

Edgar Filing: JPAL INC - Form PRER14A

JPAL INC
Form PRER14A
January 16, 2002

SCHEDULE 14A
(Rule 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

(Amendment No. 1)

Filed by the Registrant [X]
Filed by a Party other than the Registrant []

Check the appropriate box:

<input checked="" type="checkbox"/> [X]	Preliminary Proxy Statement	<input type="checkbox"/> []	Confidential, For Use of the C
<input type="checkbox"/> []	Definitive Proxy Statement		(as permitted by Rule 14a-6(e))
<input type="checkbox"/> []	Definitive Additional Materials		
<input type="checkbox"/> []	Soliciting Material Under Rule 14a-12		

JPAL, INC.

(Name of Registrant as specified in its charter)

(Name of Person(s) Filing Proxy Statement), if other than Registrant

Payment of Filing Fee (Check the appropriate box):

[] No fee required
 [] Fee computed on table below per Exchange Act Rules 14a-6(i) (1)
and 0-11.

(1) Title of each class of securities to which transaction
applies:

(2) Aggregate number of securities to which transaction
applies:

(3) Per unit price or other underlying value of transaction
computed pursuant to Exchange Act Rule 0-11 (set forth the
amount on which the filing fee is calculated and how it was
determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

[X] Fee paid previously with preliminary materials.

Edgar Filing: JPAL INC - Form PRER14A

[X] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:	\$4,419.83 -----
(2) Form, Schedule or Registration Statement No.:	Preliminary Schedule 14A -----
(3) Filing Party:	JPAL, Inc. -----
(4) Date Filed:	December 21, 2001 -----

JPAL, INC.
17620 Oak Street
Fountain Valley, California 92708

NOTICE OF THE SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON _____, 2002

NOTICE IS HEREBY GIVEN, that the Special Meeting (the "Meeting") of stockholders (the "Stockholders") of JPAL, Inc. (the "Company") will be held at 11:00 A.M. on _____, 2002 at the offices of Gersten, Savage, Kaplowitz, Wolf & Marcus, LLP, at 101 East 52nd Street, New York, NY, 10022 for the following purposes:

1. To consider and vote upon a proposal to approve the Contribution Agreement, dated as of August 23, 2001, by and among the Company, Essential Reality, LLC, a Delaware limited liability company ("Essential, LLC"), and the other signatories thereto, as amended (collectively, the "Contribution Agreement"), a copy of which is attached hereto as Exhibit A, and to approve all transactions and developments contemplated thereby (the "Exchange");
2. To approve an amendment to the Company's Articles of Incorporation ("Amendment I"), a copy of which is attached hereto with Amendment II as Exhibit B, changing the name of the Company to Essential Reality, Inc. ("Essential, Inc.");
3. To approve an amendment to the Company's Articles of Incorporation ("Amendment II"), a copy of which is attached hereto with Amendment I as Exhibit B, providing for "blank check" preferred stock (the "Blank Check Preferred Stock");
4. To approve the 2001 Stock Incentive Plan, a copy of which is attached hereto as Exhibit C; and
5. To approve the appointment of Deloitte & Touche LLP as the Company's independent auditors for the fiscal year ending December 31, 2001.

Edgar Filing: JPAL INC - Form PRER14A

The purpose of the Exchange is to have the Company acquire and assume the business of Essential, LLC. If the Exchange is approved, the Company will issue, pursuant to the terms of the Contribution Agreement, up to 11,000,000 shares of its common stock in exchange for all of the outstanding membership interests of Essential, LLC. The Company's Stockholders will not receive any cash, stock or other property in connection with, or as a result of, the Exchange. Following the Exchange, the owners of Essential, LLC will own approximately 70% of the Company's then outstanding common stock.

Stockholders of record at the close of business on December 21, 2001 are entitled to notice of and to vote at the Meeting or any adjournment or postponement thereof. Whether you expect to attend the Meeting in person or not, please sign, fill out, date and return the enclosed proxy in the self-addressed, postage-paid envelope also enclosed. If you attend the Meeting and prefer to vote in person, you can revoke your proxy.

PLEASE NOTE THAT MR. DRECHSLER, THE COMPANY'S CONTROLLING STOCKHOLDER, HAS INFORMED THE COMPANY THAT HE WILL BE VOTING "FOR" PROPOSALS 1, 2, 3, 4 & 5 ABOVE. THE NUMBER OF VOTES HELD BY THE CONTROLLING STOCKHOLDER IS SUFFICIENT TO SATISFY THE STOCKHOLDER VOTE REQUIREMENT FOR EACH OF THE PROPOSALS AND NO ADDITIONAL VOTES WILL CONSEQUENTLY BE NEEDED TO APPROVE ANY OF THE PROPOSALS.

By Order of the Sole Director,
Frank Drechsler
President, CEO and Sole Director

January ____, 2002

JPAL, INC.
17620 Oak Street
Fountain Valley, California 92708

PROXY STATEMENT

SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD _____, 2002

This Proxy Statement is being furnished in connection with the solicitation by the sole director of JPAL, Inc. (the "Company"), for use at the Special Meeting (the "Meeting") of stockholders (the "Stockholders") of the Company to be held on _____, 2002 at 11:00 A.M. at the offices of Gersten, Savage, Kaplowitz, Wolf & Marcus, LLP, at 101 East 52nd Street, New York, NY, 10022 and at any adjournment or postponement thereof.

Only Stockholders of record at the close of business on December 21, 2001 (the "Record Date") are entitled to vote at the Meeting. As of the Record Date, there were issued and outstanding 8,645,260 shares of the Company's common stock (the "Common Stock"). Each outstanding share of Common Stock is entitled to one vote on all matters properly coming before the Meeting. All properly executed, unrevoked proxies on the enclosed form of proxy that are received in time will be voted in accordance with the Stockholder's directions and, unless contrary directions are given, will be voted for the proposals (the "Proposals") described below. Anyone giving a proxy may revoke it at any time before it is

Edgar Filing: JPAL INC - Form PRER14A

exercised by giving the board of directors of the Company written notice of the revocation, by submitting a proxy bearing a later date or by attending the Meeting and voting in person.

The presence in person or by properly executed proxy of holders representing a majority of the issued and outstanding shares of the Company's Common Stock entitled to vote is necessary to constitute a quorum for the transaction of business at the Meeting. Votes cast by proxy or in person at the Meeting will be tabulated by the inspector of elections appointed for the Meeting, who will determine whether or not a quorum is present. Shares of Common Stock represented by proxies that are marked "abstain" will be included in the determination of the number of shares present and voting for purposes of determining the presence or absence of a quorum for the transaction of business. Abstentions are not counted as voted either for or against a Proposal. Brokers holding shares of Common Stock for beneficial owners in "street name" must vote those shares according to specific instructions they receive from the owners. However, brokers have discretionary authority to vote on "routine" matters. Absent specific instructions from the beneficial owners in the case of "non-routine" matters, the brokers may not vote the shares. "Broker non-votes" result when brokers are precluded from exercising their discretion on certain types of proposals. Shares that are voted by brokers on some but not all of the matters will be treated as shares present for purposes of determining the presence of a quorum on all matters, but will not be treated as shares entitled to vote at the Meeting on those matters as to which instructions to vote are not provided by the owner.

Mr. Frank Drechsler, the sole member of the board of directors of the Company (the "Sole Director"), has adopted and approved each of the Proposals set forth herein and recommends that the Company's Stockholders vote "FOR" each of the Proposals.

Approval of Proposals 1, 2 & 3 requires the affirmative vote of a majority of the Company's outstanding shares of Common Stock. Approval of Proposals 4 & 5 requires the affirmative vote of a majority of the votes cast at the Meeting.

PLEASE NOTE THAT MR. DRECHSLER, THE COMPANY'S CONTROLLING STOCKHOLDER, HAS INFORMED THE COMPANY THAT HE WILL BE VOTING "FOR" ALL OF THE PROPOSALS SET FORTH HEREIN. THE NUMBER OF VOTES HELD BY THE CONTROLLING STOCKHOLDER IS SUFFICIENT TO SATISFY THE STOCKHOLDER VOTE REQUIREMENT FOR EACH OF THE PROPOSALS AND NO ADDITIONAL VOTES WILL CONSEQUENTLY BE NEEDED TO APPROVE ANY OF THE PROPOSALS.

3

This Proxy Statement, the accompanying Notice of Meeting and the form of proxy have been first sent to the Stockholders on or about January __, 2002.

The date of this Proxy Statement is January __, 2002

4

TABLE OF CONTENTS

Edgar Filing: JPAL INC - Form PRER14A

Page

SUMMARY.....	6
QUESTIONS AND ANSWERS ABOUT THE MEETING.....	7
SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS.....	8
PROPOSAL 1: APPROVAL OF THE EXCHANGE.....	9
Description of the Exchange.....	9
Material Terms of the Exchange.....	11
Certain Federal Income Tax Consequences.....	14
Accounting Treatment of the Exchange.....	14
Appraisal Rights.....	14
Interest of Certain Persons in the Exchange.....	15
Federal Securities Law Consequences.....	15
BUSINESS OF THE COMPANY.....	16
BUSINESS OF ESSENTIAL REALITY.....	17
MANAGEMENT OF ESSENTIAL REALITY.....	20
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	23
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.....	27
Stockholder Vote Required.....	28
PROPOSAL 2: APPROVAL OF AMENDMENT I TO THE ARTICLES OF INCORPORATION.....	29
General.....	29
Stockholder Vote Required.....	29
PROPOSAL 3: APPROVAL OF AMENDMENT II TO THE ARTICLES OF INCORPORATION.....	30
General.....	30
Stockholder Vote Required.....	30
PROPOSAL 4: APPROVAL OF THE 2001 STOCK INCENTIVE PLAN.....	31
Description of the 2001 Plan.....	32
EXECUTIVE COMPENSATION.....	35
DESCRIPTION OF SECURITIES.....	36
Stockholder Vote Required.....	37
PROPOSAL 5: RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT AUDITORS.....	38
General.....	38
Stockholder Vote Required.....	38
GENERAL AND OTHER MATTERS.....	40
SOLICITATION OF PROXIES.....	40
STOCKHOLDER PROPOSALS.....	40
EXHIBIT A - Contribution Agreement and Amendments.....	
EXHIBIT B - Amendments I and II to Articles of Incorporation.....	
EXHIBIT C - 2001 Stock Incentive Plan.....	
EXHIBIT D - JPAL, Inc.'s Annual Report on Form 10-KSB for the Fiscal Year Ended December 31, 2000.....	
EXHIBIT E - JPAL, Inc.'s Quarterly Report on Form 10-QSB for the Period Ended September 30, 2001.....	
EXHIBIT F - Pro Forma Information.....	
EXHIBIT G - Essential Reality, LLC's Financial Statements.....	

SUMMARY

The following is a summary of the terms of the Proposals. This summary is qualified by the more detailed description appearing elsewhere in this Proxy Statement. We urge you to carefully read this Proxy Statement, and the exhibits hereto, in their entirety because the information in this summary is not complete.

Edgar Filing: JPAL INC - Form PRER14A

- o We intend to issue up to 11,000,000 shares of our common stock in exchange for all of the outstanding membership interests of Essential Reality, LLC. As a result of this transaction, we will acquire and assume the business of Essential Reality, LLC and the current owners of Essential Reality, LLC will own approximately 70% of our company. See "Proposal 1: Approval of the Exchange - Description of the Exchange."
- o Concurrently with the exchange transaction, we also intend to consummate a private placement of our common stock and warrants to purchase shares of our common stock. The closing of the exchange transaction and the successful completion of the private placement are conditioned on one another. We must sell a minimum of 1,850,000 shares of our common stock in the private placement in order for the transactions for which we are seeking approval to occur. See "Proposal 1: Approval of the Exchange - Material Terms of the Exchange."
- o We have the option to sell an additional 288,462 shares of our common stock in the private placement. If any such additional shares of our common stock are sold, the number of shares of our common stock that we will issue to the current owners of Essential Reality, LLC will be reduced by the corresponding figure, who will accordingly receive between 10,711,538 and 11,000,000 shares of our common stock for their membership interests. We can not yet assure you whether any of these 288,462 shares of our common stock will be sold in the private placement. See "Proposal 1: Approval of the Exchange - Material Terms of the Exchange."
- o Upon completion of the exchange transaction, our business will be the business currently being conducted by Essential Reality. See "Business of Essential Reality."
- o Our stockholders will not receive any cash, stock or other property in connection with, or as a result of, the exchange transaction. See Section "Proposal 1- Approval of the Exchange - Description of Exchange."
- o In conjunction with the exchange transaction, we are proposing the adoption of an amendment to our Amended and Restated Articles of Incorporation (the "Articles of Incorporation") to change our name to "Essential Reality, Inc." See "Proposal 2 - Approval of Amendment I to the Articles of Incorporation."
- o We are also proposing the adoption of an amendment to our Articles of Incorporation to authorize Blank Check Preferred Stock. See "Proposal 3 - Approval of Amendment II to the Articles of Incorporation."
- o In addition, we are seeking approval for a stock incentive plan to provide additional incentive to our directors, officers, employees and consultants by granting them options to purchase shares of our common stock. See "Proposal 4 - Approval of the 2001 Stock Incentive Plan."
- o Stockholder approval of Proposal 1, Proposal 2 and Proposal 3 of this Proxy Statement requires the affirmative vote of a majority of our outstanding shares of common stock. Stockholder approval of Proposal 4 and Proposal 5 in this Proxy Statement requires the affirmative vote of a majority of the votes cast. Our controlling stockholder has already informed us that he will be voting in favor of all of the proposals set forth herein. The number of votes held by the controlling stockholder

Edgar Filing: JPAL INC - Form PRER14A

is sufficient to satisfy the stockholder vote requirement for each of the proposals. Therefore, no additional votes will be needed to approve any of the proposals. See "Questions and Answers About the Meeting."

6

QUESTIONS AND ANSWERS ABOUT THE MEETING

What is being voted on at the Meeting?

Our sole director is asking stockholders to consider four items at this Special Meeting of Stockholders:

- (i) To approve the Contribution Agreement attached hereto as Exhibit A and all transactions and developments contemplated thereby (which we refer to as the "Exchange");
- (ii) To approve the amendment to our Articles of Incorporation whereby our name will be changed to "Essential Reality, Inc." upon consummation of the Exchange ("Amendment I");
- (iii) To approve the amendment to our Articles of Incorporation whereby Blank Check Preferred Stock will be provided for ("Amendment II");
- (iv) To approve our new stock incentive plan (which we refer to as the "2001 Plan"); and
- (v) To approve the appointment of Deloitte & Touche LLP, as our independent auditors for the fiscal year ending December 31, 2001.

What is the purpose of the Exchange?

The purpose of the Exchange is to allow us to acquire and carry on the business of Essential Reality and to allow Essential Reality to become a public reporting company under the Securities Exchange Act of 1934, as amended. It is anticipated that becoming a publicly reporting company will further enhance Essential's business visibility and ability to attract and utilize additional sources of capital.

Who can vote at the Meeting?

Our sole director has set December 21, 2001 as the Record Date for the Meeting. Only persons holding shares of our common stock of record at the close of business on the Record Date will be entitled to receive notice of and to vote at the Meeting. Each share of our common stock will be entitled to one vote per share on each matter properly submitted for vote to our stockholders at the Meeting. On the Record Date there were 8,645,260 shares of our common stock outstanding held by a total of 30 stockholders of record.

