

May 1, 2023

TO: Mr. Gary Gensler – Chairman  
Miss Hester M. Peirce – Commissioner  
Miss Caroline A. Crenshaw – Commissioner  
Mr. Mark T. Uyeda – Commissioner  
Mr. Jaime Lizarraga – Commissioner



05/01/2023

Sam Balabon



Dear SEC Commission,

I want to alert the SEC that the delay in processing my BD application is violating my Company's constitutional right of due process. I filed the BD application 3.5 years ago and the application is still processing within your jurisdiction (see below). That is too long of a waiting period and it breaches the law.

09/10/2019

Web CRD - BD Print Preview » All Pages [User Name: sbalabon2, OrgID: 306008]

**FORM BD**  
**UNIFORM APPLICATION FOR BROKER-DEALER REGISTRATION**

**Primary Business Name: DEEP ATS LLC**

**BD Number: 306008**

**BD - INITIAL**

**10/09/2019**

Apparently, the Commission is having a difficult time deciding what to do with my BD application. Since FINRA's biggest claim against issuing the BD application is its poor opinion of me, I thought I would address this by providing more transparency about myself personally and my contribution to this country and where I want to see the SEC to direct its efforts for the future — even though my suggestions devalue the very licenses I seek. But, first, let's address FINRA.

My dispute with FINRA literally started with a discussion on the phone with the head of the Dallas FINRA office. I told her that the National Association of Security Dealers (NASD) was formed as a "go between" between the government (SEC) and the broker dealers and was "run" by the broker dealers. She disagreed and said FINRA represented the investors, not the dealers. When I told her that was not the NASD's mandate from Congress, she got very angry with me and disconnected the phone call in the middle of the conversation. I knew she would seek revenge on me using her powers. I immediately complained to FINRA'S CEO and after the manager learned of this all hell broke out with FINRA and my firm. Of course, an immediate audit and investigation of my firm by FINRA ensued. They found nothing and then issued an order to me personally that any further sales of Deep Liquidity securities must be sold through the BD.

I obeyed their order and when they learned about the first security sale, they immediately called for a sales practice exam of my firm. I also complied with this exam and they found nothing they could cite me or my BD with.

I then investigated FINRA's order to sell securities through my BD and learned that such an order was not within FINRA's jurisdictional powers to make. As a result, I filed a lawsuit against them in federal court.

I did not take the complaint to the SEC because I did not want to upset them by complaining about FINRA their subordinate. Why? Because I have always been loyal to the SEC because they issued an ATS license that allowed me to introduce my inventions to the NMS. The SEC gave me a chance in this life to really do something. I have always been deeply grateful for this opportunity. For this reason, I never directly attacked the SEC in any of my writings or pleas. This is my only critical letter on the SEC to date.

SEC from what I can see has left FINRA alone over the years. In exchange, FINRA works on its initiatives. For the most part, FINRA has operated without direct

supervision from the SEC since its inception. This has emboldened FINRA to play loose with its powers. Mary Schapiro's scheme that paid \$35,000 in cash to each broker dealer to get them to vote to seize complete power over FINRA was simply disgraceful. I owned my BD for less than a year and received \$35,000 in cash. Did my firm really deserve that payment? Since then, small firms have a "perpetual" minority vote on what goes on at FINRA — in essence, small firms are permanently locked out. FINRA even got a federal court to agree with them in Florida that FINRA was not liable for breaching its own rules. There is no recourse for BD owners if they complain or dispute any of FINRA's judgements; look at my dispute — 3.5 years and the BD application is still processing. It is hard to believe, but it is true! I am speaking for the majority of BD owners.

Personally, FINRA deeply offended me because I feel they stole my dream and my place in this world. I was to be the father of a new industry with my inventions. Adding the size of an order to the negotiation of financial instruments in a formal stock exchange (ATS initially). Change the whole system to benefit the investor and cut out the intermediary.

I needed help from broker dealers to sell my Deep Liquidity securities through FINRA-regulated broker dealers. No one would help me because they said they feared FINRA's retribution if they did.

