

[Perkins Coie LLP Letterhead]

August 5, 2004

VIA EDGAR FILING AND FEDERAL EXPRESS

Mr. John Reynolds
Assistant Director, Office of Emerging Growth Companies
U.S. Securities and Exchange Commission
Division of Corporation Finance
450 Fifth Street, N.W.
Washington, DC 20549

**Re: HyperSpace Communications, Inc.
Amendment No. 4 to Form SB-2 (the "*Registration Statement*")
File No. 333-115404**

Ladies and Gentlemen:

On behalf of HyperSpace Communications, Inc. (the "*Company*"), we are transmitting the following responses of the Company to the comments of the Commission's staff (the "*Staff*") in regard to the Company's Registration Statement on Form SB-2 as set forth in the comment letter from John Reynolds, Assistant Director, Office of Emerging Growth Companies, dated July 23, 2004 (the "*Comment Letter*"). We have enclosed for your reference two courtesy copies of Amendment No. 4 to the Registration Statement (the "*Amendment*") in a clean version and two copies of the Amendment in a version marked to show changes from Amendment No. 2 to the Registration Statement filed with the Commission on July 14, 2004. Amendment No. 3 to the Registration Statement was filed for the sole purpose of filing exhibits.

As discussed with Yuna Peng, the lead underwriter, Maxim Group LLC, has notified the Company that it is unable to proceed with the offering as lead underwriter. Pali Capital, Inc. will remain as an underwriter. The Company is negotiating the terms of an underwriting arrangement with a new lead underwriter, but the terms have not yet been finalized. When the terms are finalized, the Company will file the underwriting agreement and amend the Registration Statement as necessary. Moreover, the Company is familiar with its obligations to file financial statements for the period ended June 30, 2004 since it expects to go effective after August 13, 2004. The Company plans to amend the Registration Statement to include such financials on or around August 18, 2004. The Company requests that the Staff assist it in declaring the Registration Statement effective during the first week in September, 2004.

The responses set forth herein are based on information provided to this firm by the Company. For your convenience, we have numbered the comments as set forth in your letter, repeated such comments and set forth our response to each comment immediately below. The page number references refer to the page numbers in the Amendment.

General

1. We repeat former comment 1. Please furnish a statement that the amount of compensation to be allowed or paid to the underwriters has been cleared with the NASD before effectiveness.

RESPONSE: The Company is in the process of finalizing the underwriting terms. The Underwriters have not yet received clearance from the NASD regarding compensation, but we will provide such a statement to the Staff as soon as it is available.

2. Please confirm supplementally with the staff that the common stock offered hereby will be listed on the American Stock Exchange concurrently with effectiveness of this registration statement.

RESPONSE: The American Stock Exchange is still reviewing the Company's listing application. We will confirm with the Staff as soon as possible whether the American Stock Exchange has approved the Company's common stock for listing.

Re-issuance of Previous Accounting Comments

3. We note your response to our previous comment 67 where you refer to SFAS 150 paragraph 12(a) and Appendix A, paragraph A.24, as to the Company's reason to classify the preferred stock as a liability. Please provide us with your analysis in determining that the financial instrument embodies an unconditional obligation in which there is a contractually fixed monetary amount known as inception as required by SFAS 150 in order to classify the preferred shares as a liability. Please refer to SFAS 150 appendix B, paragraphs B30 through B49. Include in your analysis, the section within the preferred stock designation agreement that you are relying on to support your position that a contractually fixed monetary amount exists. Revise classification and disclosure as necessary.

RESPONSE: The Company has restated its financials to account for the Series A Preferred Stock as equity.

4. We note that you state in your response that the preferred shares are mandatory convertible after 5 years at the then market price and that the preferred shares are mandatory redeemable. Please provide us with the section within the preferred stock designation agreement that specifically states these facts. If the preferred stock is mandatory redeemable, please provide the disclosure as required by SFAS 129.

RESPONSE: The response provided earlier related to the statement that the preferred stock is mandatory redeemable was in error and thus, the disclosures required by SFAS 129 are not required. Section 4.1(b) of the preferred stock designations states the circumstances under which the preferred stock is mandatorily convertible.

5. We note your response to our previous comment 69 in regards to recording the accretion of preferred dividends to interest expense. If based on your analysis to our comment above, you determine that the preferred shares are to be classified in the equity section rather than as a liability, please revise the recording of the accretion of preferred dividends from interest

expense to the equity section. Please refer to ARB 43, chapter 7; paragraph 10. In addition, please revise your earning per share calculation to be in accordance to SFAS 128, as necessary.

