Before the Federal Communications Commission Washington, D.C. 20554

In the Matter of)	File No. EB-07-IH-9075
)	
SkyPort Global Communications, Inc.)	NAL Acct. No. 200932080006
)	
Apparent Liability for Forfeiture)	FRN No. 0011544913

NOTICE OF APPARENT LIABILITY FOR FORFEITURE

Adopted: November 5, 2008

Released: November 5, 2008

By the Chief, Investigations and Hearings Division:

I. INTRODUCTION

1. In this Notice of Apparent Liability for Forfeiture ("*NAL*"), we find that SkyPort Global Communications, Inc. ("SkyPort"), licensee of an international section 214 authorization and two earth stations, and its ultimate controlling affiliate, Balaton Group, Inc. ("Balaton") apparently willfully and repeatedly violated the Commission's rules by engaging in unauthorized transfers of control. Specifically, we find that SkyPort and its affiliates apparently violated section 214 of the Communications Act of 1934, as amended (the "Act"), and sections 25.119 and 63.24 of the Commission's rules¹ by consummating *pro forma* transfers of *de jure* control of SkyPort to one of its existing minority shareholders. Based on our review of the facts and circumstances surrounding this matter, we find that SkyPort and its affiliates are apparently liable for a forfeiture of \$3,000.

II. BACKGROUND

2. Section 214 of the Act requires telecommunications carriers to obtain a certificate of public convenience and necessity from the Commission before constructing, acquiring, operating or engaging in transmission over lines of communication, or before discontinuing, reducing or impairing service to a community.² In accordance with sections 63.12 and 63.18 of the Commission's rules, any international carrier seeking authorization for such activities pursuant to section 214 of the Act, including any transfer of control of facilities, must obtain approval from the Commission.³ In particular, pursuant to section 63.24 of the Commission's rules,⁴ a transfer of control of an international section 214 authorization requires application to, and approval from, the Commission. A licensee engaging in a substantial

⁴ 47 C.F.R. § 63.24.

¹ 47 U.S.C. § 214; 47 C.F.R. §§ 25.119, 63.24.

² See 47 U.S.C. § 214(a).

³ 47 C.F.R. §§ 63.12, 63.18. Certain kinds of applications, including the one at issue here, are subject to streamlined procedures under these provisions. *Cf.* section 63.03 on streamlined procedures for domestic section 214 authorizations. 47 C.F.R. § 63.03.

transfer of control of a section 214 authorization needs prior authorization from the Commission,⁵ whereas a licensee engaging in a *pro forma* transfer does not, although the latter must notify the Commission of the transfer within 30 days thereafter.⁶

3. The Commission employs a public interest standard under section 214(a) of the Act that involves the examination of the positive and negative public interest impact of a proposed transaction. For transfer of control of an international section 214 authorization, the Commission defines control to include "actual working control in whatever manner exercised and is not limited to majority stock ownership."⁷ "Control" also includes direct or indirect ownership or control, such as through intervening subsidiaries.⁸ The Commission further defines a transfer of control of an international section 214 authorization continues to be held by the same entity, but where there is a change in the entity or entities that control the authorization holder.⁹ A change from less than 50 percent ownership to 50 percent or more ownership shall always be considered a section 214 transfer of control.¹⁰ Because the issue of control inherently involves issues of fact, it must be determined on a case-by-case basis and may vary with the circumstances presented by each case.¹¹

4. Authorizations for operation and transfer of satellite earth stations require an application and approval process pursuant to 47 C.F.R. Part 25,¹² similar to that in 47 C.F.R. Part 63 described above for international section 214 authorizations.¹³ This includes special provisions for transfer of control pursuant to section 25.119 of the rules,¹⁴ similar to section 63.24 of the rules for transfer of control of international section 214 authorizations discussed above.¹⁵ Unlike section 214 authorizations, under section 25.119 of the rules, transfer of control of international satellite earth stations authorizations must be approved by the Commission in advance, even for *pro forma* transfers of *de jure* or *de facto* control.¹⁶ In addition, there is a 30-day notification requirement after the transfer similar to the requirement for

⁷ See 47 C.F.R. § 63.09(b). Cf. 47 C.F.R. § 63.03, note 1, regarding domestic section 214 authorizations.