What constitutes a quorum for the Meeting?

To have a quorum, we need the majority of the votes entitled to be cast to be present, in person or by proxy, including votes as to which authority to vote on any proposal is withheld. Shares of stock abstaining as to any proposal, and broker non-votes (where a broker submits a proxy but does not have authority

Edgar Filing: JPAL INC - Form PRER14A

to vote a customer's shares of stock on one or more matters) on any proposal, will be considered present at the Meeting for purposes of establishing a quorum for the transaction of business at the Meeting. Each will be tabulated separately. The shares held by Mr. Frank Drechsler, our controlling stockholder, are sufficient to form a quorum. Mr. Drechsler has informed us that he will be present, in person or by proxy, at the Meeting.

How do I vote?

If you complete and properly sign the accompanying proxy card and return it to us, it will be voted as you direct, unless you later revoke the proxy. Unless instructions to the contrary are marked, or if no instructions are specified, shares of stock represented by a proxy will be voted for the proposals set forth on the proxy, and in the discretion of the persons named as proxies on such other matters as may properly come before the Meeting. If you are a registered stockholder, that is, if you hold your shares of stock in certificate form, and you attend the Meeting, you may deliver your completed proxy card in person. If you hold your shares of stock in "street name," that is, if you hold your shares of stock through a broker or other nominee, and you wish to vote in person at the Meeting, you will need to obtain a proxy form from the institution that holds your shares of stock.

7

Can I change my vote after I return my proxy card?

Yes. Even after you have submitted your proxy, you may change your vote at any time before the proxy is exercised either by filing with our Secretary, at the address indicated above, a written notice of revocation or a duly executed proxy bearing a later date, or by voting in person at the Meeting. The powers of the proxy holders will be suspended if you attend the Meeting in person and so request. However, attendance at the Meeting will not by itself revoke a previously granted proxy.

Any written notice of revocation sent to us must include the stockholder's name and must be received prior to the Meeting to be effective.

What vote is required to approve each item?

The approval of the business combination with Essential Reality, which we refer to as the Exchange, and the approval of the amendments to our Articles of Incorporation require the affirmative vote of a majority of our outstanding shares of common stock.

The approval of the adoption of the 2001 Plan and the appointment of Deloitte & Touche LLP as our independent auditors for the fiscal year ending December 31, 2001 require the affirmative vote of a majority of the votes cast at the Meeting.

PLEASE NOTE THAT OUR CONTROLLING STOCKHOLDER HAS INFORMED US THAT HE WILL BE VOTING "FOR" ALL OF THE PROPOSALS SET FORTH IN THIS PROXY STATEMENT. THE NUMBER OF VOTES HELD BY OUR CONTROLLING STOCKHOLDER IS SUFFICIENT TO SATISFY THE STOCKHOLDER VOTE REQUIREMENT FOR EACH OF THE PROPOSALS AND NO ADDITIONAL VOTES WILL CONSEQUENTLY BE NEEDED TO APPROVE ANY OF THE PROPOSALS.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Information included in this Proxy Statement may contain forward-looking statements within the meaning of Section 27A of the Securities

Edgar Filing: JPAL INC - Form PRER14A

Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This information may involve known and unknown risks, uncertainties and other factors which may cause the Company's and/or Essential, LLC's actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe the Company's and Essential, LLC's future plans, strategies and expectations, are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "intend" or "project" or the negative of these words or other variations on these words or comparable terminology. These forward-looking statements are based on assumptions that may be incorrect, and there can be no assurance that these projections included in these forward-looking statements will come to pass. The Company's and Essential, LLC's actual results could differ materially from those expressed or implied by the forward-looking statements as a result of various factors. Neither the Company nor Essential, LLC undertakes an obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

8

PROPOSAL 1

APPROVAL OF THE EXCHANGE

Description of the Exchange

On August 23, 2001, a definitive Contribution Agreement was signed by and among the Company, Essential Reality, LLC ("Essential, LLC") and the other signatories thereto. The agreement was amended on October 31, 2001 and November 30, 2001. The Contribution Agreement, as amended, is referred to in this Proxy Statement as the Contribution Agreement.

The Contribution Agreement provides for a tax-free exchange of securities pursuant to the provisions of Section 351 of the Internal Revenue Code, whereby the Company has made an offer to the members of Essential, LLC to acquire all of their membership interests of Essential, LLC in exchange for up to 11,000,000 shares of our common stock (which we refer to as the "Exchange"). The up to 11,000,000 shares of our common stock that we will issue (which we refer to as the "Exchange Shares") will represent approximately 70% of the shares of our common stock then outstanding (including between 1,850,000 and 2,138,462 shares of our common stock to be issued in a private placement as more fully described below), thus giving Essential, LLC's owners control of our company. JPAL and Essential, LLC have determined that a business combination between the two represents an opportunity for both our companies to achieve long-term strategic and financial benefits.

The following are answers to some of the questions about the Exchange that you, as one of our stockholders, may have. We urge you to read this Proxy Statement, including the Contribution Agreement, carefully because the information in this section is not complete.

Has the Board of Directors Approved the Exchange?

Yes. On December 18, 2001 our sole director approved the Contribution Agreement and all of the transactions and developments contemplated thereby (including the change of our name to "Essential Reality, Inc.").

Edgar Filing: JPAL INC - Form PRER14A

Why are the two companies proposing to combine?

Essential, LLC was formed as Freedom Multimedia, L.L.C. in the State of Delaware in July, 1998 and began active operations in June 1999. Its name was changed to name to Essential Reality, LLC on December 29, 1999. Essential, LLC was founded with the goal of developing, manufacturing and distributing next-generation 3D peripherals for the gaming, PC and professional user communities. Its objective is to revolutionize the way humans interact with computers and game consoles by utilizing intuitive, natural movement as the primary input.

We were founded in March 1999 and were engaged in the business of providing vacation rental properties and services over the Internet. Recently, we have been seeking business opportunities with the intent to acquire or merge with an operating business.

We believe that the combination of JPAL and Essential, LLC will prove beneficial to both companies in that we will once again become an operating company and Essential, LLC will acquire access to greater capital resources through being a publicly traded company.

How will the Exchange work?

The Exchange will be a very simple, straight-forward transaction. We will exchange shares of our common stock for all of the membership interests in Essential, LLC. Essential, LLC will be acquired by JPAL and subsequently dissolved. Our name will be changed to Essential Reality, Inc.

Do I have the right to vote on the Exchange?

Yes, you do. That is the main purpose of this proxy statement. We are soliciting your vote in favor of the Exchange.

9

Will my vote have any effect on the outcome?

No, it will not. Mr. Drechsler, our sole director and controlling stockholder, holds enough votes to approve all of the proposals and he has informed us that he will be voting his shares in favor of all the proposals discussed herein.

If the Exchange is approved, do I need to exchange my shares of common stock?

You do not. Since we are the acquiring entity, you will not be exchanging your shares.

How many shares will I have after the Exchange?

The number of shares you own will remain the same. Nonetheless, your ownership percentage will be diluted. We are issuing up to 11,000,000 shares of our common stock in the Exchange, subject to certain adjustments as is more fully described under "Material Terms of the Exchange," below. We will also issue between 1,850,000 and 2,138,462 shares of our common stock in a private placement (subject to approval of the Exchange). We cannot assure you what your exact percentage will be, or that the private placement will be consummated. However, the shares of our common stock currently held by Mr. Drechsler, our president and sole director, will be canceled prior to the closing of the transaction, as will certain shares of our common stock held by certain of our other stockholders. The total number of shares of our common stock issued and outstanding will therefore increase to 15,695,055 from the current 8,645,260. In addition, we will issue certain warrants to purchase shares of our common stock

Edgar Filing: JPAL INC - Form PRER14A

as further described below (see "Material Terms of the Exchange"). If all these warrants were immediately exercised, there would be 18,320,769 shares of our common stock outstanding.

When and where can I trade my shares after the Exchange?

Our shares of common stock are currently traded on the NASD Over-the-Counter Bulletin Board ("OTC BB") under the symbol "JPAL." The Exchange will not affect where our shares are traded, though we anticipate changing our ticker symbol to "ESSE," subject to approval of the Exchange and availability of the symbol.

Will the shares to be issued in the Exchange be freely trading?

The shares that will be issued to the current members of Essential, LLC will not be registered upon issuance. Section 5 of the Securities Act prohibits the sale of unregistered securities. The person and entities to whom or to which, as the case may be, shares of our common stock shall be issued under the Contribution Agreement will be granted registration rights with respect to a portion of such shares of common stock.

Even if the shares of common stock are registered, however, other restrictions will still apply. Certain securities may not be freely traded by affiliates, generally defined by the Commission as being in a control relationship with the issuer. None of the foregoing, however, will affect the status of the currently issued and freely trading shares of our common stock.

When do you expect the Exchange to be completed?

We hope to complete the Exchange as soon as possible, assuming that all of the conditions to the closing of the Exchange as set forth in the Contribution Agreement are either waived or completed to the satisfaction of the parties. The Exchange will be effected through the filing of Articles of Exchange in the state of Nevada.

What are the tax consequences of the Exchange?

The Exchange is intended to qualify as a tax-free reorganization for United States federal income tax purposes. If the Exchange does so qualify, United States members of Essential, LLC generally would recognize no gain or loss upon receipt of our shares of common stock in exchange for Essential, LLC membership interests. We believe, but cannot assure you, that there will be no fiscal consequences whatsoever for holders of our shares. You are urged to consult your own tax advisor for tax implications related to your particular situation.

What do I need to do in order to vote?

After reading this document, you will need to execute the proxy card provided along with this proxy statement and any other documents applicable to you that are included in this packet. Alternatively, you may appear at the Meeting and vote in person. There is no legal distinction between the two methods.

10

Who can help answer my questions?

If you have any questions about the Exchange, you should contact Arthur Marcus, Esq., at:

Gersten, Savage, Kaplowitz, Wolf & Marcus, LLP

Edgar Filing: JPAL INC - Form PRER14A

101 East 52nd Street
New York, NY 10022
Telephone No.: (212) 752-9700
Facsimile No.: (212) 980-5192

If you have questions about our business, you should contact Frank Drechsler, President, at:

JPAL, Inc.
17620 Oak Street
Fountain Valley, CA 92708
Telephone No.: (714) 785-2095
Facsimile No.: (949) 660-9010

If you have questions about the business of Essential, LLC, you should contact Brian Jedwab, General Counsel, at:

Essential Reality, LLC
253 West 28th Street
New York, NY 10001
Telephone No.: (212) 244-3200
Facsimile No.: (212) 244-9550

Material Terms of the Exchange

According to the terms of the Contribution Agreement by and among the Company on the one side and LCG Capital Group, LLC, Martin Abrams, John Gentile and Anthony Gentile, being all of the Members of Essential, LLC (the "Essential Members") on the other side, the Company and the Essential Members have determined that a business combination between the Company and Essential, LLC presents an opportunity for their respective companies to achieve long-term strategic and financial benefits. The business combination (the "Exchange") is to be effected through a transfer by the Essential Members of all of their respective Membership Interests in Essential, LLC to the Company in exchange for up to 11,000,000 shares of the Company's common stock (the "Exchange Shares").

Simultaneously with the consummation of the Exchange, the Company will also engage in a private placement (the "Private Placement") whereby shares of Common Stock (the "Private Placement Shares") and certain warrants (the "Private Placement Warrants") will be offered. The Private Placement Shares issued through the Private Placement together with the Exchange Shares will equal no less than 80% of the outstanding shares of Common Stock of the Company. The closing of the Exchange is conditioned upon, among other things: (i) stockholder approval to consummate the Exchange, and; (ii) receipt by the escrow agent of a sufficient number of subscriptions to purchase at least 1,850,000 shares of Common Stock offered in the Private Placement which would generate net proceeds of at least \$4,500,000 plus an amount of cash sufficient to pay off certain debts.

Frank Drechsler, who currently owns 5,100,260 of the 8,645,260 outstanding shares of Common Stock (representing approximately 59% of the outstanding shares of the Common Stock) has executed a written consent to approve and adopt the Contribution Agreement. Pursuant to Nevada law, the Company is hereby seeking stockholder approval of the Exchange and, pursuant to the Exchange Act, filing this Proxy Statement on Schedule 14A. Mr. Drechsler has agreed to the cancellation of all of his shares of the Common Stock, effective upon the closing of the Exchange. In addition, an aggregate of 699,945 shares of Common Stock currently held by certain other Stockholders, specifically

Edgar Filing: JPAL INC - Form PRER14A

Baybridge Capital Corp., Brevard Investments, Inc. and Wolver Limited, will also be cancelled at such time. Immediately after the cancellation of such shares, taking into account the Exchange Shares and the Private Placement Shares, there will be 15,695,055 shares of Common Stock outstanding.

11

The Contribution Agreement contemplates that 11,000,000 shares of Common Stock will be issued to the Members. However, the private placement memorandum allows for the offering of an additional 288,462 shares of Common Stock (the "Additional Private Placement Shares"). If such additional 288,462 shares of Common Stock are sold to investors, the number of Exchange Shares will be reduced accordingly. Consequently, the total number of shares of Common Stock that will be issued in the Exchange and the Private Placement will be 12,850,000; whether the ratios will constitute 11,000,000 Exchange Shares, 1,850,000 Private Placement Shares and no Additional Private Placement Shares or 10,711,538 Exchange Shares, 1,850,000 Private Placement Shares and 288,462 Additional Private Placement Shares (or any other set of figures ranging within these parameters) cannot be determined until the Private Placement has closed. Whatever the eventual outcome of the Private Placement, there will in any event be 15,695,055 shares of Common Stock issued and outstanding subsequent to the Closing Date.

In addition, up to an additional 2,625,714 shares of Common Stock will be reserved for issuance pursuant to the exercise of warrants, consisting of the Private Placement Warrants and the Bridge Warrants (see "Description of Securities - Warrants"), resulting in an aggregate of 18,320,769 shares of Common Stock outstanding on a fully diluted basis. The sale of Additional Private Placement Shares, should such sale transpire, will not affect the number of Private Placement Warrants issued.

The terms of the Contribution Agreement are more fully described below.

Terms of the Contribution Agreement

The following discussion summarizes the material terms of the Contribution Agreement but does not purport to be a complete statement of all provisions of the Contribution Agreement and is qualified in its entirety by reference to the Contribution Agreement, a copy of which is attached to this Proxy Statement as Exhibit A and incorporated herein by reference. Stockholders are urged to read the Contribution Agreement carefully as it is the legal document that governs the Exchange.

The Exchange. Subject to the terms and conditions of the Contribution Agreement, all of the members of Essential, LLC will transfer all of their respective membership interests in Essential, LLC to the Company in exchange for up to 11,000,000 shares of Common Stock. Following the Exchange, the Company will continue under the name "Essential Reality, Inc."

Closing. The closing of the Exchange (the "Exchange Closing") will take place at a mutually agreed upon time after the satisfaction or waiver of the conditions set forth in the Contribution Agreement (the "Closing Date").