RESPONSE: As noted in the response to comment 3 above, the Company has restated its financial statements to record the Series A Preferred Stock as equity. The Company has also restated the financial statements to record the preferred dividends as equity. In addition, the Company has revised its earnings per share calculations in accordance with SFAS 128.

6. We note your response to our previous comment 71 in which you state that the Company's shareholders and directors have not yet approved the 14 for 1 reverse stock split. Pursuant to SB Topic 4C, a change in the capital structure must be given retroactive effect if the capital structure *occurred* prior to the issuance of the financial statements. It is our understanding that the change in the Company's capital structure has not yet occurred. Please revise as necessary. Include a pro forma presentation if required.

RESPONSE: The shareholders approved the reverse stock split on July 17, 2004 and the reverse split became effective July 23, 2004. As noted in Topic 4C, a capital structure change related to a stock dividend or stock split or reverse split that occurs after the date of the latest reported balance sheet but before the release of the financial statements or the effective date of a Registration Statement, whichever is later, requires that the capital structure must be given retroactive effect on the balance sheet and notes there to. Thus, since the reversed stock split was approved prior to the effect date of this offering, all changes to the share and per share amounts have been changed in the accompanying documents.

7. We note your response to our previous comment 83 which you state that the conversion price equaled the estimated fair value of the underlying common stock on the date of issuance. Please confirm to us that the Company allocated the estimated fair value of the detachable warrants prior to calculating the potential beneficial conversion feature, as required by EITF 00-27. Please provide us with the Company's analysis and calculation for such fair value allocations and beneficial conversion feature. Please revise as necessary.

RESPONSE: The Company did allocate the estimated fair value of the detachable warrant before calculating the potential beneficial conversion feature as required under EITF-00-27. Included herewith is a calculation for such fair value allocation and beneficial conversion feature.

8. We note your response to our previous comment 84 which you stated that you based the fair value of the common stock on the current letter of intent or \$4.55 per share. As the letter of intent has changed from the sale of units at \$5.00 per unit (with each unit consisting of one share of common stock and a warrant to purchase one share of common stock) to the sale of only common shares at \$6.00 to \$7.00, it appears that the fair value of the common stock may be more readily determinable based on the current letter on intent or \$6.00 to \$7.00 per share. Please supplementally tell us what the Company believes to be the estimated fair value to be based on the new set of circumstances and provide us with the support to justify your fair value assessment. In addition, please confirm to us that the Company allocated the estimated fair value to the detachable warrant prior to calculating any potential beneficial

conversion on the related convertible notes payable, as required by EITF 00-27. Please provide us with the Company's analysis and calculation for such fair value allocations and beneficial conversion feature. Please revise as necessary.

RESPONSE: As seen in the Company's financial statements, the Company did not issue a significant amount of common stock for cash during 2003 or 2004. The Company did issue preferred stock at the price of \$4.38 per share at the end of 2003 and in the beginning 2004. The preferred stock is convertible into common stock at \$4.38 per share unless common stock has sold at a price lower than \$4.38 during the first two years after the issuance of the preferred stock. Thus, based upon the sale of the Company's securities, market was being established at the price of \$4.38 per share at the end of 2003 and at the beginning of 2004. The Company had sold a significant amount of these securities, almost \$1,000,000 of preferred stock, giving it a reasonable basis for determining market at \$4.38 per share. Also, in February and March 2004 the Company was in discussions with investment bankers about raising additional equity financing. In discussions with venture capitalists, the valuation of the Company was established at a value much less than \$4.38 per share. However, the Company entered into a letter of intent for the issuance of units of the Company's common stock, with each unit consisting of one share of stock and one warrant that valued the Company's stock at \$4.55 per share. With this information the Company prepared its annual financial statements at \$4.55 per share and setting a value for options at \$4.55 per share also at that amount as this value was consistent with and in line with the value that the Company had obtained in selling preferred stock and other stock issuances during this time period.