Note: If a broker dealer sells the securities of an issuer and there are legitimate complaints from investors, FINRA claws back the entire raise on the back of the broker dealer; although the broker dealer only collected a small percentage of the raise for themselves. This is an inoperable business model that we have in our society! The result is fewer offerings and less work for the regulators. It is very bad for the young people of our society who need to sell equity in their businesses rather than seeking debt. There is a reason that the courts are the third branch of the government; only they should have the power to claw back "anything" when it comes to security sales. Example from a broker dealer's perspective: I can make 10% of the raise if the deal goes well — but if the deal sours due to investor complaints, I am on the hook for 100% of investor losses. Who is going to do that? I cannot tell you how stupid this is. It essentially has prevented any broker dealers from having the ability to sell private placements

for small companies in this country. This is why I am so angry. FINRA stole my dreams away from me! It literally puts tears in my eyes.

What about the common people like myself who have been abused by FINRA? What about all those sprouting entrepreneurs' dreams and GDP production that has been lost due to FINRA? The SEC is running the nation's securities shop; it is your responsibility to help small businesses raise capital through security offerings. You are the only ones with the power to make a difference.

Enough said about FINRA. Let's continue with a little more information about myself. FINRA asserts that I am a bad person, a danger to the public, and does not deserve any security licenses just because they don't like me because I complain about them.

I was born in 1963 in Waterloo, Iowa.

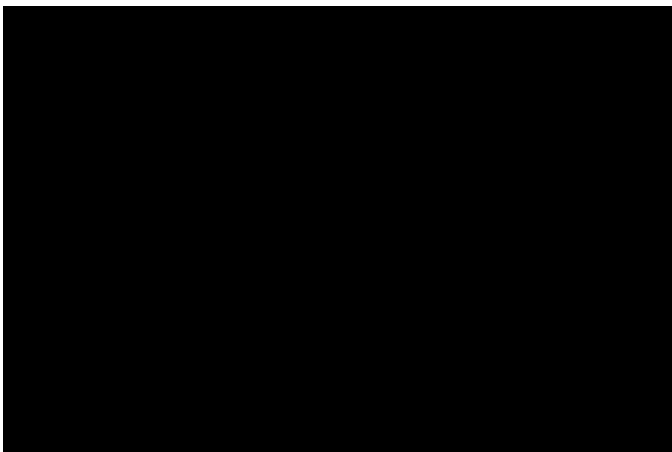


I am the son of Dan and Janis Balabon. I just buried both of them last month at the Veterans' Cemetery in Sarasota, Florida.



My mother was a portrait artist who painted people such as Judge Judy and created paintings of saints for the Vatican from skeletal remains. One of her paintings is hung in the hallway at the Vatican offices in Italy. My father was a building contractor, wind farm developer, card player, and counter-intelligence investigator for the U.S. Army. He used to play cards with people like Sen. Chuck Grassley at the Elks Club in Waterloo, Iowa. They lived the real "Notebook movie" story; they were married for 64 years and died within two days of each other from natural causes (although my father was eight years older than my mother).

I was a loving child who was plagued by migraine headaches. I was sick a lot of the time with frequent vomiting. This ailment prevented any academic accomplishments in this world and shut me out of the system. I am still plagued with headaches and [REDACTED].



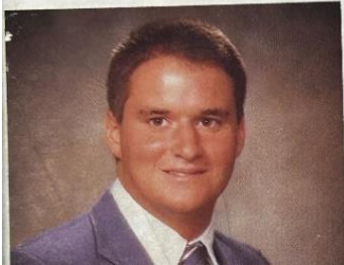
[REDACTED]. As a result, I have a natural sympathy for people left out of society for whatever reason.

On Christmas morning of 1983 in a dream, God changed me and I became a Christian; prior to that, I was an agnostic. I have considered myself a spiritual psychic ever since or someone who has been given a great gift and responsibility... and someone who felt that with such a gift I could achieve anything in this world.

