>
Currency adjustment:		
Effect of exchange rate changes on cash	(189)	(387)
Net increase/(decrease) in cash and cash equivalents	<u>121,808</u>	<u>(26,359)</u>
Cash and cash equivalents at beginning of period	<u>250,018</u>	<u>50,364</u>
Cash and cash equivalents at end of period	<u>\$ 371,826</u>	<u>\$ 24,005</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for:		
Interest	\$ 11,115	\$ 8,046
Income taxes	\$ 14,589	\$ 8,463

*See Notes to the Consolidated Financial Statements*

**Piper Sandler Companies**  
**Notes to the Consolidated Financial Statements**  
**(Unaudited)**

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**Piper Sandler Companies**  
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**Note 1** *Organization and Basis of Presentation*

**Organization**

Piper Sandler Companies is the parent company of Piper Sandler & Co. ("Piper Sandler"), a securities broker dealer and investment banking firm; Piper Sandler Ltd., a firm providing securities brokerage and mergers and acquisitions services in Europe; Piper Sandler Finance LLC, which facilitates corporate debt underwriting in conjunction with affiliated credit vehicles; Piper Sandler Investment Group Inc. and PSC Capital Management LLC, entities providing alternative asset management services; Piper Sandler Financial Products Inc. and Piper Sandler Financial Products II Inc., entities that facilitate derivative transactions; and other immaterial subsidiaries.

Piper Sandler Companies and its subsidiaries (collectively, the "Company") operate in one reporting segment providing investment banking services and institutional sales, trading and research services. Investment banking services include financial advisory services, management of and participation in underwritings, and municipal financing activities. Revenues are generated through the receipt of advisory and financing fees. Institutional sales, trading and research services focus on the trading of equity and fixed income products with institutions, government and non-profit entities. Revenues are generated through commissions and sales credits earned on equity and fixed income institutional sales activities, net interest revenues on trading securities held in inventory, and profits and losses from trading these securities. Also, the Company generates revenue through strategic trading and investing activities, which focus on investments in municipal bonds and merchant banking activities involving equity investments in late stage private companies. The Company has created alternative asset management funds in merchant banking and energy in order to invest firm capital and to manage capital from outside investors. The Company receives management and performance fees for managing these funds.

**Basis of Presentation**

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and the rules and regulations of the Securities and Exchange Commission ("SEC"). Pursuant to this guidance, certain information and disclosures have been omitted that are included within the complete annual financial statements. Except as disclosed herein, there have been no material changes in the information reported in the financial statements and related disclosures in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

The consolidated financial statements include the accounts of Piper Sandler Companies, its wholly owned subsidiaries, and all other entities in which the Company has a controlling financial interest. Noncontrolling interests represent equity interests in consolidated entities that are not attributable, either directly or indirectly, to Piper Sandler Companies. Noncontrolling interests include the minority equity holders' proportionate share of the equity in the Company's alternative asset management funds. All material intercompany balances have been eliminated.

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates and assumptions are based on the best information available, actual results could differ from those estimates.

**Piper Sandler Companies**  
**Notes to the Consolidated Financial Statements**  
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**Note 2 Accounting Policies and Pronouncements**

**Summary of Significant Accounting Policies**

Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2019 for a full description of the Company's significant accounting policies.

**Adoption of New Accounting Standards**

*Financial Instruments – Credit Losses*

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). The new guidance requires an entity to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts as opposed to delaying recognition until the loss was probable of occurring. ASU 2016-13 became effective for the Company as of January 1, 2020. There was no material impact to the Company's consolidated financial statements upon adoption of ASU 2016-13.

**Note 3 Acquisitions**

The following acquisitions were accounted for pursuant to FASB Accounting Standards Codification Topic 805, "Business Combinations." Accordingly, the purchase price of each acquisition was allocated to the acquired assets and liabilities assumed based on their estimated fair values as of the respective acquisition dates. The excess of the purchase price over the net assets acquired was allocated between goodwill and intangible assets.

**The Valence Group ("Valence")**

On April 3, 2020, the Company completed the acquisition of Valence, an investment bank offering mergers and acquisitions advisory services to companies and financial sponsors with a focus on the chemicals, materials and related sectors. The transaction was completed pursuant to the share purchase agreement dated February 20, 2020, as amended. The acquisition adds a new industry sector and expands the Company's presence in Europe.

The net assets acquired by the Company are described below. As part of the purchase price, the Company entered into unsecured promissory notes with the former owners totaling \$20.0 million (the "Valence Notes"), as discussed in Note 13. The Company also granted 647,268 restricted shares valued at \$31.2 million as equity consideration on the acquisition date. The fair value of the restricted stock was determined using the market price of the Company's common stock on the date of acquisition. In addition, the Company entered into acquisition-related compensation arrangements with certain employees of \$5.5 million in restricted stock for retention purposes. Both the equity consideration and retention-related restricted shares are subject to graded vesting, beginning on the third anniversary of the acquisition date, so long as the applicable employee remains continuously employed by the Company for such period. Compensation expense will be amortized on a straight-line basis over the requisite service period of five years.

Additional cash may be earned by certain employees if a revenue threshold is exceeded during the three-year post-acquisition period to the extent they are employed by the Company at the time of payment. Amounts estimated to be payable, if any, will be recorded as compensation expense on the consolidated statements of operations over the requisite performance period. If earned, the amount will be paid by July 3, 2023.

The Company recorded \$33.3 million of goodwill on the consolidated statements of financial condition, none of which is expected to be deductible for income tax purposes. The final goodwill recorded on the Company's consolidated statements of financial condition may differ from that reflected herein as a result of measurement period adjustments. In management's opinion, the goodwill represents the reputation and operating expertise of Valence. Identifiable intangible assets purchased by the Company consisted of customer relationships with an acquisition-date fair value of \$14.8 million.

**Piper Sandler Companies**  
**Notes to the Consolidated Financial Statements**  
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Transaction costs of \$0.1 million and \$2.1 million were incurred for the three and nine months ended September 30, 2020, respectively, and are included in restructuring and integration costs on the consolidated statements of operations.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the date of the acquisition:

*(Amounts in thousands)*

<b>Assets</b>	
Cash and cash equivalents	\$ 8,181
Fixed assets	256
Goodwill	33,300
Intangible assets	14,800
Right-of-use lease asset	3,279
Other assets	4,190
Total assets acquired	<u>64,006</u>
<b>Liabilities</b>	
Accrued lease liability	3,279
Other liabilities and accrued expenses	10,393
Total liabilities assumed	<u>13,672</u>
Net assets acquired	<u><u>\$ 50,334</u></u>

**SOP Holdings, LLC**

On January 3, 2020, the Company completed the acquisition of SOP Holdings, LLC and its subsidiaries, including Sandler O'Neill & Partners, L.P. (collectively, "Sandler O'Neill"), a full-service investment banking firm and broker dealer focused on the financial services industry. The transaction was completed pursuant to the Agreement and Plans of Merger dated July 9, 2019. The purchase price was \$485.0 million, for which the Company was entitled to receive \$100.0 million of tangible book value, subject to a final adjustment as of the closing date. The acquisition of Sandler O'Neill is accretive to the Company's advisory services revenues, diversifies and enhances scale in corporate financings, adds a differentiated fixed income business, and increases scale in the equity brokerage business.

The net assets acquired by the Company are described below. As part of the purchase price, the Company granted 1,568,670 restricted shares valued at \$124.9 million as equity consideration on the acquisition date. These restricted shares are generally subject to ratable vesting over three years and employees must fulfill service requirements in exchange for the rights to the restricted shares. Compensation expense will be amortized on a straight-line basis over the requisite service period of three years. The fair value of the restricted stock was determined using the market price of the Company's common stock on the date of acquisition.

The Company also entered into acquisition-related compensation arrangements with certain employees of \$113.9 million which consisted of restricted stock (\$96.9 million) and restricted cash (\$17.0 million) for retention purposes. The retention-related awards are also subject to vesting restrictions and employees must remain continuously employed by the Company for the respective vesting period. Compensation expense related to these arrangements will be amortized on a straight-line basis over the requisite service period of 18 months, three years or five years (a weighted average service period of 3.7 years).

The Company recorded \$94.4 million of goodwill on the consolidated statements of financial condition, of which \$93.4 million is expected to be deductible for income tax purposes. The final goodwill recorded on the Company's consolidated statements of financial condition may differ from that reflected herein as a result of measurement period adjustments. In management's opinion, the goodwill represents the reputation and operating expertise of Sandler O'Neill. Identifiable intangible assets purchased by the Company consisted of customer relationships and the Sandler trade name with acquisition-date fair values of \$72.4 million and \$85.4 million, respectively.

**Piper Sandler Companies**  
**Notes to the Consolidated Financial Statements**  
**(Unaudited)**

Transaction costs of \$1.1 million were incurred for the nine months ended September 30, 2020, and are included in restructuring and integration costs on the consolidated statements of operations.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the date of the acquisition, including measurement period adjustments:

*(Amounts in thousands)*

<b>Assets</b>	
Cash and cash equivalents	\$ 27,420
Receivables from brokers, dealers and clearing organizations	192,675
Fixed assets	6,789
Goodwill	94,360
Intangible assets	157,800
Investments	685
Right-of-use lease asset	39,607
Other assets	9,628
<b>Total assets acquired</b>	<b>528,964</b>
<b>Liabilities</b>	
Accrued compensation	71,398
Accrued lease liability	39,613
Other liabilities and accrued expenses	16,441
Due to Sandler O'Neill (1)	40,673
<b>Total liabilities assumed</b>	<b>168,125</b>
<b>Net assets acquired</b>	<b>\$ 360,839</b>

(1) Represents the amount of excess tangible book value received by the Company on the date of acquisition.

**Weeden & Co. L.P. ("Weeden & Co.")**

On August 2, 2019, the Company completed the acquisition of Weeden & Co., a broker dealer specializing in equity security sales and trading. The economic value of the acquisition was approximately \$42.0 million and was completed pursuant to a securities purchase agreement dated February 24, 2019, as amended. The transaction added enhanced trade execution capabilities and scale to the Company's equities institutional sales and trading business.

The net assets acquired by the Company are described below. As part of the purchase price, the Company granted \$10.1 million in restricted cash as consideration on the acquisition date. The Company also entered into acquisition-related compensation arrangements with certain employees of \$7.3 million in restricted stock for retention purposes. Both the restricted cash and restricted stock are subject to graded vesting, beginning on the third anniversary of the acquisition date, so long as the applicable employee remains continuously employed by the Company for such period. Compensation expense will be amortized on a straight-line basis over the requisite service period of four years.

Additional cash of up to \$31.5 million may be earned if a net revenue target is achieved during the period from January 1, 2020 to June 30, 2021 ("Weeden Earnout"). Weeden & Co.'s equity owners, a portion of whom are now employees of the Company, are eligible to receive the additional payment. Employees must fulfill service requirements in exchange for the rights to the additional payment. Amounts estimated to be payable to employees will be recorded as compensation expense on the consolidated statements of operations over the requisite performance period. The Company recorded a liability as of the acquisition date for the fair value related to non-employee equity owners, and is required to adjust this liability through the statement of operations for any changes after the acquisition date. If earned, the Weeden Earnout will be paid by September 30, 2021. As of September 30, 2020, the Company expects the maximum Weeden Earnout will be earned and has accrued a total of \$22.9 million related to this additional cash payment. The Company recorded \$2.2 million and \$22.0 million in non-interest expenses related to the Weeden Earnout for the three and nine months ended September 30, 2020, respectively.

**Piper Sandler Companies**  
**Notes to the Consolidated Financial Statements**  
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The Company recorded \$5.8 million of goodwill on the consolidated statements of financial condition, all of which is expected to be deductible for income tax purposes. In management's opinion, the goodwill represents the reputation and operating expertise of Weeden & Co. Identifiable intangible assets purchased by the Company consisted of customer relationships and internally developed software with acquisition-date fair values of \$12.0 million and \$4.7 million, respectively.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the date of the acquisition, including measurement period adjustments:

*(Amounts in thousands)*

<b>Assets</b>	
Cash and cash equivalents	\$ 4,351
Receivables from brokers, dealers and clearing organizations	1,623
Fixed assets	289
Goodwill	5,794
Intangible assets	16,700
Right-of-use lease asset	6,811
Other assets	7,675
<b>Total assets acquired</b>	<b>43,243</b>
<b>Liabilities</b>	
Accrued compensation	2,156
Accrued lease liability	6,811
Other liabilities and accrued expenses	10,251
<b>Total liabilities assumed</b>	<b>19,218</b>
<b>Net assets acquired</b>	<b>\$ 24,025</b>

### **Pro Forma Financial Information**

The results of operations of Valence, Sandler O'Neill and Weeden & Co. have been included in the Company's consolidated financial statements prospectively beginning on the respective acquisition dates. The acquisitions have been fully integrated with the Company's existing operations. Accordingly, post-acquisition revenues and net income are not discernible. The following unaudited pro forma financial data is presented on a combined basis and includes Valence, Sandler O'Neill and Weeden & Co. Based on the respective acquisition dates, the unaudited pro forma financial data assumes that both the Valence and Sandler O'Neill acquisitions had occurred on January 1, 2019, the beginning of the comparable prior period presented, and that the Weeden & Co. acquisition had occurred on January 1, 2018, the beginning of the prior annual period in which the acquisition occurred. Pro forma results have been prepared by adjusting the Company's historical results to include the results of operations of Valence, Sandler O'Neill and Weeden & Co. adjusted for the following significant changes: interest expense was adjusted to reflect the debt incurred by the Company to fund portions of the Sandler O'Neill and Valence purchase price; amortization expense was adjusted to account for the acquisition-date fair value of intangible assets; compensation and benefits expenses were adjusted to reflect the restricted cash or restricted stock issued as part of the respective purchase price, the restricted stock issued for retention purposes, and the cost that would have been incurred had Sandler O'Neill partners and Valence employees been included in the Company's employee compensation arrangements; and the income tax effect of applying the Company's statutory tax rates to the results of operations of Valence, Sandler O'Neill and Weeden & Co. The Company's consolidated unaudited pro forma information presented does not necessarily reflect the results of operations that would have resulted had the acquisitions been completed at the beginning of the applicable periods presented, does not contemplate client account overlap and anticipated operational efficiencies of the combined entities, nor does it indicate the results of operations in future periods.

**Piper Sandler Companies**  
**Notes to the Consolidated Financial Statements**  
**(Unaudited)**

<i>(Amounts in thousands)</i>	Nine Months Ended September 30,		Three Months Ended September 30,
	2020	2019	2019
Net revenues	\$ 846,653	\$ 865,263	\$ 285,849
Net income/(loss) from continuing operations applicable to Piper Sandler Companies	(3,349)	9,267	(1,761)

**Note 4 Discontinued Operations**

In the third quarter of 2019, the Company completed the sale of its traditional asset management business, which was conducted through its wholly-owned subsidiary Advisory Research, Inc. ("ARI"). On September 20, 2019, the Company completed the sale of the master limited partnerships and energy infrastructure strategies business to Tortoise Capital Advisors. Additionally, on September 27, 2019, the Company completed the sale of its remaining equity strategies business to its former management team. The transactions generated cash proceeds of \$53.9 million.

ARI's results have been presented as discontinued operations for all prior periods presented. The components of discontinued operations were as follows:

<i>(Amounts in thousands)</i>	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Net revenues	\$ 7,939	\$ 26,546
Operating expenses	7,068	22,589
Intangible asset amortization (1)	—	5,465
Restructuring costs	9,572	10,268
Total non-interest expenses	16,640	38,322
Loss from discontinued operations before income tax benefit	(8,701)	(11,776)
Income tax benefit	(1,752)	(2,522)
Loss from discontinued operations before gain on sales	(6,949)	(9,254)
Gain on sales, net of tax	33,026	33,026
Income from discontinued operations, net of tax	\$ 26,077	\$ 23,772

(1) Includes \$2.9 million of intangible asset impairment related to the ARI trade name for the nine months ended September 30, 2019.



**Piper Sandler Companies**  
**Notes to the Consolidated Financial Statements**  
**(Unaudited)**

**Note 5** *Financial Instruments and Other Inventory Positions Owned and Financial Instruments and Other Inventory Positions Sold, but Not Yet Purchased*

<i>(Amounts in thousands)</i>	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Financial instruments and other inventory positions owned:		
Corporate securities:		
Equity securities	\$ 5,275	\$ 3,046
Convertible securities	144,181	146,406
Fixed income securities	19,689	28,176
Municipal securities:		
Taxable securities	14,222	22,570
Tax-exempt securities	80,311	222,192
Short-term securities	103,815	67,901
Mortgage-backed securities	13	13
U.S. government agency securities	55,860	51,773
U.S. government securities	568	77,303
Derivative contracts	26,002	20,382
Total financial instruments and other inventory positions owned	<u>\$ 449,936</u>	<u>\$ 639,762</u>
Financial instruments and other inventory positions sold, but not yet purchased:		
Corporate securities:		
Equity securities	\$ 76,308	\$ 94,036
Fixed income securities	17,988	10,311
U.S. government agency securities	1,344	9,935
U.S. government securities	50,410	67,090
Derivative contracts	6,140	4,053
Total financial instruments and other inventory positions sold, but not yet purchased	<u>\$ 152,190</u>	<u>\$ 185,425</u>

At September 30, 2020 and December 31, 2019, financial instruments and other inventory positions owned in the amount of \$191.5 million and \$205.7 million, respectively, had been pledged as collateral for short-term financings.

Financial instruments and other inventory positions sold, but not yet purchased represent obligations of the Company to deliver the specified security at the contracted price, thereby creating a liability to purchase the security in the market at prevailing prices. The Company is obligated to acquire the securities sold short at prevailing market prices, which may exceed the amount reflected on the consolidated statements of financial condition. The Company economically hedges changes in the market value of its financial instruments and other inventory positions owned using inventory positions sold, but not yet purchased, interest rate derivatives, and U.S. treasury bond futures and options.

**Derivative Contract Financial Instruments**

The Company uses interest rate swaps, interest rate locks, U.S. treasury bond futures and options, and equity option contracts as a means to manage risk in certain inventory positions. The Company also enters into interest rate swaps to facilitate customer transactions. The following describes the Company's derivatives by the type of transaction or security the instruments are economically hedging.

*Customer matched-book derivatives:* The Company enters into interest rate derivative contracts in a principal capacity as a dealer to satisfy the financial needs of its customers. The Company simultaneously enters into an interest rate derivative contract with a third party for the same notional amount to hedge the interest rate and credit risk of the initial client interest rate derivative contract. In certain limited instances, the Company has only hedged interest rate risk with a third party, and retains uncollateralized credit risk as described below. The instruments use interest rates based upon the London Interbank Offered Rate ("LIBOR") index, the Municipal Market Data ("MMD") index or the Securities Industry and Financial Markets Association ("SIFMA") index.

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*Trading securities derivatives:* The Company enters into interest rate derivative contracts and uses U.S. treasury bond futures and options to hedge interest rate and market value risks associated with its fixed income securities. These instruments use interest rates based upon the MMD index, LIBOR or the SIFMA index. The Company also enters into equity option contracts to hedge market value risk associated with its convertible securities.

Derivatives are reported on a net basis by counterparty (i.e., the net payable or receivable for derivative assets and liabilities for a given counterparty) when a legal right of offset exists and on a net basis by cross product when applicable provisions are stated in master netting agreements. Cash collateral received or paid is netted on a counterparty basis, provided a legal right of offset exists. The total absolute notional contract amount, representing the absolute value of the sum of gross long and short derivative contracts, provides an indication of the volume of the Company's derivative activity and does not represent gains and losses. The following table presents the gross fair market value and the total absolute notional contract amount of the Company's outstanding derivative instruments, prior to counterparty netting, by asset or liability position:

<i>(Amounts in thousands)</i> <b>Derivative Category</b>	<b>September 30, 2020</b>			<b>December 31, 2019</b>		
	<b>Derivative Assets (1)</b>	<b>Derivative Liabilities (2)</b>	<b>Notional Amount</b>	<b>Derivative Assets (1)</b>	<b>Derivative Liabilities (2)</b>	<b>Notional Amount</b>
Interest rate						
Customer matched-book	\$ 252,306	\$ 242,048	\$ 1,972,971	\$ 209,119	\$ 198,315	\$ 2,197,340
Trading securities	374	4,274	111,525	8	1,852	110,875
Equity options						
Trading securities	—	292	12,880	—	—	—
	<u>\$ 252,680</u>	<u>\$ 246,614</u>	<u>\$ 2,097,376</u>	<u>\$ 209,127</u>	<u>\$ 200,167</u>	<u>\$ 2,308,215</u>

- (1) Derivative assets are included within financial instruments and other inventory positions owned on the consolidated statements of financial condition.
- (2) Derivative liabilities are included within financial instruments and other inventory positions sold, but not yet purchased on the consolidated statements of financial condition.

The Company's derivative contracts do not qualify for hedge accounting, therefore, unrealized gains and losses are recorded on the consolidated statements of operations. The gains and losses on the related economically hedged inventory positions are not disclosed below as they are not in qualifying hedging relationships. The following table presents the Company's unrealized gains/(losses) on derivative instruments:

<i>(Amounts in thousands)</i> <b>Derivative Category</b>	<b>Operations Category</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
		<b>September 30,</b>		<b>September 30,</b>	
		<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Interest rate derivative contract	Investment banking	\$ (232)	\$ (203)	\$ (1,164)	\$ (634)
Interest rate derivative contract	Institutional brokerage	154	(5)	(1,439)	(450)
Equity option derivative contracts	Institutional brokerage	228	—	228	—
		<u>\$ 150</u>	<u>\$ (208)</u>	<u>\$ (2,375)</u>	<u>\$ (1,084)</u>

Credit risk associated with the Company's derivatives is the risk that a derivative counterparty will not perform in accordance with the terms of the applicable derivative contract. Credit exposure associated with the Company's derivatives is driven by uncollateralized market movements in the fair value of the contracts with counterparties and is monitored regularly by the Company's financial risk committee. The Company considers counterparty credit risk in determining derivative contract fair value. The majority of the Company's derivative contracts are substantially collateralized by its counterparties, who are major financial institutions. The Company has a limited number of counterparties who are not required to post collateral. Based on market movements, the uncollateralized amounts representing the fair value of a derivative contract can become material, exposing the Company to the credit risk of these counterparties. As of September 30, 2020, the Company had \$26.1 million of uncollateralized credit exposure with these counterparties (notional contract amount of \$163.1 million), including \$22.0 million of uncollateralized credit exposure with one counterparty.