Subsequent to the issuance of their financial statements, the Company was approached by additional investment bankers who indicated that the market conditions changed and due to these changes, the Company may be valued at a price higher than originally negotiated with the first investment banker. As a result of these discussions, the Company entered into a letter of intent for the sale of its common stock at a price yet to be determined but in a range between \$6.00 and \$7.00 per share based upon market conditions at the effective date of the offering. Those investment bankers have informed the Company that they are unable to sell the Company's shares at this time. The Company is negotiating with a new investment bank to act as lead underwriter, and expects to sell units for between \$5.50 and \$6.00 per unit, each unit consisting of one share of common stock and one warrant to purchase a share of common stock. The Company believes it would be inappropriate to change the value utilized in its financial statements for the \$6.00 to \$7.00 per share or the presently negotiated price as this price is based upon changing market prices and at the time of the issuance of the financial statements the best indicator of market value came from the letter of intent it had executed at that point in time. The Company believes that a change to \$6.00 to \$7.00 per share would be the equivalent to asking the Company to consider changing its financial statements at the end of its first quarter after its stock was trading if its stock price rose due to market conditions. Again, the Company based its valuation of securities on the best available information at the time, which constituted issuance of a significant number of securities for a significant dollar value, i.e.: the proposed public offering, establishing a reasonable fair market value at that time.

9. We note your response to our previous comment 92 in which you state the estimated fair market value of \$4.55 was estimated based on the current letter of intent. As the letter of

intent has changed from the sale of units at \$5.00 per unit (with each unit consisting of one share of common stock and a warrant to purchase one share of common stock) to the sale of only common shares at \$6.00 to \$7.00, it appears that the fair value of the common stock may be more readily determinable based on the current letter on intent or \$6.00 to \$7.00 per share. Please supplementally tell us what the Company believes to be the estimated fair value to be based on the new set of circumstances and provide us with the support to justify your fair value assessment. Please disclose the estimated fair value of the underlying common stock on the date of each option grant date.

RESPONSE: Please see response 8 above.

Prospectus Summary, page 1

10. We note your response to comment 7 and reissue the comment. If included, a summary should provide a balanced presentation of the information in the prospectus. Your summary presents a one-sided view of the company's business by giving an overview and outlining your business strategy without discussing potential problems that have or could affect your future success. Please balance the discussion of your overview and business strategy with similar and equally prominent disclosure highlighting potential problems that could affect your future success. In this regard, we note you have omitted the information concerning your source of sales and unsuccessful efforts contained in your initial filing, you do not discuss the losses you have incurred, or the competition you face. Please revise.

RESPONSE: We have revised the prospectus summary to address the Staff's comment.

11. We note that you disclose in The Offering section on page 3 that the Company has 1,846,887 shares of common stock issued and outstanding at March 31, 2004, yet on the face of the March 31, 2004 balance sheet it appears that 1,454,722 are issued and outstanding. Please reconcile and revise as necessary.

RESPONSE: We direct the Staff's attention to the assumptions included at the bottom of pg.3 of the previous Amendment. As of March 31, 2004, the Company had 1,454,722 shares of common stock outstanding as noted in the financial statements. As part of this transaction, and as more fully described in the Capitalization section on pg.24 of the Registration Statement, certain transactions will occur immediately prior to this initial public offering which will increase the number of shares of common stock outstanding. Specifically:

- 230,711 shares of common stock will be issued to holders of preferred stock and accumulated preferred dividends as they convert to common stock
- 141,988 shares of common stock will be issued to holders of convertible debt and accrued interest on debt as they convert to common stock (including 21,428 shares issued to our Founder)
- 19,466 shares of common stock will be issued under a cashless exchange of warrants

When these additional common stock issuances are added, the resulting total of shares of common stock is 1,846,887 prior to this offering. We have added a table to page 3 of the Amendment to more clearly highlight and reconcile the differences noted by the Staff.

12. We note your disclosure in the prospectus on page 3 that you disclose that 377,000 options are exercisable at March 31, 2004, yet the option roll-forward in the notes to the financial statements states that 201,179 are exercisable at March 31, 2004. Please reconcile and/or revise as necessary.

RESPONSE: We have complied with the Staff's request. The numbers previously included in the Financial Statements were incorrect and have been corrected in the Amendment.

13. It appears that the pro forma information on pages 5, 24 and 27 does not include the deferred offering costs of \$50,000 being offset against the proceeds received in the offering. Please reconcile and revise as necessary.

RESPONSE: We have complied with the Staff's request by adding footnotes to reconcile the deferred offering costs with our pro forma information.

Risk Factors, page 6

14. We note your response to comment 8 and reissue the comment. The substance of your additional language is contained in the section entitled "Special note regarding future-looking statements." Please delete the third sentence of the introductory paragraph.

RESPONSE: We have complied with the Staff's request. Please see the introductory paragraph to the risk factor section of the Amendment appearing on pg. 6.