Effective Time of the Exchange. As soon as practicable following the satisfaction (or waiver) of all of the conditions to the Exchange, the Company will file articles of exchange in such form as is required by and executed in

Edgar Filing: JPAL INC - Form PRER14A

accordance with the relevant provisions of Nevada law and make all other filings or recordings required under Nevada law. The Exchange will become effective at such time as the articles of exchange are duly filed with the Secretary of State of the State of Nevada or at such subsequent time as the Company and Essential, LLC agree and specify in the articles of exchange (the "Effective Time").

Articles of Incorporation and Bylaws of the Company Following the Exchange. The Contribution Agreement provides that the Articles of Incorporation (as amended by Proposals 2 & 3 herein) and Bylaws of the Company, as in effect at the Effective Time, will be the Articles of Incorporation and Bylaws, respectively, of the Company following the Exchange.

Directors and Officers of the Company Following the Exchange. The Contribution Agreement provides that the directors and officers of the Company shall resign effective as of the Effective Time and shall be replaced by the managers and officers of Essential, LLC immediately prior to the Effective Time, who shall serve as directors and officers of the Company until their respective successors are duly elected or appointed and qualified.

12

Representations and Warranties. The Contribution Agreement contains various representations and warranties of the Company and Essential, LLC. The Company represents and warrants to Essential, LLC as to, among other things: (i) capital structure; (ii) financial statements; (iii) absence of certain changes; (iv) no liabilities or debts; (v) litigation; (vi) contracts; and (vii) SEC filings. Essential, LLC represents and warrants to the Company as to, among other things: (i) financial statements; (ii) absence of certain changes; and (iii) absence of litigation. All representations and warranties in the Contribution Agreement expire as of the Exchange Closing.

Certain Covenants of the Parties. Pursuant to the Contribution Agreement, the Company has agreed, among other things, that (i) prior to or simultaneous with the Exchange Closing, it will use its best efforts to consummate the Private Placement (see " - Conditions to the Exchange"); (ii) at the time of the Exchange Closing, it will have at least \$4,500,000 of cash, plus additional funds to pay off certain loans; (iii) at the time of the Exchange Closing (assuming consummation of the Private Placement), its outstanding capitalization shall consist of 4,695,055 shares of common stock and warrants to purchase up to 2,625,714 shares of its common stock; (iv) immediately prior to the Exchange Closing, except for certain permitted loans set forth in the Contribution Agreement, the Company shall have no liabilities or debts whatsoever; (v) it shall prepare and file this Proxy Statement; (vi) the Company shall indemnify Essential, LLC and its officers, members and employees from any losses, claims, damages or expenses incurred as a result of breaches of the Contribution Agreement by the Company (which indemnification shall survive the Exchange Closing); and (vii) between the date of the Contribution Agreement and the Closing Date, it shall not conduct any business whatsoever without the prior written consent of Essential, LLC.

Pursuant to the Contribution Agreement, Essential, LLC and its members have agreed, among other things, that (i) promptly following the Closing Date, they will cause the Company to file a registration statement covering the resale of certain shares of the Company's common stock (see "Registration Rights" hereinafter); and (ii) subject to the exceptions set forth in the Contribution Agreement, 2,000,000 of the Exchange Shares and certain Private Placement Shares may not be sold for a period of one year following the Closing Date.

In addition, subject to the terms and conditions of the Contribution

Edgar Filing: JPAL INC - Form PRER14A

Agreement, each of the parties has agreed (i) to keep confidential all information furnished in connection with the Exchange, (ii) to promptly inform the other parties of the occurrence of certain events, (iii) to use reasonable best efforts to effectuate the Exchange, and (iv) to consult each other before issuing any press release with respect to the Exchange.

Conditions to the Exchange. The obligations of the Company and Essential, LLC to effect the Exchange are subject to the satisfaction or waiver on or prior to the Closing Date of a number of conditions, including but not limited to the following:

- (a) The Company delivering evidence satisfactory to Essential, LLC that a majority of the Company's Stockholders approved the Exchange and the transactions contemplated thereby and that this Proxy Statement was mailed at least 20 days prior to the Closing Date;
- (b) The Company consummating a private placement (the "Private Placement") of shares of its common stock (the "Private Placement Shares") and common stock purchase warrants (the "Private Placement Warrants"), with net proceeds to the Company of at least \$4,500,000 plus additional funds to pay off certain indebtedness;
- (c) Each of the representations and warranties of the Company and Essential, LLC, as applicable, set forth in the Contribution Agreement shall have been true and correct in all material respects as of the date of the Contribution Agreement and as of the Closing Date, except where the failure to be so true and correct would not have a material adverse effect on the party making such representation or warranty; and

13

- (d) The Company and Essential, LLC, as applicable, shall have performed in all material respects all obligations required to be performed by it under the Contribution Agreement at or prior to the Closing Date.

Termination. The Contribution Agreement may be terminated at any time prior to the Exchange Closing as follows:

- (a) By mutual written consent of the parties to the Contribution Agreement;
- (b) By either the Company or Essential, LLC, if without fault of the terminating party the Exchange Closing shall not have occurred on or before January 31, 2002, unless such date is extended for up to thirty days by mutual consent of the Company and Essential Reality, LLC (the "Termination Date"); and
- (c) By the Company or Essential, LLC, if the other party shall have failed to comply in any material respect with any of its covenants or agreements contained in the Contribution Agreement or if any representation or warranty of the other party made in the Contribution Agreement shall not have been true when made or on and as of the Closing Date, except (i) for those representations and warranties that address matters

Edgar Filing: JPAL INC - Form PRER14A

only as of a particular date (which shall remain true and complete when given and at any time thereafter as of such date) and (ii) where the failure to be so true and correct would not have a material adverse effect on the applicable party.

Effect of Termination. In the event of termination of the Contribution Agreement as provided under "-- Termination," the Contribution Agreement will become void and there will be no liability or obligation on the part of the parties, except with respect to certain provisions of the Contribution Agreement regarding maintaining the confidentiality of non-public information, the payment of fees and expenses, the indemnification by the Company and the making of public announcements.

Registration Rights. Pursuant to the Contribution Agreement, following the Exchange Closing, the Company will promptly file a Registration Statement covering the resale of 2,000,000 of the Exchange Shares, the Private Placement Shares and the Private Placement Warrants. See "Federal Securities Law Consequences" herein.

Certain Federal Income Tax Consequences

Since no action is being taken in connection with the currently outstanding shares of the Company's Common Stock, no gain or loss will be recognized by the Stockholders in connection with the Exchange.

It is expected that the transfer of the membership interests of Essential, LLC from the Members pursuant to the Exchange will be tax-free to such Members. Accordingly, the aggregate tax basis of Essential, LLC's assets after the Exchange will equal the aggregate tax basis of the Essential, LLC membership interests in the hands of the Members immediately prior to the Exchange.

Accounting Treatment of the Exchange

The transaction is expected to be accounted for as a reverse acquisition in which Essential, LLC is the accounting acquiror and the Company is the legal acquiror. The management of Essential, LLC will be the management of Essential, Inc., the name of the Company subsequent to the filing of the Articles of Exchange. Since the Exchange is expected to be accounted for as a reverse acquisition and not a business combination, no goodwill is expected to be recorded in connection therewith and the costs incurred in connection with the Exchange are expected to be accounted for as a reduction of additional paid-in capital.

14

Appraisal Rights

Under Nevada law, the state in which the Company is incorporated, the Company is not required to provide dissenting Stockholders with a right of appraisal in any matter to be voted upon in connection herewith and Stockholders are accordingly not provided with such right.

Interests of Certain Persons in the Exchange

No director, executive officer, associate of any director or executive officer, or any other person has any substantial interest, direct or indirect, by security holdings or otherwise, resulting from the proposals set forth herein, which is not shared by all other Stockholders pro rata, and in

Edgar Filing: JPAL INC - Form PRER14A

accordance with their respective interests.

Federal Securities Law Consequences

The shares of Common Stock being issued to the owners of Essential, LLC in exchange for the membership interests of Essential, LLC pursuant to the Exchange were not registered under the Securities Act. It is intended that such shares will be issued pursuant to the private placement exemption under Section 4(2) and Regulation D of the Securities Act.

The Exchange Shares are deemed "restricted stock" and will bear a legend indicating that the resale of such shares may be made only pursuant to registration under the Securities Act or pursuant to an available exemption from such registration. The Company has agreed to register 2,000,000 of the Exchange Shares pursuant to the terms of the Contribution Agreement.

15

BUSINESS OF THE COMPANY

General

The Company was incorporated in March 1999 under the laws of the State of Nevada. From the date of incorporation, the Company has engaged in the business of providing vacation rental properties and services over the Internet. Since the end of the fiscal year 2000, the Company's revenues have decreased significantly because its management began focusing on redeveloping its web site and therefore conducted no marketing activities. More recently, the Company has been seeking businesses and business opportunities with the intent to acquire or merge with an operating business, which resulted in the Company entering into the Contribution Agreement with Essential, LLC. Upon consummation of the Exchange, the Company's business will be Essential, LLC's current business.

On June 15, 2001, Mr. Frank Drechsler acquired 1,020,052 shares of the Company's common stock from the two officers and directors of the Company at such time. On June 25, 2001, Mr. Drechsler was appointed a director of the Company and the two other directors and officers resigned. On June 26, 2001, Mr. Drechsler was appointed as the President and Secretary of the Company.

Until consummation of the Exchange, the Company's principal executive offices will be located at 17620 Oak Street, Fountain Valley, California 92708. After the Exchange, the Company's principal executive offices will be located at Essential Reality, Inc., 49 West 27th Street, New York, New York 10001.

Financial Statements

The Company's financial statements are included herewith as part of the Company's annual report on Form 10-KSB for the fiscal year ended December 31, 2000 and the Company's quarterly report on Form 10-QSB for the period ended September 30, 2001, attached hereto as Exhibits D and E, respectively.

Market for Common Equity and Related Stockholder Matters

On April 19, 2001, the Company was approved for quotation on the Over-the-Counter Bulletin Board ("OTC BB") under the ticker symbol "JPAL." The following table sets forth, for the periods indicated, the range of the high and low bid quotations for the shares of common stock as quoted on the OTC BB. The reported bid quotations reflect inter-dealer prices, without retail markup, markdown or commissions, and may not necessarily represent actual transactions. As of the Record Date, there were 8,645,260 shares of the Company's common stock

Edgar Filing: JPAL INC - Form PRER14A

outstanding.

2001	HIGH	LOW
-----	-----	---
2nd Quarter	\$1.00	\$0.263
3rd Quarter	\$7.00	\$1.00
4th Quarter	\$6.05	\$2.97
2002		

1st Quarter (through January __, 2002)	\$	\$

The closing price for the Common Stock on January __, 2002, was \$_____.

The Company has never paid or declared a dividend on the Common Stock. The Company intends, for the foreseeable future, to retain all future earnings for use in its business. The amount of dividends the Company pays in the future, if any, will be in the discretion of the Board of Directors and will depend upon the Company's earnings, capital requirements, financial condition and other relevant factors. The Company has approximately 30 holders of record of the Common Stock. The Company effectuated a five-for-one forward split as of July 5, 2001.

16

BUSINESS OF ESSENTIAL REALITY

General

Essential Reality, LLC ("Essential, LLC") was formed as Freedom Multimedia, L.L.C. in the State of Delaware on July 9, 1998 and began active operations on June 1, 1999. Essential, LLC changed its name to Essential Reality, LLC effective December 29, 1999. Essential, LLC was formed to develop, manufacture and market a suite of computer peripheral devices, with initial emphasis on a product called "P5(TM)." P5(TM) is a device shaped in the form of a glove that controls the movement of the cursor on a computer screen. P5(TM) enables three-dimensional movement of the cursor as well as pitch, yaw and roll. P5(TM) is controlled by the user moving his hand or bending his fingers.

In 1989, the "Nintendo Power Glove" was launched. The Power Glove offered 3D data-capture capabilities through the combination of patented bend-sensor and motion capture technologies. Licensed to Mattel, the product was sold with the Nintendo console. The product eventually sold around 1.6 million units in the United States, Europe and Japan. The original product generated over \$80 million dollars of retail sales in the initial 18 months of release. At the time, Mattel focused on meeting this demand but failed to develop enough related games and applications, resulting in an eventual decline in sales. The product fell out of use by the consumer market but has remained of interest to certain gamers and virtual reality software and hardware developers, who continue to buy and sell them in a "secondary" market and reprogram them for use with virtual reality systems. Mattel's rights terminated in 1992.

Today, 3D games and other 3D user interfaces are the standard, rather than the exception. The demand for a device to suit the nature of 3D interaction has been raised by many in the electronic entertainment as well as PC industry. According to IDC, the United States video game industry is expected to reach \$21.1 billion by 2003. Essential, LLC is positioning itself to take advantage of

Edgar Filing: JPAL INC - Form PRER14A

the opportunities in this marketplace with the development of its first product, P5(TM), a 3D input device capturing finger-bend and relative hand-position to enable intuitive interaction with 3D environments.

Technology

P5(TM) is designed as a low-cost natural interface for the computer, game consoles and other USB-compatible 3D-software platforms. The product will utilize a patented bend sensor technology to accurately determine the bend of the user's five fingers. In addition, P5(TM) will track the relative position of the hand in space.

P5(TM) will act primarily as a peripheral to computers and game consoles. Communication with the central processing unit (CPU) will be primarily via USB port. P5(TM) will consist of a hand-worn glove with embedded electronics. The sensing of finger bend will be done via conductive inks with variable electrical resistance, detected by position changes of hand digits above a baseline bias voltage and resistance. It will also be capable of gesture recognition of specific placement of thumb/finger digits. Starting position and movement of the device will be tracked with electronics and firmware/software supporting x-, y- and z-axis positioning. The tracking technology is line-of-sight infrared optical using enough high/low glove-mounted LED's to enable a complete 6-degrees-of-freedom positioning solution, which are x-, y-, z-, yaw, pitch and roll. Two pairs of horizontal and vertical detector clusters will receive the LED transmissions. In addition, these same components will provide 3D positioning information via triangulation.

In addition to the bend measurements, P5(TM) will measure yaw, pitch and roll as defined below.

17

[GRAPHIC OMITTED: YAW, PITCH AND ROLL DIAGRAM]

Figure 1: Yaw, Pitch and Roll Diagram

Yaw is defined as movement along a plane parallel to the ground. Yaw motion is achieved by holding the hand palm-downward and parallel to the ground, and rotating the hand side to side on a horizontal plane.

Pitch is defined as movement along an axis that is parallel to the top of the hand and perpendicular to the wrist, such that it would enter the wrist below the thumb and exit below the little finger. Pitch is accomplished by moving the hand up and down while holding the forearm parallel to the ground.

Roll is defined as rotation of the hand about an axis parallel to the ground, entering the hand at the tip of the middle finger and running through the wrist parallel to the forearm. Roll is accomplished by holding the hand flat with the palm facing the ground and turning the arm such that the thumb rises and the little finger falls or vice versa.

Current optical tracking systems normally associated with motion capture animation techniques retail for \$1,000 or more. The Company's optical tracker developed for P5(TM) will be created for under \$10 and will supply a level of 6-degree tracking far beyond that of the original Power Glove, which only had 3-degrees of freedom.

Design Prototype

Essential, LLC's industrial design firm has conducted extensive user

Edgar Filing: JPAL INC - Form PRER14A

research to develop a model for product design for P5(TM). The first generation P5(TM) will be designed for compatibility with the following computer operating systems: Microsoft Windows 98, MS NT and MS 2000. Also, it is expected that it will shortly be compatible with the following Game Consoles: PlayStation2 and Microsoft Xbox. Continuing software development will target other operating systems, such as MAC OSX, Unix, Linux and Midi.

