UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 101324 / October 15, 2024

INVESTMENT ADVISERS ACT OF 1940
Release No. 6747 / October 15, 2024

ADMINISTRATIVE PROCEEDING
File No. 3-22239

In the Matter of **PALOS MANAGEMENT INC. AND ROBERT MENDEL,** **Respondents.**	**ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, PURSUANT TO SECTIONS 15(b) AND 21C OF THE SECURITIES EXCHANGE ACT OF 1934 AND SECTIONS 203(e) AND 203(f) OF THE INVESTMENT ADVISERS ACT OF 1940, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 ("Exchange Act") and Sections 203(e) and 203(f) of the Investment Advisers Act of 1940 ("Advisers Act") against Palos Management Inc. ("Palos") and Robert Mendel (with Palos, "Respondents").

II.

In anticipation of the institution of these proceedings, Respondents have submitted Offers of Settlement (the "Offers") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over them and the subject matter of these proceedings, which are admitted, and except as provided herein in Section V, Respondents consent to the entry of this Order Instituting Administrative and Cease-And-Desist Proceedings, Pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 and Sections 203(e) and 203(f) of the Investment Advisers Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondents' Offer, the Commission finds[1] that:

Summary

1. These proceedings concern Palos Management Inc., a registered investment adviser based in Montreal, Quebec, Canada, and one of its portfolio managers, Robert Mendel. For approximately two and a half years, Respondents provided brokerage services without being registered with the Commission as broker-dealers or otherwise being associated with a registered broker-dealer. In total, they facilitated the purchase and sale of over 37 billion shares of penny stocks for their U.S. clients, generating almost $290 million in proceeds. They were paid over $13 million in transaction-based compensation for these unregistered brokerage activities.

2. As a result, Respondents violated Section 15(a)(1) of the Exchange Act.

Respondents

3. **Palos Management Inc. ("Palos")** is a corporation organized under the laws of Quebec, Canada, with its principal place of business in Montreal, Quebec, Canada. Palos has been registered with the Commission as an investment adviser since July 2019. It is also registered as a portfolio manager, investment fund manager, and derivatives portfolio manager with the Autorité des Marchés Financiers ("QAMF") of Quebec, Canada. Palos is an affiliate of Palos Wealth Management Inc. ("Palos Wealth"), which is registered as a portfolio manager, exempt market dealer, and derivatives portfolio manager with the QAMF.

4. **Robert Mendel**, age 57, resides in Montreal, Quebec, Canada. Mendel has been associated with Palos and Palos Wealth since 2017 as a portfolio manager. Mendel is registered as a portfolio manager with various Canadian provincial securities regulators, including the QAMF. Mendel has never registered with the Commission in any capacity.

Background

5. Prior to 2019, Palos Wealth and Robert Mendel provided asset management, investment advisory, and fund management services, largely to wealthy Canadian clients. In early 2019, Mendel started a new line of business at Palos Wealth brokering penny stock transactions on behalf of several U.S.-based individuals, who had experienced difficulty finding brokers in the United States to facilitate these transactions. Mendel decided, as an "accommodation," to provide brokerage services to these new U.S. customers ("Penny Stock Clients") with the hope that some

[1] The findings herein are made pursuant to Respondents' Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

of the proceeds of the sales of penny stocks would be left for him to manage as part of his traditional business as an investment adviser.

6. Palos Wealth's compliance and senior leadership approved the new "accommodation" business and determined that Palos would be the entity to provide those services. Palos registered with the Commission in July 2019 as an investment adviser, but did not register as a broker-dealer.

7. Palos arranged for the Penny Stock Clients to open custodial accounts with financial institutions that accepted deposits of penny stocks. The Penny Stock Clients also authorized Palos to effect securities transactions on their behalf in those accounts. The Penny Stock Customers transferred their shares electronically from the transfer agent to these accounts, as coordinated by Respondents. Respondents also assisted the transfer agents with the sale of the clients' penny stocks, which at times included providing them with "broker letters" (later renamed "Palos representation letters") signed by Mendel discussing the manner and method of selling the Penny Stock Clients' shares.

8. Typically, the Penny Stock Clients contacted Mendel by telephone or email to provide trade instructions, which overwhelmingly consisted of sell orders over a period of a few weeks until their penny stocks were largely liquidated. The Penny Stock Clients normally set a total volume and limit price, but sometimes left it to Mendel's discretion to time the sales. Mendel placed these trades electronically through Bloomberg EMSX trading access and DVP trading accounts in Palos' name for the benefit of clients at executing brokers. Just prior to settlement, Mendel modified the settling account information so that the trades settled in the Penny Stock Clients' custodial accounts, where trade proceeds were held until Respondents received instructions from the Penny Stock Clients to wire the money out to external accounts, usually no longer than two weeks. From June 2019 through January 2022, Palos and Mendel placed over 10,000 trades of penny stocks for the Penny Stock Clients in this manner.

9. For the activities described above, the Penny Stock Clients paid Palos a percentage of each transaction as a commission. In their original agreements with the Penny Stock Clients, executed from as early as February 2019 through the end of 2020, Palos charged the Penny Stock Clients a variable fee for effecting penny stock transactions. For example, one such agreement provided:

> The management fee applicable will be on a transactional basis. The management fee shall be variable and based on the volume of transactions in the account. It shall be accrued monthly but charged to the account on a quarterly basis. The transactional management fee will be determined per trade as follows:
>
> - 3% on Qualified BB [penny] stocks (with a minimum of $125 per trade)
> - ~ 1% on all other Equities (with a minimum of $125 per trade)

- The fees will be deducted from the Account at the Custodian.