15. We reissue former comment 9. Some of your risk factor subheadings merely state a fact or uncertainty about your business. Please revise your subheadings to ensure they reflect the material risks and adverse consequences to HyperSpace and/or investors. We refer you to risk factors 13, 24, and 34.

RESPONSE: We have complied with the Staff's request. Please see revised risk factor subheadings.

16. We reissue former comment 13. The 31st risk, beginning, [d]ownturns in information technology spending and the economy in general . . ." is generic and applicable to all companies. The placement of the risk as the last risk factor is irrelevant. The risks discussed should be specific to your company. Unless you can establish how the downturns in the economy and future terrorist attacks would affect your business differently from other businesses, you should remove this risk.

RESPONSE: We have complied with the Staff's request by removing former risk factor number 31.

17. We note your response to our former comment 14. We do not understand why you would disclose this risk as a material principal risk in this section if you do not believe rescission is probable. Please explain.

RESPONSE: We agree with the Staff and have removed the risk factor.

18. The subheading for risk factor one is too broad and encompasses more than one risk. In addition, risk factor 12 appears to involve related disclosure. Consider combining the two risk factors into one entitled "We have incurred significant losses and may never be profitable" or a similar subheading. The second part of risk factor 12, the need for additional funding, should be set forth in a separate risk factor and relocated toward the beginning of the risk factor section.

RESPONSE: We have complied with the Staff request by revising our risk factors. Please see revised risk factor section, beginning with the first three risk factors of the revised version of the Registration Statement submitted with this response.

Use of Proceeds, page 22

19. Please briefly describe use of proceeds assuming the underwriter's over-allotment option is exercised in full.

RESPONSE: We direct the Staff's attention to the first paragraph on pg. 23 of the Use of Proceeds section of the Amendment. We believe that this language reasonably describes, to the extent and in the only detail currently know by the Company, the use to which the additional proceeds will likely be put in the event the underwriter's over-allotment is exercised in full.

20. Please explain the terms "lead generation programs" and "white-paper costs."

RESPONSE: We have revised the disclosure on pg. 22 in the "Use of Proceeds" section to explain the terms "lead generation programs" and "white-paper costs."

21. We reissue comment 20. Please discuss alternatives to the currently stated use should you alter the use of proceeds from this offering. See Instruction 7 to Item 504 of Regulation S-K.

RESPONSE: We direct the Staff's attention to the last three paragraphs on pg. 23 of the Use of Proceeds section of the Amendment. We believe that this language reasonably describes, to the extent currently know by the Company, the circumstances that could require management to alter its use of proceeds.

22. You state that you will pay a deferred bonus amount of \$50,000 to your CEO from the proceeds of the offering. Please indicate where this is reflected in the use of proceeds table.

RESPONSE: This amount is included in the Working Capital line item.

23. We refer you to former comment 22. You responded that credit facility will be repaid with the proceeds of the offering. Please explain supplementally to us the term "credit facility." Are you referring to the \$147,000 debt?

RESPONSE: We used the term “credit facility” to describe the \$147,000 worth of certain debt that we intend to repay as discussed in the fifth paragraph of the Use of Proceeds section.

24. We note that you will pay \$72,000 to Maxim Group upon execution of the consulting agreement at the closing of the offering. Please disclose whether this fee will be paid out of proceeds from this offering. And if so, indicate where it is reflected in the use of proceeds table.

RESPONSE: The consulting fee payable to Maxim Group is now reflected in changes made to the first paragraph of the Use of Proceeds section of the Amendment. Because the table reflects the use of proceeds by the Company, net of all offering costs and expenses, we have not included the \$72,000 fee to be paid Maxim Group in the table. As noted above, Maxim Group will not be the representative of the underwriters in this offering. We have left the disclosure, however, as we expect that the new representative of the underwriters will be entitled to the same consulting arrangement.

25. We note you intend to pay sales commissions from the proceeds of the offering. Where appropriate, please explain the reason for this practice. Is it because you must sell your product below cost to attract customers?

RESPONSE: Paying sales commissions to authorized resellers, sales agents, and alliance partners is a common practice in the software business. In most cases, sales commissions are paid on a success basis, but occasionally there is an advance commission payment, a draw or a fixed (minimum) element to the commission compensation. Such advances, draws, and fixed minimums should be more prevalent in the beginning of our execution upon our sales plan while the Company develops its reputation. The better sales agents and partners will most likely require some advance payments to take on the Company’s products. As such, it is conceivable that a portion of the proceeds will be used for sales commissions as we engage these agents and partners. A note in this regard has been added to the Use of Proceeds section in the first paragraph under the table appearing on pg. 22 of the Amendment.