**Piper Sandler Companies**  
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**Note 6 Fair Value of Financial Instruments**

Based on the nature of the Company's business and its role as a "dealer" in the securities industry or as a manager of alternative asset management funds, the fair values of its financial instruments are determined internally. The Company's processes are designed to ensure that the fair values used for financial reporting are based on observable inputs wherever possible. In the event that observable inputs are not available, unobservable inputs are developed based on an evaluation of all relevant empirical market data, including prices evidenced by market transactions, interest rates, credit spreads, volatilities and correlations and other security-specific information. Valuation adjustments related to illiquidity or counterparty credit risk are also considered. In estimating fair value, the Company may utilize information provided by third party pricing vendors to corroborate internally-developed fair value estimates.

The Company employs specific control processes to determine the reasonableness of the fair value of its financial instruments. The Company's processes are designed to ensure that the internally-estimated fair values are accurately recorded and that the data inputs and the valuation techniques used are appropriate, consistently applied, and that the assumptions are reasonable and consistent with the objective of determining fair value. Individuals outside of the trading departments perform independent pricing verification reviews as of each reporting date. The Company has established parameters which set forth when the fair value of securities are independently verified. The selection parameters are generally based upon the type of security, the level of estimation risk of a security, the materiality of the security to the Company's consolidated financial statements, changes in fair value from period to period, and other specific facts and circumstances of the Company's securities portfolio. In evaluating the initial internally-estimated fair values made by the Company's traders, the nature and complexity of securities involved (e.g., term, coupon, collateral, and other key drivers of value), level of market activity for securities, and availability of market data are considered. The independent price verification procedures include, but are not limited to, analysis of trade data (both internal and external where available), corroboration to the valuation of positions with similar characteristics, risks and components, or comparison to an alternative pricing source, such as a discounted cash flow model. The Company's valuation committee, comprised of members of senior management and risk management, provides oversight and overall responsibility for the internal control processes and procedures related to fair value measurements.

The following is a description of the valuation techniques used to measure fair value.

**Cash Equivalents**

Cash equivalents include highly liquid investments with original maturities of 90 days or less. Actively traded money market funds are measured at their net asset value and classified as Level I.

**Financial Instruments and Other Inventory Positions Owned**

The Company records financial instruments and other inventory positions owned and financial instruments and other inventory positions sold, but not yet purchased at fair value on the consolidated statements of financial condition with unrealized gains and losses reflected on the consolidated statements of operations.

*Equity securities* – Exchange traded equity securities are valued based on quoted prices from the exchange for identical assets or liabilities as of the period-end date. To the extent these securities are actively traded and valuation adjustments are not applied, they are categorized as Level I. Non-exchange traded equity securities (principally hybrid preferred securities) are measured primarily using broker quotations, prices observed for recently executed market transactions and internally-developed fair value estimates based on observable inputs and are categorized within Level II of the fair value hierarchy.

*Convertible securities* – Convertible securities are valued based on observable trades, when available, and therefore are generally categorized as Level II.

*Corporate fixed income securities* – Fixed income securities include corporate bonds which are valued based on recently executed market transactions of comparable size, internally-developed fair value estimates based on observable inputs, or broker quotations. Accordingly, these corporate bonds are categorized as Level II.

*Taxable municipal securities* – Taxable municipal securities are valued using recently executed observable trades or market price quotations and therefore are generally categorized as Level II.

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*Tax-exempt municipal securities* – Tax-exempt municipal securities are valued using recently executed observable trades or market price quotations and therefore are generally categorized as Level II.

*Short-term municipal securities* – Short-term municipal securities include variable rate demand notes and other short-term municipal securities. Variable rate demand notes and other short-term municipal securities are valued using recently executed observable trades or market price quotations and therefore are generally categorized as Level II.

*Mortgage-backed securities* – Mortgage-backed securities collateralized by residential mortgages are valued using cash flow models that utilize unobservable inputs including credit default rates, prepayment rates, loss severity and valuation yields. As judgment is used to determine the range of these inputs, these mortgage-backed securities are categorized as Level III.

*U.S. government agency securities* – U.S. government agency securities include agency debt bonds and mortgage bonds. Agency debt bonds are valued by using either direct price quotes or price quotes for comparable bond securities and are categorized as Level II. Mortgage bonds include bonds secured by mortgages, mortgage pass-through securities, agency collateralized mortgage-obligation ("CMO") securities and agency interest-only securities. Mortgage pass-through securities, CMO securities and interest-only securities are valued using recently executed observable trades or other observable inputs, such as prepayment speeds and therefore are generally categorized as Level II. Mortgage bonds are valued using observable market inputs, such as market yields on spreads over U.S. treasury securities, or models based upon prepayment expectations. These securities are categorized as Level II.

*U.S. government securities* – U.S. government securities include highly liquid U.S. treasury securities which are generally valued using quoted market prices and therefore categorized as Level I. The Company does not transact in securities of countries other than the U.S. government.

*Derivative contracts* – Derivative contracts include interest rate swaps, interest rate locks, U.S. treasury bond futures and options, and equity option contracts. These instruments derive their value from underlying assets, reference rates, indices or a combination of these factors. The Company's equity option derivative contracts are valued based on quoted prices from the exchange for identical assets or liabilities as of the period-end date. To the extent these contracts are actively traded and valuation adjustments are not applied, they are categorized as Level I. The majority of the Company's interest rate derivative contracts, including both interest rate swaps and interest rate locks, are valued using market standard pricing models based on the net present value of estimated future cash flows. The valuation models used do not involve material subjectivity as the methodologies do not entail significant judgment and the pricing inputs are market observable, including contractual terms, yield curves and measures of volatility. These instruments are classified as Level II within the fair value hierarchy. Certain interest rate locks transact in less active markets and were valued using valuation models that included the previously mentioned observable inputs and certain unobservable inputs that required significant judgment, such as the premium over the MMD curve. These instruments are classified as Level III.

**Investments**

The Company's investments valued at fair value include equity investments in private companies and partnerships. Investments in private companies are valued based on an assessment of each underlying security, considering rounds of financing, third party transactions and market-based information, including comparable company transactions, trading multiples (e.g., multiples of revenue and earnings before interest, taxes, depreciation and amortization ("EBITDA")) and changes in market outlook, among other factors. These securities are generally categorized as Level III.

*Fair Value Option* – The fair value option permits the irrevocable fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. The fair value option was elected for certain merchant banking and other investments at inception to reflect economic events in earnings on a timely basis. Merchant banking and other equity investments of \$1.8 million and \$2.1 million, included within investments on the consolidated statements of financial condition, were accounted for at fair value and were classified as Level III assets at September 30, 2020 and December 31, 2019, respectively. The realized and unrealized net impact from fair value changes included in earnings as a result of electing to apply the fair value option to certain financial assets were gains of \$0.2 million and losses of \$0.5 million for the nine months ended September 30, 2020 and 2019, respectively.

**Piper Sandler Companies**  
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The following table summarizes quantitative information about the significant unobservable inputs used in the fair value measurement of the Company's Level III financial instruments as of September 30, 2020:

	<b>Valuation Technique</b>	<b>Unobservable Input</b>	<b>Range</b>	<b>Weighted Average (1)</b>
<b>Assets</b>				
Financial instruments and other inventory positions owned:				
Derivative contracts:				
Interest rate locks	Discounted cash flow	Premium over the MMD curve in basis points ("bps") (2)	0 - 9 bps	7.5 bps
Investments at fair value:				
Equity securities in private companies	Market approach	Revenue multiple (2)	3 - 5 times	4.1 times
		EBITDA multiple (2)	11 - 20 times	16.1 times
<b>Liabilities</b>				
Financial instruments and other inventory positions sold, but not yet purchased:				
Derivative contracts:				
Interest rate locks	Discounted cash flow	Premium over the MMD curve in bps (3)	0 - 17 bps	6.5 bps

*Uncertainty of fair value measurements:*

- (1) *Unobservable inputs were weighted by the relative fair value of the financial instruments.*
- (2) *Significant increase/(decrease) in the unobservable input in isolation would have resulted in a significantly higher/(lower) fair value measurement.*
- (3) *Significant increase/(decrease) in the unobservable input in isolation would have resulted in a significantly lower/(higher) fair value measurement.*

**Piper Sandler Companies**  
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The following table summarizes the valuation of the Company's financial instruments by pricing observability levels defined in FASB Accounting Standards Codification Topic 820, "Fair Value Measurement" ("ASC 820") as of September 30, 2020:

<i>(Amounts in thousands)</i>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Counterparty and Cash Collateral Netting (1)</u>	<u>Total</u>
<b>Assets</b>					
Financial instruments and other inventory positions owned:					
Corporate securities:					
Equity securities	\$ 1,061	\$ 4,214	\$ —	\$ —	\$ 5,275
Convertible securities	—	144,181	—	—	144,181
Fixed income securities	—	19,689	—	—	19,689
Municipal securities:					
Taxable securities	—	14,222	—	—	14,222
Tax-exempt securities	—	80,311	—	—	80,311
Short-term securities	—	103,815	—	—	103,815
Mortgage-backed securities	—	—	13	—	13
U.S. government agency securities	—	55,860	—	—	55,860
U.S. government securities	568	—	—	—	568
Derivative contracts	—	252,306	374	(226,678)	26,002
Total financial instruments and other inventory positions owned	<u>1,629</u>	<u>674,598</u>	<u>387</u>	<u>(226,678)</u>	<u>449,936</u>
Cash equivalents	340,466	—	—	—	340,466
Investments at fair value	15,922	—	146,272 (2)	—	162,194
Total assets	<u>\$ 358,017</u>	<u>\$ 674,598</u>	<u>\$ 146,659</u>	<u>\$ (226,678)</u>	<u>\$ 952,596</u>
<b>Liabilities</b>					
Financial instruments and other inventory positions sold, but not yet purchased:					
Corporate securities:					
Equity securities	\$ 75,816	\$ 492	\$ —	\$ —	\$ 76,308
Fixed income securities	—	17,988	—	—	17,988
U.S. government agency securities	—	1,344	—	—	1,344
U.S. government securities	50,410	—	—	—	50,410
Derivative contracts	292	242,953	3,369	(240,474)	6,140
Total financial instruments and other inventory positions sold, but not yet purchased	<u>\$ 126,518</u>	<u>\$ 262,777</u>	<u>\$ 3,369</u>	<u>\$ (240,474)</u>	<u>\$ 152,190</u>

(1) Represents cash collateral and the impact of netting on a counterparty basis. The Company had no securities posted as collateral to its counterparties.

(2) Includes noncontrolling interests of \$88.9 million primarily attributable to unrelated third party ownership in consolidated merchant banking funds.

**Piper Sandler Companies**  
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The following table summarizes the valuation of the Company's financial instruments by pricing observability levels defined in ASC 820 as of December 31, 2019:

<i>(Amounts in thousands)</i>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Counterparty and Cash Collateral Netting (1)</u>	<u>Total</u>
<b>Assets</b>					
Financial instruments and other inventory positions owned:					
Corporate securities:					
Equity securities	\$ 469	\$ 2,577	\$ —	\$ —	\$ 3,046
Convertible securities	—	146,406	—	—	146,406
Fixed income securities	—	28,176	—	—	28,176
Municipal securities:					
Taxable securities	—	22,570	—	—	22,570
Tax-exempt securities	—	222,192	—	—	222,192
Short-term securities	—	67,901	—	—	67,901
Mortgage-backed securities	—	—	13	—	13
U.S. government agency securities	—	51,773	—	—	51,773
U.S. government securities	77,303	—	—	—	77,303
Derivative contracts	—	209,119	8	(188,745)	20,382
Total financial instruments and other inventory positions owned	<u>77,772</u>	<u>750,714</u>	<u>21</u>	<u>(188,745)</u>	<u>639,762</u>
Cash equivalents	226,744	—	—	—	226,744
Investments at fair value	17,658	—	132,329 <sup>(2)</sup>	—	149,987
Total assets	<u>\$ 322,174</u>	<u>\$ 750,714</u>	<u>\$ 132,350</u>	<u>\$ (188,745)</u>	<u>\$ 1,016,493</u>
<b>Liabilities</b>					
Financial instruments and other inventory positions sold, but not yet purchased:					
Corporate securities:					
Equity securities	\$ 88,794	\$ 5,242	\$ —	\$ —	\$ 94,036
Fixed income securities	—	10,311	—	—	10,311
U.S. government agency securities	—	9,935	—	—	9,935
U.S. government securities	67,090	—	—	—	67,090
Derivative contracts	—	198,604	1,563	(196,114)	4,053
Total financial instruments and other inventory positions sold, but not yet purchased	<u>\$ 155,884</u>	<u>\$ 224,092</u>	<u>\$ 1,563</u>	<u>\$ (196,114)</u>	<u>\$ 185,425</u>

(1) Represents cash collateral and the impact of netting on a counterparty basis. The Company had no securities posted as collateral to its counterparties.

(2) Includes noncontrolling interests of \$75.2 million primarily attributable to unrelated third party ownership in consolidated merchant banking funds.

The Company's Level III assets were \$146.7 million and \$132.4 million, or 15.4 percent and 13.0 percent of financial instruments measured at fair value at September 30, 2020 and December 31, 2019, respectively. There were no significant transfers between levels for the nine months ended September 30, 2020.

**Piper Sandler Companies**  
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The following tables summarize the changes in fair value associated with Level III financial instruments held at the beginning or end of the periods presented:

<i>(Amounts in thousands)</i>	<b>Balance at June 30, 2020</b>	<b>Purchases</b>	<b>Sales</b>	<b>Transfers out</b>	<b>Realized gains/ (losses)</b>	<b>Unrealized gains/ (losses)</b>	<b>Balance at September 30, 2020</b>	<b>Unrealized gains/ (losses) for assets/ liabilities held at September 30, 2020</b>
<b>Assets</b>								
Financial instruments and other inventory positions owned:								
Mortgage-backed securities	\$ 13	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 13	\$ —
Derivative contracts	64	107	(310)	—	203	310	374	374
<b>Total financial instruments and other inventory positions owned</b>	<b>77</b>	<b>107</b>	<b>(310)</b>	<b>—</b>	<b>203</b>	<b>310</b>	<b>387</b>	<b>374</b>
Investments at fair value	120,615	15,850	(1,013)	—	1,013	9,807	146,272	9,807
<b>Total assets</b>	<b>\$ 120,692</b>	<b>\$ 15,957</b>	<b>\$ (1,323)</b>	<b>\$ —</b>	<b>\$ 1,216</b>	<b>\$ 10,117</b>	<b>\$ 146,659</b>	<b>\$ 10,181</b>
<b>Liabilities</b>								
Financial instruments and other inventory positions sold, but not yet purchased:								
Derivative contracts	\$ 3,212	\$ (880)	\$ —	\$ —	\$ 880	\$ 157	\$ 3,369	\$ 679
<b>Total financial instruments and other inventory positions sold, but not yet purchased</b>	<b>\$ 3,212</b>	<b>\$ (880)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 880</b>	<b>\$ 157</b>	<b>\$ 3,369</b>	<b>\$ 679</b>

  

<i>(Amounts in thousands)</i>	<b>Balance at June 30, 2019</b>	<b>Purchases</b>	<b>Sales</b>	<b>Transfers out</b>	<b>Realized gains/ (losses)</b>	<b>Unrealized gains/ (losses)</b>	<b>Balance at September 30, 2019</b>	<b>Unrealized gains/ (losses) for assets/ liabilities held at September 30, 2019</b>
<b>Assets</b>								
Financial instruments and other inventory positions owned:								
Mortgage-backed securities	\$ 13	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 13	\$ —
Derivative contracts	—	—	—	—	—	482	482	482
<b>Total financial instruments and other inventory positions owned</b>	<b>13</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>482</b>	<b>495</b>	<b>482</b>
Investments at fair value	132,556	15,623	(12,772)	—	2,901	(6,486)	131,822	(3,585)
<b>Total assets</b>	<b>\$ 132,569</b>	<b>\$ 15,623</b>	<b>\$ (12,772)</b>	<b>\$ —</b>	<b>\$ 2,901</b>	<b>\$ (6,004)</b>	<b>\$ 132,317</b>	<b>\$ (3,103)</b>
<b>Liabilities</b>								
Financial instruments and other inventory positions sold, but not yet purchased:								
Derivative contracts	\$ 4,418	\$ (3,576)	\$ —	\$ —	\$ 3,576	\$ 487	\$ 4,905	\$ 1,860
<b>Total financial instruments and other inventory positions sold, but not yet purchased</b>	<b>\$ 4,418</b>	<b>\$ (3,576)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 3,576</b>	<b>\$ 487</b>	<b>\$ 4,905</b>	<b>\$ 1,860</b>



**Piper Sandler Companies**  
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<i>(Amounts in thousands)</i>	Balance at December 31, 2019	Purchases	Sales	Transfers out	Realized gains/ (losses)	Unrealized gains/ (losses)	Balance at September 30, 2020	Unrealized gains/ (losses) for assets/ liabilities held at September 30, 2020
<b>Assets</b>								
Financial instruments and other inventory positions owned:								
Mortgage-backed securities	\$ 13	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 13	\$ —
Derivative contracts	8	857	(370)	—	(487)	366	374	374
Total financial instruments and other inventory positions owned	21	857	(370)	—	(487)	366	387	374
Investments at fair value	132,329	16,133	(1,178)	(130)	(4,490)	3,608	146,272	(1,893)
Total assets	<u>\$ 132,350</u>	<u>\$ 16,990</u>	<u>\$ (1,548)</u>	<u>\$ (130)</u>	<u>\$ (4,977)</u>	<u>\$ 3,974</u>	<u>\$ 146,659</u>	<u>\$ (1,519)</u>
<b>Liabilities</b>								
Financial instruments and other inventory positions sold, but not yet purchased:								
Derivative contracts	\$ 1,563	\$ (13,627)	\$ 371	\$ —	\$ 13,256	\$ 1,806	\$ 3,369	\$ 3,358
Total financial instruments and other inventory positions sold, but not yet purchased	<u>\$ 1,563</u>	<u>\$ (13,627)</u>	<u>\$ 371</u>	<u>\$ —</u>	<u>\$ 13,256</u>	<u>\$ 1,806</u>	<u>\$ 3,369</u>	<u>\$ 3,358</u>

  

<i>(Amounts in thousands)</i>	Balance at December 31, 2018	Purchases	Sales	Transfers out	Realized gains/ (losses)	Unrealized gains/ (losses)	Balance at September 30, 2019	Unrealized gains/ (losses) for assets/ liabilities held at September 30, 2019
<b>Assets</b>								
Financial instruments and other inventory positions owned:								
Mortgage-backed securities	\$ 15	\$ —	\$ (6)	\$ —	\$ (23)	\$ 27	\$ 13	\$ —
Derivative contracts	229	—	(336)	—	336	253	482	482
Total financial instruments and other inventory positions owned	244	—	(342)	—	313	280	495	482
Investments at fair value	107,792	23,623	(12,772)	(783)	2,901	11,061	131,822	13,473
Total assets	<u>\$ 108,036</u>	<u>\$ 23,623</u>	<u>\$ (13,114)</u>	<u>\$ (783)</u>	<u>\$ 3,214</u>	<u>\$ 11,341</u>	<u>\$ 132,317</u>	<u>\$ 13,955</u>
<b>Liabilities</b>								
Financial instruments and other inventory positions sold, but not yet purchased:								
Derivative contracts	\$ 4,202	\$ (12,398)	\$ —	\$ —	\$ 12,398	\$ 703	\$ 4,905	\$ 4,905
Total financial instruments and other inventory positions sold, but not yet purchased	<u>\$ 4,202</u>	<u>\$ (12,398)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 12,398</u>	<u>\$ 703</u>	<u>\$ 4,905</u>	<u>\$ 4,905</u>

Realized and unrealized gains/(losses) related to financial instruments, with the exception of customer matched-book derivatives, are reported in institutional brokerage on the consolidated statements of operations. Realized and unrealized gains/(losses) related to customer matched-book derivatives are reported in investment banking. Realized and unrealized gains/(losses) related to investments are reported in investment banking revenues or investment income on the consolidated statements of operations.

The carrying values of the Company's cash, receivables and payables either from or to brokers, dealers and clearing organizations and short- and long-term financings approximate fair value due to either their liquid or short-term nature.

**Piper Sandler Companies**  
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**Note 7 Variable Interest Entities ("VIEs")**

The Company has investments in and/or acts as the managing partner of various partnerships and limited liability companies. These entities were established for the purpose of investing in securities of public or private companies, or municipal debt obligations, and were initially financed through the capital commitments or seed investments of the members.

VIEs are entities in which equity investors lack the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities. The determination as to whether an entity is a VIE is based on the structure and nature of each entity. The Company also considers other characteristics such as the power through voting rights or similar rights to direct the activities of an entity that most significantly impact the entity's economic performance and how the entity is financed.

The Company is required to consolidate all VIEs for which it is considered to be the primary beneficiary. The determination as to whether the Company is considered to be the primary beneficiary is based on whether the Company has both the power to direct the activities of the VIE that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE.

**Consolidated VIEs**

The Company's consolidated VIEs at September 30, 2020 included certain alternative asset management funds in which the Company has an investment and, as the managing partner, is deemed to have both the power to direct the most significant activities of the funds and the right to receive benefits (or the obligation to absorb losses) that could potentially be significant to these funds.

The following table presents information about the carrying value of the assets and liabilities of the VIEs which are consolidated by the Company and included on the consolidated statements of financial condition at September 30, 2020. The assets can only be used to settle the liabilities of the respective VIE, and the creditors of the VIEs do not have recourse to the general credit of the Company. One of these VIEs has \$25.0 million of bank line financing available with an interest rate based on prime plus an applicable margin. The assets and liabilities are presented prior to consolidation, and thus a portion of these assets and liabilities are eliminated in consolidation.

<i>(Amounts in thousands)</i>	<b>Alternative Asset Management Funds</b>
<b>Assets</b>	
Investments	\$ 144,154
Other assets	1,734
Total assets	<u>\$ 145,888</u>
<b>Liabilities</b>	
Other liabilities and accrued expenses	\$ 2,367
Total liabilities	<u>\$ 2,367</u>

The Company has investments in a grantor trust which was established as part of a nonqualified deferred compensation plan. The Company is the primary beneficiary of the grantor trust. Accordingly, the assets and liabilities of the grantor trust are consolidated by the Company on the consolidated statements of financial condition. See Note 18 for additional information on the nonqualified deferred compensation plan.