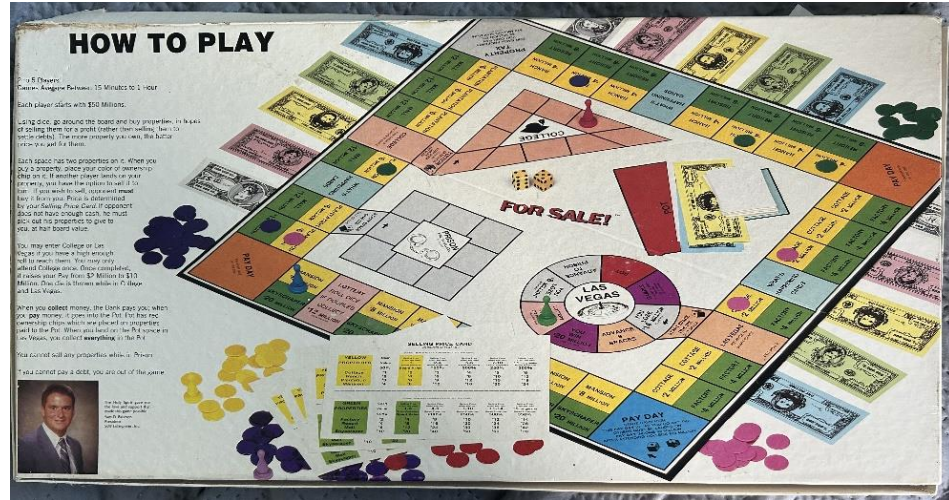


In 1988 I promoted my first invention, which was a redesign of Monopoly. It contained a novel buy/sell process and had two investors who put in \$28,000 to support the effort. The board game was introduced at the 1988 World Toy Fair in New York City. Unfortunately, it was not successful.

If you cannot pay a debt, you are out of the game.



The Holy Spirit gave me the love and support that made this game possible.  
 Sam D. Balabon  
 President  
 SDB Enterprises, Inc.



In 1994, I sold a company I founded based on my inventions in the telecommunications space to a public company.

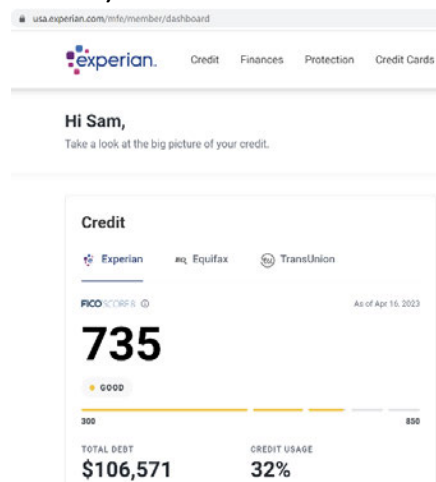
In November of 2002 after losing \$430K in a short covering rally, I decided to redesign the stock market for the investor's benefit by cutting out the intermediary. I was tired of placing orders in the market that market parasites sucked money out of. From my perspective, a new market could be built where the investor — not the intermediaries — could control the trading process. I believed that whoever puts up the capital should rule the trading process — from

the disclosure of the trading interest to the execution of the trade. By the end of 2002, I designed this market and filed a patent application on it (five U.S. patents were ultimately granted on my designs/methods) and then sought out professors' opinions about whether my new market concept was correct. James Angel, a professor at Georgetown University, told me that I solved the institutional trading problem that allowed the placement of large orders into the market that could not be gamed. This meant that large block orders could be seen by the market, but could not be front run by market participants.

Unfortunately, the system was a basic hijack of the entire intermediary-based system. Basically, the industry agreed that the trading system was correct, but would not finance the effort due to conflicts of interest (making money from the status quo). I am talking about all the exchanges, wholesalers, and bulge bracket trading firms which were directly affected by the inventions.

In 2006, the SEC granted my BD an ATS license to introduce my disintermediation system to the U.S. stock market. I needed to take my idea to private investors outside the industry to raise money. This is where I hit a brick wall with FINRA. I never was able to raise enough money to even launch the system. The exchanges wanted \$1 million a year just for the licensing — not including the tech to draw out live depth of book data out of the exchanges, which my system required.

Now regarding myself personally, there are no parties out there that have sued me/my company (although over 40 people invested in Deep Liquidity) or any lawsuits against me regarding any of my affairs. I ran a FINRA SEC-regulated BD for over 10 years without any complaints. I also have perfect credit (see image below).



Now, on to my public service work. Chairman, you've got my respect for your courage (you're a real stand-up man) to take on the NMS trading industry with your new trading proposal! The previous SEC chairs had no courage. I salute you! You are doing it the right way. Let the wholesalers keep doing what they do, but introduce a new superior system that will make wholesaling obsolete. Yes, they will sue the SEC — but they won't get very far with that!