Intellectual Property

Essential, LLC is exploring intellectual property protection of P5(TM) for dynamic manipulation of computer-generated objects in a multi-dimensional environment. P5(TM) will benefit from Essential, LLC's proprietary bend sensor and tracking technology as a means for coordination of movement between human and machine. Essential, LLC believes that the integration of such technologies into the glove interface, in combination with proprietary software and firmware applications and drivers, will result in a superior product at a low, cost effective price point not previously recognized in the field. The securing of intellectual property rights in its glove device should enable Essential, LLC to control, market, license, manufacture and distribute P5(TM) in the United States and potentially worldwide.

18

Pricing

Essential, LLC is targeting an initial manufacturer's suggested retail price of \$129 for P5(TM). Essential, LLC believes that this price point is substantially below that of any direct competitor product and within the tolerable price range for products in each of the target markets.

Strategy

Essential, LLC has identified numerous marketing and distribution channels to build a brand and capture a mass market for P5(TM). The initial scheduled launch in the first quarter of 2002 will primarily be directed at the gaming market. As part of its strategy, Essential, LLC intends on supporting the development of P5(TM) enabled games in order to promote the full use of the product. The second phase will be aimed at the broader PC application market, where expanded broadband is expected to lead to the development of robust online 3D worlds. Essential, LLC expects P5(TM) to enable people to work intuitively within these new environments. The third phase will concentrate on the professional market, where Essential, LLC expects users ranging from engineers to surgeons to find a use for P5(TM) technology. In the future, Essential, LLC has plans for next generation products that are wireless, that monitor sweat and pulse and that allow for tactile feedback.

Competition

The market for peripheral input devices, including mouses and joysticks, is very competitive. In addition, Sony and Nintendo, who currently dominate the interactive entertainment software industry, may determine to develop their own 3D peripheral port device and have the financial resources to withstand significant price competition and to implement extensive advertising campaigns. Many of our competitors have far greater financial, technical, personnel and other resources than we do, and many are able to carry larger inventories and adopt more aggressive pricing policies. Prolonged price competition or reduced operating margins would cause our profits to decrease significantly.

Employees

Edgar Filing: JPAL INC - Form PRER14A

As of the date of this Proxy Statement, Essential, LLC has nine full-time salaried employees, consisting of one management, three sales & marketing, two clerical and three in product development and maintenance. Essential, LLC believes that its relationship with its employees is satisfactory.

Property

Essential, LLC currently leases office space at 253 West 28th Street, New York, New York 10001. Essential, LLC has recently signed a lease for office space of approximately 5,000 square feet for which it will pay \$10,570 and for which it anticipates paying approximately \$11,000 per year for the remaining four years of the lease. Essential, LLC's new offices are located at 49 West 27th Street, New York, New York 10001.

Legal Proceedings

Essential, LLC is not a party, nor to the knowledge of its management and board of directors threatened to be made a party, to any litigation or governmental proceeding.

19

MANAGEMENT OF ESSENTIAL REALITY

The following table sets forth certain information concerning the current directors and executive officers of Essential, LLC. Prior to the Exchange Closing, Essential, LLC shall determine who the directors and officers of the Company will be immediately following the Exchange Closing.

Name	Age	Position
----	---	-----
Humbert B. Powell, III	63	Chief Executive Officer
Arthur L. Goldberg	62	Chief Financial Officer
Reuben Levine	36	Chief Operating Officer
Martin Currie	36	Vice President, Business Development
David Devor	38	Vice President, Marketing
Stanley Friedman	59	Vice President, Manufacturing
Aaron Gavios	43	Vice President, Sales and Distributions
Richard Rubin	44	Vice President, Product Development

Humbert B. Powell, III, Essential, LLC's acting Chief Executive Officer, spends as much time as he deems necessary to fulfill such duties. He has since November, 1996, been a Managing Director at Sanders Morris Harris, a regional investment-banking firm headquartered in Houston, Texas, with a branch in New York City, where he resides. Mr. Powell served as Chairman of Marleau, Lemire USA and Vice Chairman of Marleau, Lemire Securities, Inc. between 1994 and 1996. Prior to his employment with Marleau, Lemire he served as a Senior Managing Director in the Corporate Finance Department of Bear Stearns & Co., from 1984 to 1994, with responsibilities for the Investment Banking effort both domestically and internationally. He is also a Director of Lawman Armour Corp., Bikers Dream Inc., World Water Corp., and a trustee of Salem-Teikyo University.

Arthur L. Goldberg, Essential, LLC's Chief Financial Officer, was appointed on December 12, 2001. Mr. Goldberg has over twenty-five years of business experience in financial and operational management positions. He has negotiated and closed acquisitions, divestitures, licenses, joint ventures and

Edgar Filing: JPAL INC - Form PRER14A

major product purchases and sales both domestically and abroad. Additionally, he has negotiated and structured the funding of over \$300 million from public and private sources, including initial public offerings and commercial banks and other lenders. Mr. Goldberg has since February 1999 been a partner of Tatum CFO Partners, LLC, a firm that provides chief financial officer services to companies. In that capacity, he served as the CFO of Register.com, Inc. (Nasdaq: RCOM) where he was instrumental in making important infrastructure improvements and in implementing tax planning that resulted in significant savings. He was prior thereto a consultant to several small companies, during which time he also served as CFO of a privately owned hi-tech incubator, preparing the company for its next round of financing, preparing business plans and financial models and improving internal procedures and systems. From March 1996 until August 1998, he served as Vice Chairman, Chief Operating Officer and Chief Financial Officer of Complete Management, Inc., a physician practice management company. In October, 1999, Complete Management, Inc. filed for bankruptcy. Additionally, during his professional career, Mr. Goldberg held several CFO positions in various other enterprises, successfully implementing and managing equity financings as well as secured and unsecured debt and international trade finance transactions and facilities. He has over the course of his professional life served in various capacities, including divisional controller of a heavy manufacturing company, CEO of an import/export distribution business and operations manager of a group of manufacturing companies with annual revenues in excess of \$100 million dollars. Mr. Goldberg is both a CPA and an attorney, with an MBA from the University of Chicago. His law degrees (JD and Masters of Laws in Taxation) are from New York University and his Bachelor degree is from The City College of New York.

20

Reuben Levine, Essential, LLC's Chief Operating Officer, is responsible for day-to-day operations of Essential, LLC. Mr. Levine was the president of Biz Definitions LLC from March, 2000 until November of 2001, when he accepted his position with Essential, LLC. Prior thereto he was a vice president of Chase Manhattan Bank, where he spent six years leading some of its mission-critical business and technology transformation initiatives in its retail and wholesale operations. Most recently, he served as the Director of Business Development for the bank's Internet Division, Chase.com. While at Chase.com, Mr. Levine managed ongoing business development activities relating to numerous lines of business, which included initiating, screening and coordinating all aspects of over a dozen transactions. Additionally, Mr. Levine managed teams of over 30 internal staff members and external consultants for numerous high-priority process re-engineering initiatives. Throughout Chase's (and formerly Chemical Bank's) mergers, Mr. Levine managed organization-wide milestones throughout the bank's retail division that contained high-risk implications in the event of failure. From August 1993 to September, 1994, Mr. Levine was employed by BDO Seidman, where he held the title of Senior Analyst. He began his career in investment banking, with four years in Fortune 500 structured finance and trade finance while at Bankers Trust Company and Bank Leumi Trust Company of New York. Over the past year and a half he has also served as advisor to over a dozen technology start-ups in a broad range of industries. Mr. Levine holds professional certifications in the areas of strategic design and operational modeling/simulation, developed and facilitated by MIT and Stanford University graduate level programs.

Martin Currie, Essential, LLC's Vice President of Business Development, is a seasoned marketing executive who has been immersed in the video game industry for over seven years. Prior to June, 2001, when Mr. Currie accepted his current position with Essential, LLC, he served as a consultant to various firms. From January, 1998 until January, 2001, he was Director of Marketing for

Edgar Filing: JPAL INC - Form PRER14A

Infogames, Inc. (formerly GT Interactive), where he oversaw the launch of numerous titles. From January, 1995 until December, 1997, Mr. Currie was Marketing Director for RDA International, an advertising agency for Acclaim Entertainment and GT Interactive, where he took a lead role in the development of various major marketing campaigns. Before entering the video game industry, Mr. Currie honed his marketing skills at a number of prestigious advertising and design agencies in New York City, including the Arnell Group where he worked on the Donna Karan and DKNY accounts, and Frankfurt Balkind Partners, where he worked on many high-profile projects.

David Devor, Essential, LLC's Vice President of Marketing, is responsible for marketing and branding of Essential, LLC's products. Prior to joining ER, Mr. Devor founded and managed a large chain of home entertainment furnishings centers. Mr. Devor also has many years of experience managing private equity investments through his position with Devor Capital Investments LLC, which constituted the principal focus of his activities from 1991 until June of 1999, when he joined Essential, LLC. The investment firm specializes in high-tech companies with a primary focus on interactive entertainment, electronic gaming and Internet-related opportunities. On February 27, 1996, Mr. Devor pleaded guilty to the crime of offering a false instrument for filing. He received a three-year conditional discharge, paid \$10,000, and was obligated to perform 40 hours of community service.

Stanley Friedman, Essential, LLC's Vice President of Manufacturing, manages manufacturing and production control for Essential, LLC and has held this position since March, 2000. Mr. Friedman served as a consultant to various firms from October of 1999 to February of 2000. From September of 1998 to September of 1999, Mr. Friedman served as Head of Purchasing and Production at Gund, Inc. and was prior thereto employed by Eden, LLC, where he managed overseas vendors while directing daily purchasing, production, inventory control, quality assurance and logistics operations. He was also involved in Eden LLC's product forecasting and source selection, negotiation of purchase orders as well as recruiting, training and supervising managerial staff. He graduated with a Bachelor of Science degree in Accounting from Duquesne University in Pennsylvania and has completed graduate courses in Industrial Management and Cost Estimating. Mr. Friedman holds advanced licenses from the FAA and FCC, as well as USAF training in electronics.

21

Aaron Gavios, Essential, LLC's Vice President of Sales and Distribution, is an experienced marketer of products and services with nearly twenty years of experience managing marketing and sales for large companies. From September 2000 until October 2001, he was Vice President of Business Development at K2 Digital, a leading Internet business strategy firm. In that position, he headed up K2's marketing and business development efforts, including the areas of public relations and strategic alliances. From March 1999 until September 2000, Mr. Gavios served as Vice President of Global Sales for MondoSoft, a Danish developer and marketer of Web site search engine technology (ASP solution). From September 1996 until March 1999, he was the Executive Vice President of DSTV Holdings, in which he developed and executed a successful marketing strategy for the sale of digital satellite television in a joint marketing effort with electric utility companies. From February 1994 until September 1996, Mr. Gavios was National Sales Manager at Rolodex, where he oversaw the sales growth of the Electronic Organizer Division. From February 1993 until February 1994, he was the Regional Sales Manager of the Eastern Region at Casio, where he helped successfully introduce several products including "My Magic Diary" and the "Z-7000 PDA." Prior to working at Casio, Mr. Gavios worked at Nintendo as an Area Sales Manager for the Eastern Region, and

Edgar Filing: JPAL INC - Form PRER14A

helped manage some of the firm's largest accounts, including Toys R Us, Kmart and KB Toys. While at Nintendo, he played an important role in rolling out the "World of Nintendo" store within a store concept. Mr. Gavios received his B.A. in Sociology from Brandeis University and his M.B.A. in Marketing/International Business from New York University (Stern) Graduate School of Business Administration.

Richard Rubin, Essential, LLC's Vice President of Product Development, has twenty years of experience in engineering management positions. Prior to joining Essential, LLC in April, 2001, he was the vice president of Product Development for Akzion, a semiconductor equipment manufacturer, a position he held since November, 1999. Prior thereto, he was since June, 1998, the vice president of Engineering & Manufacturing for ActiMed Laboratories, a producer of medical devices. From April, 1995 through June, 1998, Mr. Rubin served as the Senior Engineering Program Manager/Operations Manager for Materials Research Corporation/Veeco Industries, Inc., a manufacturer of state-of-the-art sputtering cluster systems for the thin film industry. Before that he was Director of Engineering for Eden Toys, a global manufacturer and distributor of interactive toys, where he was employed since August, 1992. He has a Bachelor of Industrial Design degree from Rhode Island School of Design and has done advanced study in design in the United Kingdom at the City of London Polytechnic.

Promptly following the Exchange Closing, the Company plans on hiring additional management personnel including but not limited to a full-time Chief Executive Officer. In addition, the Company anticipates that it will appoint up to five members for its Board of Directors.

No family relationships exist between any of Essential, LLC's directors or executive officers.

Except as set forth herein, no officer or director of Essential, LLC has, during the last five years: (i) been convicted in or is currently subject to a pending a criminal proceeding; (ii) been a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to any Federal or state securities or banking laws including, without limitation, in any way limiting involvement in any business activity, or finding any violation with respect to such law, nor (iii) has any bankruptcy petition been filed by or against the business of which such person was an executive officer or a general partner, whether at the time of the bankruptcy or for the two years prior thereto.

22

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

Essential Reality, LLC ("Essential, LLC") was formed as Freedom Multimedia, L.L.C. in the State of Delaware on July 9, 1998 and began active operations on June 1, 1999. Essential, LLC changed its name to Essential Reality, LLC effective December 29, 1999. Essential, LLC was formed to develop, manufacture and market a suite of computer peripheral devices, with initial emphasis on a product called "P5(TM)." P5(TM) is a device shaped in the form of a glove that controls the movement of the cursor on a computer screen. P5(TM) enables three-dimensional movement of the cursor as well as pitch, yaw and roll. P5(TM) is controlled by the user moving his hand or bending his fingers.

Edgar Filing: JPAL INC - Form PRER14A

Essential, LLC is in the development stage. Successful completion of Essential, LLC's development program and, ultimately, the attainment of profitable operations are dependent upon future events, including obtaining adequate financing to fulfill its development activities, and achieving a level of revenue adequate to support Essential, LLC's cost structure.

Since its commencement, Essential, LLC has not generated revenues and has incurred significant recurring losses from operations, working capital deficit and deficit in members' capital. As a result, substantial doubt exists regarding Essential, LLC's ability to continue as a going concern. Management is attempting to obtain adequate resources for Essential, LLC to complete its development plan and produce, market and sell its primary product. Should management not be able to obtain the necessary financing, Essential, LLC would not be able to continue as a going concern. Management of Essential, LLC anticipates that the contemplated Exchange with JPAL, Inc. will lead to greater opportunities to obtain the requisite resources.

Product development costs are expensed until such time as Essential, LLC determines that a product is technologically feasible. Product development costs are capitalized from such date until such time as product development is substantially complete. Capitalized product development costs will be amortized on the straight-line basis over the lesser of the estimated useful life of the product or three years. For the cumulative period from June 1, 1999 (Date of Commencement) to September 30, 2001, Essential, LLC has expensed all product development costs.

For the year ended December 31, 2000

Revenue. For the year ended December 31, 2000, Essential, LLC has not recognized product-related revenues. Management of Essential, LLC does not anticipate recognizing product-related revenue until the first quarter of 2002 at the earliest.