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**Notes to the Consolidated Financial Statements**  
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**Nonconsolidated VIEs**

The Company determined it is not the primary beneficiary of certain VIEs and accordingly does not consolidate them. These VIEs had net assets approximating \$1.5 billion and \$0.3 billion at September 30, 2020 and December 31, 2019, respectively. The Company's exposure to loss from these VIEs is \$7.4 million, which is the carrying value of its capital contributions recorded in investments on the consolidated statements of financial condition at September 30, 2020. The Company had no liabilities related to these VIEs at September 30, 2020 and December 31, 2019. Furthermore, the Company has not provided financial or other support to these VIEs that it was not previously contractually required to provide as of September 30, 2020.

**Note 8 Receivables from and Payables to Brokers, Dealers and Clearing Organizations**

<i>(Amounts in thousands)</i>	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Receivable from clearing organizations	\$ 101,599	\$ 260,436
Receivable from brokers and dealers	47,135	19,161
Other	3,178	3,511
Total receivables from brokers, dealers and clearing organizations	<u>\$ 151,912</u>	<u>\$ 283,108</u>

<i>(Amounts in thousands)</i>	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Payable to brokers and dealers	\$ 13,008	\$ 7,514
Total payables to brokers, dealers and clearing organizations	<u>\$ 13,008</u>	<u>\$ 7,514</u>

Under the Company's fully disclosed clearing agreement, the majority of its securities inventories and all of its customer activities are held by or cleared through Pershing LLC ("Pershing"). The Company has also established an arrangement to obtain financing from Pershing related to the majority of its trading activities. Financing under this arrangement is secured primarily by securities, and collateral limitations could reduce the amount of funding available under this arrangement. The funding is at the discretion of Pershing and could be denied. The Company's clearing arrangement activities are recorded net from trading activity. The Company's fully disclosed clearing agreement includes a covenant requiring Piper Sandler to maintain excess net capital of \$120 million.

**Note 9 Investments**

The Company's investments include investments in private companies and partnerships.

<i>(Amounts in thousands)</i>	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Investments at fair value	\$ 162,194	\$ 149,987
Investments at cost	1,611	1,084
Investments accounted for under the equity method	7,443	7,070
Total investments	171,248	158,141
Less investments attributable to noncontrolling interests (1)	<u>(88,881)</u>	<u>(75,245)</u>
	<u>\$ 82,367</u>	<u>\$ 82,896</u>

(1) Noncontrolling interests are primarily attributable to unrelated third party ownership in consolidated merchant banking funds.

At September 30, 2020, investments carried on a cost basis had an estimated fair market value of \$1.6 million. Because valuation estimates were based upon management's judgment, investments carried at cost would be categorized as Level III assets in the fair value hierarchy, if they were carried at fair value.

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Investments accounted for under the equity method include general and limited partnership interests. The carrying value of these investments is based on the investment vehicle's net asset value. The net assets of investment partnerships consist of investments in both marketable and non-marketable securities. The underlying investments held by such partnerships are valued based on the estimated fair value determined by management in the Company's capacity as general partner or investor and, in the case of investments in unaffiliated investment partnerships, are based on financial statements prepared by the unaffiliated general partners.

**Note 10 Other Assets**

<i>(Amounts in thousands)</i>	September 30, 2020	December 31, 2019
Fee receivables	\$ 56,853	\$ 18,574
Accrued interest receivables	1,411	2,977
Forgivable loans, net	3,967	5,227
Prepaid expenses	13,118	10,687
Income tax receivables	1,516	2,658
Other	16,775	15,317
Total other assets	<u>\$ 93,640</u>	<u>\$ 55,440</u>

**Note 11 Goodwill and Intangible Assets**

<i>(Amounts in thousands)</i>	
<b>Goodwill</b>	
Balance at December 31, 2019	\$ 87,649
Goodwill acquired	127,660
Balance at September 30, 2020	<u>\$ 215,309</u>
<b>Intangible assets</b>	
Balance at December 31, 2019	\$ 16,686
Intangible assets acquired	172,600
Amortization of intangible assets	(33,122)
Balance at September 30, 2020	<u>\$ 156,164</u>

The addition of goodwill and intangible assets during the nine months ended September 30, 2020 related to the acquisitions of Valence and Sandler O'Neill, as discussed in Note 3. Management identified \$14.8 million of customer relationship intangible assets related to the acquisition of Valence which will be amortized over a weighted average life of 1.4 years. Management identified \$157.8 million of intangible assets related to the acquisition of Sandler O'Neill, consisting of customer relationships of \$72.4 million and the Sandler trade name of \$85.4 million. The customer relationships will be amortized over a weighted average life of 2.4 years. The Sandler trade name is an indefinite-lived intangible asset and will not be subject to amortization.

The following table summarizes the future aggregate amortization expense of the Company's intangible assets with determinable lives:

<i>(Amounts in thousands)</i>	
Remainder of 2020	\$ 11,606
2021	24,780
2022	9,344
2023	7,442
2024	6,292
Thereafter	11,300
Total	<u>\$ 70,764</u>

**Piper Sandler Companies**  
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**Note 12 Short-Term Financing**

	<u>Outstanding Balance</u>		<u>Weighted Average Interest Rate</u>	
	<u>September 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>September 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
<i>(Dollars in thousands)</i>				
Commercial paper	\$ 49,966	\$ 49,978	1.17 %	2.69 %
Revolving credit facility	25,000	—	2.16 %	— %
Total short-term financing	<u>\$ 74,966</u>	<u>\$ 49,978</u>		

The Company issues secured commercial paper to fund a portion of its securities inventory. The commercial paper notes ("CP Notes") can be issued with maturities of 27 days to 270 days from the date of issuance. The CP Notes are currently issued under the CP Series II A program, and are secured by different inventory classes. As of September 30, 2020, the weighted average maturity of outstanding CP Notes was 21 days. The CP Notes are interest bearing or sold at a discount to par with an interest rate based on LIBOR plus an applicable margin. CP Series II A includes a covenant that requires the Company's U.S. broker dealer subsidiary to maintain excess net capital of \$100 million. The Company retired the CP Series A program on January 2, 2020.

The Company has an unsecured \$50 million revolving credit facility with U.S. Bank N.A. The credit agreement will terminate on December 20, 2022, unless otherwise terminated, and is subject to a one-year extension exercisable at the option of the Company. This credit facility includes customary events of default and covenants that, among other things, requires the Company's U.S. broker dealer subsidiary to maintain a minimum regulatory net capital of \$120 million, limits the Company's leverage ratio, requires maintenance of a minimum ratio of operating cash flow to fixed charges, and imposes certain limitations on the Company's ability to make acquisitions and make payments on its capital stock.

The Company's committed short-term bank line financing at September 30, 2020 consisted of a one-year \$125 million committed revolving credit facility with U.S. Bank N.A., which has been renewed annually in the fourth quarter of each year since 2008. Advances under this facility are secured by certain marketable securities. The facility includes a covenant that requires the Company's U.S. broker dealer subsidiary to maintain a minimum regulatory net capital of \$120 million, and the unpaid principal amount of all advances under this facility will be due on December 11, 2020. The Company pays a nonrefundable commitment fee on the unused portion of the facility on a quarterly basis. At September 30, 2020, the Company had no advances against this line of credit.

**Note 13 Long-Term Financing**

On October 15, 2019, the Company entered into a note purchase agreement with certain entities advised by Pacific Investment Management Company ("PIMCO"), under which the Company issued unsecured fixed rate senior notes ("Notes") in the amount of \$175 million. The Notes consist of two classes, Class A Notes and Class B Notes, with principal amounts of \$50 million and \$125 million, respectively. The Class A Notes bear interest at an annual fixed rate of 4.74 percent and mature on October 15, 2021. The Class B Notes bear interest at an annual fixed rate of 5.20 percent and mature on October 15, 2023. Interest on the Notes is payable semi-annually. The unpaid principal amounts are due in full on the respective maturity dates and may not be prepaid by the Company.

On April 3, 2020, the Company entered into unsecured promissory notes as part of the acquisition of Valence totaling \$20.0 million. The Valence Notes bear interest at an annual fixed rate of 5.0 percent and mature on October 15, 2021. Interest is payable quarterly in arrears.

**Note 14 Legal Contingencies**

The Company has been named as a defendant in various legal actions, including complaints and litigation and arbitration claims, arising from its business activities. Such actions include claims related to securities brokerage and investment banking activities, and certain class actions that primarily allege violations of securities laws and seek unspecified damages, which could be substantial. Also, the Company is involved from time to time in investigations and proceedings by governmental agencies and self-regulatory organizations ("SROs") which could result in adverse judgments, settlements, penalties, fines or other relief.

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The Company has established reserves for potential losses that are probable and reasonably estimable that may result from pending and potential legal actions, investigations and regulatory proceedings. Reasonably possible losses in excess of amounts accrued at September 30, 2020 are not material. In many cases, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount or range of any potential loss, particularly where proceedings may be in relatively early stages or where plaintiffs are seeking substantial or indeterminate damages. Matters frequently need to be more developed before a loss or range of loss can reasonably be estimated.

Given uncertainties regarding the timing, scope, volume and outcome of pending and potential legal actions, investigations and regulatory proceedings and other factors, the amounts of reserves and ranges of reasonably possible losses are difficult to determine and of necessity subject to future revision. Subject to the foregoing, management of the Company believes, based on currently available information, after consultation with outside legal counsel and taking into account its established reserves, that pending legal actions, investigations and regulatory proceedings will be resolved with no material adverse effect on the consolidated statements of financial condition, results of operations or cash flows of the Company. However, if during any period a potential adverse contingency should become probable or resolved for an amount in excess of the established reserves, the results of operations and cash flows in that period and the financial condition as of the end of that period could be materially adversely affected. In addition, there can be no assurance that material losses will not be incurred from claims that have not yet been brought to the Company's attention or are not yet determined to be reasonably possible.

**Note 15 Leases**

The Company leases office space throughout the United States and in a limited number of foreign countries where the Company's international operations reside. Aggregate minimum lease commitments on an undiscounted basis for the Company's operating leases (including short-term leases) as of September 30, 2020 were as follows:

*(Amounts in thousands)*

Remainder of 2020	\$	6,640
2021		23,292
2022		21,662
2023		17,688
2024		15,789
Thereafter		35,422
Total	\$	<u>120,493</u>

The following table summarizes the Company's operating lease costs and sublease income from continuing operations:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
<i>(Amounts in millions)</i>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Operating lease costs	\$ 5.9	\$ 3.2	\$ 16.2	\$ 8.9
Operating lease costs related to short-term leases	0.2	0.2	0.7	0.5
Sublease income	0.5	0.4	1.4	1.3

At September 30, 2020, the weighted average remaining lease term for operating leases was 5.8 years and the weighted average discount rate was 4.0 percent.

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**Note 16 Restructuring and Integration Costs**

The Company incurred restructuring and integration costs from continuing operations for the three and nine months ended September 30, 2020, primarily in conjunction with its acquisition of Sandler O'Neill, which closed on January 3, 2020, and its acquisition of Valence, which closed on April 3, 2020. The Company incurred restructuring and integration costs from continuing operations for the three and nine months ended September 30, 2019, primarily in conjunction with its acquisition of Weeden & Co., which closed on August 2, 2019, and the pending acquisition of Sandler O'Neill.

<i>(Amounts in thousands)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Severance, benefits and outplacement	\$ 6	\$ 1,829	\$ 2,927	\$ 2,938
Contract termination	(123)	—	(590)	2,798
Vacated leased office space	1,820	1,726	1,908	1,726
Total restructuring costs	1,703	3,555	4,245	7,462
Integration costs	(111)	2,588	2,973	5,076
Total restructuring and integration costs	\$ 1,592	\$ 6,143	\$ 7,218	\$ 12,538

**Note 17 Shareholders' Equity**

**Share Repurchases**

Effective January 1, 2020, the Company's board of directors authorized the repurchase of up to \$150.0 million in common shares through December 31, 2021. During the nine months ended September 30, 2020, the Company repurchased 188,319 shares at an average price of \$69.72 per share for an aggregate purchase price of \$13.1 million related to this authorization. At September 30, 2020, the Company had \$136.9 million remaining under this authorization.

Effective September 30, 2017, the Company's board of directors authorized the repurchase of up to \$150.0 million in common shares, which expired on September 30, 2019. During the nine months ended September 30, 2019, the Company repurchased 501 shares at an average price of \$64.80 per share related to this authorization.

The Company also purchases shares of common stock from restricted stock award recipients upon the award vesting or as recipients sell shares to meet their employment tax obligations. The Company purchased 102,556 shares and 698,065 shares, or \$8.6 million and \$50.3 million of the Company's common stock for these purposes during the nine months ended September 30, 2020 and 2019, respectively.

**Issuance of Shares**

The Company issues common shares out of treasury stock as a result of employee restricted share vesting and exercise transactions as discussed in Note 18. During the nine months ended September 30, 2020 and 2019, the Company issued 282,718 shares and 1,406,139 shares, respectively, related to these obligations. During the nine months ended September 30, 2020, the Company also issued 34,205 common shares out of treasury stock for Sandler O'Neill deal consideration, as discussed in Note 3.

**Dividends**

The Company's current dividend policy includes both a quarterly and an annual special cash dividend. The annual special cash dividend is payable in the first quarter of each year, with the intention of returning a metric based on the Company's net income from the previous fiscal year.

During the nine months ended September 30, 2020, the Company declared and paid quarterly cash dividends on its common stock, aggregating \$0.875 per share, and an annual special cash dividend on its common stock of \$0.75 per share, totaling \$23.0 million.

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On October 30, 2020, the board of directors declared a quarterly cash dividend of \$0.375 per share to be paid on December 11, 2020, to shareholders of record as of the close of business on November 24, 2020.

**Noncontrolling Interests**

The consolidated financial statements include the accounts of Piper Sandler Companies, its wholly owned subsidiaries and other entities in which the Company has a controlling financial interest. Noncontrolling interests represent equity interests in consolidated entities that are not attributable, either directly or indirectly, to Piper Sandler Companies. Noncontrolling interests primarily represent the minority equity holders' proportionate share of the equity in the Company's merchant banking funds.

Ownership interests in entities held by parties other than the Company's common shareholders are presented as noncontrolling interests within shareholders' equity, separate from the Company's own equity. Revenues, expenses and net income or loss are reported on the consolidated statements of operations on a consolidated basis, which includes amounts attributable to both the Company's common shareholders and noncontrolling interests. Net income or loss is then allocated between the Company and noncontrolling interests based upon their relative ownership interests. Net income applicable to noncontrolling interests is deducted from consolidated net income to determine net income applicable to the Company. There was no other comprehensive income or loss attributed to noncontrolling interests for the nine months ended September 30, 2020 and 2019.

**Note 18 Compensation Plans**

**Stock-Based Compensation Plans**

The Company has three outstanding stock-based compensation plans: the Amended and Restated 2003 Annual and Long-Term Incentive Plan (the "Incentive Plan"), the 2019 Employment Inducement Award Plan (the "2019 Inducement Plan") and the 2020 Employment Inducement Award Plan (the "2020 Inducement Plan"). The Company's equity awards are recognized on the consolidated statements of operations at grant date fair value over the service period of the award, less forfeitures.

The following table provides a summary of the Company's outstanding equity awards (in shares or units) as of September 30, 2020:

<b><i>Incentive Plan</i></b>	
<b>Restricted Stock</b>	
Annual grants	456,649
Sign-on grants	108,284
	<u>564,933</u>
<b><i>2019 Inducement Plan</i></b>	
<b>Restricted Stock</b>	97,752
<b><i>2020 Inducement Plan</i></b>	
<b>Restricted Stock</b>	1,317,750
<b>Total restricted stock related to compensation</b>	<u>1,980,435</u>
<b>Deal Consideration (1)</b>	<u>2,181,733</u>
<b>Total restricted stock outstanding</b>	<u><u>4,162,168</u></u>
<b><i>Incentive Plan</i></b>	
<b>Restricted Stock Units</b>	
Leadership grants	146,048
<b><i>Incentive Plan</i></b>	
<b>Stock Options</b>	<u>81,667</u>

(1) The Company issued restricted stock with service conditions as part of deal consideration for the acquisitions of Valence and Sandler O'Neill. See Note 3 for further discussion.



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***Incentive Plan***

The Incentive Plan permits the grant of equity awards, including restricted stock, restricted stock units and non-qualified stock options, to the Company's employees and directors for up to 9.4 million shares of common stock (1.7 million shares remained available for future issuance under the Incentive Plan as of September 30, 2020). The Company believes that such awards help align the interests of employees and directors with those of shareholders and serve as an employee retention tool. The Incentive Plan provides for accelerated vesting of awards if there is a severance event, a change in control of the Company (as defined in the Incentive Plan), in the event of a participant's death, and at the discretion of the compensation committee of the Company's board of directors.

***Restricted Stock Awards***

Restricted stock grants are valued at the market price of the Company's common stock on the date of grant and are amortized over the requisite service period. The Company grants shares of restricted stock to employees as part of year-end compensation ("Annual Grants") and upon initial hiring or as a retention award ("Sign-on Grants").

The Company's Annual Grants are made each year in February. Annual Grants vest ratably over three years in equal installments. The Annual Grants provide for continued vesting after termination of employment, so long as the employee does not violate certain post-termination restrictions set forth in the award agreement or any agreements entered into upon termination. The Company determined the service inception date precedes the grant date for the Annual Grants, and that the post-termination restrictions do not meet the criteria for an in-substance service condition, as defined by FASB Accounting Standards Codification Topic 718, "Compensation — Stock Compensation." Accordingly, restricted stock granted as part of the Annual Grants is expensed in the one-year period in which those awards are deemed to be earned, which is generally the calendar year preceding the February grant date. For example, the Company recognized compensation expense during fiscal year 2019 for its February 2020 Annual Grant. If an equity award related to the Annual Grants is forfeited as a result of violating the post-termination restrictions, the lower of the fair value of the award at grant date or the fair value of the award at the date of forfeiture is recorded within the consolidated statements of operations as a reversal of compensation expense.

Sign-on Grants are used as a recruiting tool for new employees and are issued to current employees as a retention tool. These awards have both cliff and ratable vesting terms, and the employees must fulfill service requirements in exchange for rights to the awards. Compensation expense is amortized on a straight-line basis from the grant date over the requisite service period, generally three to five years. Employees forfeit unvested shares upon termination of employment and a reversal of compensation expense is recorded.

Annually, the Company grants stock to its non-employee directors. The stock-based compensation paid to non-employee directors is fully expensed on the grant date and included within outside services expense on the consolidated statements of operations.

***Restricted Stock Units***

The Company grants restricted stock units to its leadership team ("Leadership Grants").

**Leadership Grants Subsequent to 2016**

Restricted stock units granted in each of the years subsequent to 2016 will vest and convert to shares of common stock at the end of each 36-month performance period only if the Company satisfies predetermined performance and/or market conditions over the performance period. Under the terms of these awards, the number of units that will actually vest and convert to shares will be based on the extent to which the Company achieves specified targets during each performance period. The maximum payout leverage under these grants is 150 percent.

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Up to 75 percent of the award can be earned based on the Company achieving certain average adjusted return on equity targets, as defined in the terms of the award agreements. The fair value of this portion of the award was based on the closing price of the Company's common stock on the grant date. If the Company determines that it is probable that the performance condition will be achieved, compensation expense is amortized on a straight-line basis over the 36-month performance period. The probability that the performance condition will be achieved is reevaluated each reporting period with changes in estimated outcomes accounted for using a cumulative effect adjustment to compensation expense. Compensation expense will be recognized only if the performance condition is met. Employees forfeit unvested restricted stock units upon termination of employment with a corresponding reversal of compensation expense. As of September 30, 2020, the Company has determined that the probability of achieving the performance condition for each award is as follows:

<b>Grant Year</b>	<b>Probability of Achieving Performance Condition</b>
2020	45%
2019	57%
2018	50%

Up to 75 percent of the award can be earned based on the Company's total shareholder return relative to members of a predetermined peer group. The market condition must be met for the awards to vest and compensation cost will be recognized regardless if the market condition is satisfied. Compensation expense is amortized on a straight-line basis over the 36-month requisite service period. Employees forfeit unvested restricted stock units upon termination of employment with a corresponding reversal of compensation expense. For this portion of the awards, the fair value on the grant date was determined using a Monte Carlo simulation with the following assumptions:

<b>Grant Year</b>	<b>Risk-free Interest Rate</b>	<b>Expected Stock Price Volatility</b>
2020	1.40%	27.3%
2019	2.50%	31.9%
2018	2.40%	34.8%
2017	1.62%	35.9%

Because the market condition portion of the awards vesting depend on the Company's total shareholder return relative to a peer group, the valuation modeled the performance of the peer group as well as the correlation between the Company and the peer group. The expected stock price volatility assumptions were determined using historical volatility, as correlation coefficients can only be developed through historical volatility. The risk-free interest rates were determined based on three-year U.S. Treasury bond yields.

The compensation committee of the Company's board of directors included defined retirement provisions in its Leadership Grants, beginning with the February 2018 grant. Certain grantees meeting defined age and service requirements will be fully vested in the awards as long as performance and post-termination obligations are met throughout the performance period. These retirement-eligible grants are expensed in the period in which those awards are deemed to be earned, which is the calendar year preceding the February grant date.

2016 Leadership Grant

Restricted stock units granted in 2016 contain market condition criteria and convert to shares of common stock at the end of the 36-month performance period only if the Company's stock performance satisfies predetermined market conditions over the performance period. Under the terms of the award, the number of units that vested and converted to shares was based on the Company's stock performance achieving specified targets during the performance period. All units vested in full. Compensation expense was recognized over the 36-month performance period which ended in May 2019.

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Up to 50 percent of the award was earned based on the Company's total shareholder return relative to members of a predetermined peer group and up to 50 percent of the award was earned based on the Company's total shareholder return. The fair value of the award on the grant date was determined using a Monte Carlo simulation with the following assumptions pursuant to the methodology above:

<b>Grant Year</b>	<b>Risk-free Interest Rate</b>	<b>Expected Stock Price Volatility</b>
2016	0.98%	34.9%

*Stock Options*

On February 15, 2018, the Company granted options to certain executive officers. These options are expensed on a straight-line basis over the required service period of five years, based on the estimated fair value of the award on the date of grant. The exercise price per share is equal to the closing price on the date of grant plus 10 percent. These options are subject to graded vesting, beginning on the third anniversary of the grant date, so long as the employee remains continuously employed by the Company. The maximum term of these stock options is ten years.

The fair value of this stock option award was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Risk-free interest rate	2.82 %
Dividend yield	3.22 %
Expected stock price volatility	37.20 %
Expected life of options (in years)	7.0
Fair value of options granted (per share)	\$ 24.49

The risk-free interest rate assumption was based on the U.S. Treasury bond yield with a maturity equal to the expected life of the options. The dividend yield assumption was based on the assumed dividend payout over the expected life of the options. The expected stock price volatility assumption was determined using historical volatility, as correlation coefficients can only be developed through historical volatility.