Let's touch on defenses for the SEC when the wholesalers claim that they help the market rather than simply being a market parasite.

There are three sizes of security orders that enter the market:

1. An order size that is less than the size represented at the inside quote.

Example: There are 300 shares of XYZ stock at the bid price of \$10.00 throughout the NMS. An order comes in from a broker dealer customer to sell 100 shares of XYZ stock. This order has "edge/intrinsic profit" built into it and my guess is that 98% of these types of orders are internalized at the wholesaler and never make it to the stock exchanges. 2% of the time the wholesaler just does not want to take that side of the market due to their buy/sell algorithms.

2. An order size equal to the size represented at the inside quote. This order type has only a market maker's edge in it and my guess is that only about half are internalized and the other half are sent to the exchanges.
3. An order size larger than the inside quote. These types of quotes are toxic to the wholesaler and my guess is that 95% of these types of orders are sent to the exchanges and are not internalized. 5% are internalized due to buy or sell signals due to the algorithms of the wholesaler.

So, when the wholesalers state that they are providing great executions, force them to sort the orders into this lens/metric and you will crush their arguments with real numbers.

One of my inventions gives the liquidity provider a slight edge over the liquidity taker at the point of executing a trade, which is an advantage for the liquidity taker. If the liquidity provider gets to trade the market immediately after an execution before the liquidity taker is alerted of the trade, this opens the door to



a completely new type of transaction: a transaction where the liquidity provider provides liquidity above or below the NBBO at a fixed price, assuming that the liquidity provider will also be able to pick up better priced shares for instant flip profits while filling the order for the liquidity taker. This basically converts the market from price only discovery to price/size discovery, adding on more points of granularity into the negotiation process.

If we tweak the new system that you're developing just a little, you can achieve much of this. Make it a rule that when you execute a trade, delay for let's say 10 milliseconds the reporting of the trade to the liquidity taker/market. Give the liquidity provider a little time to trade the market immediately after the execution. This will improve your market and make it superior to anything out there.

Providing the liquidity provider a little edge over the liquidity taker allows the liquidity provider to price a quote above or below the NBBO. If someone hits their quote, the liquidity provider can sweep up or down to the price of their quote — thus flipping shares for instant profits. These anticipated profits become part of the calculus of the quote itself, which makes the market more efficient by publicly providing quotes of any size efficiently. This provides an opportunity to the liquidity provider: "I will fill your order. However, before we report the trade to the market, I can trade the market."

This concept is superior: "Whoever puts up the capital RULES the trading process." That was my company's motto. You don't need to destroy the wholesalers, just force the brokers to provide the superior product.

The SEC should build a new system for small issuers, not one for the elites of our society and their young elite protégés but rather for those without college degrees and people without a stint at a large corporation. Basically, for the common people who have been left out of our capital raising system. Right now, these types of people are deprived of opportunity...not on the merit of their projects, but through systemic discrimination from the elites.

The system should review the securities for a month (as a hard deadline, with no discretion of the regulator to delay) and then release them to be sold to investors. Everything should be released unless fraud is found; each offering will earn approval stamps on its representations.

- Stamps for the company's books.
- Stamps for the company's representations of the market it wants to enter.
- Stamps for the company's forward-looking statements.

Some stamps will cost more than others. Private companies along with the SEC/FINRA could render the stamps for set fees set by the SEC.

With this new system, the regulator would need to assume the role of the validator rather than the fun role of "the enforcer." Validating something is hard work and stressful, while making commands is easy. Creating value rather than instilling fear should be the role of the regulator.

Let the courts sort out the disputes. The government should be a place where a small businessperson can get validation for their businesses. I know the government does not like to get into the private affairs of capital formation for the most part. However, the system is so twisted now, someone needs do something about it — like stopping FINRA from running any small issuer BDs out of business.

The capital raising doors are really closed as far as equity financing for small businesses. As I have mentioned before, debt is the only vehicle for our young people. That sucks the life out of our youth and benefits the old people of our society. Equity financing works the opposite way, by moving capital from the old to the young. It is that simple. Also, all the people who hold a piece of the current business model that the SEC is enforcing will fight like dogs to keep it...including FINRA. Just wait to see the pushback from people like Ken Griffen with your new trading system.