Management's Discussion and Analysis of Financial Condition and Results of Operation,
page 28

26. Please define the term "Global 2000 customer."

RESPONSE: The term "Global 2000" is a term commonly used in the industry to refer to the 2000 largest companies in the world. To clarify the disclosure we have deleted the term "Global 2000" throughout the document and now refer only to the largest companies.

27. You disclose that cost-per-clicks charges with Google and Overture vary at your option. Please briefly describe the arrangements. Please also disclose the amount of fees you have paid to Google and Overture for each of the last two fiscal years.

RESPONSE: We have complied with the Staff’s request by adding a disclosure to the first

paragraph under the subsection titled "Sales & Marketing" in the MD&A section of the Amendment appearing on pg. 33.

28. Please provide disclosure that the Company had a restatement to the financial statements. Include in the disclosure what the restatements related to and reconciliation of the effect that the restatements had on the previously issued financial statements.

RESPONSE: We have revised the Registration Statement to include the requested disclosure regarding restatement.

29. Please consider revising your Overview to include a more detailed discussion that provides an executive level overview of the industry in which the Company operates.

RESPONSE: We have complied with the Staff's request. Please see the revised MD&A Overview section of the Amendment.

30. Please revise to discuss material events and uncertainties known to management that are reasonably likely to have a material impact on future operations or liquidity. For example, the discussion should include the Company's current public offering and the effect this offering is expected to have on the Company. In addition, please discuss what impact the Company's new product HyperTunnel is expected to have on the Company's future results of operations.

RESPONSE: We have complied with the Staff's request. Please see pg. 39 of the Amendment.

Revenues

31. We note your disclosure stating that you believe worldwide information technology spending will increase in 2004 compared to 2003. Please tell us the basis for this belief, and what, if any, impact this will have on the Company. Please revise as necessary.

RESPONSE: We have revised the statement to indicate that the Company's belief is based on industry reports. We have included copies of various articles and publications that support this belief.

Amortization of Capitalized Software Costs

32. We note your disclosure stating that the Company immediately recorded approximately \$85,000 to impairment and \$106,000 to amortization. Please confirm to us that the \$106,000 represents normal amortization of the capitalized costs and not part of the impairment write off. Please revise as necessary.

RESPONSE: We have complied with the Staff's request by adjusting our disclosures in the MD&A subsection of the Amendment titled "Amortization of capitalized software costs" on pg. 31 to indicate that the entire \$191,000 amount represents impairment of previously

capitalized software. We have reclassified these amounts out of amortization and into impairment.

Impairment of Intangibles

33. We note your discussion on impairment of intangibles where you disclose that the Company incurred an impairment loss on certain intellectual property, trademarks and patent costs. Please disclose management's analysis in determining the impairment. Include in the discussion the amount of impairment and where the impairment is recorded in the related statements of operations.

RESPONSE: We have complied with the Staff's request. We refer the Staff to the subsection of the MD&A section of the Amendment entitled "Impairment of intangibles" beginning on pg. 32 of the Amendment.

34. Please tell us the difference, if any, between the impairment of intangibles noted here and the impairment of capitalized software costs noted above.

RESPONSE: There is no difference between the definition and testing for impairment of intangibles noted in our discussion titled "Impairment of intangibles" on pg. 32 of the Amendment and the discussion of impairment of capitalized software costs discussed in the subsection entitled "Amortization of capitalized software costs." We have added language to pg. 32 of the Amendment to clarify our disclosure.

General and Administrative Expenses

35. We note your discussion that the Company disclosed in a footnote, but did not record, an expense for employee stock option compensation in the amount of \$747,000. Please clarify what you mean by "this disclosure" as it appears to be vague and ambiguous. Please revise as necessary.

RESPONSE: This sentence was in error and has been deleted from the MD&A discussion.

36. We note your discussion that the Company reversed an accrual for compensation recorded in 2002 for certain officers of RCI in the amount of \$130,000. Please clarify what you mean by "this disclosure" as it appears to be vague and ambiguous. Please provide us with the professional literature you are relying on to support your accounting treatment and revise, as necessary.

RESPONSE: We have reclassified the reversal of the accrual for compensation to certain RCI officers from reduction of the expense in 2003 to including it in the gain on the RCI settlement entered into in March of 2004 and discussed at pg. 35 of the Amendment. The financial statements will be restated to reflect the accrued compensation being reversed in 2004. The accrued compensation was tied to the RCI officers and was part of the settlement of claims reported in 2004. It will be included in the settlement of liability caption the income statements.