*Inducement Plans*

Inducement plan awards are amortized as compensation expense on a straight-line basis over each respective vesting period. Employees forfeit unvested shares upon termination of employment and a reversal of compensation expense is recorded.

The Company established the 2016 Employment Inducement Award Plan (the "2016 Inducement Plan") in conjunction with the acquisition of Simmons & Company International ("Simmons"). The Company granted \$11.6 million (286,776 shares) in restricted stock under the 2016 Inducement Plan on May 16, 2016. All outstanding shares cliff vested on May 16, 2019 and the 2016 Inducement Plan was terminated in July 2019.

The Company established the 2019 Inducement Plan in conjunction with its acquisition of Weeden & Co. On August 2, 2019, the Company granted \$7.3 million (97,752 shares) in restricted stock. These restricted shares are subject to graded vesting, generally beginning on the third anniversary of the grant date through August 2, 2023.

The Company established the 2020 Inducement Plan in conjunction with its acquisition of Sandler O'Neill. On January 3, 2020, the Company granted \$96.9 million (1,217,423 shares) in restricted stock. These restricted shares have both cliff and graded vesting terms with vesting periods of 18 months, three years or five years (with a weighted average service period of 3.7 years). On April 3, 2020, the Company granted \$5.5 million (114,000 shares) in restricted stock under the 2020 Inducement Plan in conjunction with its acquisition of Valence. These restricted shares are subject to graded vesting, generally beginning on the third anniversary of the grant date through April 3, 2025.

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**Stock-Based Compensation Activity**

The following table summarizes the Company's stock-based compensation activity within continuing operations:

<i>(Amounts in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	Stock-based compensation expense	\$ 29.9	\$ 7.9	\$ 79.5
Forfeitures	0.9	0.3	2.1	1.5
Tax benefit related to stock-based compensation expense	3.9	1.6	10.3	3.1

The following table summarizes the changes in the Company's unvested restricted stock:

	Unvested Restricted Stock (in Shares)	Weighted Average Grant Date Fair Value
<b>December 31, 2019</b>	<b>694,225</b>	<b>\$ 78.52</b>
Granted	3,786,732	73.59
Vested	(257,563)	80.65
Canceled	(61,226)	78.10
<b>September 30, 2020</b>	<b>4,162,168</b>	<b>\$ 73.91</b>

The following table summarizes the changes in the Company's unvested restricted stock units:

	Unvested Restricted Stock Units	Weighted Average Grant Date Fair Value
<b>December 31, 2019</b>	<b>114,315</b>	<b>\$ 85.09</b>
Granted	56,066	86.01
Vested	(18,255)	84.10
Canceled	(6,078)	84.10
<b>September 30, 2020</b>	<b>146,048</b>	<b>\$ 85.60</b>

As of September 30, 2020, there was \$212.4 million of total unrecognized compensation cost related to restricted stock and restricted stock units expected to be recognized over a weighted average period of 3.1 years.

The following table summarizes the changes in the Company's outstanding stock options:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
<b>December 31, 2019</b>	<b>81,667</b>	<b>\$ 99.00</b>	<b>8.1</b>	<b>\$ —</b>
Granted	—	—		
Exercised	—	—		
Canceled	—	—		
Expired	—	—		
<b>September 30, 2020</b>	<b>81,667</b>	<b>\$ 99.00</b>	<b>7.4</b>	<b>\$ —</b>

As of September 30, 2020, there was \$0.9 million of unrecognized compensation cost related to stock options expected to be recognized over a weighted average period of 2.4 years. There were no exercisable options as of September 30, 2020.

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**Deferred Compensation Plans**

The Company maintains various deferred compensation arrangements for employees.

The Mutual Fund Restricted Share Investment Plan is a fully funded deferred compensation plan which allows eligible employees to receive a portion of their incentive compensation in restricted mutual fund shares ("MFRS Awards") of investment funds. MFRS Awards are awarded to qualifying employees in February of each year, and represent a portion of their compensation for performance in the preceding year similar to the Company's Annual Grants. MFRS Awards vest ratably over three years in equal installments and provide for continued vesting after termination of employment so long as the employee does not violate certain post-termination restrictions set forth in the award agreement or any agreement entered into upon termination. Forfeitures are recorded as a reduction of compensation and benefits expense within the consolidated statements of operations. MFRS Awards are owned by employee recipients (subject to aforementioned vesting restrictions) and as such are not included on the consolidated statements of financial condition.

The nonqualified deferred compensation plan is an unfunded plan which allows certain highly compensated employees, at their election, to defer a portion of their compensation. In 2017, this plan was closed to future deferral elections by participants for performance periods beginning after December 31, 2017. The amounts deferred under this plan are held in a grantor trust. The Company invests, as a principal, in investments to economically hedge its obligation under the nonqualified deferred compensation plan. Investments in the grantor trust, consisting of mutual funds, totaled \$15.7 million and \$16.7 million as of September 30, 2020 and December 31, 2019, respectively, and are included in investments on the consolidated statements of financial condition. A corresponding deferred compensation liability is included in accrued compensation on the consolidated statements of financial condition. The compensation deferred by the employees was expensed in the period earned. Changes in the fair value of the investments made by the Company are reported in investment income and changes in the corresponding deferred compensation liability are reflected as compensation and benefits expense on the consolidated statements of operations.

The Company entered into acquisition-related compensation arrangements with certain employees for retention and incentive purposes in conjunction with its acquisition of Simmons. Additional cash compensation was available to certain employees subject to exceeding an investment banking revenue threshold during the three-year Simmons post-acquisition period, which ended on February 26, 2019. The Company accrued \$40.1 million related to this performance award plan, which was paid in August 2019. Amounts payable related to this performance award plan were recorded as compensation expense from continuing operations on the consolidated statements of operations over the requisite performance period of three years. The Company recorded \$0.4 million as compensation expense from continuing operations for the nine months ended September 30, 2019.

**Note 19 Earnings Per Share ("EPS")**

Basic earnings per common share is computed by dividing net income/(loss) applicable to Piper Sandler Companies' common shareholders by the weighted average number of common shares outstanding for the period. For periods prior to 2020, the Company calculated EPS using the two class method. Net income/(loss) applicable to Piper Sandler Companies' common shareholders represented net income/(loss) applicable to Piper Sandler Companies reduced by the allocation of earnings to participating securities. No allocation of undistributed earnings was made for periods in which a loss was incurred, or for periods in which cash dividends exceeded net income resulting in an undistributed loss. Distributed earnings (e.g., dividends) were allocated to participating securities. Prior to the February 2019 Annual Grant (the "2019 Annual Grant"), all of the Company's restricted shares were deemed to be participating securities as they were eligible to share in the profits (e.g., receive dividends) of the Company. The Company's restricted stock units, as well as restricted stock grants issued in 2019 and subsequent periods, are not participating securities as they are not eligible to receive dividends, or the dividends are forfeitable until vested. Diluted earnings/(loss) per common share is calculated by adjusting the weighted average outstanding shares to assume conversion of all potentially dilutive stock options, restricted stock units and non-participating restricted shares.

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The computation of EPS is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<i>(Amounts in thousands, except per share data)</i>				
Net income/(loss) from continuing operations applicable to Piper Sandler Companies	\$ 11,617	\$ 17,165	\$ (1,656)	\$ 49,281
Net income from discontinued operations	—	26,077	—	23,772
Net income/(loss) applicable to Piper Sandler Companies	11,617	43,242	(1,656)	73,053
Earnings allocated to participating securities	—	(800) <sup>(1)</sup>	—	(3,524) <sup>(1)</sup>
Net income/(loss) applicable to Piper Sandler Companies' common shareholders	<u>\$ 11,617</u>	<u>\$ 42,442</u> <sup>(2)</sup>	<u>\$ (1,656)</u>	<u>\$ 69,529</u> <sup>(2)</sup>

Shares for basic and diluted calculations:

Average shares used in basic computation	13,778	13,708	13,789	13,502
Restricted stock units	153	131	119	175
Non-participating restricted shares	923	246	672	205
Average shares used in diluted computation	<u>14,853</u>	<u>14,085</u>	<u>14,580</u> <sup>(3)</sup>	<u>13,882</u>

Earnings/(loss) per basic common share:

Income/(loss) from continuing operations	\$ 0.84	\$ 1.23	\$ (0.12)	\$ 3.46
Income from discontinued operations	—	1.87	—	1.69
Earnings/(loss) per basic common share	\$ 0.84	\$ 3.09	\$ (0.12)	\$ 5.15

Earnings/(loss) per diluted common share:

Income/(loss) from continuing operations	\$ 0.78	\$ 1.20	\$ (0.12)	\$ 3.37
Income from discontinued operations	—	1.82	—	1.64
Earnings/(loss) per diluted common share	\$ 0.78	\$ 3.01	\$ (0.12) <sup>(3)</sup>	\$ 5.01

- (1) Represents the allocation of distributed and undistributed earnings to participating securities. No allocation of undistributed earnings is made for periods in which a loss is incurred, or for periods in which cash dividends exceed net income resulting in an undistributed loss. Distributed earnings (e.g., dividends) are allocated to participating securities. Participating securities include the Company's unvested restricted shares issued prior to the 2019 Annual Grant. The weighted average participating shares outstanding were 272,170 and 598,894 for the three and nine months ended September 30, 2019, respectively.
- (2) Net income/(loss) applicable to Piper Sandler Companies' common shareholders for diluted and basic EPS may differ under the two-class method as a result of adding the effect of the assumed exercise of stock options, restricted stock units and non-participating restricted shares to dilutive shares outstanding, which alters the ratio used to allocate earnings to Piper Sandler Companies' common shareholders and participating securities for purposes of calculating diluted and basic EPS.
- (3) Earnings per diluted common share is calculated using the basic weighted average number of common shares outstanding for periods in which a loss is incurred.

The average shares used in the diluted computation excluded anti-dilutive stock options and non-participating restricted shares of 0.8 million and 0.3 million for the three months ended September 30, 2020 and 2019, respectively, and 2.2 million and 0.1 million for the nine months ended September 30, 2020 and 2019, respectively.

**Piper Sandler Companies**  
**Notes to the Consolidated Financial Statements**  
**(Unaudited)**

**Note 20 Revenues and Business Information**

The Company's activities as an investment bank and institutional securities firm constitute a single business segment. The substantial majority of the Company's net revenues and long-lived assets are located in the U.S.

Reportable financial results from continuing operations are as follows:

<i>(Amounts in thousands)</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Investment banking</b>				
Advisory services	\$ 77,250	\$ 106,769	\$ 274,045	\$ 296,886
Corporate financing	99,528	22,580	208,152	61,814
Municipal financing	26,457	21,843	79,863	52,292
<b>Total investment banking</b>	<b>203,235</b>	<b>151,192</b>	<b>562,060</b>	<b>410,992</b>
<b>Institutional brokerage</b>				
Equity brokerage	33,439	24,147	121,936	55,521
Fixed income services	53,325	22,667	143,310	58,462
<b>Total institutional brokerage</b>	<b>86,764</b>	<b>46,814</b>	<b>265,246</b>	<b>113,983</b>
<i>Interest income</i>	2,095	6,481	11,225	20,911
<i>Investment income/(loss)</i>	<b>15,080</b>	<b>(1,575)</b>	<b>4,987</b>	<b>17,622</b>
<b>Total revenues</b>	<b>307,174</b>	<b>202,912</b>	<b>843,518</b>	<b>563,508</b>
<i>Interest expense</i>	3,455	2,177	11,193	7,813
<b>Net revenues</b>	<b>303,719</b>	<b>200,735</b>	<b>832,325</b>	<b>555,695</b>
<b>Non-interest expenses (1)</b>	<b>279,070</b>	<b>179,700</b>	<b>834,308</b>	<b>490,598</b>
<b>Pre-tax income/(loss)</b>	<b>\$ 24,649</b>	<b>\$ 21,035</b>	<b>\$ (1,983)</b>	<b>\$ 65,097</b>
<b>Pre-tax margin</b>	<b>8.1 %</b>	<b>10.5 %</b>	<b>(0.2)%</b>	<b>11.7 %</b>

(1) Non-interest expenses include intangible asset amortization of \$11.6 million and \$1.2 million for the three months ended September 30, 2020 and 2019, respectively, and \$33.1 million and \$2.7 million for the nine months ended September 30, 2020 and 2019, respectively.

**Piper Sandler Companies**  
**Notes to the Consolidated Financial Statements**  
**(Unaudited)**

**Note 21** *Net Capital Requirements and Other Regulatory Matters*

Piper Sandler is registered as a securities broker dealer with the SEC and is a member of various SROs and securities exchanges. The Financial Industry Regulatory Authority, Inc. ("FINRA") serves as Piper Sandler's primary SRO. Piper Sandler is subject to the uniform net capital rule of the SEC and the net capital rule of FINRA. Piper Sandler has elected to use the alternative method permitted by the SEC rule which requires that it maintain minimum net capital of \$1.0 million. Advances to affiliates, repayment of subordinated debt, dividend payments and other equity withdrawals by Piper Sandler are subject to certain approvals, notifications and other provisions of SEC and FINRA rules.

At September 30, 2020, net capital calculated under the SEC rule was \$174.7 million, and exceeded the minimum net capital required under the SEC rule by \$173.7 million.

The Company's committed short-term credit facility, revolving credit facility and its Notes with PIMCO include covenants requiring Piper Sandler to maintain minimum net capital of \$120 million. CP Notes issued under CP Series II A include a covenant that requires Piper Sandler to maintain excess net capital of \$100 million. The Company's fully disclosed clearing agreement with Pershing also includes a covenant requiring Piper Sandler to maintain excess net capital of \$120 million.

Piper Sandler Ltd., a broker dealer subsidiary registered in the United Kingdom, is subject to the capital requirements of the Prudential Regulation Authority and the Financial Conduct Authority. As of September 30, 2020, Piper Sandler Ltd. was in compliance with the capital requirements of the Prudential Regulation Authority and the Financial Conduct Authority.

Piper Sandler Hong Kong Limited is licensed by the Hong Kong Securities and Futures Commission, which is subject to the liquid capital requirements of the Securities and Futures (Financial Resources) Rule promulgated under the Securities and Futures Ordinance. At September 30, 2020, Piper Sandler Hong Kong Limited was in compliance with the liquid capital requirements of the Hong Kong Securities and Futures Commission.

**Note 22** *Income Taxes*

The Company recorded an income tax benefit from continuing operations of \$1.4 million and income tax expense from continuing operations of \$10.7 million for the nine months ended September 30, 2020 and 2019, respectively. Income tax expense/(benefit) from continuing operations included a tax benefit of \$0.2 million and \$5.1 million for the nine months ended September 30, 2020 and 2019, respectively, related to stock-based compensation awards vesting at values greater than the grant price.

The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which was enacted by the U.S. federal government on March 27, 2020 in response to the COVID-19 pandemic, contains tax provisions allowing a five-year carry back of any net operating losses incurred during federal tax years 2018, 2019 and 2020, to periods when the corporate federal tax rate was 35 percent. FASB Accounting Standards Codification Topic 740, "Income Taxes," requires companies to recognize the effect of tax law changes in the period of enactment. For the nine months ended September 30, 2020, the Company recorded \$3.6 million of income tax benefits related to the tax provisions in the CARES Act.



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

The following information should be read in conjunction with the accompanying unaudited consolidated financial statements and related notes and exhibits included elsewhere in this Quarterly Report on Form 10-Q. Certain statements in this Quarterly Report on Form 10-Q may be considered forward-looking. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These forward-looking statements include, among other things, statements other than historical information or statements of current conditions and may relate to our future plans and objectives and results, and also may include our belief regarding the effect of various legal proceedings, as set forth under "Legal Proceedings" in Part I, Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2019 and in our subsequent reports filed with the Securities and Exchange Commission ("SEC"). Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated, including those factors discussed below under "External Factors Impacting Our Business" as well as the factors identified under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019, as updated in our subsequent reports filed with the SEC and under "Risk Factors" in Part II, Item 1A of this Quarterly Report on Form 10-Q. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update them in light of new information or future events.

**Explanation of Non-GAAP Financial Measures**

We have included financial measures that are not prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). These non-GAAP financial measures include adjustments to exclude (1) revenues and expenses related to noncontrolling interests, (2) interest expense on long-term financing from net revenues, (3) amortization of intangible assets related to acquisitions, (4) compensation and non-compensation expenses from acquisition-related agreements, (5) acquisition-related restructuring and integration costs and (6) discontinued operations. The adjusted weighted average diluted shares outstanding used in the calculation of non-GAAP earnings per diluted common share contains an adjustment to include the common shares for unvested restricted stock awards with service conditions granted pursuant to the acquisitions of SOP Holdings, LLC and its subsidiaries, including Sandler O'Neill & Partners, L.P. (collectively, "Sandler O'Neill"), and The Valence Group ("Valence"). These adjustments affect the following financial measures: net revenues, compensation expenses, non-compensation expenses, income tax expense/(benefit), net income/(loss) applicable to Piper Sandler Companies, earnings/(loss) per diluted common share, non-interest expenses, pre-tax income/(loss) and pre-tax margin. Management believes that presenting these results and measures on an adjusted basis in conjunction with the corresponding U.S. GAAP measures provides the most meaningful basis for comparison of our operating results across periods, and enhances the overall understanding of our current financial performance by excluding certain items that may not be indicative of our core operating results. The non-GAAP financial measures should be considered in addition to, not as a substitute for, measures of financial performance prepared in accordance with U.S. GAAP.

## **Executive Overview**

Our continuing operations principally consist of providing investment banking and institutional brokerage services to corporations, private equity groups, public entities, non-profit entities and institutional investors in the United States and Europe. We operate through one reportable business segment. Refer to our Annual Report on Form 10-K for the year ended December 31, 2019 for a full description of our business, including our business strategy.

During 2019 and 2020, we have taken important steps in the execution of our business strategy. These steps include the following:

- On April 3, 2020, we completed the acquisition of Valence, an investment bank offering mergers and acquisitions advisory services to companies and financial sponsors with a focus on the chemicals, materials and related sectors. The transaction adds a new industry sector and expands our presence in Europe.
- On January 3, 2020, we completed the acquisition of Sandler O'Neill, a full-service investment banking firm and broker dealer focused on the financial services industry. The acquisition of Sandler O'Neill is accretive to our advisory services revenues, diversifies and enhances scale in corporate financings, adds a differentiated fixed income services business, and increases scale in our equity brokerage business.
- On August 2, 2019, we completed the acquisition of Weeden & Co. L.P. ("Weeden & Co."). Weeden & Co. is a broker dealer focused on providing institutional clients with global trading solutions, specializing in best execution through the use of high-touch, low-touch and program trading capabilities. The transaction added enhanced trade execution capabilities and scale to our equity brokerage business.

*Discontinued Operations* – Discontinued operations includes the operating results of Advisory Research, Inc. ("ARI"), our traditional asset management subsidiary which we sold in the third quarter of 2019. See Note 4 to our unaudited consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further discussion of our discontinued operations.

**Financial Highlights**

	Three Months Ended			Nine Months Ended		
	Sept. 30, 2020	Sept. 30, 2019	2020 v2019	Sept. 30, 2020	Sept. 30, 2019	2020 v2019
<i>(Amounts in thousands, except per share data)</i>						
<b>U.S. GAAP</b>						
Net revenues	\$ 303,719	\$ 200,735	51.3 %	\$ 832,325	\$ 555,695	49.8 %
Compensation and benefits	209,660	126,868	65.3	611,344	346,471	76.4
Non-compensation expenses	69,410	52,832	31.4	222,964	144,127	54.7
Income/(loss) from continuing operations before income tax expense/(benefit)	24,649	21,035	17.2	(1,983)	65,097	N/M
Net income/(loss) applicable to Piper Sandler Companies	11,617	43,242	(73.1)	(1,656)	73,053	N/M
Earnings/(loss) per diluted common share	\$ 0.78	\$ 3.01	(74.1)	\$ (0.12)	\$ 5.01	N/M
<b>Ratios and margin</b>						
Compensation ratio	69.0 %	63.2 %		73.5 %	62.3 %	
Non-compensation ratio	22.9 %	26.3 %		26.8 %	25.9 %	
Pre-tax margin	8.1 %	10.5 %		(0.2)%	11.7 %	
<b>Non-GAAP<sup>(1)</sup></b>						
Adjusted net revenues	\$ 297,799	\$ 202,513	47.1 %	\$ 835,388	\$ 547,421	52.6 %
Adjusted compensation and benefits	181,736	125,798	44.5	526,201	341,765	54.0
Adjusted non-compensation expenses	55,176	44,391	24.3	167,520	125,553	33.4
Adjusted operating income	60,887	32,324	88.4	141,667	80,103	76.9
Adjusted net income applicable to Piper Sandler Companies	42,678	23,524	81.4	102,594	64,693	58.6
Adjusted earnings per diluted common share	\$ 2.38	\$ 1.64	45.1	\$ 5.73	\$ 4.47	28.2
<b>Adjusted ratios and margin</b>						
Adjusted compensation ratio	61.0 %	62.1 %		63.0 %	62.4 %	
Adjusted non-compensation ratio	18.5 %	21.9 %		20.1 %	22.9 %	
Adjusted operating margin	20.4 %	16.0 %		17.0 %	14.6 %	

N/M – Not meaningful

See the "Results of Operations" section for additional information.