⁸ See 47 C.F.R. § 63.09(b).

⁹ See 47 C.F.R. § 63.24(c).

¹⁰ See id.

¹¹ 47 C.F.R. § 63.24(d). Note 1 states:

The factors relevant to a determination of control in addition to equity ownership include, but are not limited to the following: power to constitute or appoint more than fifty percent of the board of directors or partnership management committee; authority to appoint, promote, demote and fire senior executives that control the day-to-day activities of the licensee; ability to play an integral role in major management decisions of the licensee; authority to pay financial obligations, including expenses arising out of operations; ability to receive monies and profits from the facility's operations; and unfettered use of all facilities and equipment.

See also 2000 Biennial Regulatory Review, Report and Order, 17 FCC Rcd 11416, 11419 n. 18 (2002) (describing these factors as indicia of "*de facto* control"). Note 2 to section 63.24(d) lists several types of structural business changes that are presumptively *pro forma*, some of which are comparable to the transfer here involving Balaton and SkyPort.

⁵ See 47 C.F.R. § 63.24(e).

⁶ See 47 C.F.R. §§ 63.24(f)(1)-(f)(2).

¹² See 47 C.F.R. Part 25.

¹³ See 47 C.F.R. Part 63.

¹⁴ See 47 C.F.R. § 25.119.

¹⁵ See 47 C.F.R. § 63.24.

¹⁶ See 47 C.F.R. § 25.119 (d)-(f).

international section 214 authorizations.¹⁷ Transfer of control is defined as a change in the party controlling the licensee or the controlling ownership interest of the licensee.¹⁸

5. SkyPort Global Communications, Inc., licensee of an international section 214 authorization¹⁹ and two earth stations (E00361 and E010295),²⁰ is a Houston-based global provider of managed, secure broadband satellite and terrestrial telecommunications services.²¹ SkyPort is a wholly-owned subsidiary of SkyComm Technologies Corporation ("SkyComm"), a holding company with no other functions and whose Board members are identical to those of SkyPort.²² In early 2006, SkyPort was acquired by Balaton Group, Inc., a Canadian private equity firm specializing in turnarounds of distressed businesses.²³ At that time, Balaton was led by Robert Kubbernus as President and a member of the Board and was owned 30 percent by Kubbernus and, in other non-controlling percentages, by four other investors.²⁴

6. In July 2006, the five owners began a process of reorganization intended to leave Kubbernus with complete control as the sole shareholder, Chief Executive Officer ("CEO") and Chairman of the Board ("COB") of Balaton. SkyPort and its affiliates state that, pending consummation of the reorganization, Kubbernus assumed complete control of SkyPort regarding the composition of the Board, status of senior executives, major management decisions, and payment of major financial obligations.²⁵

¹⁹ Public Notice, Report No. TEL-01139, DA 07-1879 (rel. April 25, 2007) (File No. ITC-214-19990211-00083; grant of authority).

²⁰ Public Notice, Report No. SES-00981 (rel. Nov. 11, 2007) (File No. SES-T/C-20070919-01298; grant of authority for E00361); Public Notice, Report No. SES-00981 (rel. Nov. 11, 2007) (File No. SES-T/C-2007092001301; grant of authority for E050044).

²¹ See Letter from Robert D. Primosch, Wilkinson Barker Knauer LLP, Counsel for SkyPort Global Communications, Inc., to Gerald Chakerian, Attorney Advisor, Investigations and Hearings Division, Enforcement Bureau, Federal Communications Commission, dated March 28, 2008 ("March 28, 2008 LOI Response") at 2 (see *infra* paragraph 8 and note 30, regarding the Letter of Inquiry issued February 27, 2008). See also Letter from Robert D. Primosch, Wilkinson Barker Knauer LLP, Counsel for SkyPort Global Communications, to Marlene H. Dortch, Secretary, Federal Communications Commission, re: ITC-214-19990211-00083; ITC-T/C-20060407-00244, dated September 24, 2007 ("September 24, 2007 Section 214 Application"), at Ex. F.

²² See March 28, 2008 LOI Response at 3.