Business, page 42

37. Please briefly disclose the principal terms of any partnership agreements with TeleManagement, including the portion of the monthly fees that TeleManagement pays to you. Please file the agreements as exhibits. This comment also applies to the sales agent agreement with Simentra Limited.

RESPONSE: We have complied with the Staff's request to disclose the principal terms of the TeleManagement (aka Quicklink) agreement and the Simentra Limited Agreement by revising our disclosures commencing on pg. 47 of the Amendment. We have filed the Simentra agreement with the Amendment, but have not filed a copy of the TeleManagement agreement as it is not, as indicated in our revised disclosures, a material agreement.

38. We reissue former comment 32. Discuss the effect of existing or probable government regulations on your business. In your response, you indicate that your software only incorporates open source encryption and the governing regulations are immaterial to your business. Contrarily, in risk factor eight, you discuss the export restrictions and the violation of which as a material risk factor. Please reconcile.

RESPONSE: We have complied with the Staff's request to reconcile our statements by removing former risk factor 8. We do not believe that any existing or probable governmental regulations will have a material effect on the Company's business.

39. We reissue further comment 33. We received a copy of Strategic Analysis Report dated September 30, 2002. However, we cannot locate any citation to this report. Please advise or cite to the report.

RESPONSE: The "Strategic Analysis Report" is the resource previously referred to in the last sentence on page 43 of the Registration Statement as the "September 30, 2002 Gartner study," as the Strategic Analysis Report is prepared by Gartner, Inc. We have revised the citation to remove the ambiguity.

40. We refer you to former comment 36 and your response. You explained that the contract with Globicom is no longer active. We note that the contract automatically renews for 12 months unless either party terminates. Please explain whether either party has terminated the contract. Also, please provide us an update on whether the contract with MSS technologies, Hewlett Packard, and Brij has been terminated, and if not, when they will be terminated. We may have additional comments.

RESPONSE: Termination notices have been delivered with respect to each the MSS Technologies, and Brij contracts. Such terminations shall be effective as of October 26, 2004. As indicated previously, both the MSS Technologies and Brij contracts were non-exclusive sale agent agreements. Neither the Brij nor the MSS Technologies contracts resulted in material revenues to, or caused material losses for, the Company.

The Company has not delivered any formal termination notice with respect to the Globicom Agreement, however as noted previously, the Globicom Agreement is a non-exclusive

reseller agreement that is inactive (the last sale made under that agreement occurred on 5/6/2002) and accounted for only \$13,000 of the Company's revenues. The Company has no present intent to deliver a termination notice with respect to the Globicom Agreement.

The Hewlett Packard Developer Solution Partner Program Agreement to which the Company is a party has not terminated by its terms, and neither the Company nor Hewlett Packard have delivered a termination notice under that Agreement, which termination notice would be effective to terminate the Agreement upon 30 days notice. However, as indicated previously, the Hewlett Packard Agreement is non-exclusive, and simply allows the Company to purchase equipment from Hewlett Packard at a discount ranging from 25% to 50% while obligating Hewlett Packard to list the Company as a Developer Solution Partner on its Developer Solution Website so long as the Company devotes efforts to testing and certifying that the Company's software products operate on Hewlett Packard hardware. The contract with Hewlett Packard is not material to the Company's business. The Company has no present intent to terminate the Hewlett Packard Agreement and has received no indication that Hewlett Packard intends to terminate the Hewlett Packard Agreement.

Dependence on Major Customers, page 54

41. We note that the five largest customers in the first quarter were not the same as the three largest customers in 2003. Please clarify the extent to which the three largest customers in 2003 renewed their agreements with you and/or remained as customers.

RESPONSE: We have complied with the Staff's request. Please see pg. 54 of the Amendment.

Management, page 55

42. We reissue comment 38. For the companies mentioned, briefly disclose the business of the company. For instances, PeopleSoft, Avaya Communications, McData Corporation, OEM, Avolent, Solant, and CSC.

RESPONSE: We have complied with the Staff's request. Please see pages 55-57.

Underwriting, page 74

43. We reissue former comment 46. Please describe in greater detail the agreement to have an observer/board of director designated by the representative underwriter. Will s/he have the same duty, rights, and power as other directors?

RESPONSE: We will add appropriate disclosures, if relevant, when an underwriting arrangement is finalized.

44. We reissue former comment 47. State the discounts and commissions to be allowed or paid to dealers in your next amendment.