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### (1) Reconciliation of U.S. GAAP to adjusted non-GAAP financial information

(Amounts in thousands, except per share data)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
<b>Net revenues:</b>				
Net revenues – U.S. GAAP basis	\$ 303,719	\$ 200,735	\$ 832,325	\$ 555,695
Adjustments:				
Revenue related to noncontrolling interests	(8,393)	1,778	(4,092)	(8,274)
Interest expense on long-term financing	2,473	—	7,155	—
Adjusted net revenues	<u>\$ 297,799</u>	<u>\$ 202,513</u>	<u>\$ 835,388</u>	<u>\$ 547,421</u>
<b>Compensation and benefits:</b>				
Compensation and benefits – U.S. GAAP basis	\$ 209,660	\$ 126,868	\$ 611,344	\$ 346,471
Adjustments:				
Compensation from acquisition-related agreements	(27,924)	(1,070)	(85,143)	(4,706)
Adjusted compensation and benefits	<u>\$ 181,736</u>	<u>\$ 125,798</u>	<u>\$ 526,201</u>	<u>\$ 341,765</u>
<b>Non-compensation expenses:</b>				
Non-compensation expenses – U.S. GAAP basis	\$ 69,410	\$ 52,832	\$ 222,964	\$ 144,127
Adjustments:				
Non-compensation expenses related to noncontrolling interests	(1,035)	(1,069)	(3,019)	(3,187)
Acquisition-related restructuring and integration costs	(1,592)	(6,143)	(7,218)	(12,538)
Amortization of intangible assets related to acquisitions	(11,607)	(1,229)	(33,122)	(2,735)
Non-compensation expenses from acquisition-related agreements	—	—	(12,085)	(114)
Adjusted non-compensation expenses	<u>\$ 55,176</u>	<u>\$ 44,391</u>	<u>\$ 167,520</u>	<u>\$ 125,553</u>
<b>Income/(loss) from continuing operations before income tax expense/(benefit):</b>				
Income/(loss) from continuing operations before income tax expense/(benefit) – U.S. GAAP basis	\$ 24,649	\$ 21,035	\$ (1,983)	\$ 65,097
Adjustments:				
Revenue related to noncontrolling interests	(8,393)	1,778	(4,092)	(8,274)
Interest expense on long-term financing	2,473	—	7,155	—
Non-compensation expenses related to noncontrolling interests	1,035	1,069	3,019	3,187
Compensation from acquisition-related agreements	27,924	1,070	85,143	4,706
Acquisition-related restructuring and integration costs	1,592	6,143	7,218	12,538
Amortization of intangible assets related to acquisitions	11,607	1,229	33,122	2,735
Non-compensation expenses from acquisition-related agreements	—	—	12,085	114
Adjusted operating income	<u>\$ 60,887</u>	<u>\$ 32,324</u>	<u>\$ 141,667</u>	<u>\$ 80,103</u>
Interest expense on long-term financing	(2,473)	—	(7,155)	—
Adjusted income before adjusted income tax expense	<u>\$ 58,414</u>	<u>\$ 32,324</u>	<u>\$ 134,512</u>	<u>\$ 80,103</u>
<b>Net income/(loss) applicable to Piper Sandler Companies:</b>				
Net income/(loss) applicable to Piper Sandler Companies – U.S. GAAP basis	\$ 11,617	\$ 43,242	\$ (1,656)	\$ 73,053
Adjustment to exclude net income from discontinued operations	—	26,077	—	23,772
Net income/(loss) from continuing operations	<u>\$ 11,617</u>	<u>\$ 17,165</u>	<u>\$ (1,656)</u>	<u>\$ 49,281</u>
Adjustments:				
Compensation from acquisition-related agreements	21,191	811	64,504	3,799
Acquisition-related restructuring and integration costs	1,207	4,620	6,009	9,429
Amortization of intangible assets related to acquisitions	8,663	928	24,721	2,070
Non-compensation expenses from acquisition-related agreements	—	—	9,016	114
Adjusted net income applicable to Piper Sandler Companies	<u>\$ 42,678</u>	<u>\$ 23,524</u>	<u>\$ 102,594</u>	<u>\$ 64,693</u>

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	<i>Three Months Ended</i>		<i>Nine Months Ended</i>	
	<i>September 30,</i>		<i>September 30,</i>	
<i>(Amounts in thousands, except per share data)</i>	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
<b><i>Earnings/(loss) per diluted common share:</i></b>				
<i>Earnings/(loss) per diluted common share – U.S. GAAP basis</i>	\$ 0.78	\$ 3.01	\$ (0.12)	\$ 5.01
<i>Adjustment to exclude net income from discontinued operations</i>	—	1.82	—	1.64
<i>Income/(loss) from continuing operations</i>	\$ 0.78	\$ 1.20	\$ (0.12)	\$ 3.37
<i>Adjustment for inclusion of unvested acquisition-related stock</i>	(0.49)	—	(1.31)	—
	\$ 0.29	\$ 1.20	\$ (1.43)	\$ 3.37
<b><i>Adjustments:</i></b>				
<i>Compensation from acquisition-related agreements</i>	1.43	0.06	4.43	0.26
<i>Acquisition-related restructuring and integration costs</i>	0.08	0.32	0.41	0.68
<i>Amortization of intangible assets related to acquisitions</i>	0.58	0.06	1.70	0.14
<i>Non-compensation expenses from acquisition-related agreements</i>	—	—	0.62	0.01
<i>Adjusted earnings per diluted common share</i>	\$ 2.38	\$ 1.64	\$ 5.73	\$ 4.47
<b><i>Weighted average diluted common shares outstanding:</i></b>				
<i>Weighted average diluted common shares outstanding – U.S. GAAP basis</i>	14,853	14,085	14,580	13,882
<b><i>Adjustment:</i></b>				
<i>Unvested acquisition-related restricted stock with service conditions</i>	3,081	—	3,327	—
<i>Adjusted weighted average diluted common shares outstanding</i>	17,934	14,085	17,907	13,882

### **External Factors Impacting Our Business**

Performance in the financial services industry in which we operate is highly correlated to the overall strength of economic conditions and financial market activity. Overall market conditions are a product of many factors, which are beyond our control, often unpredictable and at times inherently volatile. These factors may affect the financial decisions made by investors, including their level of participation in the financial markets. In turn, these decisions may affect our business results. With respect to financial market activity, our profitability is sensitive to a variety of factors, including the demand for investment banking services as reflected by the number and size of advisory transactions, equity and debt corporate financings, and municipal financings; the relative level of volatility of the equity and fixed income markets; changes in interest rates and credit spreads (especially rapid and extreme changes); overall market liquidity; the level and shape of various yield curves; the volume and value of trading in securities; and overall equity valuations.

Factors that differentiate our business within the financial services industry also may affect our financial results. For example, our capital markets business focuses on specific industry sectors while serving principally middle-market clientele. If the business environment for our focus sectors is impacted adversely, our business and results of operations could reflect these impacts. In addition, our business, with its specific areas of focus and investment, may not track overall market trends. Given the variability of the capital markets and securities businesses, our earnings may fluctuate significantly from period to period, and results for any individual period should not be considered indicative of future results.

### ***Outlook for the Remainder of 2020***

On March 11, 2020, the World Health Organization characterized the COVID-19 outbreak as a global pandemic. The COVID-19 pandemic has affected major economic and financial markets, and businesses and governments continue to face challenges associated with the economic conditions resulting from efforts to address it. Global macroeconomic conditions have been significantly impacted by the government-mandated closure of businesses and the subsequent reopening of the economy with new protocols for social interaction, supply chain and production disruptions, job losses, reduced consumer spending and sentiment, and a myriad of other factors.

The impacts of COVID-19 continue to persist and present challenges to our business. It is uncertain how long and to what extent the COVID-19 pandemic and the associated economic repercussions will negatively impact our business.

The U.S. federal government passed legislation earlier in 2020 attempting to mitigate some of the economic hardship caused by the COVID-19 pandemic, with the potential for additional legislation and stimulus measures in the future. The U.S. Federal Reserve has taken extraordinary steps to provide liquidity in the financial markets, including cutting the short-term benchmark interest rate to zero and launching a new round of quantitative easing. After historic volatility in the first quarter of 2020, equity markets rebounded and fixed income markets stabilized, aided by the record levels of federal monetary and fiscal support. In the third quarter of 2020, the U.S. Federal Reserve announced it would keep the benchmark interest rate at its current level for an extended period of time, and maintained quantitative easing measures.

Geopolitical and macroeconomic risks, such as uncertainties surrounding trade policy, negotiations regarding Brexit and other global economic conditions, remain in the background and will continue to have an ongoing impact to the U.S. and global economy. The outcome of the 2020 U.S. presidential and congressional elections may also influence the volatility or direction of the markets in the near term.

Market conditions continued to be favorable for corporate capital raising in the third quarter of 2020 driven by strong investor demand, rising valuations for certain industries, low interest rates and stable markets. Based on our recent activity in October, we believe that our corporate financing results will remain relatively strong in the fourth quarter.

As anticipated, advisory services revenues in the third quarter of 2020 were impacted by the pause in activity experienced during the early months of the COVID-19 pandemic. However, market conditions have improved, financing markets are open with historically low interest rates for debt capital, and CEO confidence is building. We believe the outlook for advisory services activity is positive, as evidenced by the increase in the number of announced deals in the market. Our pipeline continues to build as we have re-initiated deals and started new engagements, which we believe will have a positive impact on revenues in the fourth quarter of 2020 and into 2021.

In our equity brokerage business, revenues for the third quarter of 2020 reflected a slowdown in client activity, which tracked market volumes. We expect our equity brokerage revenues to increase in the fourth quarter as market volumes increase and there is potential for increased volatility due to the U.S. elections. We believe that our revenues will continue to follow institutional trading volumes and the uncertainty of the current market conditions could lead to further spikes in volatility and volumes in future periods.

The actions taken by the U.S. Federal Reserve to inject liquidity into the financial markets and to keep interest rates low have allowed for stability in the fixed income markets during the second and third quarters of 2020. We believe that our fixed income services revenues will remain strong as clients continue to reposition and adjust to the changing environment.

Our public finance underwriting business continued to benefit from market stability, low yields and strong investor demand in the third quarter of 2020. We believe activity will continue at current levels as market conditions remain strong for new issuance and re-financing activity. Issuer capital needs, interest rate yields, rate stability and client demand will continue to impact the level of municipal finance activity going forward.

## Results of Operations

### Financial Summary for the three months ended September 30, 2020 and September 30, 2019

The following table provides a summary of the results of our operations on a U.S. GAAP basis and the results of our operations as a percentage of net revenues for the periods indicated.

	Three Months Ended September 30,			As a Percentage of Net Revenues for the Three Months Ended September 30,	
	2020	2019	2020 v2019	2020	2019
<i>(Amounts in thousands)</i>					
<b>Revenues:</b>					
Investment banking	\$ 203,235	\$ 151,192	34.4 %	66.9 %	75.3 %
Institutional brokerage	86,764	46,814	85.3	28.6	23.3
Interest income	2,095	6,481	(67.7)	0.7	3.2
Investment income/(loss)	15,080	(1,575)	N/M	5.0	(0.8)
Total revenues	307,174	202,912	51.4	101.1	101.1
Interest expense	3,455	2,177	58.7	1.1	1.1
Net revenues	303,719	200,735	51.3	100.0	100.0
<b>Non-interest expenses:</b>					
Compensation and benefits	209,660	126,868	65.3	69.0	63.2
Outside services	9,395	7,842	19.8	3.1	3.9
Occupancy and equipment	13,849	9,594	44.4	4.6	4.8
Communications	11,169	7,885	41.6	3.7	3.9
Marketing and business development	537	6,528	(91.8)	0.2	3.3
Deal-related expenses	13,543	6,387	112.0	4.5	3.2
Trade execution and clearance	3,666	3,770	(2.8)	1.2	1.9
Restructuring and integration costs	1,592	6,143	(74.1)	0.5	3.1
Intangible asset amortization	11,607	1,229	844.4	3.8	0.6
Other operating expenses	4,052	3,454	17.3	1.3	1.7
Total non-interest expenses	279,070	179,700	55.3	91.9	89.5
<b>Income from continuing operations before income tax expense</b>	24,649	21,035	17.2	8.1	10.5
Income tax expense	5,674	6,717	(15.5)	1.9	3.3
<b>Income from continuing operations</b>	18,975	14,318	32.5	6.2	7.1
<b>Discontinued operations:</b>					
Income from discontinued operations, net of tax	—	26,077	N/M	—	13.0
<b>Net income</b>	18,975	40,395	(53.0)	6.2	20.1
Net income/(loss) applicable to noncontrolling interests	7,358	(2,847)	N/M	2.4	(1.4)
<b>Net income applicable to Piper Sandler Companies</b>	\$ 11,617	\$ 43,242	(73.1)%	3.8 %	21.5 %

N/M – Not meaningful

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For the three months ended September 30, 2020, we recorded net income from continuing operations applicable to Piper Sandler Companies of \$11.6 million. Net revenues from continuing operations for the three months ended September 30, 2020 were \$303.7 million, a 51.3 percent increase compared to \$200.7 million in the year-ago period. In the third quarter of 2020, investment banking revenues were \$203.2 million, up 34.4 percent compared with \$151.2 million in the prior-year period, driven by robust corporate financing revenues, as well as higher municipal financing revenues. These increases were partially offset by lower advisory services revenues. For the three months ended September 30, 2020, institutional brokerage revenues increased 85.3 percent to \$86.8 million, compared with \$46.8 million in the third quarter of 2019, due to the acquisition of Sandler O'Neill, as well as increased client activity. For the three months ended September 30, 2020, net interest expense was \$1.4 million, compared to net interest income of \$4.3 million in the prior-year period. Net interest expense resulted from a decline in interest income on our long inventory positions combined with incremental interest expense on our long-term financing arrangements, which consist of our fixed rate senior notes issued on October 15, 2019, and the unsecured promissory notes we entered into on April 3, 2020 to fund a portion of the Valence purchase price. In the third quarter of 2020, we recorded investment income of \$15.1 million, compared with an investment loss of \$1.6 million in the prior-year period. In the current quarter, we recorded gains on our investment and the noncontrolling interests in the merchant banking funds that we manage. Non-interest expenses from continuing operations were \$279.1 million for the three months ended September 30, 2020, up 55.3 percent compared to \$179.7 million in the prior-year period, driven by higher compensation and non-compensation expenses resulting from the acquisitions of Sandler O'Neill and Valence in the first half of 2020.

### ***Consolidated Non-Interest Expenses from Continuing Operations***

*Compensation and Benefits* – Compensation and benefits expenses, which are the largest component of our expenses, include salaries, incentive compensation, benefits, stock-based compensation, employment taxes, income associated with the forfeiture of stock-based compensation and other employee-related costs. A portion of compensation expense is comprised of variable incentive arrangements, including discretionary incentive compensation, the amount of which fluctuates in proportion to the level of business activity, increasing with higher revenues and operating profits. Other compensation costs, primarily base salaries and benefits, are more fixed in nature. The timing of incentive compensation payments, which generally occur in February, has a greater impact on our cash position and liquidity than is reflected on our consolidated statements of operations. We have granted restricted stock and restricted cash with service conditions as a component of our acquisition deal consideration, which is amortized to compensation expense over the service period.

For the three months ended September 30, 2020, compensation and benefits expenses increased 65.3 percent to \$209.7 million, compared with \$126.9 million in the corresponding period of 2019. The increase in compensation and benefits expenses was driven by higher revenues and incremental headcount from the acquisitions of Sandler O'Neill and Valence, along with higher acquisition-related compensation related to restricted consideration and retention awards associated with these acquisitions. Compensation and benefits expenses as a percentage of net revenues was 69.0 percent in the third quarter of 2020, compared with 63.2 percent in the third quarter of 2019. The compensation ratio was impacted by increased acquisition-related compensation related to our recent acquisitions.

*Outside Services* – Outside services expenses include securities processing expenses, outsourced technology functions, outside legal fees, fund expenses associated with our consolidated alternative asset management funds and other professional fees. Outside services expenses increased 19.8 percent to \$9.4 million in the third quarter of 2020, compared with \$7.8 million in the corresponding period of 2019. The increase was due to incremental expenses related to the acquisition of Sandler O'Neill and higher professional fees.

*Occupancy and Equipment* – For the three months ended September 30, 2020, occupancy and equipment expenses increased to \$13.8 million, compared with \$9.6 million for the three months ended September 30, 2019. The increase was primarily the result of incremental expenses related to our recent acquisitions.

*Communications* – Communication expenses include costs for telecommunication and data communication, primarily consisting of expenses for obtaining third party market data information. For the three months ended September 30, 2020, communication expenses increased 41.6 percent to \$11.2 million, compared with \$7.9 million for the three months ended September 30, 2019 due to higher market data services expenses resulting from incremental headcount related to our recent acquisitions.



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*Marketing and Business Development* – Marketing and business development expenses include travel and entertainment costs, advertising and third party marketing fees. For the three months ended September 30, 2020, marketing and business development expenses decreased to \$0.5 million, compared with \$6.5 million in the corresponding period of 2019. The decrease was driven by lower travel and entertainment costs.

*Deal-Related Expenses* – Deal-related expenses include costs we incurred over the course of a completed investment banking deal, which primarily consist of legal fees, offering expenses, and travel and entertainment costs. For the three months ended September 30, 2020, deal-related expenses were \$13.5 million, compared with \$6.4 million for the three months ended September 30, 2019. The amount of deal-related expenses is principally dependent on the level of deal activity and may vary from period to period as the recognition of deal-related costs typically coincides with the closing of a transaction. We closed on a record number of equity financing transactions in the third quarter of 2020, which resulted in higher deal-related expenses.

*Trade Execution and Clearance* – For the three months ended September 30, 2020, trade execution and clearance expenses were \$3.7 million, essentially flat compared with the corresponding period of 2019.

*Restructuring and Integration Costs* – For the three months ended September 30, 2020, we incurred acquisition-related restructuring and integration costs of \$1.6 million primarily related to vacated leased office space associated with the acquisition of Sandler O'Neill. We expect to incur additional restructuring and integration costs in the fourth quarter of 2020. For the three months ended September 30, 2019, we incurred acquisition-related restructuring and integration costs of \$6.1 million related to the acquisitions of Weeden & Co. and Sandler O'Neill. The expenses consisted of \$2.6 million of transaction costs, \$1.8 million of severance benefits and \$1.7 million for vacated leased office space.

*Intangible Asset Amortization* – Intangible asset amortization includes the amortization of definite-lived intangible assets consisting of customer relationships, internally developed software and the trade name that we acquired from Simmons & Company International. For the three months ended September 30, 2020, intangible asset amortization was \$11.6 million, compared with \$1.2 million for the three months ended September 30, 2019. The increase was due to incremental intangible amortization expense related to identifiable intangible assets associated with the acquisitions of Sandler O'Neill and Valence.

*Other Operating Expenses* – Other operating expenses include insurance costs, license and registration fees, expenses related to our charitable giving program and litigation-related expenses, which consist of the amounts we reserve and/or pay out related to legal and regulatory matters. Other operating expenses were \$4.1 million in the third quarter of 2020, compared with \$3.5 million in the corresponding period in 2019. In the third quarter of 2020, we recorded foreign currency losses from our foreign cash accounts versus gains in the third quarter of 2019.

*Income Taxes* – For the three months ended September 30, 2020, our provision for income taxes was \$5.7 million. Excluding the impact of noncontrolling interests, our effective tax rate was 32.8 percent, which includes the impact of non-deductible covered employee compensation expense.

For the three months ended September 30, 2019, our provision for income taxes was \$6.7 million. Excluding the impact of noncontrolling interests, our effective tax rate was 28.1 percent.

### ***Financial Performance from Continuing Operations***

Our activities as an investment bank and institutional securities firm constitute a single business segment.

Throughout this section, we have presented results on both a U.S. GAAP and non-GAAP basis. Management believes that presenting results and measures on an adjusted, non-GAAP basis in conjunction with the corresponding U.S. GAAP measures provides a more meaningful basis for comparison of its operating results and underlying trends between periods, and enhances the overall understanding of our current financial performance by excluding certain items that may not be indicative of our core operating results. The non-GAAP results should be considered in addition to, not as a substitute for, the results prepared in accordance with U.S. GAAP.

The adjusted financial results exclude (1) revenues and expenses related to noncontrolling interests, (2) interest expense on long-term financing from net revenues, (3) amortization of intangible assets related to acquisitions, (4) compensation and non-compensation expenses from acquisition-related agreements and (5) acquisition-related restructuring and integration costs. For U.S. GAAP purposes, these items are included in each of their respective line items on the consolidated statements of operations.

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The following table sets forth the adjusted, non-GAAP financial results and adjustments necessary to reconcile to our consolidated U.S. GAAP financial results for the periods presented:

	Three Months Ended September 30,							
	2020				2019			
	Total Adjusted	Adjustments (1)		U.S. GAAP	Total Adjusted	Adjustments (1)		U.S. GAAP
Noncontrolling Interests		Other Adjustments	Noncontrolling Interests			Other Adjustments		
<i>(Amounts in thousands)</i>								
<b>Investment banking</b>								
Advisory services	\$ 77,250	\$ —	\$ —	\$ 77,250	\$ 106,769	\$ —	\$ —	\$ 106,769
Corporate financing	99,528	—	—	99,528	22,580	—	—	22,580
Municipal financing	26,457	—	—	26,457	21,843	—	—	21,843
<b>Total investment banking</b>	<b>203,235</b>	<b>—</b>	<b>—</b>	<b>203,235</b>	<b>151,192</b>	<b>—</b>	<b>—</b>	<b>151,192</b>
<b>Institutional brokerage</b>								
Equity brokerage	33,439	—	—	33,439	24,147	—	—	24,147
Fixed income services	53,325	—	—	53,325	22,667	—	—	22,667
<b>Total institutional brokerage</b>	<b>86,764</b>	<b>—</b>	<b>—</b>	<b>86,764</b>	<b>46,814</b>	<b>—</b>	<b>—</b>	<b>46,814</b>
Interest income	2,095	—	—	2,095	6,481	—	—	6,481
Investment income/(loss)	6,687	8,393	—	15,080	203	(1,778)	—	(1,575)
<b>Total revenues</b>	<b>298,781</b>	<b>8,393</b>	<b>—</b>	<b>307,174</b>	<b>204,690</b>	<b>(1,778)</b>	<b>—</b>	<b>202,912</b>
Interest expense	982	—	2,473	3,455	2,177	—	—	2,177
<b>Net revenues</b>	<b>297,799</b>	<b>8,393</b>	<b>(2,473)</b>	<b>303,719</b>	<b>202,513</b>	<b>(1,778)</b>	<b>—</b>	<b>200,735</b>
Non-interest expenses	236,912	1,035	41,123	279,070	170,189	1,069	8,442	179,700
Pre-tax income	\$ 60,887	\$ 7,358	\$ (43,596)	\$ 24,649	\$ 32,324	\$ (2,847)	\$ (8,442)	\$ 21,035
Pre-tax margin	20.4 %			8.1 %	16.0 %			10.5 %

(1) The following is a summary of the adjustments needed to reconcile our consolidated U.S. GAAP financial results to the adjusted, non-GAAP financial results:

*Noncontrolling interests* – The impacts of consolidating noncontrolling interests in our alternative asset management funds are not included in our adjusted financial results.

*Other adjustments* – The following items are not included in our adjusted financial results:

<i>(Amounts in thousands)</i>	Three Months Ended September 30,	
	2020	2019
Interest expense on long-term financing	\$ 2,473	\$ —
Compensation from acquisition-related agreements	27,924	1,070
Acquisition-related restructuring and integration costs	1,592	6,143
Amortization of intangible assets related to acquisitions	11,607	1,229
	41,123	8,442
<b>Total other adjustments</b>	<b>\$ 43,596</b>	<b>\$ 8,442</b>

Net revenues on a U.S. GAAP basis were \$303.7 million for the three months ended September 30, 2020, compared with \$200.7 million in the prior-year period. For the three months ended September 30, 2020, adjusted net revenues were \$297.8 million, compared with \$202.5 million in the third quarter of 2019. The variance explanations for net revenues and adjusted net revenues are consistent on both a U.S. GAAP and non-GAAP basis unless stated otherwise.