10. In or about December 2020, Palos modified the agreements for Penny Stock Clients. For example, one such modified agreement provided:

> A special fee agreement has been agreed to following the client's request for OTC assets as follows:
>
> - $ 1,200 for each Compliance review for any new security to be deposited into the account.
> - $ 600 for each subsequent review of the same security within a period of 4 weeks.
> - A performance fee on realized gains will apply, please refer to the scale on Appendix A [setting out a decreasing percentage fee based on average percentage profit].

11. Although Palos changed the description of its fee in the agreements, in practice it largely continued to charge fees for penny stock transactions based on a percentage of each sale. In the rare event a penny stock transaction was a buy order or resulted in a loss to the customer, Palos did not charge a commission.

12. Mendel was the only Palos portfolio manager involved in Palos' business for Penny Stock Clients, and, like the revenue sharing arrangement in place between Palos and most other Palos portfolio managers, Palos paid him 50% of the compensation it received from the Penny Stock Clients.

13. The services Respondents provided as part of the "accommodation" business were distinct from their investment management services. As opposed to the transaction-based fee structures described above, clients of Palos' investment management services business were charged a flat percentage of assets under management. Under their advisory agreements, the Penny Stock Customers were charged a separate flat fee for the percentage of assets under management that remained in their accounts and were actively managed by Respondents. Moreover, Respondents did not recommend penny stocks as part of their standard investment management services and did not recommend or solicit purchases or sales of penny stocks as part of their business. While Respondents' initial understanding with Penny Stock Clients was for those clients to leave assets with Respondents for them to manage as part of their advisory business, less than 15% of the proceeds of Respondents' penny stock sales remained in client accounts for Palos to manage.

14. In February 2022, Palos decided to halt its "accommodation" services. Within a year all but one of the Penny Stock Clients had withdrawn their funds from Palos.

15. From July 2019 to February 2022, Respondents facilitated transactions involving over 37 billion shares of penny stock for the Penny Stock Clients, generating almost $290 million in proceeds for the customers. Palos received over $13 million in transaction-based compensation for facilitating these transactions.

Violations

16. As a result of the conduct described above, Respondents willfully[2] violated Section 15(a)(1) of the Exchange Act, which prohibits any broker or dealer from making use of the mails or any means or instrumentality of interstate commerce, to effect any transaction in, or induce or attempt to induce the purchase or sale of, any security unless the broker or dealer is registered in accordance with Section 15(b) of the Exchange Act or is a natural person who is associated with a registered broker or dealer.

IV.

In view of the foregoing, the Commission deems it appropriate andin the public interest, to impose the sanctions agreed to in Respondents' Offers.

Accordingly, pursuant to Sections 15(b) and 21C of the Exchange Act and Sections 203(e) and 203(f) of the Advisers Act, it is hereby ORDERED that:

A. Respondent Palos cease and desist from committing or causing any violations and any future violations of Section 15(a)(1) of the Exchange Act.

B. Respondent Palos is censured.

C. Respondent Mendel cease and desist from committing or causing any violations and any future violations of Section 15(a)(1) of the Exchange Act.

D. Respondent Mendel be, and hereby is:

1. barred from participating in any offering of a penny stock,[3] including: acting as a promoter, finder, consultant, agent or other person who engages in activities with a broker, dealer or issuer for purposes of the issuance or

[2] "Willfully," for purposes of imposing relief under Section 15(b) of the Exchange Act and Sections 203(e) and 203(f) of the Advisers Act, "'means no more than that the person charged with the duty knows what he is doing.'" *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "also be aware that he is violating one of the Rules or Acts." *Tager v. SEC*, 344 F.2d 5, 8 (2d Cir. 1965). The decision in *The Robare Group, Ltd. v. SEC*, which construed the term "willfully" for purposes of a differently structured statutory provision, does not alter that standard. 922 F.3d 468, 478-79 (D.C. Cir. 2019) (setting forth the showing required to establish that a person has "willfully omit[ted]" material information from a required disclosure in violation of Section 207 of the Advisers Act).

[3] "Penny Stock" has the meaning given in Rule 3a51-1 of the Exchange Act.

trading in any penny stock, or inducing or attempting to induce the purchase or sale of any penny stock;

with the right to apply for reentry after three (3) years to the appropriate self-regulatory organization, or if there is none, to the Commission.

Any application for reentry by Mendel will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, compliance with the Commission's order and payment of any or all of the following: (a) any disgorgement or civil penalties ordered by a Court against Mendel in any action brought by the Commission; (b) any disgorgement amounts ordered against Mendel for which the Commission waived payment; (c) any arbitration award related to the conduct that served as the basis for the Commission order; (d) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (e) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order.

E. Respondent Mendel is censured.

F. Palos shall, within 21 days of the entry of this Order, pay a civil money penalty in the amount of $575,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717.

G. Mendel shall, within 21 days of the entry of this Order, pay a civil money penalty in the amount of $35,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717.

Payment must be made in one of the following ways:

(1) Respondents may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondents may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondents may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Palos and/or Mendel as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Stacy L. Bogert, Associate Director, Division of Enforcement, Securities and Exchange Commission, 100 F St., NE, Washington, DC 20549.

H. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondents agree that in any Related Investor Action, they shall not argue that they are entitled to, nor shall they benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondents agree that they shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondents by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

V.

It is further Ordered that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. § 523, the findings in this Order are true and admitted by Mendel, and further, any debt for disgorgement, prejudgment interest, civil penalty or other amounts due by Mendel under this Order or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Mendel of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. §523(a)(19).

By the Commission.

Vanessa A. Countryman
Secretary