²³ On April 7, 2006, SkyPort timely filed applications for Commission approval of the transfers of the section 214 authorization and two licenses affected by the Balaton acquisition, which were duly granted in August 2006. *See* Public Notice, Report No. TEL-01055, DA 06-1614 (rel. Aug. 9, 2006) (File No. ITC-214-19990211-00244; grant of authority); Public Notice, Report No. SES-00845 (rel. Aug. 8, 2006) (File No. SES-T/C-20060407-00592) (grant of authority for E000361); Public Notice, Report No. SES-00845 (rel. Aug. 8, 2006) (File No. SES-T/C-20060407-00592) (grant of authority for E050044).

²⁴ See March 28, 2008 LOI Response at 2.

²⁵ See March 28, 2008 LOI Response at 2; September 24, 2007 Section 214 Application at Ex. F. The rights and duties of the shareholders were originally governed by a Memorandum of Understanding dated August 28, 2006, shortly after Balaton acquired SkyPort. The growing *de facto* role of Kubbernus, however, was not formally set forth in full detail until an Amended and Restated Memorandum of Understanding signed on January 19, 2007. In this document, the five Balaton shareholders further agreed, *inter alia*, that Kubbernus would be responsible for managing the day-to-day affairs of SkyPort, but that he would notify the others in advance if a contemplated transaction would dilute their holdings or their potential returns from that investment. *See* March 28, 2008 LOI Response at 4, Attachment A, Part 1, p. 5.

¹⁷ See 47 C.F.R. § 25.119(f).

¹⁸ See 47 C.F.R. § 25.119(b).

7. On April 11, 2007, the Balaton reorganization was consummated, and Kubbernus became the sole shareholder and COB of Balaton and continued as its CEO. He also continued as COB of SkyPort and SkyComm.²⁶ SkyPort and its affiliates did not file any applications with the Commission at that time relating to the reorganization. In August 2007, in the course of a new acquisition and merger, the new regulatory counsel for SkyPort and its affiliates discovered the undisclosed reorganization in April 2007 and informed the Commission of that fact in the middle of September 2007. SkyPort and its affiliates thereupon filed an application on September 24, 2007 for approval *nunc pro tunc* of the *pro forma* transfer of control of the section 214 authorization. The application was granted on November 14, 2007, without prejudice to any enforcement action in this case.²⁷ SkyPort and its affiliates filed similar applications on September 20, 2007 for Commission consent to the transfers of control of the two earth station licenses, which were granted on the same terms on November 8, 2007.²⁸

8. On February 27, 2008, the Enforcement Bureau issued a letter of inquiry ("LOI") to SkyPort directing it to provide information and documents regarding, among other things, the nature of the transfers of control and the corporate structure of SkyPort and its affiliates.²⁹ SkyPort responded to the LOI on March 28, 2008 and June 6, 2008.³⁰ The LOI requested information on the role of each Balaton shareholder, including Kubbernus, under the Commission's indicia of control³¹ in the operations of Balaton, SkyComm, and SkyPort.³² The evidence provided in response to the LOI indicates that Kubbernus exercised oversight of SkyPort and its affiliates' finances, management decisions, personnel matters, business strategies, and sales activities during the period pending reorganization, and there is no evidence that the other passive investors were dissatisfied with the arrangement or Kubbernus' conduct of the business.³³

III. DISCUSSION

9. Under section 503(b)(1) of the Act, any person who is determined by the Commission to have willfully or repeatedly failed to comply with any provision of the Act or any rule, regulation, or order issued by the Commission shall be liable to the United States for a forfeiture penalty.³⁴ Section 312(f)(1) of the Act defines willful as "the conscious and deliberate commission or omission of [any] act, irrespective of any intent to violate" the law.³⁵ The legislative history to section 312(f)(1) of the Act

³² See LOI at 2-3, Inquiries 5-7.

³⁵ 47 U.S.C. § 312(f)(1).

²⁶ See March 28, 2008 LOI Response at 2-3; September 24, 2007 Section 214 Application at Ex. F.

²⁷ Public Notice, Report No. TEL-01206, DA 07-4612 (rel. Nov. 15, 2007) (File No. ITC-T/C-20070927-00392; grant of authority).

²⁸ See supra note 20.

²⁹ Letter from Trent B. Harkrader, Deputy Chief, Investigations and Hearings Division, Enforcement Bureau, Federal Communications Commission, to Patrick Brant, President, SkyPort Global Communications, Inc., dated February 27, 2008 ("LOI").