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Investment banking revenues comprise all of the revenues generated through advisory services activities, which includes mergers and acquisitions ("M&A"), equity and debt private placements, debt and restructuring advisory, and municipal financial advisory transactions. Collectively, equity and debt private placements and debt and restructuring advisory transactions are referred to as capital advisory transactions. Investment banking revenues also include equity and debt corporate financing activities and municipal financings.

In the third quarter of 2020, investment banking revenues increased 34.4 percent to \$203.2 million, compared with \$151.2 million in the corresponding period of the prior year. For the three months ended September 30, 2020, advisory services revenues were \$77.3 million, down 27.6 percent compared to \$106.8 million in the third quarter of 2019. Revenues for the third quarter of 2020 reflect the impact of the pause in advisory services activity during the early months of the COVID-19 pandemic. This decline was partially offset by the addition of Sandler O'Neill to our platform. We believe the outlook for advisory services activity is positive as the number of announced deals in the market has increased. We also continue to build our pipeline through re-initiated deals and new engagements, and believe this will have a positive impact on advisory services revenues in the fourth quarter of 2020 and into 2021. The uneven distribution of the number and size of deals results in revenue fluctuations from quarter to quarter. For the three months ended September 30, 2020, corporate financing revenues were a record \$99.5 million, up significantly compared with \$22.6 million for the three months ended September 30, 2019, driven by more completed and book run equity deals, as well as the addition of Sandler O'Neill to our platform, which book ran nine debt offerings for financial services companies. Market conditions became favorable for capital raising during the second quarter of 2020 driven by a sharp rebound in valuations for equities of certain industry groups combined with lower volatility and low new issue interest rates in debt markets, and these dynamics continued into the third quarter of 2020. Activity for us during the third quarter was principally in the healthcare sector, and we served as book runner on all 26 of the healthcare equity deals we participated in. Based on our recent activity in October, we believe that our corporate financing results will remain relatively strong in the fourth quarter of 2020. Municipal financing revenues for the three months ended September 30, 2020 were \$26.5 million, up 21.1 percent compared to \$21.8 million in the prior-year period, driven by issuance activity within the governmental space, which continues to benefit from low interest rates and strong investor demand in a stable market environment.

The following table provides investment banking deal information:

	<b>Three Months Ended</b>	
	<b>September 30,</b>	
	<b>2020</b>	<b>2019</b>
<i>(Dollars in billions)</i>		
<b>Advisory services</b>		
M&A transactions	31	31
Capital advisory transactions	35	7
<b>Corporate financings</b>		
Total equity transactions	43	15
Book run equity transactions	29	9
Total debt and preferred transactions	16	—
Book run debt and preferred transactions	9	—
<b>Municipal negotiated issues</b>		
Aggregate par value	\$ 4.5	\$ 2.8
Total issues	200	135

Institutional brokerage revenues comprise all of the revenues generated through trading activities, which consist of facilitating customer trades, executing competitive municipal underwritings and our strategic trading activities in municipal bonds. Our results may vary from quarter to quarter as a result of changes in trading margins, trading gains and losses, net interest spreads, trading volumes, the timing of payments for research services, and the timing of transactions based on market opportunities.

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For the three months ended September 30, 2020, institutional brokerage revenues increased 85.3 percent to \$86.8 million, compared with \$46.8 million in the prior-year period. Equity brokerage revenues were \$33.4 million in the third quarter of 2020, up 38.5 percent compared with \$24.1 million in the corresponding period of 2019, as market-wide volumes were elevated compared to the prior-year period. We continue to leverage our expanded client base, execution expertise and product capabilities to find liquidity for our clients. For the three months ended September 30, 2020, fixed income services revenues were \$53.3 million, up 135.3 percent compared with \$22.7 million in the prior-year period. Revenues in the third quarter of 2020 were driven by the addition of Sandler O'Neill to our platform and strong client activity as we continue to provide strategic advice on repositioning balance sheets, maximizing yields and managing risk. We expect activity to remain strong as clients continue to reposition and adjust to the changing environment.

Interest income represents amounts earned from economically hedging and holding long inventory positions. For the three months ended September 30, 2020, interest income decreased to \$2.1 million, compared with \$6.5 million for the three months ended September 30, 2019, reflecting lower long inventory balances. We have focused on only carrying inventory where clients need liquidity within our areas of expertise.

Investment income/(loss) includes realized and unrealized gains and losses on investments, including amounts attributable to noncontrolling interests, in our merchant banking and energy funds, as well as management and performance fees generated from those funds. For the three months ended September 30, 2020, we recorded investment income of \$15.1 million, compared with an investment loss of \$1.6 million in the corresponding period of 2019. In the third quarter of 2020, we recorded gains on our investment and the noncontrolling interests in the merchant banking funds that we manage compared with losses in the prior-year period. Excluding the impact of noncontrolling interests, adjusted investment income was \$6.7 million and \$0.2 million for the three months ended September 30, 2020 and 2019, respectively.

Interest expense represents amounts associated with financing, economically hedging and holding short inventory positions, including interest paid on our long-term financing arrangements, as well as commitment fees on our line of credit and revolving credit facility. For the three months ended September 30, 2020, interest expense was \$3.5 million, compared with \$2.2 million in the prior-year period. In the third quarter of 2020, we recorded incremental interest expense on our long-term financing arrangements, which consist of the \$175 million of fixed rate senior notes we issued on October 15, 2019, and \$20 million of unsecured promissory notes we entered into on April 3, 2020 to fund a portion of the Valence purchase price. The increase was partially offset by a decline in interest expense resulting from lower short inventory balances. Excluding the impact of interest expense on long-term financing, adjusted interest expense was \$1.0 million for the three months ended September 30, 2020.

Pre-tax margin for the three months ended September 30, 2020 was 8.1 percent, compared with 10.5 percent for the corresponding period of 2019. The decrease in pre-tax margin was primarily due to an increased compensation ratio resulting from higher acquisition-related compensation. Adjusted pre-tax margin for the three months ended September 30, 2020 was 20.4 percent, up compared with 16.0 percent for the corresponding period of 2019, reflecting higher revenue levels.

**Financial Summary for the nine months ended September 30, 2020 and September 30, 2019**

The following table provides a summary of the results of our operations on a U.S. GAAP basis and the results of our operations as a percentage of net revenues for the periods indicated.

	Nine Months Ended September 30,			As a Percentage of Net Revenues for the Nine Months Ended September 30,	
	2020	2019	2020 v2019	2020	2019
<i>(Amounts in thousands)</i>					
<b>Revenues:</b>					
Investment banking	\$ 562,060	\$ 410,992	36.8 %	67.5 %	74.0 %
Institutional brokerage	265,246	113,983	132.7	31.9	20.5
Interest income	11,225	20,911	(46.3)	1.3	3.8
Investment income	4,987	17,622	(71.7)	0.6	3.2
Total revenues	843,518	563,508	49.7	101.3	101.4
Interest expense	11,193	7,813	43.3	1.3	1.4
Net revenues	832,325	555,695	49.8	100.0	100.0
<b>Non-interest expenses:</b>					
Compensation and benefits	611,344	346,471	76.4	73.5	62.3
Outside services	27,733	24,864	11.5	3.3	4.5
Occupancy and equipment	39,356	26,368	49.3	4.7	4.7
Communications	33,899	22,599	50.0	4.1	4.1
Marketing and business development	13,164	21,355	(38.4)	1.6	3.8
Deal-related expenses	29,687	17,840	66.4	3.6	3.2
Trade execution and clearance	15,129	6,593	129.5	1.8	1.2
Restructuring and integration costs	7,218	12,538	(42.4)	0.9	2.3
Intangible asset amortization	33,122	2,735	N/M	4.0	0.5
Other operating expenses	23,656	9,235	156.2	2.8	1.7
Total non-interest expenses	834,308	490,598	70.1	100.2	88.3
<b>Income/(loss) from continuing operations before income tax expense/(benefit)</b>	<b>(1,983)</b>	65,097	N/M	<b>(0.2)</b>	11.7
Income tax expense/(benefit)	(1,400)	10,729	N/M	(0.2)	1.9
<b>Income/(loss) from continuing operations</b>	<b>(583)</b>	54,368	N/M	<b>(0.1)</b>	9.8
<b>Discontinued operations:</b>					
Income from discontinued operations, net of tax	—	23,772	N/M	—	4.3
<b>Net income/(loss)</b>	<b>(583)</b>	78,140	N/M	<b>(0.1)</b>	14.1
Net income applicable to noncontrolling interests	1,073	5,087	(78.9)	0.1	0.9
<b>Net income/(loss) applicable to Piper Sandler Companies</b>	<b>\$ (1,656)</b>	<b>\$ 73,053</b>	N/M	<b>(0.2)%</b>	13.1 %

N/M – Not meaningful

Except as discussed below, the description of non-interest expenses and net revenues as well as the underlying reasons for variances to prior year are substantially the same as the comparative quarterly discussion.

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For the nine months ended September 30, 2020, we recorded a net loss from continuing operations applicable to Piper Sandler Companies of \$1.7 million. Net revenues from continuing operations for the nine months ended September 30, 2020 increased 49.8 percent to \$832.3 million, compared with \$555.7 million in the year-ago period, as the acquisitions of Sandler O'Neill and Weeden & Co. have provided increased diversification and scale to our platform. In the first nine months of 2020, investment banking revenues increased 36.8 percent to \$562.1 million, compared with \$411.0 million in the prior-year period. Significantly higher corporate financing revenues, as well as increased municipal financing revenues, were partially offset by lower advisory services revenues. For the nine months ended September 30, 2020, institutional brokerage revenues increased 132.7 percent to \$265.2 million, compared with \$114.0 million in the first nine months of 2019. The increase was due to the acquisitions of Weeden & Co. and Sandler O'Neill, as well as higher volatility in the financial markets, particularly in the first quarter of 2020, which drove higher trading volumes. In the first nine months of 2020, interest income of \$11.2 million was offset by interest expense of the same amount. Net interest income was \$13.1 million in the first nine months of 2019. The decrease was driven by a decline in interest income on our long inventory positions and incremental interest expense on our long-term financing arrangements. For the nine months ended September 30, 2020, we recorded investment income of \$5.0 million, compared with \$17.6 million in the prior-year period. In the first nine months of 2020, we recorded lower gains on our investment and the noncontrolling interests in the merchant banking funds that we manage. Non-interest expenses from continuing operations were \$834.3 million for the nine months ended September 30, 2020, up 70.1 percent compared with \$490.6 million in the year-ago period, primarily due to higher compensation and non-compensation expenses resulting from our recent acquisitions.

### ***Consolidated Non-Interest Expenses from Continuing Operations***

***Compensation and Benefits*** – For the nine months ended September 30, 2020, compensation and benefits expenses increased 76.4 percent to \$611.3 million, compared with \$346.5 million in the corresponding period of 2019. The increase in compensation and benefits expenses was driven by increased revenues and incremental headcount from our recent acquisitions, as well as higher acquisition-related compensation related to restricted consideration and retention awards associated with these acquisitions. We also recorded additional compensation expense for an earnout associated with the acquisition of Weeden & Co. related to our expectations of achieving a net revenue target, as our equity brokerage business is outperforming initial projections. Compensation and benefits expenses as a percentage of net revenues was 73.5 percent in the first nine months of 2020, compared with 62.3 percent in the corresponding period of 2019. The compensation ratio was impacted by increased acquisition-related compensation related to our recent acquisitions.

***Trade Execution and Clearance*** – For the nine months ended September 30, 2020, trade execution and clearance expenses were \$15.1 million, compared with \$6.6 million in the corresponding period of 2019. The increase in trade execution and clearance expenses was reflective of higher trading volumes driven by the addition of Weeden & Co. onto our platform.

***Restructuring and Integration Costs*** – For the nine months ended September 30, 2020, we incurred acquisition-related restructuring and integration costs of \$7.2 million primarily related to the acquisitions of Sandler O'Neill and Valence. The expenses consisted of \$3.0 million of transaction costs, \$2.9 million of severance benefits and \$1.9 million for vacated leased office space. These expenses were partially offset by a credit of \$0.6 million related to previously accrued contract termination costs that were settled favorably. For the nine months ended September 30, 2019, we incurred acquisition-related restructuring and integration costs of \$12.5 million related to the acquisitions of Weeden & Co. and Sandler O'Neill. The expenses consisted of \$2.8 million of contract termination fees, \$5.1 million of transaction costs, \$2.9 million of severance benefits and \$1.7 million for vacated leased office space.

***Other Operating Expenses*** – For the nine months ended September 30, 2020, other operating expenses were \$23.7 million, compared with \$9.2 million in the corresponding period of 2019. In the first quarter of 2020, we recorded a \$12.1 million fair value adjustment related to the earnout for former Weeden & Co. equity owners who did not transition to our platform. We recorded the full value of the projected earnout as the non-employee equity owners do not have service requirements. The increase was also due to higher expense related to our charitable giving program and increased insurance costs.

***Income Taxes*** – For the nine months ended September 30, 2020, our provision for income taxes was a benefit of \$1.4 million, which included \$3.6 million of income tax benefits related to the tax provisions in the Coronavirus Aid, Relief, and Economic Security Act, offset in part by the impact of non-deductible covered employee compensation expense.

For the nine months ended September 30, 2019, our provision for income taxes was \$10.7 million. In the first nine months of 2019, we recorded a \$5.1 million tax benefit related to stock-based compensation awards vesting at values greater than the grant price. Excluding the impact of this benefit and noncontrolling interests, our effective tax rate was 26.4 percent.

### Financial Performance from Continuing Operations

The following table sets forth the adjusted, non-GAAP financial results and adjustments necessary to reconcile to our consolidated U.S. GAAP financial results for the periods presented:

	Nine Months Ended September 30,							
	2020				2019			
	Total Adjusted	Adjustments <sup>(1)</sup>		U.S. GAAP	Total Adjusted	Adjustments <sup>(1)</sup>		U.S. GAAP
Noncontrolling Interests		Other Adjustments	Noncontrolling Interests			Other Adjustments		
<i>(Amounts in thousands)</i>								
<b>Investment banking</b>								
Advisory services	\$ 274,045	\$ —	\$ —	\$ 274,045	\$ 296,886	\$ —	\$ —	\$ 296,886
Corporate financing	208,152	—	—	208,152	61,814	—	—	61,814
Municipal financing	79,863	—	—	79,863	52,292	—	—	52,292
<b>Total investment banking</b>	<b>562,060</b>	<b>—</b>	<b>—</b>	<b>562,060</b>	<b>410,992</b>	<b>—</b>	<b>—</b>	<b>410,992</b>
<b>Institutional brokerage</b>								
Equity brokerage	121,936	—	—	121,936	55,521	—	—	55,521
Fixed income services	143,310	—	—	143,310	58,462	—	—	58,462
<b>Total institutional brokerage</b>	<b>265,246</b>	<b>—</b>	<b>—</b>	<b>265,246</b>	<b>113,983</b>	<b>—</b>	<b>—</b>	<b>113,983</b>
Interest income	11,225	—	—	11,225	20,911	—	—	20,911
Investment income	895	4,092	—	4,987	9,348	8,274	—	17,622
<b>Total revenues</b>	<b>839,426</b>	<b>4,092</b>	<b>—</b>	<b>843,518</b>	<b>555,234</b>	<b>8,274</b>	<b>—</b>	<b>563,508</b>
Interest expense	4,038	—	7,155	11,193	7,813	—	—	7,813
<b>Net revenues</b>	<b>835,388</b>	<b>4,092</b>	<b>(7,155)</b>	<b>832,325</b>	<b>547,421</b>	<b>8,274</b>	<b>—</b>	<b>555,695</b>
Non-interest expenses	693,721	3,019	137,568	834,308	467,318	3,187	20,093	490,598
<b>Pre-tax income/(loss)</b>	<b>\$ 141,667</b>	<b>\$ 1,073</b>	<b>\$ (144,723)</b>	<b>\$ (1,983)</b>	<b>\$ 80,103</b>	<b>\$ 5,087</b>	<b>\$ (20,093)</b>	<b>\$ 65,097</b>
<b>Pre-tax margin</b>	<b>17.0 %</b>			<b>(0.2)%</b>	<b>14.6 %</b>			<b>11.7 %</b>

(1) The following is a summary of the adjustments needed to reconcile our consolidated U.S. GAAP financial results to the adjusted, non-GAAP financial results:

*Noncontrolling interests* – The impacts of consolidating noncontrolling interests in our alternative asset management funds are not included in our adjusted financial results.

*Other adjustments* – The following items are not included in our adjusted financial results:

<i>(Amounts in thousands)</i>	Nine Months Ended September 30,	
	2020	2019
Interest expense on long-term financing	\$ 7,155	\$ —
Compensation from acquisition-related agreements	85,143	4,706
Acquisition-related restructuring and integration costs	7,218	12,538
Amortization of intangible assets related to acquisitions	33,122	2,735
Non-compensation expenses from acquisition-related agreements	12,085	114
	<b>137,568</b>	<b>20,093</b>
<b>Total other adjustments</b>	<b>\$ 144,723</b>	<b>\$ 20,093</b>

Net revenues on a U.S. GAAP basis were \$832.3 million for the nine months ended September 30, 2020, compared with \$555.7 million in the prior-year period. In the first nine months of 2020, adjusted net revenues were \$835.4 million, compared with \$547.4 million in the first nine months of 2019. The variance explanations for net revenues and adjusted net revenues are consistent on both a U.S. GAAP and non-GAAP basis unless stated otherwise.

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In the first nine months of 2020, investment banking revenues were \$562.1 million, up 36.8 percent compared with \$411.0 million in the corresponding period of the prior year. For the nine months ended September 30, 2020, advisory services revenues were \$274.0 million, down 7.7 percent compared with \$296.9 million in the first nine months of 2019. Incremental revenues from the addition of Sandler O'Neill to our platform partially offset the decline in revenues resulting from market-wide decreases in completed and announced deals, which reflects the pause in advisory services activity earlier in 2020 as companies evaluated the changing and uncertain environment due to COVID-19. For the nine months ended September 30, 2020, corporate financing revenues were \$208.2 million, up significantly compared with \$61.8 million in the prior-year period, due to more completed and book run equity deals, and the addition of Sandler O'Neill to our platform. In the first nine months of 2020, our revenues on equity offerings in the sub-\$5 billion fee pool were up approximately 186 percent compared to approximately 100 percent for the overall market. Following a substantial halt to capital raising activity in March, market conditions became favorable for capital raising during the second quarter of 2020, which continued into the third quarter of 2020. Additionally, activity in the first quarter of 2019 was impacted by the U.S. federal government shut-down. Municipal financing revenues for the nine months ended September 30, 2020 were \$79.9 million, up 52.7 percent compared with \$52.3 million in the year-ago period. Despite a rapid decline in the level of activity in March due to significant volatility in the fixed income markets, our results in the first nine months of 2020 were driven by robust new issuance and refunding activity as interest rates remained low. In the second and third quarters of 2020, the issuance activity was focused within the governmental space. The par amount of our negotiated municipal issuances increased approximately 83 percent in the first nine months of 2020 compared to an increase of approximately 36 percent for the industry.

The following table provides investment banking deal information:

	<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
<i>(Dollars in billions)</i>		
<b>Advisory services</b>		
M&A transactions	<b>110</b>	93
Capital advisory transactions	<b>68</b>	26
<b>Corporate financings</b>		
Total equity transactions	<b>97</b>	49
Book run equity transactions	<b>70</b>	31
Total debt and preferred transactions	<b>45</b>	—
Book run debt and preferred transactions	<b>28</b>	—
<b>Municipal negotiated issues</b>		
Aggregate par value	<b>\$ 14.1</b>	\$ 7.7
Total issues	<b>587</b>	353

For the nine months ended September 30, 2020, institutional brokerage revenues increased to \$265.2 million, compared with \$114.0 million in the prior-year period. Equity brokerage revenues increased 119.6 percent to \$121.9 million in the first nine months of 2020, compared with \$55.5 million in the corresponding period of 2019, reflecting the successful integration of our platform with Weeden & Co. This combination has expanded our client base, execution expertise and product capabilities. Additionally, in the first quarter of 2020, increased volatility market-wide drove significantly higher volumes as investors repositioned in response to market uncertainty and fund outflows. Volatility and volumes remained at elevated levels in the second quarter of 2020, but declined in the third quarter of 2020 after the tumultuous first half of the year. For the nine months ended September 30, 2020, fixed income services revenues were \$143.3 million, up 145.1 percent compared with \$58.5 million in the prior-year period, due to the addition of Sandler O'Neill to our platform, as well as strong client activity for taxable and tax-exempt products in the second and third quarters of 2020. Additionally, in the first quarter of 2020, the historically volatile quarter and higher volumes in municipals drove client activity as we provided liquidity to municipal bond funds which saw significant outflows by identifying buyers who took advantage of meaningfully higher yields. This strong client activity was partially offset by trading losses in municipal securities due to the sharp and sudden market dislocation.

Interest income for the nine months ended September 30, 2020 decreased 46.3 percent to \$11.2 million, compared with \$20.9 million in the prior-year period, reflecting lower levels of long inventory positions.



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For the nine months ended September 30, 2020, we recorded investment income of \$5.0 million, compared with \$17.6 million in the year-ago period. In the first nine months of 2020, we recorded lower gains on our investment and the noncontrolling interests in the merchant banking funds that we manage. Lower equity valuations and an uncertain and challenging operating environment for some of our portfolio companies drove fair value adjustments in our merchant banking portfolio in the first half of 2020. Excluding the impact of noncontrolling interests, adjusted investment income was \$0.9 million for the nine months ended September 30, 2020, compared with \$9.3 million for the nine months ended September 30, 2019.

Interest expense for the nine months ended September 30, 2020 was \$11.2 million, up compared with \$7.8 million in the prior-year period, driven by incremental interest expense from our long-term financing arrangements. Long-term financing consists of our fixed rate senior notes issued on October 15, 2019 and the unsecured promissory notes we entered into on April 3, 2020 to fund a portion of the Valence purchase price. The increase was partially offset by a decline in interest expense resulting from lower short inventory balances. Excluding the impact of interest expense on long-term financing, adjusted interest expense was \$4.0 million for the nine months ended September 30, 2020.