I view FINRA just like the wholesaling business with its stranglehold on the small issuer business. The scorecard should be how much money and how many offerings have run through FINRA-regulated broker dealers per month, not the number of enforcement actions like it is now. FINRA needs to be the facilitator rather than the hinderer of equity capital raising. The regulator needs to get into the business of stamping facts presented in equity offerings and to allow these offerings to easily gain access to liquidity in the secondary market.

I tried to help in 2018 (see attached) by inventing a system that solved one of the problems of capital formation itself. It would create a new way to put up capital,

but still allow people the power to withdraw the capital if a minimum dollar amount of the raise is not achieved by the issuer between multiple investors. In this day and age, accountants and banks need legal protection in their dealings with small issuers. There is going to be fraud; that is leakage from an overall machine that transfers capital from the old to the young. It is vital that this concept is enacted immediately to save young entrepreneur businesses, which are the cornerstone of America. This movement of regulators from enforcers to validators will be the next generation of government involvement in the security industry. The SEC can literally create metrics, business models of this new form of validation, and have the private sector fill in and operate these validation systems. FINRA would be great for doing it.

I also think the government should have some skin in the game by taking possession of capital from investors and distributing the capital to the issuers. Right now, the government (including your agency and FINRA) are there to be feared. So, the issuer and BD operators do right-stick approach... no carrot.

People should be able to go to the government to get validation stamps of the authenticity on the specific details of their capital raises. The SEC has enormous power over the stock offerings of small issuers. Why in the world can I not invest in a local dress shop or a local restaurant through a stock offering? Try opening an account at a bank, tell them that you're raising capital, and they will tell you to get lost. Or try asking a typical CPA for an audit on your small company and they will tell you the same. Only a few auditors will audit small company books and rates start at \$10,000. The technology is there; the regulators are just not on board, and our young, aspiring entrepreneurs suffer. They need the people in power to represent them and not the status quo like FINRA does.

I am available as a consultant to work for the SEC at an hourly rate of perhaps \$400 or whatever we can negotiate together. I could work on the trading system you're developing now, develop a conceptual small issuer portal, or perhaps write responses to the attacks that the industry will bring upon your agency for introducing an order by order trading system. Your new trading system is essentially giving new rights to account holders at brokerages, which is long overdue.

I also grant the SEC permission to use any of my inventions as described in my patents. These patents, for the most part, have expired.

I am here to help. I want to make my time here in this life count and help humanity.

Regardless how the Commission views my opinions/complaints about FINRA, the Commission must ask itself, do issuing these licenses harm the public in any way? Is Sam Balabon a danger to the public like FINRA claims? If the answer is "no," please order FINRA to issue the BD license as well as reinstate the personal security licenses for myself and Mr. Puranik.

Sincerely,

A solid black rectangular box used to redact the signature of Sam Balabon.

Sam Balabon

## **ICO and IPO System and Method that Reduces Investor Risk to Participate**

### **Abstract**

The invention allows investors a new way to secure an option to purchase tokens without losing possession of their money. Invention provides investors a new benefit for parking money.

The issuer of tokens generates a smart contract that manages token distribution and single purpose blockchain wallets. The issuer determines an offering price per token in a dollar pegged or stable cryptocurrency. Tokens are made available to market. Investor creates a wallet as per the smart contract to deposit cryptocurrency to purchase tokens. This reserves the tokens for the investor. The investor can withdraw the capital from the wallet at any time prior to the funding event (e.g. three months). If the invested capital is withdrawn, the tokens are placed back on the market. Once the funding event has occurred, investors are given an additional time period to withdraw their capital from the wallet which cancels the option to purchase tokens. If the capital is not withdrawn after the additional time period has elapsed; tokens are distributed to the investor and all cryptocurrency in the wallets is transferred to the issuer.

### **Background**

Investors have given money to entrepreneurs for thousands of years. The original methods are simple — capital from an investor is given to an entrepreneur to start a business in exchange for a percentage of profits generated by that business. The entrepreneur presents a business plan to an investor and the investor decides whether to part with his money to support the effort to develop the business plan.