Interest income, which was earned from a note receivable for Members' capital as described in the Liquidity and Capital Resources section, was \$104,652.

Operating Expenses. For the year ended December 31, 2000, operating expenses totaled \$1,521,672 compared to \$221,804 for the period from June 1, 1999 to December 31, 1999. The increase is due to an increase in product development, marketing and general and administrative expenses.

Product development costs consist of the fees paid to third-party developers and materials used in the development and manufacturing of P5(TM). Product development expense for the year ended December 31, 2000 was \$405,308 compared to \$221,524 for the period from June 1, 1999 to December 31, 1999. The increase is due to an increase in fees paid to third-party developers. Included in product development costs are \$105,000 and \$145,000 for the year ended December 31, 2000 and for the period from June 1, 1999 to December 31, 1999, respectively, paid to a company owned by an individual related to certain Members of Essential, LLC.

Marketing consist of promotion, public relations, corporate identity, trade shows and related travel. Marketing expense for the year ended December 31, 2000 was \$220,466. No such expenses were incurred in the period from June 1, 1999 to December 31, 1999.

Edgar Filing: JPAL INC - Form PRER14A

General and administrative expenses consisted principally of employee salaries and benefits, consulting, professional fees and facilities. General and administrative expenses for the year ended December 31, 2000 was \$895,898. General and administrative expenses was \$280 for the period June 1, 1999 to December 31, 1999. Included in general and administrative expenses are costs incurred of \$147,840 by two entities that are related to certain members of LCG Capital Group, LLC ("LCG"), an entity that owns 50% of Essential, LLC. Such costs include consulting fees, employee salaries, occupancy, telephone and computer leases. In the case of employee salaries, costs are allocated to Essential, LLC based on the time each employee conducts business specific to Essential, LLC. In the case of the other expenses, costs are allocated based on a percentage of resources used by Essential, LLC.

Net loss for the year ended December 31, 2000 was \$1,418,954.

For the period ended September 30, 2001

Revenue. For the nine-month period ended September 30, 2001, Essential, LLC has not recognized product-related revenues. Management of Essential, LLC does not anticipate recognizing product related revenue until the first quarter of 2002, at the earliest.

Interest income, which was earned from the note receivable for Members' capital as described in the Liquidity and Capital Resources section, was \$20,465.

Operating Expenses. For the nine-month period ended September 30, 2001, operating expenses totaled \$1,854,951.

Interest expense for the nine-month period ended September 30, 2001 was \$3,272, of which \$1,597 was interest on advances from entities that are affiliated with LCG and \$1,675 was incurred in relation to the bridge loans described in the Liquidity and Capital Resources section.

Product development costs consist of the fees paid to third-party developers and materials used in the development and manufacturing. Product development expense for the nine-month period ended September 30, 2001 was \$655,312.

Marketing consist of promotion, public relations, corporate identity, trade shows and related travel. Marketing expense for the nine-month period ended September 30, 2001 was \$389,562. Included in marketing expense is \$66,400 paid to a company owned by certain Members of Essential, LLC.

General and administrative expenses consisted principally of employee salaries and benefits, consulting, professional fees and facilities. General and administrative expenses for the nine-month period ended September 30, 2001 was \$801,190. Included in general and administrative expenses are costs incurred of \$141,800 by two entities that are related to certain Members of LCG. Such costs include consulting fees, employee salaries, occupancy, telephone and computer leases. In the case of employee salaries, costs are allocated to Essential, LLC based on the time each employee conducts business specific to Essential, LLC. In the case of the other expenses, costs are allocated based on a percentage of resources used by Essential, LLC.

Net loss for the nine-month period ended September 30, 2001 was \$1,854,951.

Edgar Filing: JPAL INC - Form PRER14A

Liquidity and Capital Resources

Since inception, Essential, LLC has not generated revenues and has incurred significant recurring losses from operations, working capital deficit and deficit in Members' capital. For the period from June 1, 1999 (date of commencement) to September 30, 2001, Essential, LLC has incurred losses of \$3,478,516 and negative cash flow from operating activities and investing activities of \$2,971,010 and \$30,948, respectively.

In December 1999, LCG acquired a 50% interest in Essential, LLC for an aggregate purchase price of \$2,500,000. The consideration received was comprised of \$500,000 in cash and a further \$2,000,000 evidenced by a note. The note bore interest at the rate of 6% per annum, had a maturity date of December 13, 2002 and was secured by the membership interest of LCG. The debt due under the note was fully repaid in July, 2001.

Cash provided by financing activities for the period from June 1, 1999 to September 30, 2001 was \$3,002,426, which was derived principally from proceeds from the issuance of Members' capital of \$500,000, proceeds from the repayments of note receivable for Members' capital in the amount of \$2,000,000 and bridge loans in the amount of \$400,000.

Pursuant to the Contribution Agreement described above, a third party has arranged for bridge loans of up to \$2,100,000. The bridge loans are unsecured and bear interest at the rate of 8 1/2 % per annum. However, interest does not begin to accrue until January 31, 2002 (unless such date is extended in accordance with the terms of the Contribution Agreement). The bridge loans, together with accrued interest thereon, become payable on the earlier to occur of (i) August 23, 2002, (ii) the closing of the Exchange or (iii) the sale or exchange of all or substantially all of the membership interests of Essential, LLC which would result in Essential, LLC receiving an infusion of \$4.5 million in capital. The bridge loans include the issuance to the lenders of up to 840,000 warrants (the "Bridge Warrants," as more fully described under "Description of Securities -- Warrants" below) to purchase shares of Common Stock of the Company for an exercise price of \$3 per such share. The Bridge Warrants expire in August 2004.

Through September, 2001, Essential, LLC received total bridge loans of \$400,000 from the Company. From October 1, 2001 through January 11, 2002, Essential, LLC received an additional \$1,250,000 in bridge loans from the Company.

Plan of Operations

Management of Essential, LLC does not anticipate recognizing product-related revenue until the first quarter of 2002, at the earliest.

Product development expenses from October 1, 2001, through September 30, 2002, are expected to be approximately \$2 million. The increase in product development is related to expenses incurred for tooling and new game development.

Marketing is expected to be approximately \$3.2 million from October 1, 2001, through September 30, 2002. The significant increase in marketing is due to anticipated advertising and promotion, trade shows and commission expenses. Approximately \$1.5 million of the expected marketing costs of \$3.2 million are expected to vary based on levels of sales volume.

General and administrative expenses are expected to be approximately \$3.3 million from October 1, 2001, through September 30, 2002. The increase in general and administrative is due to anticipated increases the number of

Edgar Filing: JPAL INC - Form PRER14A

employees resulting in higher salaries and benefits.

Management of Essential, LLC expects that approximately \$3 million will be required to purchase inventory and for other working capital purposes from October 1, 2001, through September 30, 2002.

Management of Essential, LLC expects that the bridge loans will, upon completion of the Exchange, amount to an aggregate of \$2,100,000.

25

From October 1, 2001, through September 30, 2002, it is expected that Essential, LLC will require a total of approximately \$12 million in cash or cash equivalents in order to repay the bridge loans, complete its development plan and to begin to produce, market and sell its primary product. It is expected that approximately \$4.5 million will be raised through the Exchange and the concomitantly conducted Private Placement (see "Material Terms of the Exchange," above).

Management of Essential, LLC anticipates, based on currently proposed plans and assumptions relating to the implementation of its business plan (including the timetable of costs and expenses associated with, and success of, its marketing efforts), that the net proceeds of the Exchange, together with projected revenues from operations, will be sufficient to satisfy Essential, LLC's operations for approximately five months following the consummation of the Exchange. Essential, LLC anticipates that it will require an estimated \$7.5 million from October 1, 2001, through September 30, 2002, in addition to the cash raised in connection with the Exchange. Management of Essential, LLC expects to raise the estimated additional cash required from the exercise of certain warrants and/or through an additional offering of its securities.

26

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth ownership information as of the Record Date and immediately following the Exchange Closing, with respect to (i) each current director or executive officer of the Company, (ii) each current director and executive officer of Essential, LLC, (iii) all directors and executive officers of the Company and Essential, LLC as a group and (iii) each person known to the Company to be a beneficial owner of more than 5% of the outstanding voting securities of the Company. As of the Record Date, there were 8,645,260 shares of common stock and no shares of preferred stock outstanding (the "Preferred Stock"). Each share of common stock is entitled to one vote. Unless otherwise noted, the address of each of the individuals listed below is c/o Essential Reality, LLC, 253 West 28th Street, New York, New York 10001.

Name	Number of Shares Beneficially Owned as of the Record Date (1)	Percentage of Shares Owned as of the Record Date (2)	Number of Beneficially Owned Shares After the Exchange
----	-----	-----	-----
Frank Drechsler 17620 Oak Street			

Edgar Filing: JPAL INC - Form PRER14A

Fountain Valley, CA 92708	5,100,260	59.0	
LCG Capital Group, LLC	0	0	5,
Martin Abrams	0	0	2,
John Gentile	0	0	1,
Anthony Gentile	0	0	1,
Humbert B. Powell, III	0	0	
Arthur L. Goldberg	0	0	
Reuben Levine	0	0	
Martin Currie	0	0	
David Devor	0	0	
Stanley Friedman	0	0	
Aaron Gavios	0	0	
Richard Rubin	0	0	
All directors and executive officers as a group	5,100,260	59.0	11,

- (1) Beneficial ownership is determined in accordance with the Rule 13d-3(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and generally includes voting or investment power with respect to securities. Except as subject to community property laws, where applicable, the person named above has sole voting and investment power with respect to all shares of the Company's common stock shown as beneficially owned by him.
- (2) Based on 8,645,260 shares of the Company's common stock outstanding. Excludes all outstanding warrants.

27

- (3) The table presumes that 11,000,000 Exchange Shares will be issued to the Members of Essential, LLC.
- (4) Based on 15,695,055 shares of the Company's common stock outstanding. Includes 1,850,000 shares issued in the Private Placement and presumes that 11,000,000 shares will be issued in the Exchange. Excludes all outstanding warrants.

Stockholder Vote Required

Ratification of the Contribution Agreement will, pursuant to Section 120 of Chapter 92A, Mergers and Exchanges of Interest, Title 7, Business Associations; Securities; Commodities, of the Nevada Revised Statutes (the "NRS"), require the affirmative vote of a majority of the shares entitled to be cast therefor. PLEASE NOTE THAT THE COMPANY'S CONTROLLING STOCKHOLDER HAS ALREADY INFORMED THE COMPANY THAT HE WILL BE VOTING "FOR" ALL OF THE PROPOSALS SET FORTH HEREIN. THE NUMBER OF VOTES HELD BY THE CONTROLLING STOCKHOLDER IS SUFFICIENT TO SATISFY THE STOCKHOLDER VOTE REQUIREMENT FOR EACH OF THE PROPOSALS AND, THEREFORE, NO ADDITIONAL VOTES WILL BE NEEDED TO APPROVE ANY OF THE PROPOSALS.

The Sole Director recommends that the Stockholders vote "FOR" the proposal to approve the Contribution Agreement and the Exchange.

28

Edgar Filing: JPAL INC - Form PRER14A

PROPOSAL 2

APPROVAL OF AMENDMENT I TO THE ARTICLES OF INCORPORATION

General

The Company has executed and submitted for Stockholder approval the Contribution Agreement attached hereto as Exhibit A (see "Proposal 1- Approval of the Exchange"). Pursuant to the terms of the Contribution Agreement, the Company shall change its name to "Essential Reality, Inc."

The Sole Director has approved and recommends that the Stockholders approve an amendment to the Company's Articles of Incorporation, in the event the Exchange is approved, changing the Company's name to "Essential Reality, Inc."

Assuming the Exchange is consummated, the Sole Director believes that the new name, "Essential Reality, Inc.," will promote public recognition and more accurately reflect the Company's new business. If this proposal, as well as Proposal 1, are approved by the Stockholders, this Amendment I to the Articles of Incorporation as attached hereto collectively with Amendment II as Exhibit B will become effective upon the filing of the Articles of Exchange with the Secretary of State of the State of Nevada, which filing is expected to take place promptly following the Exchange Closing.

Stockholder Vote Required

Approval of the proposal to change the Company's name will, pursuant to Section 390 of Chapter 78, Private Corporations, Title 7, Business Associations; Securities; Commodities, of the NRS, require the affirmative vote of a majority of the shares entitled to be cast therefor. PLEASE NOTE THAT THE COMPANY'S CONTROLLING STOCKHOLDER HAS ALREADY INFORMED THE COMPANY THAT HE WILL BE VOTING "FOR" ALL OF THE PROPOSALS SET FORTH HEREIN. THE NUMBER OF VOTES HELD BY THE CONTROLLING STOCKHOLDER IS SUFFICIENT TO SATISFY THE STOCKHOLDER VOTE REQUIREMENT FOR EACH OF THE PROPOSALS AND, THEREFORE, NO ADDITIONAL VOTES WILL BE NEEDED TO APPROVE ANY OF THE PROPOSALS.

The Sole Director recommends that the Stockholders vote "FOR" the approval of this proposal to change the Company's name to Essential Reality, Inc.

29

PROPOSAL 3

APPROVAL OF AMENDMENT II TO THE ARTICLES OF INCORPORATION

General

The Sole Director has approved and recommends that the Stockholders approve an amendment to the Company's Articles of Incorporation, in the event the Exchange is approved, whereby Blank Check Preferred Stock is provided for.

Assuming the Exchange is consummated, the Sole Director believes that the authorization of Blank Check Preferred Stock will enable the Company to appropriately meet future needs. The Company already has five million (5,000,000) shares of preferred stock authorized. This proposal, if approved by

Edgar Filing: JPAL INC - Form PRER14A

the Stockholders, will not increase the number of such shares authorized.

Amendment II is being sought because the Board of Directors believes that it is advisable and in the best interests of the Company to have available shares of preferred stock to provide the Company with greater flexibility in financing the continued operations of the Company and undertaking capital restructuring, financing and future acquisitions. The Company believes that the Blank Check Preferred Stock will provide the Company with a capital structure better suited to meet its short and long term capital needs. Having Blank Check Preferred Stock will permit the Company to negotiate the precise terms of an equity instrument by simply creating a new series of preferred stock without incurring the cost and delay in obtaining stockholder approval. This will allow the Company to more effectively negotiate with, and satisfy the precise financial criteria of, any investor or transaction in a timely manner.

Consequently, once authorized, the dividend or interest rates, conversion rates, voting rights, redemption prices, maturity dates and similar characteristics of such preferred stock will be determined by the Company's Board of Directors, without the necessity of obtaining approval of the Stockholders.

If this proposal, as well as Proposals 1 & 2, are approved by the Stockholders, this Amendment II to the Articles of Incorporation as attached hereto collectively with Amendment I as Exhibit B will become effective upon the filing of the Articles of Exchange with the Secretary of State of the State of Nevada, which filing is expected to take place promptly following the Exchange Closing.