Pre-tax margin for the nine months ended September 30, 2020 was a negative 0.2 percent, compared with 11.7 percent for the corresponding period of 2019. The negative pre-tax margin for the nine months ended September 30, 2020 primarily resulted from higher acquisition-related compensation and non-compensation expenses, and intangible asset amortization. Adjusted pre-tax margin for the nine months ended September 30, 2020 was 17.0 percent, compared with 14.6 percent for the corresponding period of 2019. Adjusted pre-tax margin increased driven by the increased scale of our platform and the successful integration of the Sandler O'Neill and Weeden & Co. acquisitions.

### **Discontinued Operations**

Discontinued operations includes our traditional asset management subsidiary, ARI, which we sold in the third quarter of 2019. For the three and nine months ended September 30, 2019, we recorded income from discontinued operations, net of tax, of \$26.1 million and \$23.8 million, respectively. See Note 4 to our unaudited consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further discussion of our discontinued operations.

### **Recent Accounting Pronouncements**

Recent accounting pronouncements are set forth in Note 2 to our unaudited consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, and are incorporated herein by reference.

### **Critical Accounting Policies**

Our accounting and reporting policies comply with U.S. GAAP and conform to practices within the securities industry. The preparation of financial statements in compliance with U.S. GAAP and industry practices requires us to make estimates and assumptions that could materially affect amounts reported in our consolidated financial statements. Critical accounting policies are those policies that we believe to be the most important to the portrayal of our financial condition and results of operations and that require us to make estimates that are difficult, subjective or complex. Most accounting policies are not considered by us to be critical accounting policies. Several factors are considered in determining whether or not a policy is critical, including whether the estimates are significant to the consolidated financial statements taken as a whole, the nature of the estimates, the ability to readily validate the estimates with other information (e.g., third party or independent sources), the sensitivity of the estimates to changes in economic conditions and whether alternative accounting methods may be used under U.S. GAAP.

We believe that of our significant accounting policies, the following are our critical accounting policies:

- Valuation of Financial Instruments
- Goodwill and Intangible Assets
- Compensation Plans
- Income Taxes

See the "Critical Accounting Policies" section and Note 2 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2019 for further information on our critical accounting policies.

We anticipate completing our 2020 annual goodwill and intangible asset impairment testing in the fourth quarter of 2020.

## Liquidity, Funding and Capital Resources

Liquidity is of critical importance to us given the nature of our business. Insufficient liquidity resulting from adverse circumstances contributes to, and may be the cause of, financial institution failure. Accordingly, we regularly monitor our liquidity position and maintain a liquidity strategy designed to enable our business to continue to operate even under adverse circumstances, although there can be no assurance that our strategy will be successful under all circumstances.

The majority of our tangible assets consist of assets readily convertible into cash. Financial instruments and other inventory positions owned are stated at fair value and are generally readily marketable in most market conditions. Receivables and payables with brokers, dealers and clearing organizations usually settle within a few days. As part of our liquidity strategy, we emphasize diversification of funding sources to the extent possible while considering tenor and cost. Our assets are financed by our cash flows from operations, equity capital and our funding arrangements. The fluctuations in cash flows from financing activities are directly related to daily operating activities from our various businesses. One of our most important risk management disciplines is our ability to manage the size and composition of our balance sheet. While our asset base changes due to client activity, market fluctuations and business opportunities, the size and composition of our balance sheet reflect our overall risk tolerance, our ability to access stable funding sources and the amount of equity capital we hold.

Certain market conditions can impact the liquidity of our inventory positions, requiring us to hold larger inventory positions for longer than expected or requiring us to take other actions that may adversely impact our results.

A significant component of our employees' compensation is paid in annual discretionary incentive compensation. The timing of these incentive compensation payments, which generally are made in February, has a significant impact on our cash position and liquidity.

Our capital and liquidity positions are strong, our leverage is low, and our risk posture remains conservative. We remain prudent in allocating capital as we continue to adapt and respond to the changing market conditions.

Our dividend policy is intended to return between 30 percent and 50 percent of our adjusted net income from the previous fiscal year to shareholders. This includes the payment of a quarterly and an annual special cash dividend, payable in the first quarter of each year. Our board of directors determines the declaration and payment of dividends on an annual and quarterly basis, and is free to change our dividend policy at any time.

Given our strong performance and improved outlook, the quarterly cash dividend of \$0.375 per share declared by our board of directors on October 30, 2020 increased compared to the first and second quarters of 2020, and returned to the level prior to the COVID-19 pandemic.

Our board of directors declared the following dividends on shares of our common stock:

<b>Declaration Date</b>	<b>Dividend Per Share</b>	<b>Record Date</b>	<b>Payment Date</b>
February 1, 2019 (1)	\$ 1.010	February 25, 2019	March 15, 2019
February 1, 2019	\$ 0.375	February 25, 2019	March 15, 2019
April 26, 2019	\$ 0.375	May 24, 2019	June 14, 2019
July 26, 2019	\$ 0.375	August 23, 2019	September 13, 2019
October 30, 2019	\$ 0.375	November 22, 2019	December 13, 2019
January 31, 2020 (2)	\$ 0.750	March 2, 2020	March 13, 2020
January 31, 2020	\$ 0.375	March 2, 2020	March 13, 2020
May 1, 2020	\$ 0.200	May 29, 2020	June 12, 2020
July 31, 2020	\$ 0.300	August 28, 2020	September 11, 2020
October 30, 2020	\$ 0.375	November 24, 2020	December 11, 2020

(1) Represents the annual special cash dividend based on our fiscal year 2018 results.

(2) Represents the annual special cash dividend based on our fiscal year 2019 results.

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Effective January 1, 2020, our board of directors authorized the repurchase of up to \$150.0 million in common shares through December 31, 2021. During the nine months ended September 30, 2020, we repurchased 188,319 shares of our common stock at an average price of \$69.72 per share for an aggregate purchase price of \$13.1 million related to this authorization. At September 30, 2020, we had \$136.9 million remaining under this authorization.

We also purchase shares of common stock from restricted stock award recipients upon the award vesting or as recipients sell shares to meet their employment tax obligations. During the first nine months of 2020, we purchased 102,556 shares or \$8.6 million of our common stock for these purposes.

### **Leverage**

The following table presents total assets, adjusted assets, total shareholders' equity and tangible shareholders' equity with the resulting leverage ratios:

<i>(Dollars in thousands)</i>	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Total assets	<b>\$ 1,821,174</b>	\$ 1,628,719
Deduct: Goodwill and intangible assets	<b>(371,473)</b>	(104,335)
Deduct: Right-of-use lease asset	<b>(84,931)</b>	(40,030)
Deduct: Assets from noncontrolling interests	<b>(89,436)</b>	(76,516)
Adjusted assets	<b>\$ 1,275,334</b>	\$ 1,407,838
Total shareholders' equity	<b>\$ 858,375</b>	\$ 806,528
Deduct: Goodwill and intangible assets	<b>(371,473)</b>	(104,335)
Deduct: Noncontrolling interests	<b>(88,881)</b>	(75,245)
Tangible common shareholders' equity	<b>\$ 398,021</b>	\$ 626,948
Leverage ratio (1)	<b>2.1</b>	2.0
Adjusted leverage ratio (2)	<b>3.2</b>	2.2

(1) Leverage ratio equals total assets divided by total shareholders' equity.

(2) Adjusted leverage ratio equals adjusted assets divided by tangible common shareholders' equity.

Adjusted assets and tangible common shareholders' equity are non-GAAP financial measures. Goodwill and intangible assets are subtracted from total assets and total shareholders' equity in determining adjusted assets and tangible common shareholders' equity, respectively, as we believe that goodwill and intangible assets do not constitute operating assets that can be deployed in a liquid manner. The right-of-use lease asset is also subtracted from total assets in determining adjusted assets as it is not an operating asset that can be deployed in a liquid manner. Amounts attributed to noncontrolling interests are subtracted from total assets and total shareholders' equity in determining adjusted assets and tangible common shareholders' equity, respectively, as they represent assets and equity interests in consolidated entities that are not attributable, either directly or indirectly, to Piper Sandler Companies. We view the resulting measure of adjusted leverage, also a non-GAAP financial measure, as a more relevant measure of financial risk when comparing financial services companies. Our adjusted leverage ratio increased from December 31, 2019 primarily due to the goodwill and intangible assets related to our acquisitions of Sandler O'Neill and Valence.

### **Funding and Capital Resources**

The primary goal of our funding activities is to ensure adequate funding over a wide range of market conditions. Given the mix of our business activities, funding requirements are fulfilled through a diversified range of short-term and long-term financing. We attempt to ensure that the tenor of our borrowing liabilities equals or exceeds the expected holding period of the assets being financed. Our ability to support increases in total assets is largely a function of our ability to obtain funding from external sources. Access to these external sources, as well as the cost of that financing, is dependent upon various factors, including market conditions, the general availability of credit and credit ratings. We currently do not have a credit rating, which could adversely affect our liquidity and competitive position by increasing our financing costs and limiting access to sources of liquidity that require a credit rating as a condition to providing the funds.

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Our day-to-day funding and liquidity is obtained primarily through the use of our clearing arrangement with Pershing LLC ("Pershing"), commercial paper issuance, a prime broker agreement, and a bank line of credit, and is typically collateralized by our securities inventory. These funding sources are critical to our ability to finance and hold inventory, which is a necessary part of our institutional brokerage business. The majority of our inventory is liquid and is therefore funded by short-term facilities. Certain of these short-term facilities (i.e., committed line and commercial paper) have been established to mitigate changes in the liquidity of our inventory based on changing market conditions. In the case of our committed line, it is available to us regardless of changes in market liquidity conditions through the end of its term, although there may be limitations on the type of securities available to pledge. Our commercial paper program helps mitigate changes in market liquidity conditions given it is not an overnight facility, but provides funding with a term of 27 to 270 days. Our funding sources are also dependent on the types of inventory that our counterparties are willing to accept as collateral and the number of counterparties available. Funding is generally obtained at rates based upon the federal funds rate or the London Interbank Offered Rate ("LIBOR").

Pershing Clearing Arrangement – We have established an arrangement to obtain financing from Pershing related to the majority of our trading activities. Under our fully disclosed clearing agreement, the majority of our securities inventories and all of our customer activities are held by or cleared through Pershing. Financing under this arrangement is secured primarily by securities, and collateral limitations could reduce the amount of funding available under this arrangement. Our clearing arrangement activities are recorded net from trading activity and reported within receivables from or payables to brokers, dealers and clearing organizations. The funding is at the discretion of Pershing (i.e., uncommitted) and could be denied without a notice period. Our fully disclosed clearing agreement includes a covenant requiring Piper Sandler & Co., our U.S. broker dealer subsidiary, to maintain excess net capital of \$120 million. At September 30, 2020, we had \$2.9 million of financing outstanding under this arrangement.

Commercial Paper Program – Piper Sandler & Co. issues secured commercial paper to fund a portion of its securities inventory. This commercial paper is currently issued under the CP Series II A program, and is secured by different inventory classes, which is reflected in the interest rate paid. The program can issue commercial paper with maturities of 27 to 270 days. CP Series II A includes a covenant that requires Piper Sandler & Co. to maintain excess net capital of \$100 million. We retired the CP Series A program on January 2, 2020.

The following table provides information about our CP Series II A program at September 30, 2020:

	<u>CP Series II A</u>
<i>(Dollars in millions)</i>	
Maximum amount that may be issued	\$ 200.0
Amount outstanding	50.0
Weighted average maturity, in days	21
Weighted average maturity at issuance, in days	44

We repaid all outstanding CP Series II A notes in full upon maturity in October 2020.

Prime Broker Arrangement – We have established an overnight financing arrangement with a broker dealer related to our convertible securities inventories. Financing under this arrangement is secured primarily by convertible securities and collateral limitations could reduce the amount of funding available. The funding is at the discretion of the prime broker and could be denied subject to a notice period. This arrangement is reported within receivables from or payables to brokers, dealers and clearing organizations, net of trading activity. At September 30, 2020, we had \$111.7 million of financing outstanding under this prime broker arrangement.

Committed Line – Our committed line is a one-year \$125 million revolving secured credit facility. Advances under this facility are secured by certain marketable securities. The facility includes a covenant that requires Piper Sandler & Co. to maintain a minimum regulatory net capital of \$120 million, and the unpaid principal amount of all advances under the facility will be due on December 11, 2020. This credit facility has been in place since 2008 and we anticipate being able to renew the facility for another one-year term in the fourth quarter of 2020. At September 30, 2020, we had no advances against this line of credit.

Revolving Credit Facility – Our parent company, Piper Sandler Companies, has an unsecured \$50 million revolving credit facility with U.S. Bank N.A. The credit agreement will terminate on December 20, 2022, unless otherwise terminated, and is subject to a one-year extension exercisable at our option. At September 30, 2020, we had advances of \$25 million against this credit facility. Early in the fourth quarter of 2020, we repaid the \$25 million of advances related to this credit facility.

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This credit facility includes customary events of default and covenants that, among other things, requires Piper Sandler & Co. to maintain a minimum regulatory net capital of \$120 million, limits our leverage ratio, requires maintenance of a minimum ratio of operating cash flow to fixed charges, and imposes certain limitations on our ability to make acquisitions and make payments on our capital stock. At September 30, 2020, we were in compliance with all covenants.

The following table presents the average balances outstanding for our various funding sources by quarter for 2020 and 2019:

<i>(Amounts in millions)</i>	<b>Average Balance for the Three Months Ended</b>		
	<b>Sept. 30, 2020</b>	<b>June 30, 2020</b>	<b>Mar. 31, 2020</b>
<b>Funding source:</b>			
Pershing clearing arrangement	\$ 3.3	\$ 17.7	\$ 117.8
Commercial paper	50.0	50.0	50.0
Prime broker arrangement	90.2	81.9	72.3
Revolving credit facility	29.3	50.0	7.1
<b>Total</b>	<b>\$ 172.8</b>	<b>\$ 199.6</b>	<b>\$ 247.2</b>

<i>(Amounts in millions)</i>	<b>Average Balance for the Three Months Ended</b>			
	<b>Dec. 31, 2019</b>	<b>Sept. 30, 2019</b>	<b>June 30, 2019</b>	<b>Mar. 31, 2019</b>
<b>Funding source:</b>				
Pershing clearing arrangement	\$ 22.9	\$ 94.6	\$ 170.2	\$ 82.1
Commercial paper	50.0	50.0	50.0	50.0
Prime broker arrangement	99.7	68.0	77.1	106.4
<b>Total</b>	<b>\$ 172.6</b>	<b>\$ 212.6</b>	<b>\$ 297.3</b>	<b>\$ 238.5</b>

The average funding in the third quarter of 2020 decreased to \$172.8 million, compared with \$199.6 million during the second quarter of 2020. We repaid \$25 million related to our revolving credit facility early in the third quarter of 2020. Average funding decreased compared to the corresponding period of 2019 due to lower inventory balances during the current quarter, as well as the accumulation of cash from operations. The decrease was offset by borrowings under our revolving credit facility, which we drew on to finance the upfront cash consideration of our acquisition of Valence, which closed on April 3, 2020.

The following table presents the maximum daily funding amount by quarter for 2020 and 2019:

<i>(Amounts in millions)</i>	<b>2020</b>	<b>2019</b>
First Quarter	\$ 642.1	\$ 362.7
Second Quarter	\$ 378.3	\$ 427.1
Third Quarter	\$ 401.7	\$ 416.0
Fourth Quarter		\$ 330.7

### *Long-term Financing*

**Senior Notes** – On October 15, 2019, we entered into a note purchase agreement ("Note Purchase Agreement") under which we issued unsecured fixed rate senior notes ("Notes") in the amount of \$175 million. The initial holders of the Notes are certain entities advised by Pacific Investment Management Company ("PIMCO"). The Notes consist of two classes, Class A Notes and Class B Notes, with principal amounts of \$50 million and \$125 million, respectively. The Class A Notes bear interest at an annual fixed rate of 4.74 percent and mature on October 15, 2021. The Class B Notes bear interest at an annual fixed rate of 5.20 percent and mature on October 15, 2023. Interest on the Notes is payable semi-annually. The unpaid principal amounts are due in full on the respective maturity dates and may not be prepaid.

The Note Purchase Agreement includes customary events of default and covenants that, among other things, requires Piper Sandler & Co. to maintain a minimum regulatory net capital, limits our leverage ratio and requires maintenance of a minimum ratio of operating cash flow to fixed charges. At September 30, 2020, we were in compliance with all covenants.

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**Valence Notes** – On April 3, 2020, we entered into unsecured promissory notes as part of the acquisition of Valence totaling \$20 million (the "Valence Notes"). The Valence Notes bear interest at an annual fixed rate of 5.0 percent and mature on October 15, 2021. Interest is payable quarterly in arrears.

### **Contractual Obligations**

Our contractual obligations have not materially changed from those reported in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2019, except for our operating lease obligations, purchase commitments and long-term financing. In conjunction with our acquisitions of Sandler O'Neill and Valence, we acquired various leases and agreements related to new purchase commitments. Additionally, during the second quarter of 2020, we entered into the Valence Notes, which are included in long-term financing on the consolidated statements of financial condition.

<i>(Amounts in millions)</i>	<b>Remainder of 2020</b>	<b>2021 - 2022</b>	<b>2023 - 2024</b>	<b>2025 and thereafter</b>	<b>Total</b>
Operating lease obligations	\$ 6.6	\$ 45.0	\$ 33.5	\$ 35.4	\$ 120.5
Purchase commitments	6.4	23.2	7.6	8.8	46.0
Long-term financing	—	70.0	125.0	—	195.0

Purchase commitments include agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including fixed or minimum quantities to be purchased, fixed, minimum or variable price provisions, and the approximate timing of the transaction. Purchase commitments with variable pricing provisions are included in the table based on the minimum contractual amounts. Certain purchase commitments contain termination or renewal provisions. The table reflects the minimum contractual amounts likely to be paid under these agreements assuming the contracts are not terminated.

### **Capital Requirements**

As a registered broker dealer and member firm of the Financial Industry Regulatory Authority, Inc. ("FINRA"), Piper Sandler & Co. is subject to the uniform net capital rule of the SEC and the net capital rule of FINRA. We have elected to use the alternative method permitted by the uniform net capital rule which requires that we maintain minimum net capital of \$1.0 million. Advances to affiliates, repayment of subordinated liabilities, dividend payments and other equity withdrawals are subject to certain approvals, notifications and other provisions of the uniform net capital rules. We expect that these provisions will not impact our ability to meet current and future obligations. At September 30, 2020, our net capital under the SEC's uniform net capital rule was \$174.7 million, and exceeded the minimum net capital required under the SEC rule by \$173.7 million.

Although we operate with a level of net capital substantially greater than the minimum thresholds established by FINRA and the SEC, a substantial reduction of our capital would curtail many of our capital markets revenue producing activities.

Our committed short-term credit facility, revolving credit facility and senior notes with PIMCO include covenants requiring Piper Sandler & Co. to maintain a minimum regulatory net capital of \$120 million. Secured commercial paper issued under CP Series II A includes a covenant that requires Piper Sandler & Co. to maintain excess net capital of \$100 million. Our fully disclosed clearing agreement with Pershing also includes a covenant requiring Piper Sandler & Co. to maintain excess net capital of \$120 million.

At September 30, 2020, Piper Sandler Ltd., our broker dealer subsidiary registered in the U.K., was subject to, and was in compliance with, the capital requirements of the Prudential Regulation Authority and the Financial Conduct Authority pursuant to the Financial Services Act of 2012.

Piper Sandler Hong Kong Limited is licensed by the Hong Kong Securities and Futures Commission, which is subject to the liquid capital requirements of the Securities and Futures (Financial Resources) Rule promulgated under the Securities and Futures Ordinance. At September 30, 2020, Piper Sandler Hong Kong Limited was in compliance with the liquid capital requirements of the Hong Kong Securities and Futures Commission.

## Off-Balance Sheet Arrangements

In the ordinary course of business we enter into various types of off-balance sheet arrangements. The following table summarizes the notional contract value of our off-balance sheet arrangements for the periods presented:

(Amounts in thousands)	Expiration Per Period at December 31,						Total Contractual Amount	
	2020	2021	2022	2023	2025	Later	September 30,	December 31,
				- 2024	- 2026		2020	2019
Customer matched-book derivative contracts (1) (2)	\$ 5,840	\$ 6,930	\$ 24,150	\$ 135,860	\$ 13,220	\$ 1,786,971	\$ 1,972,971	\$ 2,197,340
Trading securities derivative contracts (2)	90,150	12,000	—	—	—	9,375	111,525	110,875
Equity option derivative contracts (2)	5,372	7,508	—	—	—	—	12,880	—
Investment commitments (3)	—	—	—	—	—	—	66,084	70,953

- (1) Consists of interest rate swaps. We have minimal market risk related to these matched-book derivative contracts; however, we do have counterparty risk with one major financial institution, which is mitigated by collateral deposits. In addition, we have a limited number of counterparties (contractual amount of \$163.1 million at September 30, 2020) who are not required to post collateral. The uncollateralized amounts, representing the fair value of the derivative contracts, expose us to the credit risk of these counterparties. At September 30, 2020, we had \$26.1 million of credit exposure with these counterparties, including \$22.0 million of credit exposure with one counterparty.
- (2) We believe the fair value of these derivative contracts is a more relevant measure of the obligations because we believe the notional or contract amount overstates the expected payout. At September 30, 2020 and December 31, 2019, the net fair value of these derivative contracts approximated \$19.9 million and \$16.3 million, respectively.
- (3) The investment commitments have no specified call dates. The timing of capital calls is based on market conditions and investment opportunities.

### Derivatives

Derivatives' notional or contract amounts are not reflected as assets or liabilities on our consolidated statements of financial condition. Rather, the fair value of the derivative transactions are reported on the consolidated statements of financial condition as assets or liabilities in financial instruments and other inventory positions owned and financial instruments and other inventory positions sold, but not yet purchased, as applicable. For a discussion of our activities related to derivative products, see Note 5 to our unaudited consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

### Investment Commitments

We have investments, including those made as part of our merchant banking activities, in various limited partnerships or limited liability companies that provide financing or make investments in companies. We commit capital and/or act as the managing partner of these entities. We have committed capital of \$66.1 million to certain entities and these commitments generally have no specified call dates.

### Replacement of Interbank Offered Rates ("IBORs"), including LIBOR

Central banks and regulators in a number of major jurisdictions (e.g., U.S., U.K., European Union, Switzerland and Japan) have convened working groups to find, and implement the transition to, suitable replacements for IBORs. The U.K. Financial Conduct Authority, which regulates LIBOR, has announced that it will not compel panel banks to contribute to LIBOR after 2021. We have a limited number of contractual agreements which use LIBOR. We do not expect the transition from LIBOR to a replacement rate to have a significant impact on our operations.