As society has evolved, projects began using groups of investors to fund business plans. With this occurrence, new methods were developed to protect members of investor groups. One such method is called the “mini-maxi” — a type of best efforts underwriting that does not become effective until a minimum amount of securities have been sold. All funds collected from investors are held in escrow until the underwriting is completed. If the minimum amount of securities specified by the offering cannot be reached, the offering will be canceled and the investors’ funds returned.

This concept can also be seen in the initial coin offerings (ICO) world in the form of a “soft cap.” A soft cap is generally the minimum amount of capital needed by the entrepreneur to bring his project into fruition. Entrepreneurs set specific amounts of time — usually several months — to raise this minimum amount of capital. Once that time period has elapsed, many projects fail to reach their soft cap. This results in the project being underfinanced or the capital being returned to the investors.

With the current methods, the investor relinquishes control of his capital to a third party during the money raising period regardless of whether the soft cap or minimum amount of securities is reached; this is required to participate in the capital raise. What if an investor could commit capital formally to a project before a project has raised its minimum amount of capital without the investor losing “possession” of this committed capital? But isn’t that impossible? Maybe not.



## Specification

The invention is designed to reduce the risk of financial loss when a group of investors fund an entrepreneur's business plan or any type of capital raise. This is achieved by changing the concept of what "committed capital" means. The invention allows an investor to own a percentage of a project, allocate his capital to the project, and yet never give up possession of his capital until the entrepreneur reaches a pre-agreed milestone in his business. At any time prior to the mutually agreed milestone, the investor can cancel and take no financial loss. One embodiment allows an investor to cancel their involvement in the project within a certain time period (e.g. 24 hours) immediately after the milestone is reached.

The invention allows an issuer of securities to start his capital raise by establishing a minimum amount of capital (e.g. 1,000 ETH) needed for his project — this becomes the soft cap of his raise. He then creates a new type of smart contract that manages a token distribution and smart wallets. Wallets are generated by investors on demand. Each wallet holds investor's capital and can be withdrawn at any time prior to the sale of tokens between Investor and Issuer. Capital placed in wallets reserve a set amount of issuer's tokens.

This can be achieved in multiple ways. One embodiment of the invention is to use binary wallets that can either hold investor capital (cryptocurrency) or tokens. A binary wallet can hold tokens or an amount of a cryptocurrency such as ETH, but not both together. The entrepreneur communicates to the investor crowd what milestone in his business plan must be reached — for example, a point in time when a minimum amount of cryptocurrency in wallets. This is coded into a new type of smart contract that governs the rules of a new type of smart wallets, token distribution, and collection of cryptocurrency on behalf of the entrepreneur.

If the pre-agreed milestone is reached, all outstanding wallets with third-party cryptocurrency in them are transferred to the entrepreneur. This milestone is usually the minimum amount of cryptocurrency raised during a capital raising period of time e.g. 3 months. Each wallet is coded to transfer its ETH to a wallet specified by the entrepreneur when the smart contract determines the milestone has been satisfied. The event that triggers the release of capital to the entrepreneur is agreed upon before the money raise begins between the entrepreneur and investors. Intermediaries could act on behalf of either the entrepreneur or investors.

The 1,000 binary wallets are part of a larger market system governed by the smart contract — a market system that tracks the binary wallet conversions from token to cryptocurrency (e.g. ETH) or vice versa; a market system that can grant a grace period after a milestone before the sale of tokens to allow investors to exit the transaction without any penalty or financial loss.

In our example, 1,000 binary wallets are put up for sale with a token in each of them. When all 1,000 binary wallets are filled with ETHs, investors are alerted and given a time period e.g. 12 hours to cancel and withdraw their capital before sale takes place. Once sale takes place, ETHs are transferred to issuer. One embodiment of the invention, after the 12 hours has elapsed, a second time period is established that is randomly set which allows investors to still withdraw but unknown to investors is the actual moment the sale will occur. This prevents investors reserving tokens without any intention of actually buying them.

There are many embodiments of this invention. The release of the token to the investor does not have to occur at the point of receipt of investor funds, but rather at the point the collected funds are transferred to the issuer.

Investors could stand in line in a queue on a website waiting for tokens to become available. Brokerage accounts could be used instead of wallets or any other means to store money in a safe place prior to a milestone triggering event that would release the money to the entrepreneur. The amount of cryptocurrency being raised could be pegged to the value of a fiat currency such as the dollar.