³⁰ See March 28, 2008 LOI Response; Letter from Robert D. Primosch, Wilkinson Barker Knauer LLP, Counsel for SkyPort Global Communications, Inc., to Gerald Chakerian, Attorney Advisor, Investigations and Hearings Division, Enforcement Bureau, Federal Communications Commission, dated June 6, 2008 ("June 6, 2008 LOI Response").

³¹ See supra note 11.

³³ See March 28, 2008 LOI Response at 4, Attachments A and B; June 6, 2008 LOI Response at Supplement B.

³⁴ 47 U.S.C. § 503(b)(1)(B); 47 C.F.R. § 1.80(a)(1); see also 47 U.S.C. § 503(b)(1)(D) (forfeitures for violation of 14 U.S.C. § 1464).

clarifies that this definition of willful applies to both sections 312 and 503(b) of the Act³⁶ and the Commission has so interpreted the term in the section 503(b) context.³⁷ The Commission may also assess a forfeiture for violations that are merely repeated, and not willful.³⁸ "Repeated" means that the act was committed or omitted more than once, or lasts more than one day.³⁹ To impose such a forfeiture penalty, the Commission must issue a notice of apparent liability and the person against whom the notice has been issued must have an opportunity to show, in writing, why no such forfeiture penalty should be imposed.⁴⁰ The Commission will then issue a forfeiture if it finds by a preponderance of the evidence that the person has violated the Act or a Commission rule.⁴¹ As we set forth below, we conclude under this standard that SkyPort and its affiliates are apparently liable for forfeiture for their apparent willful and repeated violations of section 214 of the Act and sections 25.119 and 63.24 of the Commission's rules.⁴²

10. The fundamental issue in this case is whether SkyPort and its affiliates apparently willfully or repeatedly violated section 214 of the Act and sections 25.119 and 63.24 of the Commission's rules⁴³ by consummating a *pro forma* transfer of *de jure* control of SkyPort's international section 214 authorization and two earth station licenses without required Commission approval. We answer this question affirmatively. In particular, the transfers occurred when one member of a small group of all-minority shareholders, who had already been in *de facto* control of operations, acquired the *de jure* ownership interests of all the other group members pursuant to a shareholder reorganization agreement without obtaining required Commission approval. Based on a preponderance of the evidence, we therefore conclude that SkyPort and its affiliates are apparently liable for a forfeiture of \$3,000 for willfully or repeatedly violating section 214 of the Act and sections 25.119 and 63.24 of the Commission's rules.

A. Unauthorized Transfer of Control

11. In both the September 24, 2007 section 214 Application and the March 28, 2008 LOI Response, SkyPort and its affiliates claim that, from the outset in August 2006, Kubbernus had complete *de facto* control of Balaton, SkyPort and SkyComm under all of the Commission's indicia of control: he was President and COB of Balaton and COB of SkyPort and SkyComm; he was the sole source of working capital of Balaton; and he had sole authority with respect to the Board, senior executives, major management decisions and payment of major financial obligations.⁴⁴ Thus, SkyPort and its affiliates assert that the change in control resulting from the reorganization in April 2007 was only *de jure* recognition of what was already a *de facto* arrangement. SkyPort and its affiliates suggest that this makes the failure to timely apply for approval of the transfers less egregious than if there had been a

³⁹ Southern California Broadcasting Co., 6 FCC Rcd at 4388, ¶ 5; Callais Cablevision, Inc., 16 FCC Rcd at 1362, ¶ 9.

40 47 U.S.C. § 503(b); 47 C.F.R. § 1.80(f).

⁴¹ See, e.g., SBC Communications, Inc., Forfeiture Order, 17 FCC Rcd 7589, 7591, ¶ 4 (2002) (forfeiture paid).

⁴² 47 U.S.C. § 214; 47 C.F.R. §§ 25.119, 63.24.

⁴³ *Id*.

³⁶ H.R. Rep. No. 97-765, 97th Cong. 2d Sess. 51 (1982).

³⁷ See, e.g., Application for Review of Southern California Broadcasting Co., Memorandum Opinion and Order, 6 FCC Rcd 4387, 4388 (1991) ("Southern California Broadcasting Co.").