## **Risk Management**

Risk is an inherent part of our business. The principal risks we face in operating our business include: strategic risk, market risk, liquidity risk, credit risk, operational risk, human capital risk, and legal and regulatory risks. The extent to which we properly identify and effectively manage each of these risks is critical to our financial condition and profitability. We have a formal risk management process to identify, assess and monitor each risk and mitigating controls in accordance with defined policies and procedures. The risk management functions are independent of our business lines. Our management takes an active role in the risk management process, and the results are reported to senior management and the board of directors.

The audit committee of the board of directors oversees management's processes for identifying and evaluating our major risks, and the policies, procedures and practices employed by management to govern its risk assessment and risk management processes. The nominating and governance committee of the board of directors oversees the board of directors' committee structures and functions as they relate to the various committees' responsibilities with respect to oversight of our major risk exposures. With respect to these major risk exposures, the audit committee is responsible for overseeing management's monitoring and control of our major risk exposures relating to market risk, credit risk, liquidity risk, legal and regulatory risks, operational risk (including cybersecurity), and human capital risk relating to misconduct, fraud, and legal and compliance matters. Our compensation committee is responsible for overseeing management's monitoring and control of our major risk exposures relating to compensation, organizational structure, and succession. Our board of directors is responsible for overseeing management's monitoring and control of our major risk exposures related to our corporate strategy. Our Chief Executive Officer and Chief Financial Officer meet with the audit committee on a quarterly basis to discuss our market, liquidity, and legal and regulatory risks, and provide updates to the board of directors, audit committee, and compensation committee concerning the other major risk exposures on a regular basis.

We use internal committees to assist in governing risk and ensure that our business activities are properly assessed, monitored and managed. Our executive financial risk committee manages our market, liquidity and credit risks; oversees risk management practices related to these risks, including defining acceptable risk tolerances and approving risk management policies; and responds to market changes in a dynamic manner. Membership is comprised of senior leadership, including but not limited to, our Chief Executive Officer, President, Chief Financial Officer, Treasurer, Head of Market and Credit Risk, and Head of Fixed Income Trading and Risk. Other committees that help evaluate and monitor risk include underwriting, leadership team and operating committees. These committees help manage risk by ensuring that business activities are properly managed and within a defined scope of activity. Our valuation committee, comprised of members of senior management and risk management, provide oversight and overall responsibility for the internal control processes and procedures related to fair value measurements. Additionally, our operational risk committees address and monitor risk related to information systems and security, legal, regulatory and compliance matters, and third parties such as vendors and service providers.

With respect to market risk and credit risk, the cornerstone of our risk management process is daily communication among traders, trading department management and senior management concerning our inventory positions, including those associated with our strategic trading activities, and overall risk profile. Our risk management functions supplement this communication process by providing their independent perspectives on our market and credit risk profile on a daily basis. The broader objectives of our risk management functions are to understand the risk profile of each trading area, to consolidate risk monitoring company-wide, to assist in implementing effective hedging strategies, to articulate large trading or position risks to senior management, and to ensure accurate fair values of our financial instruments.

Risk management techniques, processes and strategies may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk, and any risk management failures could expose us to material unanticipated losses.

### ***Strategic Risk***

Strategic risk represents the risk associated with executive management failing to develop and execute on the appropriate strategic vision which demonstrates a commitment to our culture, leverages our core competencies, appropriately responds to external factors in the marketplace, and is in the best interests of our clients, employees and shareholders.

Our leadership team is responsible for managing our strategic risks. The board of directors oversees the leadership team in setting and executing our strategic plan.



## **Market Risk**

Market risk represents the risk of losses, or financial volatility, that may result from the change in value of a financial instrument due to fluctuations in its market price. Our exposure to market risk is directly related to our role as a financial intermediary for our clients, to our market-making activities and our strategic trading activities. Market risks are inherent to both cash and derivative financial instruments. The scope of our market risk management policies and procedures includes all market-sensitive financial instruments.

Our different types of market risk include:

*Interest Rate Risk* — Interest rate risk represents the potential volatility from changes in market interest rates. We are exposed to interest rate risk arising from changes in the level and volatility of interest rates, changes in the slope of the yield curve, changes in credit spreads, and the rate of prepayments on our interest-earning assets (e.g., inventories) and our funding sources (e.g., short-term financing) which finance these assets. Interest rate risk is managed by selling short U.S. government securities, agency securities, corporate debt securities and derivative contracts. See Note 5 to our unaudited consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information on our derivative contracts. Our interest rate hedging strategies may not work in all market environments and as a result may not be effective in mitigating interest rate risk. Also, we establish limits on the notional level of our fixed income securities inventory and manage net positions within those limits.

*Equity Price Risk* — Equity price risk represents the potential loss in value due to adverse changes in the level or volatility of equity prices. We are exposed to equity price risk through our trading activities primarily in the U.S. market. We attempt to reduce the risk of loss inherent in our market-making and in our inventory of equity securities by establishing limits on the notional level of our inventory and by managing net position levels within those limits.

*Foreign Exchange Risk* — Foreign exchange risk represents the potential volatility to earnings or capital arising from movement in foreign exchange rates. A modest portion of our business is conducted in currencies other than the U.S. dollar, and changes in foreign exchange rates relative to the U.S. dollar can therefore affect the value of non-U.S. dollar net assets, revenues and expenses. A change in the foreign currency rates could create either a foreign currency transaction gain/loss (recorded in our consolidated statements of operations) or a foreign currency translation adjustment (recorded to accumulated other comprehensive income/(loss) within the shareholders' equity section of our consolidated statements of financial condition and other comprehensive income/ (loss) within the consolidated statements of comprehensive income).

## **Value-at-Risk ("VaR")**

We use the statistical technique known as VaR to measure, monitor and review the market risk exposures in our trading portfolios. VaR is the potential loss in value of our trading positions, excluding noncontrolling interests, due to adverse market movements over a defined time horizon with a specified confidence level. We perform a daily VaR analysis on substantially all of our trading positions, including fixed income, equities, convertible bonds, mortgage-backed securities and all associated economic hedges. These positions encompass both customer-related and strategic trading activities. A VaR model provides a common metric for assessing market risk across business lines and products. Changes in VaR between reporting periods are generally due to changes in levels of risk exposure, volatilities and/or correlations among asset classes and individual securities.

We use a Monte Carlo simulation methodology for VaR calculations. We believe this methodology provides VaR results that properly reflect the risk profile of all our instruments, including those that contain optionality, and also accurately models correlation movements among all of our asset classes. In addition, it provides improved tail results as there are no assumptions of distribution, and can provide additional insight for scenario shock analysis.

Model-based VaR derived from simulation has inherent limitations including: reliance on historical data to predict future market risk; VaR calculated using a one-day time horizon does not fully capture the market risk of positions that cannot be liquidated or offset with hedges within one day; and published VaR results reflect past trading positions while future risk depends on future positions.

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The modeling of the market risk characteristics of our trading positions involves a number of assumptions and approximations. While we believe that these assumptions and approximations are reasonable, different assumptions and approximations could produce materially different VaR estimates. When comparing our VaR numbers to those of other firms, it is important to remember that different methodologies, assumptions and approximations could produce significantly different results.

The following table quantifies the model-based VaR simulated for each component of market risk for the periods presented, which are computed using the past 250 days of historical data. When calculating VaR we use a 95 percent confidence level and a one-day time horizon. This means that, over time, there is a one in 20 chance that daily trading net revenues will fall below the expected daily trading net revenues by an amount at least as large as the reported VaR. Shortfalls on a single day can exceed reported VaR by significant amounts. Shortfalls can also accumulate over a longer time horizon, such as a number of consecutive trading days. Therefore, there can be no assurance that actual losses occurring on any given day arising from changes in market conditions will not exceed the VaR amounts shown below or that such losses will not occur more than once in a 20-day trading period.

<i>(Amounts in thousands)</i>	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Interest Rate Risk	\$ 466	\$ 428
Equity Price Risk	52	52
Diversification Effect (1)	(41)	(37)
Total Value-at-Risk	<u>\$ 477</u>	<u>\$ 443</u>

(1) Equals the difference between total VaR and the sum of the VaRs for the two risk categories. This effect arises because the two market risk categories are not perfectly correlated.

The aggregate VaR as of September 30, 2020 was higher than the reported VaR on December 31, 2019. The increase in VaR was due to our mix of inventory compared to the end of 2019.

We view average VaR over a period of time as more representative of trends in the business than VaR at any single point in time. The table below illustrates the daily high, low and average VaR calculated for each component of market risk during the nine months ended September 30, 2020 and the year ended December 31, 2019.

<i>(Amounts in thousands)</i>	<b>High</b>	<b>Low</b>	<b>Average</b>
<b>For the Nine Months Ended September 30, 2020</b>			
Interest Rate Risk	\$ 918	\$ 207	\$ 476
Equity Price Risk	66	41	53
Diversification Effect (1)			(41)
Total Value-at-Risk	\$ 930	\$ 223	\$ 488
<i>(Amounts in thousands)</i>			
<b>For the Year Ended December 31, 2019</b>			
Interest Rate Risk	\$ 792	\$ 181	\$ 432
Equity Price Risk	69	42	54
Diversification Effect (1)			(41)
Total Value-at-Risk	\$ 808	\$ 191	\$ 445

(1) Equals the difference between total VaR and the sum of the VaRs for the two risk categories. This effect arises because the two market risk categories are not perfectly correlated. Because high and low VaR numbers for these risk categories may have occurred on different days, high and low numbers for diversification effect would not be meaningful.

Trading losses exceeded our one-day VaR on 22 occasions during the first nine months of 2020.

In addition to VaR, we also employ additional measures to monitor and manage market risk exposure including net market position, duration exposure, option sensitivities, and inventory turnover. All metrics are aggregated by asset concentration and are used for monitoring limits and exception approvals. In times of market volatility, we also perform ad hoc stress tests and scenario analysis as market conditions dictate. Unlike our VaR, which measures potential losses within a given confidence level, stress scenarios do not have an associated implied probability. Rather, stress testing is used to estimate the potential loss from market moves outside our VaR confidence levels.

### ***Liquidity Risk***

Liquidity risk is the risk that we are unable to timely access necessary funding sources in order to operate our business, as well as the risk that we are unable to timely divest securities that we hold in connection with our market-making, sales and trading, and strategic trading activities. We are exposed to liquidity risk in our day-to-day funding activities, by holding potentially illiquid inventory positions and in our role as a remarketing agent for variable rate demand notes.

See the section entitled "Liquidity, Funding and Capital Resources" for information regarding our liquidity and how we manage liquidity risk.

Our inventory positions, including those associated with strategic trading activities, subject us to potential financial losses from the reduction in value of illiquid positions. Market risk can be exacerbated in times of trading illiquidity when market participants refrain from transacting in normal quantities and/or at normal bid-offer spreads. Depending on the specific security, the structure of the financial product, and/or overall market conditions, we may be forced to hold a security for substantially longer than we had planned or forced to liquidate into a challenging market if funding becomes unavailable.

### ***Credit Risk***

Credit risk refers to the potential for loss due to the default or deterioration in credit quality of a counterparty, customer, borrower or issuer of securities we hold in our trading inventory. The nature and amount of credit risk depends on the type of transaction, the structure and duration of that transaction and the parties involved. Credit risk also results from an obligor's failure to meet the terms of any contract with us or otherwise fail to perform as agreed. This may be reflected through issues such as settlement obligations or payment collections.

Our different types of credit risk include:

*Credit Spread Risk* — Credit spread risk arises from the possibility that changes in credit spreads will affect the value of financial instruments. Credit spreads represent the credit risk premiums required by market participants for a given credit quality (e.g., the additional yield that a debt instrument issued by a AA-rated entity must produce over a risk-free alternative). Changes in credit spreads result from potential changes in an issuer's credit rating or the market's perception of the issuer's credit worthiness. We are exposed to credit spread risk with the debt instruments held in our trading inventory, including those held for strategic trading activities. We enter into transactions to hedge our exposure to credit spread risk through the use of derivatives and certain other financial instruments. These hedging strategies may not work in all market environments and as a result may not be effective in mitigating credit spread risk.

*Deterioration/Default Risk* — Deterioration/default risk represents the risk due to an issuer, counterparty or borrower failing to fulfill its obligations. We are exposed to deterioration/default risk in our role as a trading counterparty to dealers and customers, as a holder of securities, and as a member of exchanges. The risk of default depends on the creditworthiness of the counterparty and/or issuer of the security. We mitigate this risk by establishing and monitoring individual and aggregate position limits for each counterparty relative to potential levels of activity, holding and marking to market collateral on certain transactions. Our risk management functions also evaluate the potential risk associated with institutional counterparties with whom we hold derivatives, TBAs and other documented institutional counterparty agreements that may give rise to credit exposure.

*Collections Risk* — Collections risk arises from ineffective management and monitoring of collecting outstanding debts and obligations, including those related to our customer trading activities and margin lending. Our client activities involve the execution, settlement and financing of various transactions. Client activities are transacted on a delivery versus payment, cash or margin basis. Our credit exposure to institutional client business is mitigated by the use of industry-standard delivery versus payment through depositories and clearing banks. Credit exposure associated with our customer margin accounts in the U.S. is monitored daily. Our risk management functions have credit risk policies establishing appropriate credit limits and collateralization thresholds for our customers utilizing margin lending.

*Concentration Risk* — Concentration risk is the risk due to concentrated exposure to a particular product; individual issuer, borrower or counterparty; financial instrument; or geographic area. We are subject to concentration risk if we hold large individual securities positions, execute large transactions with individual counterparties or groups of related counterparties, or make substantial underwriting commitments. Concentration risk can occur by industry, geographic area or type of client. Securities purchased under agreements to resell consist primarily of securities issued by the U.S. government or its agencies. The counterparties to these agreements typically are primary dealers of U.S. government securities and major financial

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institutions. Inventory and investment positions taken and commitments made, including underwritings, may result in exposure to individual issuers and businesses. Potential concentration risk is carefully monitored through review of counterparties and borrowers and is managed through the use of policies and limits established by senior management.

We have concentrated counterparty credit exposure with four non-publicly rated entities totaling \$26.1 million at September 30, 2020. This counterparty credit exposure is part of our matched-book derivative program related to our public finance underwriting business, consisting primarily of interest rate swaps. One derivative counterparty represented 84.4 percent, or \$22.0 million, of this exposure. Credit exposure associated with our derivative counterparties is driven by uncollateralized market movements in the fair value of the interest rate swap contracts and is monitored regularly by our financial risk committee. We attempt to minimize the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by senior management.

### ***Operational Risk***

Operational risk is the risk of loss, or damage to our reputation, resulting from inadequate or failed processes, people and systems or from external events. We rely on the ability of our employees and our systems, both internal and at computer centers operated by third parties, to process a large number of transactions. Our systems may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control. In the event of a breakdown or improper operation of our systems or improper action by our employees or third party vendors, we could suffer financial loss, a disruption of our businesses, regulatory sanctions and damage to our reputation. We also face the risk of operational failure or termination of our relationship with any of the exchanges, fully disclosed clearing firms, or other financial intermediaries we use to facilitate our securities transactions. Any such failure or termination could adversely affect our ability to effect transactions and manage our exposure to risk.

Our operations rely on secure processing, storage and transmission of confidential and other information in our internal and outsourced computer systems and networks. Our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code, internal misconduct or inadvertent errors and other events that could have an information security impact. The occurrence of one or more of these events, which we have experienced, could jeopardize our or our clients' or counterparties' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our clients', our counterparties' or third parties' operations. We take protective measures and endeavor to modify them as circumstances warrant.

In order to mitigate and control operational risk, we have developed and continue to enhance policies and procedures that are designed to identify and manage operational risk at appropriate levels throughout the organization. We also have business continuity plans in place that we believe will cover critical processes on a company-wide basis, and redundancies are built into our systems as we have deemed appropriate. These control mechanisms attempt to ensure that operational policies and procedures are being followed and that our various businesses are operating within established corporate policies and limits.

We operate under a fully disclosed clearing model for all of our clearing operations. In a fully disclosed clearing model, we act as an introducing broker for client transactions and rely on Pershing, our clearing broker dealer, to facilitate clearance and settlement of our clients' securities transactions. The clearing services provided by Pershing are critical to our business operations, and similar to other services performed by third party vendors, any failure by Pershing with respect to the services we rely upon Pershing to provide could cause financial loss, significantly disrupt our business, damage our reputation, and adversely affect our ability to serve our clients and manage our exposure to risk.

### ***Human Capital Risk***

Our business is a human capital business and our success is dependent upon the skills, expertise and performance of our employees. Human capital risks represent the risks posed if we fail to attract and retain qualified individuals who are motivated to serve the best interests of our clients, thereby serving the best interests of our company. Attracting and retaining employees depends, among other things, on our company's culture, management, work environment, geographic locations and compensation. There are risks associated with the proper recruitment, development and rewards of our employees to ensure quality performance and retention.

### ***Legal and Regulatory Risk***

Legal and regulatory risk includes the risk of non-compliance with applicable legal and regulatory requirements and loss to our reputation we may suffer as a result of failure to comply with laws, regulations, rules, related self-regulatory organization standards and codes of conduct applicable to our business activities. We are generally subject to extensive regulation in the various jurisdictions in which we conduct our business. We have established procedures that are designed to ensure compliance with applicable statutory and regulatory requirements, such as public company reporting obligations, regulatory net capital requirements, sales and trading practices, potential conflicts of interest, anti-money laundering, privacy and recordkeeping. We have also established procedures that are designed to require that our policies relating to ethics and business conduct are followed. The legal and regulatory focus on the financial services industry presents a continuing business challenge for us.

Our business also subjects us to the complex income tax laws of the jurisdictions in which we have business operations, and these tax laws may be subject to different interpretations by the taxpayer and the relevant governmental taxing authorities. We must make judgments and interpretations about the application of these inherently complex tax laws when determining the provision for income taxes.

### **Effects of Inflation**

Because our assets are liquid and generally short-term in nature, they are not significantly affected by inflation. However, the rate of inflation affects our expenses, such as employee compensation, office space leasing costs and communications charges, which may not be readily recoverable in the price of services we offer to our clients. To the extent inflation results in rising interest rates and has adverse effects upon the securities markets, it may adversely affect our financial position and results of operations.

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

The information under the caption "Risk Management" in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in this Quarterly Report on Form 10-Q is incorporated herein by reference.

### **ITEM 4. *CONTROLS AND PROCEDURES.***

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is (a) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (b) accumulated and communicated to our management, including our principal executive officer and principal financial officer to allow timely decisions regarding disclosure.

During the third quarter of our fiscal year ending December 31, 2020, there was no change in our system of internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. *LEGAL PROCEEDINGS.***

The discussion of our legal proceedings contained in Part I, Item 3 "Legal Proceedings" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 is incorporated herein by reference.

**ITEM 1A. RISK FACTORS.**

The discussion of our business and operations should be read together with the risk factors contained in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 and Part II, Item 1A "Risk Factors" in our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2020. These risk factors describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner.

There have been no material changes to the risk factors disclosed under Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 and Part II, Item 1A "Risk Factors" in our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2020.

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

The table below sets forth the information with respect to purchases made by or on behalf of Piper Sandler Companies or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of our common stock during the quarter ended September 30, 2020.

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Approximate Dollar Value of Shares Yet to be Purchased Under the Plans or Programs (1)</b>
Month #1 (July 1, 2020 to July 31, 2020)	205	\$ 63.53	—	\$ 141 million
Month #2 (August 1, 2020 to August 31, 2020)	46,958 <sup>(2)</sup>	\$ 66.01	42,743	\$ 138 million
Month #3 (September 1, 2020 to September 30, 2020)	16,711	\$ 67.40	16,711	\$ 137 million
<b>Total</b>	<b>63,874</b>	<b>\$ 66.36</b>	<b>59,454</b>	<b>\$ 137 million</b>

(1) Effective January 1, 2020, our board of directors authorized the repurchase of up to \$150.0 million of common stock through December 31, 2021.

(2) Consists of 42,743 shares of common stock repurchased on the open market pursuant to a 10b5-1 plan established with an independent agent at an average price of \$65.00 per share, and 4,215 shares of common stock withheld from recipients of restricted stock to pay taxes upon the vesting of the restricted stock at an average price of \$76.23 per share.

ITEM 6. *EXHIBITS.*

<b>Exhibit Index</b>		
<b>Exhibit Number</b>	<b>Description</b>	<b>Method of Filing</b>
3.1	<a href="#">Amended and Restated Certificate of Incorporation.</a>	(1)
3.2	<a href="#">Certificate of Amendment to the Amended and Restated Certificate of Incorporation.</a>	(2)
3.3	<a href="#">Amended and Restated Bylaws (as of January 3, 2020).</a>	(3)
31.1	<a href="#">Rule 13a-14(a)/15d-14(a) Certification of Chairman and Chief Executive Officer.</a>	Filed herewith
31.2	<a href="#">Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.</a>	Filed herewith
32.1	<a href="#">Section 1350 Certifications.</a>	Furnished herewith
101	The following financial information from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, formatted in iXBRL (inline eXtensible Business Reporting Language): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Shareholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to the Consolidated Financial Statements.	Filed herewith
104	The cover page from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, formatted in iXBRL.	Filed herewith

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- (1) Filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2007, filed with the Commission on August 3, 2007, and incorporated herein by reference.
  - (2) Filed as Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Commission on January 6, 2020, and incorporated herein by reference.
  - (3) Filed as Exhibit 3.2 to the Company's Current Report on Form 8-K, filed with the Commission on January 6, 2020, and incorporated herein by reference.

## SIGNATURES

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

### PIPER SANDLER COMPANIES

Date: November 5, 2020

By /s/ Chad R. Abraham  
Name Chad R. Abraham  
Its Chairman and Chief Executive Officer

Date: November 5, 2020

By /s/ Timothy L. Carter  
Name Timothy L. Carter  
Its Chief Financial Officer



## CERTIFICATIONS

I, Chad R. Abraham, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Piper Sandler Companies;
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 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 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: November 5, 2020

/s/ Chad R. Abraham

Chad R. Abraham

Chairman and Chief Executive Officer

## CERTIFICATIONS

I, Timothy L. Carter, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Piper Sandler Companies;
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 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 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: November 5, 2020

/s/ Timothy L. Carter  
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Timothy L. Carter  
Chief Financial Officer

**Certification Under Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of Piper Sandler Companies.

Dated: November 5, 2020

/s/ Chad R. Abraham

Chad R. Abraham  
Chairman and Chief Executive Officer

/s/ Timothy L. Carter

Timothy L. Carter  
Chief Financial Officer