RESPONSE: We will add appropriate disclosures when an underwriting arrangement is finalized.

45. We reissue former comment 50. We are unable to locate the disclosure you claim to have provided. Please advise.

RESPONSE: We will add appropriate disclosures, if relevant, when an underwriting arrangement is finalized.

46. In response to our former comment 53, you state that you will describe under a separate cover the procedures co-underwriters will use and how they intend to comply with the requirements of Section 5 of the Securities Act. The information was not provided to the staff. Please do so.

RESPONSE: We will provide such information to the Staff, if relevant, when an underwriting arrangement is finalized.

Shares Eligible for Future Sale, page 72

47. We reissue former comment 57. Specifically, briefly describe the conditions that may lead to a waiver of the lock-up provisions.

RESPONSE: We will add appropriate disclosures, if relevant, when an underwriting arrangement is finalized.

Financial Statements

Note 1 – Description of Business and Summary of Significant Accounting policies

Revenue Recognition

48. We note your disclosure in the prospectus on page 47 that you have an agreement with TeleManagement Systems, Inc. Please tell us how you recognize the revenue related to this agreement (i.e. gross versus net) and provide us with the professional literature to justify your accounting treatment. Please provide disclosure, as necessary. Please refer to EITF 99-19.

RESPONSE: The Company reports this revenue net. Revenue for the year ended December 31, 2003 was approximately \$400 and revenue for the quarter ended March 31, 2004 was approximately \$2,000. Since this amount is insignificant, the Company has not added an accounting policy associated with this revenue recognition.

Segments

49. We note your disclosure in the prospectus on page 50 that there are three distinct markets for your products. Please tell us how management organizes the segments within the business for making operating decisions and assessing performance. If necessary, please provide the required financial reporting and disclosures as required by SFAS 131.

RESPONSE: Management organizes the three distinct markets internally as one. No separate financial reporting is tracked for each individual market. Each individual market is tracked only as it relates to competitors and potential sales. No individual market is analyzed

separately for operating decisions and assessing performance. Accordingly, additionally required disclosures under SFAS 131 are not required.

Impairment of Long-Lived Assets

50. We note your disclosure on the Company's accounting policy for the impairment of long-lived assets in which you state that there is no impairment deemed as of March 31, 2004 and December 31, 2003, yet we note your disclosures under Software Development Costs and Intangible Assets that the Company incurred an impairment loss of approximately \$191,000 and \$85,000, respectively, during December 31, 2003. Please revise as necessary and provide disclosure. Please refer to SFAS 144, paragraph 25 and 26.

RESPONSE: We have revised the disclosure related to the impairment of long-lived assets in the notes to the financial statements.

Intangible Assets

51. We note that your intangible asset consists of costs related to patents. It appears that the Company is not amortizing the related cost to expense over its estimated useful life. Please supplementally tell us whether the Company is or is not amortizing such costs to expense, and if so, what is the amortization period. Please revise as necessary. Please refer to SFAS 142.

RESPONSE: The only remaining intangible assets relate to patent application costs. We have added disclosures that the patent application costs will be amortized over its estimated useful life when the patent issues or will be charged to expense if the patent subsequently does not issue.

Concentration of Credit Risk

52. Please provide all disclosures relating to the Company's concentration of risk. For example, please include in the disclosure the Company's concentration of risk for all individual customer sales greater than 10% of total sales for the year ended 2002. Also, please consider disclosure, as necessary, for monies held in financial institutions that may exceed the insured amount of the Federal Deposit Insurance Corporation.

RESPONSE: We have added the disclosure detailing out individual customers greater than 10% for the year ended December 31, 2002. We have also added disclosure related to monies held in financial institutions at March 31, 2004 in excess of insurable limits.

Allowance for Doubtful Accounts

53. Supplementally provide us with management's analysis for determining the allowance for doubtful accounts for the periods presented. Tell us supplementally the amount of accounts receivable outstanding as of December 31, 2003 and March 31, 2004 that have not been collected to date. Tell us the amount of accounts receivable written off during each of the periods presented. Tell us whether all accounts receivable reported on the balance sheet have been billed in accordance with executed contracts.

RESPONSE: Virtually all December 31, 2003 accounts receivable have been collected to date. None have been written off and of the December 31, 2003 balance of \$291,913 only \$18,641 are still outstanding. Of the \$226,473 that was outstanding as of March 31, 2004 only \$18,641 has not been collected. The Company has not written off any accounts receivable for the year ended December 31, 2002, December 31, 2003 or the three months ended March 31, 2004. All accounts receivable reported on the balance sheet have been billed in accordance with executed contracts.