³⁸ See, e.g., Callais Cablevision, Inc., Grand Isle, Louisiana, Notice of Apparent Liability for Monetary Forfeiture, 16 FCC Rcd 1359, 1362, ¶ 10 (2001) ("Callais Cablevision") (issuing a Notice of Apparent Liability for, *inter alia*, a cable television operator's repeated signal leakage).

⁴⁴ September 24, 2007 Section 214 Application at Exhibit F; March 28, 2008 LOI Response at 2-3.

substantial change in actual control. Furthermore, SkyPort and its affiliates note that they did not have regulatory counsel at the time and did not understand that the reorganization affected transfers requiring prior or subsequent approval because SkyPort remained the licensee, Balaton remained the majority shareholder of SkyPort and SkyComm, Kubbernus remained in day-to-day control and he continued to be compensated based on SkyPort's performance rather than his equity-share.⁴⁵

12. We find that while the *de jure* nature of the change in control under these circumstances may not have required applications for a substantial change of control, it clearly did require applications for a *pro forma* change, and the failures of SkyPort and its affiliates to file such applications are willful and repeated violations of sections 64.24 and 25.119 of the Commission's rules. The claim that they misunderstood the necessity for a *pro forma* transfer of control of the section 214 authorization because SkyPort remained the licensee and Balaton remained the majority shareholder does not insulate them from enforcement action. Section 63.24(c) of the rules clearly states that "a transfer of control is a transaction in which the authorization remains held by the same entity, but there is a change in the entity or entities that control the authorization holder."⁴⁶ Here, the change in Kubbernus'share of Balaton from 30 percent to 100 percent is a *de jure* change requiring a *pro forma* application. Similar considerations apply to the failure of SkyPort and its affiliates to file applications for transfer of the two earth station licenses pursuant to section 25.119.

13. The Commission's grant of the *nunc pro tunc* requests for authority to transfer control of the international section 214 authorization and the two earth station licenses were granted without prejudice to enforcement action. The record demonstrates that SkyPort and its affiliates apparently willfully and repeatedly violated section 63.24 of the rules by not filing within 30 days after the consummation of the reorganization on April 11, 2007 a *pro forma* application for, and notification of, the transfer of *de jure* control of SkyPort and its international section 214 authorization from the Balaton minority shareholders to Kubbernus. Similarly, SkyPort and its affiliates apparently willfully and repeatedly violated section 25.119 of the rules by not filing in advance of the consummation of the reorganization on April 11, 2007 a *pure* control of SkyPort's two earth station licenses from the Balaton shareholder group to Kubbernus as sole shareholder.

B. Proposed Forfeiture

14. Section 503(b)(2)(B) of the Act authorizes the Commission to assess a forfeiture for each violation or each day of a continuing violation, up to a statutory maximum for a single act or failure to act.⁴⁷ In determining the appropriate forfeiture amount, we consider the factors enumerated in section 503(b)(2)(D) of the Act, including "the nature, circumstances, extent, and gravity of the violation and, with respect to the violator, the degree of culpability, any history of prior offenses, ability to pay, and such other matters as justice may require."⁴⁸

⁴⁸ 47 U.S.C. § 503(b)(2)(D).

⁴⁵ March 28, 2008 LOI Response at 4-5, Inquiry 9; June 6, 2008 LOI Response at 1-2.

⁴⁶ 47 C.F.R. § 63.24(c).

⁴⁷ 47 U.S.C. § 503(b)(2)(B); see also 47 C.F.R. § 1.80(b)(2); Amendment of Section 1.80(b) of the Commission's *Rules, Adjustment of Forfeiture Maxima to Reflect Inflation,* Order, 19 FCC Rcd 10945 (2004). See 73 FR 44645 7/31/08 (new maxima). An unauthorized transfer of control is a continuing violation that does not end until the Commission grants a transfer of control application or other authorization. See Ensearch Corporation, 15 FCC Rcd 13551, 13554, ¶ 10 (2000).