Stockholder Vote Required

Approval of the proposal to provide for Blank Check Preferred Stock will, pursuant to Section 390 of Chapter 78, Private Corporations, Title 7, Business Associations; Securities; Commodities, of the NRS, require the affirmative vote of a majority of the shares entitled to be cast therefor. PLEASE NOTE THAT THE COMPANY'S CONTROLLING STOCKHOLDER HAS ALREADY INFORMED THE COMPANY THAT HE WILL BE VOTING "FOR" ALL OF THE PROPOSALS SET FORTH HEREIN. THE NUMBER OF VOTES HELD BY THE CONTROLLING STOCKHOLDER IS SUFFICIENT TO SATISFY THE STOCKHOLDER VOTE REQUIREMENT FOR EACH OF THE PROPOSALS AND, THEREFORE, NO ADDITIONAL VOTES WILL BE NEEDED TO APPROVE ANY OF THE PROPOSALS.

The Sole Director recommends that the Stockholders vote "FOR" the approval of this proposal to provide for Blank Check Preferred Stock.

30

PROPOSAL 4

APPROVAL OF THE 2001 STOCK INCENTIVE PLAN

At the Meeting a vote will be taken on a Proposal to approve the adoption of the Company's 2001 Stock Incentive Plan (the "2001 Plan"), which contains 3,500,000 shares of Common Stock available for grant thereunder. The 2001 Plan was adopted by the Board of Directors on December 18, 2001. A copy of the 2001 Plan is attached hereto as Exhibit C. As of the date of this Proxy Statement, no options to purchase shares of Common Stock or other rights has been granted to any person under the 2001 Plan.

The benefits and amounts to be derived under the 2001 Plan are not determinable.

Edgar Filing: JPAL INC - Form PRER14A

Description of the 2001 Plan

The following is a brief summary of certain provisions of the 2001 Plan, which summary is qualified in its entirety by the actual text of the 2001 Plan attached hereto as Exhibit C.

The Purpose of the 2001 Plan. The purpose of the 2001 Plan is to provide additional incentive to the directors, officers, employees and consultants of the Company who are primarily responsible for the management and growth of the Company. Each option shall be designated at the time of grant as either an incentive stock option (an "ISO") or as a non-qualified stock option (a "NQSO"). The Board of Directors believes that the ability to grant stock options (the "Options") to employees which qualify for ISO treatment provides an additional material incentive to certain key employees. The Internal Revenue Code requires that ISOs be granted pursuant to an option plan that receives stockholder approval within one year of its adoption. The Company adopted the 2001 Plan in order to comply with this statutory requirement and preserve its ability to grant ISOs.

Administration of the 2001 Plan. The 2001 Plan shall be administered by the Board of Directors of the Company, or by any committee that the Company may in the future form and to which the Board of Directors may delegate the authority to perform such functions (in either case, the "Administrator"). The Board of Directors shall appoint and remove members of the committee in its discretion. In the event that the Company establishes such a committee and is required to comply with Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Section 162(m) of the Internal Revenue Code (the "Code"), the committee shall, in the Board of Director's discretion, be comprised solely of "non-employee directors" within the meaning of said Rule 16b-3 and "outside directors" within the meaning of Section 162(m) of the Code, which individuals shall serve at the pleasure of the Board. Notwithstanding the foregoing, the Board of Directors, in its absolute discretion, may at any time and from time to time exercise any and all rights and duties of the Administrator under the 2001 Plan.

Subject to the other provisions of the 2001 Plan, the Administrator shall have the authority, in its discretion: (i) to grant Options, stock appreciation rights ("Stock Appreciation Rights"), restricted stock ("Restricted Stock") and other equity incentives or stock based awards ("Equity Incentives"), all of which are referred to collectively as "Rights"; (ii) to determine, subject to the provisions of the 2001 Plan, the fair market value of the shares of Common Stock underlying the 2001 Plan; (iii) to determine the exercise price of Options and other Rights granted and means thereof; (iv) to determine the persons to whom, and the time or times at which, Rights shall be granted, and the number of shares subject to each Right; (v) to interpret the 2001 Plan; (vi) to prescribe, amend, and rescind rules and regulations relating to the 2001 Plan; (vii) to determine the terms and provisions of each Right granted (which need not be identical), including but not limited to, the time or times at which Options or other Rights shall be exercisable; (viii) with the consent of the optionee, to modify or amend any Right; (ix) to defer (with the consent of the optionee) the exercise date of any Option or other Right; (x) to authorize any person to execute on behalf of the Company any instrument evidencing the grant of a Right; and (xi) to make all other determinations deemed necessary or advisable for the administration of the 2001 Plan.

Shares of Stock Subject to the 2001 Plan. Subject to the conditions outlined below, the total number of shares of stock which may be issued pursuant

Edgar Filing: JPAL INC - Form PRER14A

to Rights granted under the 2001 Plan shall not exceed 3,500,000 shares of Common Stock, \$.001 par value per share.

The number of shares of Common Stock subject to Rights granted pursuant to the 2001 Plan may be adjusted under certain conditions. If the stock of the Company is changed by reason of a stock split, reverse stock split, stock dividend, recapitalization, combination or reclassification, appropriate adjustments shall be made by the Administrator including but not limited to, in (i) the number and class of shares of stock subject to the 2001 Plan, and (ii) the exercise price of each outstanding Option and Stock Appreciation Right; provided, however, that the Company shall not be required to issue fractional shares as a result of any such adjustments. Each such adjustment shall be subject to approval by the Board of Directors in its sole discretion.

In the event of any merger, reorganization, consolidation, recapitalization, stock dividend, or other change in corporate structure affecting the shares of Common Stock underlying the 2001 Plan, the Administrator shall make an appropriate and equitable adjustment in the number and kind of shares reserved for issuance under the 2001 Plan and in the number and exercise price of shares subject to outstanding Options granted under the 2001 Plan, to the end that after such event each Optionee's proportionate interest shall be maintained as immediately before the occurrence of such event. The Administrator shall, to the extent feasible, make such other adjustments as may be required under the tax laws so that any ISOs previously granted shall not be deemed modified within the meaning of Section 424(h) of the Code. Appropriate adjustments shall also be made in the case of outstanding Stock Appreciation Rights and Restricted Stock granted under the 2001 Plan.

Stock Appreciation Rights. Stock Appreciation Rights shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Administrator at the time of grant. Unless otherwise provided, Stock Appreciation Rights shall become immediately exercisable and shall remain exercisable until expiration, cancellation or termination of the award. Such rights may be exercised in whole or in part by giving written notice to the Company.

Restricted Stock. Restricted Stock may be granted under the 2001 Plan aside from, or in association with, any other award and shall be subject to certain conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the 2001 Plan, as the Administrator shall deem desirable. A grantee shall have no rights to an award of Restricted Stock unless and until such grantee accepts the award within the period prescribed by the Administrator and, if the Administrator shall deem desirable, makes payment to the Company in cash, or by check or such other instrument as may be acceptable to the Administrator. Shares of Restricted Stock are forfeitable until the terms of the Restricted Stock grant have been satisfied. Shares of Restricted Stock are not transferable until the date on which the Administrator has specified such restrictions have lapsed.

Other Equity Incentives or Stock Based Awards. The Administrator may grant Equity Incentives (including the grant of unrestricted shares) to such key persons, in such amounts and subject to such terms and conditions, as the Administrator shall in its discretion determine, subject to the provisions of the 2001 Plan. Such awards may entail the transfer of actual shares of Common Stock to 2001 Plan participants, or payment in cash or otherwise of amounts based on the value of shares of Common Stock.

Participation. Every person who at the date of grant of an option is an employee of the Company or of any Affiliate (as defined below) of the Company is eligible to receive NQSOs, ISOs and other Rights under the 2001 Plan. Every person who at the date of grant is an advisor or consultant to, or non-employee director of, the Company or any Affiliate (as defined below) of the Company is

Edgar Filing: JPAL INC - Form PRER14A

eligible to receive NQSOs and other Rights under the 2001 Plan. The term "Affiliate" as used in the 2001 Plan means a parent or subsidiary corporation as defined in the applicable provisions (currently Sections 424(e) and (f), respectively) of the Code. The term "employee" includes an officer or director who is an employee of the Company. The term "consultant" includes persons employed by, or otherwise affiliated with, a consultant.

32

Option Price. The purchase price of each share of Common Stock purchasable under an ISO shall be determined by the Administrator at the time of grant, but shall not be less than 100% of the fair market value of such share of Common Stock on the date the ISO is granted; provided, however, that with respect to an optionee who, at the time such ISO is granted, owns more than 10% of the total combined voting power of all classes of stock of the Company or of any Subsidiary, the purchase price per share shall be at least 110% of the fair market value per share of Common Stock on the date of grant. The purchase price of each share of Common Stock purchasable under an NQSO shall not be less than 50% of the fair market value of such share of Common Stock on the date the NQSO is granted; provided, however, that if an option granted to the Company's Chief Executive Officer or to any of the Company's other four most highly compensated officers is intended to qualify as performance-based compensation under Section 162(m) of the Code, the exercise price of such Option shall not be less than 100% of the fair market value of such share of Common Stock on the date the Option is granted.

Term of the Rights. The Administrator, in its sole discretion, shall fix the term of each Right, provided that the maximum term of a Right shall be ten years. ISOs granted to a 10% Stockholder shall expire not more than five years after the date of grant. The 2001 Plan provides for the earlier expiration of Rights in the event of certain terminations of employment of the holder.

Restrictions on Grant and Exercise. Except with the express written approval of the Administrator which approval the Administrator is authorized to give only with respect to NQSOs, no Option granted under the 2001 Plan shall be assignable or otherwise transferable by the optionee except by will or by operation of law. During the life of the optionee, an option shall be exercisable only by the optionee.

Termination of the 2001 Plan. The 2001 Plan shall terminate within ten years from the date of its adoption by the Board of Directors.

Termination of Employment. If for any reason other than death or permanent and total disability, an optionee ceases to be employed by the Company or any of its Affiliates (such event being called a "Termination"), Options and Stock Appreciation Rights held at the date of Termination (to the extent then exercisable) may, unless otherwise determined by the Administrator, be exercised in whole or in part at any time within thirty days of the date of such Termination, or such other period of not less than thirty days after the date of such Termination as was specified by the Administrator at time of grant (but in no event after the expiration date of the Option or Stock Appreciation Right (the "Expiration Date")). Unless otherwise determined by the Administrator, if an optionee dies or becomes permanently and totally disabled while employed by the Company or an Affiliate or within the period that the Option or Stock Appreciation Right remains exercisable after Termination, Options and Stock Appreciation Rights then held (to the extent then exercisable) may be exercised, in whole or in part, by the optionee, by the optionee's personal representative or by the person to whom the Option or Stock Appreciation Right is transferred by devise or the laws of descent and distribution, at any time within twelve

Edgar Filing: JPAL INC - Form PRER14A

months after the death or thirty days after the permanent and total disability of the optionee (but in no event after the Expiration Date).

Amendments to the 2001 Plan. The Board of Directors may at any time amend, alter, suspend or discontinue the 2001 Plan. Without the consent of an optionee, no amendment, alteration, suspension or discontinuance may adversely affect outstanding Rights. No amendment, alteration, suspension or discontinuance shall require Stockholder approval unless (i) stockholder approval is required either to (a) preserve incentive stock option treatment for federal income tax purposes, or (b) be consistent with Section 14 of the 2001 Plan, or (ii) the Board of Directors otherwise concludes that stockholder approval is advisable.

Tax Treatment of the Options. Under the Code, neither the grant nor the exercise of an ISO is a taxable event to the optionee (except to the extent an optionee may be subject to alternative minimum tax); rather, the optionee is subject to tax only upon the sale of the Common Stock acquired upon exercise of the ISO. Upon such a sale, the entire difference between the amount realized upon the sale and the exercise price of the option will be taxable to the optionee. Subject to certain holding period requirements, such difference will be taxed as a capital gain rather than as ordinary income. Optionees who receive NQSOs will be subject to taxation upon exercise of such options on the spread between the fair market value of the Common Stock on the date of exercise and the exercise price of such options. This spread is treated as ordinary income to the optionee, and the Company is permitted to deduct as an employee expense a corresponding amount. NQSOs do not give rise to a tax preference item subject to the alternative minimum tax.

33

EXECUTIVE COMPENSATION

No cash or other compensation has been awarded to, earned by or paid to either Mr. Ryan Neely, who served as the Company's President, Secretary and director from March, 2000 through June 25, 2001 or Mr. Jason Ortega, who served as its Treasurer and director, from April 16, 2000, through June 25, 2001. Mr. Frank Drechsler succeeded Mr. Neely as the President, Secretary and director of the Company on June 25, 2001. The size of the Board of Directors was reduced to one member and there are no officers other than Mr. Drechsler.

Mr. Drechsler has not received any compensation for his services as an officer and director of the Company. He will resign pursuant to the Contribution Agreement.

The Company does not provide its officers or employees with pension, stock appreciation rights, long-term incentive or other plans and has no present intention of implementing any of these plans, with the exception of the 2001 Plan. In the future, the Company may offer stock options to employees, non-employee members of the Board of Directors and/or consultants; however, no options have been granted as of the date hereof. It is possible that the Company may in the future establish various executive incentive programs and other benefits, including reimbursement for expenses incurred in connection with its operations, company automobiles and life and health insurance but none has yet been granted. The provisions of these plans and benefits will be at the discretion of the Board of Directors.

The Company's Directors receive no compensation pursuant to any standard arrangement for their services as directors.

Edgar Filing: JPAL INC - Form PRER14A

Employment Agreements

The Company has no employment agreement with Mr. Frank Drechsler, its President, Secretary and Sole Director.

Indemnification

The Company's Amended and Restated Articles of Incorporation include provisions to indemnify its officers and directors against damages for breach of fiduciary duty as a director or officer involving any act or omission of any such director or officer; provided, however, that the liability of such officers and directors shall not be indemnified in the case of (i) acts or omissions which involved intentional misconduct, fraud or a knowing violation of law, or (ii) the payment of dividends in violation of Section 78.300 of the NRS.

The Company's Bylaws provide the power to indemnify any director, officer, employee or agent of the Company or any person serving at its request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise to the fullest extent permitted by the laws of the State of Nevada.

Under the NRS, the Company may indemnify its officers and directors for various expenses and damages resulting from their acting in those capacities. Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the "Securities Act") may be permitted to the officers, directors or persons controlling the Company pursuant to those provisions, counsel has informed the Company that, in the opinion of the Commission, indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

34

DESCRIPTION OF SECURITIES

The Company's authorized capital stock consists of 50,000,000 shares of Common Stock and 5,000,000 shares of Preferred Stock. As of the date hereof, there were issued and outstanding 8,645,260 shares of Common Stock, and no shares of Preferred Stock.

Common Stock

On June 14, 2001 the Company redeemed 2,068,417 shares of its Common Stock for \$2,068. These shares of common stock were previously held by a total of 27 of the Company's stockholders, including Messrs. Neely and Ortega.

On July 2, 2001, the Company declared a stock split effected in the form of a dividend to stockholders of record on June 14, 2001. The payment date for the stock split was July 5, 2001. Four additional shares of Common Stock were issued for each one such share issued and outstanding. As a result of the stock split, each stockholder of record as of such date received four additional shares of Common Stock for each share of Common Stock owned as of the record date. Following the stock split, the Company had 8,645,260 shares of \$.001 par value Common Stock issued and outstanding.

Voting Rights. The holders of shares of Common Stock are entitled to one vote for each share on all matters to be voted on by stockholders. There is no cumulative voting with respect to the election of the Company's directors or any other matter. Therefore, the holders of more than 50% of the shares voted for the election of directors can elect all of the directors.