Other General Accounting Policies

54. We noted your disclosure in the prospectus under Sales and Marketing that the Company has both direct sales and channel sales. Please disclose within the notes to the financial statements any material agreements in which the Company provides any consideration to vendors (including both resellers and end users) for the company's products. Please refer to EITF 01-9.

RESPONSE: As of July 24, 2004 the Company does not have any agreements with any vendor in which it will provide any consideration to the vendors, including both resellers and users for the Company's products. Certain vendors are requesting such arrangements and the Company is in discussions with them but as of July 24, 2004 no agreements have been executed by the Company that provides for any consideration to vendors.

Note 6 – Stockholders' Equity

Stock Options

55. Please disclose that the Company suspended the 2001 Equity Incentive Plan in July 2004 by amending the Equity Incentive Plan to provide that no more than 871,619 options or warrants may be issued under such plan.

RESPONSE: We have provided the disclosure in the subsequent event footnote related to the amendment of the equity incentive plan.

Note 9 – Commitments and Contingencies

Sales of Stock

56. We note your disclosure that the Company may not be in compliance with certain state "Blue Sky" laws. Please revise the related financial statements to reclassify any and all common and preferred shares related to the violation of Blue Sky laws from the equity section to the mezzanine section of the balance sheet. Please disclose the Blue Sky laws you may have violated, and management's analysis and plans to address this potential rescission offering.

RESPONSE: The Company's counsel has reviewed the technical violations of Blue Sky laws and has determined that it is not reasonably probable that the Company will incur a loss associated with these transactions. Accordingly, this footnote and the related risk factor have been removed from the financial statements and registration statement.

Note 10 – Restatement of Financial Statements

57. Please ensure all accounts and related note disclosures affected by the restatement are properly reflected within the financial statements. For example, we would expect the restatement to affect disclosure on income taxes, yet it appears the disclosure for income taxes has not been modified as a result of the restatements.

RESPONSE: We have updated the relevant disclosures.

General

58. Please note the updating requirements for the financial statements as set forth in Item 310(g) of Regulation S-B.

RESPONSE: The Staff's comment is duly noted.

59. Provide a current consent of the independent accountants in any amendments.

RESPONSE: The Company is aware of its obligations and has filed a current consent of the Accountants with the Amendment.

Exhibits

60. We reissue former comment 61. Please file all the exhibits, including underwriting agreement, representative's financial advisory agreement, warrant agreement, with your next amendment. We will need sufficient time to review exhibits once filed.

RESPONSE: Most of the remaining exhibits required to be filed were filed with Amendment No. 3 to the Registration Statement on July 23, 2004. We have filed certain exhibits with the Amendment, and we will file a new underwriting agreement when the new underwriting arrangements are finalized.

Legality Opinion

61. Please revise the legality opinion to separately opine upon the shares underlying the warrants being registered.

RESPONSE: We have complied with the Staff's request.

62. Please revise the legality opinion to state the opinion opines upon Colorado law, including the statutory provisions, all applicable provisions of the Colorado Constitution and reported judicial decisions interpreting those laws.

RESPONSE: We have complied with the Staff's request.

The Company specifically waives the provisions of Section 8(a) of the Securities Act of 1933, as amended, (the "*Securities Act*") concerning the effective date of the Registration Statement. As a point of reference, however, we wish to advise you on behalf of the Company

and Pali Capital, Inc. (the "*Underwriters*") that the Company and the Underwriters will be requesting acceleration of the effectiveness of the Company's Registration Statement on Form SB-2, as amended, as soon as practicable after any comments of the Staff concerning the disclosure set forth in the Registration Statement have been satisfied, but not before the first week of September, 2004. Pursuant to Rule 461 under the Securities Act of 1933, as amended (the "*Securities Act*"), such requests may be made either in writing or orally. If the requests are made orally, we advise you that the Company is aware of its obligations under the Securities Act in connection with requests for acceleration.

The Company would greatly appreciate your prompt response to this letter. If you have any further comments or questions regarding this letter or the Amendment, please contact me at (303) 291-2314, Donald Salcito at (303) 291-2322 or Sean Stewart at (303) 291-2323.

Very truly yours,

/s/ Sonny Allison

Sonny Allison

SWA:swa

cc: HyperSpace Communications, Inc.
Pali Capital, Inc.
Ehrhardt Keefe Steiner & Hottman PC
American Stock Exchange LLC