15. The Commission's *Forfeiture Policy Statement* and implementing rules prescribe a base forfeiture of 1,000 for an unauthorized *pro forma* transfer of control.⁴⁹ In consideration of the factors enumerated in section 503(b)(2)(D) for establishing the forfeiture amount, there is no other evidence before us to suggest that the base amount should be adjusted in any way. Accordingly, we find that the base forfeiture of 1,000 against SkyPort and its affiliates for the section 214 authorization and each of the two earth station licenses is appropriate and we propose a total forfeiture of 3,000.

IV. ORDERING CLAUSES

16. ACCORDINGLY, IT IS ORDERED THAT, pursuant to section 503(b) of the Communications Act of 1934, as amended, 47 U.S.C. § 503(b), and section 1.80 of the Commission's rules, 47 C.F.R. § 1.80, that SkyPort Global Communications, Inc., is hereby NOTIFIED of its APPARENT LIABILITY FOR A FORFEITURE in the amount of \$3,000 for willfully or repeatedly violating sections 25.119 and 63.24 of the Commission's rules.

17. IT IS FURTHER ORDERED THAT, pursuant to section 1.80 of the Commission's rules,⁵⁰ within thirty days of the release date of this NOTICE OF APPARENT LIABILITY, SkyPort Global Communications, Inc. SHALL PAY the full amount of the proposed forfeiture or SHALL FILE a written statement seeking reduction or cancellation of the proposed forfeiture.

18. Payment of the forfeiture must be made by check or similar instrument, payable to the order of the Federal Communications Commission. The payment must include the NAL/Acct. No. and FRN No. referenced above. Payment by check or money order may be mailed to the Federal Communications Commission, P.O. Box 979088, St. Louis, MO 63197-9000. Payment by overnight mail may be sent to U.S. Bank – Government Lockbox #979088, SL-MO-C2-GL, 1005 Convention Plaza, St. Louis, MO 63101. Payment by wire transfer may be made to ABA Number 021030004, receiving bank Federal Reserve Bank of New York, and account number 27000001. For payment by credit card, an FCC Form 159 (Remittance Advice) must be submitted. When completing the FCC Form 159, enter the NAL/Account number in block number 23A (call sign/other ID), and enter the letters "FORF" in block number 24A (payment code type). SkyPort will also send electronic notification within forty-eight (48) hours of the date said payment is made to gerald.chakerian@fcc.gov.

19. The response, if any, to this NOTICE OF APPARENT LIABILITY FOR FORFEITURE must be mailed to Hillary DeNigro, Chief, Investigations and Hearings Division, Enforcement Bureau, Federal Communications Commission, 445 12th Street, S.W., Room 4-C330, Washington, D.C. 20554 and must include the NAL/Acct. No. referenced above.

20. The Commission will not consider reducing or canceling a forfeiture in response to a claim of inability to pay unless the petitioner submits: (1) federal tax returns for the most recent three-year period; (2) financial statements prepared according to generally accepted accounting practices (GAAP); or (3) some other reliable and objective documentation that accurately reflects the petitioner's current financial status. Any claim of inability to pay must specifically identify the basis for the claim by reference to the financial documentation submitted.

21. Requests for payment of the full amount of this *Notice of Apparent Liability for Forfeiture* under an installment plan should be sent to: Chief Financial Officer – Financial Operations, Federal Communications Commission, 445 12th Street, S.W., Room 1-A625, Washington, D.C. 20554. For

⁴⁹ See 47 C.F.R. § 1.80; *Forfeiture Policy Statement*, 12 FCC Rcd 17087, 17113 (1997). The base forfeiture amount for an unauthorized substantial transfer of control is \$8,000. *Id*.

⁵⁰ See 47 C.F.R. § 1.80.

answers to questions, please contact the Financial Operations Group Help Desk at 1-877-480-3201 or Email: ARINQUIRIES@fcc.gov.⁵¹

22. IT IS FURTHER ORDERED that a copy of this NOTICE OF APPARENT LIABILITY FOR FORFEITURE shall be sent by certified mail, return receipt requested, to Robert D. Primosch, Wilkinson Barker Knauer LLP, Counsel for SkyPort Global Communications, Inc., 2300 N Street N.W., Washington, D.C. 20037.

FEDERAL COMMUNICATIONS COMMISSION

Hillary S. DeNigro Chief, Investigations and Hearings Division

⁵¹ 47 C.F.R. § 1.1914.