Dividends; Redemption; Liquidation. The holders of shares of Common

Edgar Filing: JPAL INC - Form PRER14A

Stock are entitled to receive dividends when, as and if declared by the Board of Directors from funds legally available therefor. Cash dividends are at the sole discretion of the Board of Directors. In the event of the Company's liquidation, dissolution or winding up, the holders of shares of Common Stock are entitled to participate ratably in all assets remaining available for distribution to them after payment of the Company's liabilities and after provision has been made for each class of stock, if any, having any preference in relation to the Common Stock.

The Company has never declared or paid a cash dividend on the capital stock, nor does it expect to pay cash dividends on the Common Stock within the foreseeable future. The Company currently intends to retain its earnings, if any, for use in its business. Any dividends declared in the future will be at the discretion of the Board of Directors and subject to any restrictions that may be imposed by the Company's lenders.

Holders of shares of Common Stock have no preemptive rights.

Preferred Stock

The Company is authorized to issue 5,000,000 shares of preferred stock, par value \$.001 per share ("Preferred Stock"), none of which is outstanding. The Board of Directors will, if Amendment II is approved, be vested with authority to divide the class of shares of Preferred Stock into series and to fix and determine the relative rights and preferences of the shares of any such series (see "Proposal 3" above).

Warrants

The Company will reserve an aggregate of 2,625,714 shares of Common Stock pursuant to the exercise of warrants, consisting of the Private Placement Warrants and the Bridge Warrants.

Private Placement Warrants. 1,785,714 shares of Common Stock will be reserved for issuance pursuant to the exercise of the Private Placement Warrants. A purchaser of shares of Common Stock in the Private Placement will receive a warrant (the "Incorporated Private Placement Warrant") to purchase one share of Common Stock for every five shares of Common Stock purchased, for an aggregate of between 370,000 and 427,692 shares of Common Stock underlying Incorporated Private Placement Warrants (depending on the number of Additional Private Placement Shares sold). The Company will also issue additional warrants in consideration for investment banking services performed in connection with the Exchange (the "Separate Private Placement Warrants"). Depending upon the number of shares of Common Stock issued in the Private Placement, Separate Private Placement Warrants to purchase between 1,358,022 and 1,415,714 shares of Common Stock will be issued.

The Private Placement Warrants consist of first warrants and second warrants (the "First Warrants" and the "Second Warrants," respectively). All Incorporated Private Placement Warrants will consist of First Warrants. The First Warrants will entitle their holders to purchase an aggregate of 1,285,714 shares of Common Stock and the Second Warrants will entitle their holders to purchase an aggregate of 500,000 shares of Common Stock. The First Warrants expire three years from the date of issuance, are exercisable at \$3.50 per share of Common Stock and are callable upon the earlier to occur of the following events: (a) the functional integration of the X, Y, Z, yaw, pitch and roll functions into an existing application, to be determined in good faith by the

Edgar Filing: JPAL INC - Form PRER14A

Company's Board of Directors, or (b) the production of 100 software development kits, including hardware. The Second Warrants expire three years from the date of issuance, are exercisable at \$3.75 per share of Common Stock and are callable when the price of a share of Common Stock is trading at or above \$13.00 for 30 consecutive trading days, provided, however, that no Private Placement Warrants may be called unless the shares of Common Stock underlying such Private Placement Warrants have been registered for sale under the Securities Act, and provided further that the expiration date of the Second Warrants shall be reduced to one year if the Company receives less than \$1,000,000 from the call of the First Warrants.

Bridge Warrants. The Company has received bridge financing in the amount of \$1,650,000 to date. For every \$10 loaned to the Company in the bridge financings, the lender shall receive warrants (the "Bridge Warrants") to purchase four shares of Common Stock. In addition, the Company may borrow up to an additional aggregate principal amount of \$450,000 in bridge financings. Therefore, assuming that the Company borrows the maximum amount, it will have issued Bridge Warrants to purchase an aggregate of 840,000 shares of Common Stock immediately prior to the Exchange Closing.

The Bridge Warrants expire in August 2004 and are exercisable at \$3.00 per share of Common Stock. The Bridge Warrants are callable under certain conditions: (i) 90% of such Bridge Warrants shall be callable upon the earlier to occur of the following events; (a) the functional integration of the X, Y, Z, yaw, pitch and roll functions into an existing application, to be determined in good faith by the Company's Board of Directors, or (b) the production of 100 software development kits, including hardware and (ii) the remaining 10% of such Bridge Warrants may be called by the Company when the price of a share of Common Stock is trading at or above \$13.00 for 30 consecutive trading days; provided, however, that in neither case may any Bridge Warrants be called unless the shares of Common Stock underlying such Bridge Warrants have been registered for sale under the Securities Act.

Change in Control

A director may be removed, whether with or without cause, solely upon the affirmative vote of holders of no less than two thirds of the issued and outstanding shares entitled to vote on the election of directors. In addition, if a director is elected by a certain group of stockholders, only holders of such shares are entitled to vote on the removal of such director.

Transfer Agent

The Company's transfer agent is Pacific Stock Transfer Company. The transfer agent's mailing address is 500 East Warm Springs Road, Suite 240, Las Vegas, Nevada, 89119.

Stockholder Vote Required

Approval of the Company's 2001 Plan requires the affirmative vote of the holders of a majority of the shares of the Company's common stock present in person or represented by proxy at the Meeting. PLEASE NOTE THAT THE COMPANY'S CONTROLLING STOCKHOLDER HAS ALREADY INFORMED THE COMPANY THAT HE WILL BE VOTING "FOR" ALL OF THE PROPOSALS SET FORTH HEREIN. THE NUMBER OF VOTES HELD BY THE CONTROLLING STOCKHOLDER IS SUFFICIENT TO SATISFY THE STOCKHOLDER VOTE REQUIREMENT FOR EACH OF THE PROPOSALS AND, THEREFORE, NO ADDITIONAL VOTES WILL BE NEEDED TO APPROVE ANY OF THE PROPOSALS.

The Sole Director recommends that the Stockholders vote "FOR" approval

Edgar Filing: JPAL INC - Form PRER14A

of this proposal to adopt the 2001 Plan.

37

PROPOSAL 5

RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT AUDITORS

General

Deloitte & Touche LLP is the current independent auditors for Essential, LLC and Leslie, Thomas, Schwarz & Postma, Inc. ("LTSP") is the current independent auditors for the Company. In contemplation of the Exchange, the Sole Director is recommending appointing Deloitte & Touche LLP as the Company's independent auditors for the fiscal year ending December 31, 2001. The Company had no disagreements with LTSP in the fiscal year ended December 31, 2000 on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure. LTSP's report on the Company's financial statements for the fiscal year ended December 31, 2000 did not contain an adverse opinion or disclaimer of opinion, nor was it modified as to uncertainty, audit scope or accounting principles. The Company has not consulted Deloitte & Touche LLP regarding the application of accounting principles to a specific completed or contemplated transaction or the type of audit opinion that might be rendered on the Company's financial statements.

Representatives of Deloitte & Touche LLP and LTSP are not expected to be present at the Meeting. In the event representatives do attend the Meeting, each of them will have an opportunity to make a statement should any of them desire to do so, and they would be expected to be available to respond to appropriate questions.

Audit Fees

LTSP billed the Company an aggregate of \$12,950 for the audit of the Company's annual financial statements for the fiscal year ended December 31, 2000 included in the Company's annual report on Form 10-KSB and for the review of the Company's interim financial statements included in the Company's quarterly reports on Form 10-QSB for the periods ended March 31, 2000, June 30, 2000 and September 30, 2000.

Financial Information Systems Design and Implementation Fees

LTSP did not render any professional services related to financial information systems design and implementation for the fiscal year ended December 31, 2000.

All Other Fees

LTSP did not render any other professional services, other than those discussed above, for the fiscal year ended December 31, 2000.

Since LTSP did not receive fees from the Company other than audit fees, the Sole Director has considered and believes that LTSP has maintained its independence from the Company.

Stockholder Vote Required

The ratification of the appointment of Deloitte & Touche LLP as the Company's independent auditors for the fiscal year ending December 31, 2001, requires the affirmative vote of a majority of the shares of voting stock

Edgar Filing: JPAL INC - Form PRER14A

present in person or represented by proxy at the Meeting. PLEASE NOTE THAT THE COMPANY'S CONTROLLING STOCKHOLDER HAS ALREADY INFORMED THE COMPANY THAT HE WILL BE VOTING "FOR" ALL OF THE PROPOSALS SET FORTH HEREIN. THE NUMBER OF VOTES HELD BY THE CONTROLLING STOCKHOLDER IS SUFFICIENT TO SATISFY THE STOCKHOLDER VOTE REQUIREMENT FOR EACH OF THE PROPOSALS AND, THEREFORE, NO ADDITIONAL VOTES WILL BE NEEDED TO APPROVE ANY OF THE PROPOSALS.

The Sole Director recommends that the Stockholders vote "FOR" the approval of this proposal to appoint Deloitte & Touche LLP as the Company's independent auditors for the fiscal year ending December 31, 2001.

38

GENERAL AND OTHER MATTERS

Management knows of no matters other than the matters described above that will be presented to the Meeting. However, if any other matters properly come before the Meeting, or any of its postponements or adjournments, the person or persons voting the proxies will vote them in accordance with his or their best judgment on such matters.

SOLICITATION OF PROXIES

The Company is making the solicitation of proxies and will bear the costs associated therewith. Solicitations will be made by mail only. The Company will reimburse banks, brokerage firms, other custodians, nominees and fiduciaries for reasonable expenses incurred in sending proxy material to beneficial owners of the Company's Common Stock.

STOCKHOLDER PROPOSALS

The Board of Directors has not yet determined the date on which the next annual meeting of Stockholders of the Company will be held. Any proposal by a Stockholder intended to be presented at the Company's next annual meeting of Stockholders must be received at the offices of the Company a reasonable amount of time prior to the date on which the information or proxy statement for that meeting are mailed to Stockholders in order to be included in the Company's information or proxy statement relating to that meeting.

By Order of the Board of Directors,

/s/ Frank Drechsler

Frank Drechsler,
Sole Director

January 15, 2002

39

Essential Reality, LLC
(A Development Stage Entity)

Independent Auditors' Report

Edgar Filing: JPAL INC - Form PRER14A

Financial Statements

Period from June 1, 1999 (Date of Commencement) to December 31, 1999, for the Year Ended December 31, 2000 and for the Nine-Month Period ended September 30, 2001 (Unaudited)

ESSENTIAL REALITY, LLC
(A Development Stage Entity)

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS FOR THE PERIOD FROM SEPTEMBER 1, 1999 (DATE OF COMMENCEMENT) TO DECEMBER 31, 1999, FOR THE YEAR ENDED DECEMBER 31, 2000 AND FOR THE NINE-MONTH PERIOD ENDED SEPTMEBER 30, 2001 (UNAUDITED):	
Balance Sheets	2
Statements of Operations	3
Statements of Members' Equity (Deficit)	4
Statements of Cash Flows	5
Notes to Financial Statements	6-12

INDEPENDENT AUDITORS' REPORT

To the Members and Board of Directors of
Essential Reality, LLC:

We have audited the accompanying balance sheets of Essential Reality, LLC (a development stage entity) (the "Company") as of December 31, 2000 and 1999, and the related statements of operations, members' equity (deficit), and cash flows for the period from June 1, 1999 (date of commencement) to December 31, 1999, for the year ended December 31, 2000 and for the cumulative period from June 1, 1999 to December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a

Edgar Filing: JPAL INC - Form PRER14A

reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2000 and 1999, and the results of its operations and its cash flows for the period from June 1, 1999 (date of commencement) to December 31, 1999, for the year ended December 31, 2000 and for the cumulative period from June 1, 1999 to December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company is a development stage enterprise engaged in the development, manufacture and marketing of a suite of computer peripheral devices. As discussed in Note 1 to the financial statements, the Company has experienced cumulative net losses of \$1,640,758 and cumulative negative operating cash flow of \$1,422,289, which raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

September 20, 2001 (January 11, 2002 as to Note 4, November 30, 2001 as to Note 8)

1

ESSENTIAL REALITY, LLC
(A Development Stage Entity)

BALANCE SHEETS
SEPTEMBER 30, 2001 (UNAUDITED) AND DECEMBER 31, 2000 AND 1999

	September 30, 2001 (Unaudited)	December 31, 2000	December 31, 1999
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 468	\$ 231,905	\$ 294,714
Interest receivable	--	48,716	--
Prepaid expenses and deposits	68,206	6,820	--
Total current assets	68,674	287,441	294,714
DOMAIN NAMES - Net	11,250	--	--
FIXED ASSETS - Net	10,811	--	--
OTHER ASSETS	22,500	22,500	--
DEFERRED INTEREST EXPENSE - BRIDGE LOANS	25,898	--	--
TOTAL ASSETS	\$ 139,133	\$ 309,941	\$ 294,714

Edgar Filing: JPAL INC - Form PRER14A

	=====	=====	=====
LIABILITIES AND MEMBERS' EQUITY (DEFICIT)			
CURRENT LIABILITIES:			
Accounts payable	\$ 340,447	\$ 75,238	\$ 12,418
Accrued interest expense - bridge loans	27,573	--	--
Accrued compensation	247,203	221,267	--
Bridge loans	400,000	--	--
Advances from LCG Capital Group, LLC	76,617	--	--
Advances from affiliated companies	25,809	19,647	4,100
	-----	-----	-----
Total current liabilities	1,117,649	316,152	16,518
	-----	-----	-----
COMMITMENTS AND CONTINGENCIES			
MEMBERS' EQUITY (DEFICIT):			
Members' capital	2,500,000	2,500,000	2,500,000
Note receivable for members' capital	--	(865,453)	(2,000,000)
Deficit accumulated during development stage	(3,478,516)	(1,640,758)	(221,804)
	-----	-----	-----
Total members' equity (deficit)	(978,516)	(6,211)	278,196
	-----	-----	-----
TOTAL LIABILITIES AND MEMBERS' EQUITY (DEFICIT)	\$ 139,133	\$ 309,941	\$ 294,714
	=====	=====	=====

See notes to financial statements.

2

ESSENTIAL REALITY, LLC
(A Development Stage Entity)

STATEMENTS OF OPERATIONS

CUMULATIVE PERIOD FROM JUNE 1, 1999 (DATE OF COMMENCEMENT) TO SEPTEMBER 30, 2001 (Unaudited), NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2001 (Unaudited), CUMULATIVE PERIOD FROM JUNE 1, 1999 (DATE OF COMMENCEMENT) TO DECEMBER 31, 2000, YEAR ENDED DECEMBER 31, 2000 AND PERIOD FROM JUNE 1, 1999 (DATE OF COMMENCEMENT) TO DECEMBER 31, 1999

	Cumulative Period from June 1, 1999 (Date of Commencement) to September 30, 2001 (Unaudited)	Nine-Month Period Ended September 30, 2001 (Unaudited)	Cumulative Period from June 1, 1999 (Date of Commencement) to December 31, 2000	Year Dec
OPERATING EXPENSES:				
Product development	\$ 1,282,144	\$ 655,312	\$ 626,832	\$
Marketing	610,028	389,562	220,466	
General and administrative	1,697,368	801,190	896,178	

Edgar Filing: JPAL INC - Form PRER14A

Depreciation and amortization	8,887	8,887	--
	-----	-----	-----
Total operating expenses	3,598,427	1,854,951	1,743,476
	-----	-----	-----
LOSS FROM OPERATIONS	(3,598,427)	(1,854,951)	(1,743,476)
INTEREST INCOME	125,117	20,465	104,652
INTEREST EXPENSE	(5,206)	(3,272)	(1,934)
	-----	-----	-----
NET LOSS	\$ (3,478,516)	\$ (1,837,758)	\$ (1,640,758)
	=====	=====	=====

See notes to financial statements.