The general idea of the invention is for a group of investors to park their money somewhere, but not lose control over it until a pre-agreed milestone is reached by the party raising the funds.

One embodiment of the invention is to set the milestone to when the token itself trades at an exchange above the original value of the token offered to the investors. A milestone could be when the token trades solidly above the original value in an exchange for a 24-hour time period. A smart wallet that holds both the token and the cryptocurrency could be designed to implement the invention. The milestone could be any type of condition agreed between the issuer and the crowd.

Capital raised for all forms of business dealings could utilize this invention. For example, a building contractor wants to build a spec house and needs to raise \$500,000 or perhaps attempt to open a restaurant and raise \$300,000. Large corporations or any type of organizations can benefit from the invention. Perhaps a world bank could roll out a \$10 billion corporate bond issue using this invention. Any time a crowd is used for capital formation, this invention can reduce the risk to investors; this increases capital formation, which betters society. This invention provides a more efficient means for entrepreneurs to express their ideas and see if real money is ready to back them.

One embodiment of the invention is to program the wallet to hold onto a small percentage (e.g. 3%) of the cryptocurrency as a transaction fee in the event the investor returns his token to the wallet in exchange for the cryptocurrency that he placed into it. This money could go to the entrepreneur or service provider. It also acts as a non-refundable deposit made by the investor to secure his interest in the deal.

One embodiment of the invention is to program the wallets in certain events to automatically refund the deposited cryptocurrency back to investor and recapture the token back to the wallet. Investors could bid on price for tokens once all wallets possess cryptocurrency. One embodiment is to allow investors to kick out existing investors possessing tokens by offering more cryptocurrency per token. A minimal price improvement, such a .25% increase to the price the existing investor paid, could be established.

Codes could be used instead of wallets and cryptocurrency where the codes are sequenced in such a way that any form of investment/payment made by the investor to an entrepreneur is refundable before a minimum number of investment units are sold or prior to any future funding event.

Tokens could represent many types of investments, real estate, commodities, collectibles, bonds, stocks, notes, fiat currencies, annuities, futures, options, etc. Capital could be in many forms such as notes, fiat currencies, annuities, futures, options, etc. Smart contracts can be used to govern the wallets, tokens, and distribution of capital to the entrepreneur.

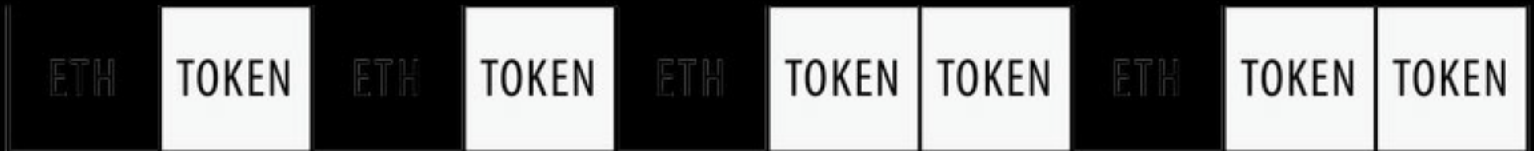
Even if it is not stated clearly, it is intended that any step or process described in this patent application can be applied with software, internet, and computer processors.

### **Example**

An entrepreneur seeks to raise a minimum of 10 ETHs in three months by selling 10 tokens. He then creates 10 wallets and puts one token in each of them. Each of these wallets, along with their tokens, are put up for sale in the market. FIG. 1 shows that after the first month, 4 ETH sit in four wallets and six tokens sit in six wallets — these remain on the market for sale at 1 ETH. FIG. 2 shows the minimum number of ETH raised is 10, and now all 10 wallets hold ETH in them. At this point, all investors are alerted that the minimum amount of 10 ETH has been reached. Within the next 12 to 24 hours (randomly selected), all ETHs in wallets will be given to the entrepreneur. This allows the investor one last look before committing their capital to the project. FIG. 3 shows that during the time period prior to the soft cap being reached, all monies contributed by the investor are refundable.

Drawings

FIG. 1



Token and ETH can alternate between each other. Investors never give up control of their capital until the minimum number of Tokens are sold. Returned Tokens are put back into market.

FIG. 2



When the minimum number of Tokens are sold all Wallets are transferred to Entrepreneur with ETH in them.

FIG. 3