3

ESSENTIAL REALITY, LLC
(A Development Stage Entity)

STATEMENTS OF MEMBERS' EQUITY (DEFICIT) PERIOD FROM JUNE 1, 1999 (DATE OF COMMENCEMENT) TO DECEMBER 31, 1999, YEAR ENDED DECEMBER 31, 2000 AND NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2001 (Unaudited)

	Members' Capital	Note Receivable For Members' Capital	Deficit Accumulated During Development Stage
BALANCE JUNE 1, 1999	\$ --	\$ --	\$ --
Issuance of members' capital	2,500,000	(2,000,000)	--
Net loss	--	--	(221,804)
	-----	-----	-----
BALANCE, DECEMBER 31, 1999	2,500,000	(2,000,000)	(221,804)
Collection of note receivable	--	1,134,547	--
Net loss	--	--	(1,418,954)
	-----	-----	-----
BALANCE, DECEMBER 31, 2000	2,500,000	(865,453)	(1,640,758)
Collection of note receivable	--	865,453	--
Net loss	--	--	(1,837,758)
	-----	-----	-----
BALANCE, SEPTEMBER 30, 2001 (Unaudited)	\$ 2,500,000	\$ --	\$ (3,478,516)

=====

See notes to financial statements.

ESSENTIAL REALITY, LLC
(A Development Stage Entity)

STATEMENTS OF CASH FLOWS

CUMULATIVE PERIOD FROM JUNE 1, 1999 (DATE OF COMMENCEMENT) TO SEPTEMBER 30, 2001 (Unaudited), NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2001 (Unaudited), CUMULATIVE PERIOD FROM JUNE 1, 1999 (DATE OF COMMENCEMENT) TO DECEMBER 31, 2000, YEAR ENDED DECEMBER 31, 2000 AND PERIOD FROM JUNE 1, 1999 (DATE OF COMMENCEMENT) TO DECEMBER 31, 1999

	Cumulative Period from June 1, 1999 (Date of Commencement) to September 30, 2001 (Unaudited)	Nine-Month Period Ended September 30, 2001 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (3,478,516)	\$ (1,837,758)
Depreciation and amortization	8,887	8,887
Amortization of deferred interest	1,675	1,675
Changes in assets and liabilities:		
Prepaid expenses, deposits and other assets	(90,706)	(61,386)
Interest receivable	--	48,716
Accounts payable	340,447	265,209
Accrued compensation	247,203	25,936
	-----	-----
Net cash used in operating activities	(2,971,010)	(1,548,721)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for purchase of domain names	(18,000)	(18,000)
Payments for purchase of fixed assets	(12,948)	(12,948)
	-----	-----
Net cash used in investing activities	(30,948)	(30,948)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of members' capital	500,000	--
Proceeds from repayment of note receivable for members' capital	2,000,000	865,453
Proceeds from bridge loans	400,000	400,000
Proceeds from advances from LCG Capital Group, LLC	76,617	76,617
Proceeds of advances from affiliated companies - net	25,809	6,162
	-----	-----

Edgar Filing: JPAL INC - Form PRER14A

Net cash provided by financing activities	3,002,426	1,348,232
	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	468	(231,437)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	--	231,905
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 468	\$ 468
	=====	=====

SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:

Note received for members' capital	\$ 2,000,000	\$ --
Deferred interest expense - bridge loans	\$ 25,898	\$ 25,898
Accrued interest expense - bridge loans	\$ 27,573	\$ 27,573

June 1, 1999 (Date
of Commencement)
to December 31,
1999

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss	\$ (221,804)
Depreciation and amortization	--
Amortization of deferred interest	--
Changes in assets and liabilities:	
Prepaid expenses, deposits and other assets	--
Interest receivable	--
Accounts payable	12,418
Accrued compensation	--

Net cash used in operating activities	(209,386)

CASH FLOWS FROM INVESTING ACTIVITIES:

Payments for purchase of domain names	--
Payments for purchase of fixed assets	--

Net cash used in investing activities	--

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from issuance of members' capital	500,000
Proceeds from repayment of note receivable for members' capital	--
Proceeds from bridge loans	--
Proceeds from advances from LCG Capital Group, LLC	--
Proceeds of advances from affiliated companies - net	4,100

Net cash provided by financing activities	504,100

INCREASE (DECREASE) IN CASH

Edgar Filing: JPAL INC - Form PRER14A

AND CASH EQUIVALENTS	294,714
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	-- -----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 294,714 =====

SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:

Note received for members' capital	\$ 2,000,000
Deferred interest expense - bridge loans	\$ --
Accrued interest expense - bridge loans	\$ --

See notes to financial statements.

5

ESSENTIAL REALITY, LLC
(A Development Stage Entity)

NOTES TO FINANCIAL STATEMENTS

CUMULATIVE PERIOD FROM JUNE 1, 1999 TO SEPTEMBER 30, 2001 (UNAUDITED),
NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2001 (UNAUDITED), CUMULATIVE PERIOD FROM
JUNE 1, 1999 TO DECEMBER 31, 2000, YEAR ENDED DECEMBER 31, 2000 AND PERIOD FROM
JUNE 1, 1999 (DATE OF COMMENCEMENT) TO DECEMBER 31, 1999

1. THE COMPANY

Essential Reality, LLC (the "Company") was formed as Freedom Multimedia, LLC in the State of Delaware on July 9, 1998 and began active operations on June 1, 1999. The Company changed its name to Essential Reality, LLC on December 29, 1999. The Company was formed to develop, manufacture and market a suite of computer peripheral devices, with initial emphasis on a product called "P5." P5 is a gloved shaped device that controls the movement of the cursor on a computer screen. P5 enables three-dimensional movement of the cursor as well as pitch, yaw and roll. P5 is controlled by the user moving their hand or bending their fingers.

The Company is in the development stage. Successful completion of the Company's development program and ultimately, the attainment of profitable operations is dependent upon future events, including obtaining adequate financing to fulfill its development activities, and achieving a level of revenue adequate to support the Company's cost structure.

Since its commencement, the Company has not generated revenues and has incurred significant recurring losses from operations, working capital deficit and deficit in members' capital. As a result, substantial doubt exists regarding the Company's ability to continue as a going concern. Management is attempting to obtain adequate resources for the Company to complete its development plan and produce, market and sell its primary product. In this regard, management of the Company believes that upon

Edgar Filing: JPAL INC - Form PRER14A

closing of the transaction described in Note 8, it will have sufficient funds to operate for at least the next five months. Should the transaction not close, the Company would be required to seek alternative sources of financing.

The financial statements have been prepared in conformity with the Statement of Financial Accounting Standards ("SFAS") No. 7, Accounting and Reporting by Development Stage Enterprises. As a development stage entity with no commercial operating history, the Company is subject to all of the risks and uncertainties inherent in the establishment of a new business enterprise. To address these risks and uncertainties, the Company must, among other things, respond to competitive developments; attract, retain, and motivate qualified personnel; and support the expense of marketing new products based upon innovative technology. To date, the Company has not recognized product related revenues. As a result of incurring expenses in these developmental activities without generating revenues, the Company has incurred significant losses and negative cash flow from operating activities, and as of December 31, 2000 and September 30, 2001, the Company had cumulative net losses of \$1,640,758 and \$ 3,478,516, respectively, and negative cash flow from operating activities of \$1,422,289 and \$2,971,010, respectively. The Company expects to incur substantial losses and negative cash flow from operating activities for the near future.

6

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Comprehensive Loss - Comprehensive loss is the same as net loss.

Unaudited Interim Financial Statements - The accompanying unaudited balance sheet as of September 30, 2001 and the related statement of operations, members equity (deficit) and cash flows for the nine-month period ended September 30, 2001, in the opinion of management, include all adjustments (consisting of normal recurring accruals) necessary for the fair presentation of the Company's financial position, results of operations and cash flows. The Company believes the disclosures included herein are adequate to make these financial statements not misleading. The results for the nine-month period ended September 30, 2001 are not necessarily indicative of the results to be expected for the full year.

Cash and Cash Equivalents - Cash equivalents include time deposits with maturities of three months or less on the date of purchase.

Domain Name and Fixed Assets - Domain name is recorded at cost, net of accumulated amortization. Fixed assets are recorded at cost, net of related accumulated depreciation. Upon sale or retirement, the cost and related accumulated depreciation and amortization are removed from the respective accounts, and any gain or loss is included in the statement of operations. Maintenance and repair costs are expensed as incurred. Depreciation of fixed assets is computed using the straight-line method based on the estimated useful lives of the assets, which is three to five years, beginning when assets are placed in service. Amortization of domain name is computed using the straight-line method over a period of two years.

Product Development - Product development costs include expenses incurred by the Company to research and develop the P5 product. Product development costs are expensed until such time as the Company determines that a product is technologically feasible. Product development costs are capitalized from such date until such time as product development is substantially complete. Product development costs capitalized will be amortized on the

Edgar Filing: JPAL INC - Form PRER14A

straight-line basis over the lesser of the estimated useful life of the product or three years.

Impairment of Assets - In accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. When such events occur, the Company compares the carrying amount of the assets to undiscounted expected future cash flows. If this comparison indicates that there is impairment, the amount of the impairment loss is then based on the fair value of the asset compared with its carrying value.

Fair Market Value of Financial Instruments - The carrying amount of the Company's cash and cash equivalents, interest receivable, prepaid expenses and deposits, accounts payable, accrued liabilities, accrued compensation and advances from affiliated companies approximates fair market value because of the short maturity of those instruments.

Income Taxes - The Company is not subject to federal or state income tax. The taxable income or loss applicable to the operations of the Company is includable in the federal and state income tax returns of the members.

Effects of Recently Issued Accounting Standards - In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which establishes accounting and reporting standards for derivative instruments and hedging activities. Generally, it requires that an entity recognize all derivatives as either an asset or liability and measure those instruments at fair value as well as identify the conditions for which a derivative may be specifically designed as a hedge. SFAS No. 133 is effective for fiscal years beginning after June 15, 2000. The adoption of SFAS 133, effective January 1, 2001, did not have an impact on the Company's financial position, results of operations, or cash flows. The Company currently does not have any derivative instruments and is not engaged in hedging activities.

7

On June 29, 2001, the FASB approved for issuance SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Intangibles Assets. Major provisions of these statements are as follows: all business combinations initiated after June 30, 2001 must use the purchase method of accounting; the pooling of interest method of accounting is prohibited except for transactions initiated before July 1, 2001; intangible assets acquired in a business combination must be recorded separately from goodwill if they arise from contractual or other legal rights or are separable from the acquired entity and can be sold, transferred, licensed, rented or exchanged, either individually or as part of a related contract, asset or liability; goodwill and intangible assets with indefinite lives are not amortized but are tested for impairment annually, except in certain circumstances, and whenever there is an impairment indicator; all acquired goodwill must be assigned to reporting units for purposes of impairment testing, and effective January 1, 2002, goodwill will no longer be subject to amortization. Although it is still reviewing the provisions of these statements, management's preliminary assessment is that these statements will not have a material impact on the Company's financial position or results of operations.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires companies to record the fair

Edgar Filing: JPAL INC - Form PRER14A

value of a liability for asset retirement obligations in the period in which they are incurred. The statement applies to a company's legal obligations associated with the retirement of tangible long lived assets that result from the acquisition, construction and development or through the normal operation of a long lived asset. When a liability is initially recorded, the company would capitalize the cost, thereby increasing the capital amount of the related asset. The capitalized asset retirement cost is depreciated over the life of the respective asset while the liability is accreted to its present value. Upon settlement of the liability, the obligation is settled at its recorded amount or the company incurs a gain or loss. This statement is effective for fiscal years beginning after June 15, 2002. The Company does not expect that adoption of SFAS No. 143 will have a material impact on the Company's financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long Lived Assets." SFAS No. 144 addresses the accounting and reporting for the impairment or disposal of long-lived assets. The statement provides a single accounting model for long-lived assets to be disposed of. New criteria must be met to classify the asset as an asset for sale. This statement also focuses on reporting the effects of a disposal of a segment of a business. This statement is effective for years beginning after December 15, 2001. The Company does not expect that adoption of SFAS No. 144 will have a material impact on the Company's financial position or results of operations.

3. FIXED ASSETS

At September 30, 2001 the fixed assets were comprised of \$10,948 of office furniture and equipment and \$2,000 for computer equipment. Depreciation expense for the nine-month period ended September 30, 2001 amounted to \$2,137.

4. BRIDGE LOANS

Pursuant to the Contribution Agreement described in Note 8, a third party has arranged for bridge loans of up to \$2,100,000. The bridge loans are unsecured and bear interest at the rate of 8 1/2 % per annum, however interest does not begin to accrue until January 31, 2002. The bridge loans, together with accrued interest thereon become payable on the earlier of i) August 23, 2002, ii) the closing of the transactions contemplated by the Contribution Agreement by and among the Company and its members and JPAL, Inc. ("JPAL") and (iii) the sale or exchange of all or substantially all of the membership interests of the Company which results in the Company having an infusion of \$4.5 million in capital. The bridge loans include the issuance to the lenders of up to 840,000 warrants to purchase common shares of JPAL for an exercise price of \$3 per common share. Such warrants expire in August 2004.

8

Through September 2001, the Company received bridge loans of \$400,000 from JPAL. From October 1, 2001 to January 11, 2002, the Company received an additional \$1,250,000 of bridge loans from JPAL.

The Company recorded accrued interest on the bridge loans in the amount of \$27,573 representing the interest payable on the bridge loans advanced through September 30, 2001, of which \$1,675 for the nine-month period ended September 30, 2001 was expensed and \$25,898 was recorded as deferred

Edgar Filing: JPAL INC - Form PRER14A

interest.

5. COMMITMENTS AND CONTINGENCIES

Operating Leases

- a. Premises - The Company shares the cost of premises with a company affiliated with certain members of an investor, LCG Capital Group, LLC (formerly Lenox Capital Group LLC) ("LCG"). The lease term is month-to-month. The Company is not directly obligated under the lease; however, its portion of the minimum required payment is \$3,750 per month. Rent expense for the nine-month period ended September 30, 2001, the year ended December 31, 2000 and the period from June 1, 1999 to December 31, 1999 totaled \$20,145, \$27,083 and \$0, respectively.

In November 2001, the Company entered a lease for premises which provides for the following rental payments:

Year Ending December 31,

2002	\$119,000
2003	132,000
2004	135,000
2005	138,000
2006	141,000
2007	14,000

- b. Computer Leases - The Company is allocated costs of computer leases under leases assumed by a company related to a certain member of LCG. The Company is not directly obligated under the leases, however its portion of the minimum payments under the leases were as follows:

Year Ending December 31,

2001	\$19,000
2002	19,000
2003	6,000

Development Contracts

- a. In March 2000, the Company entered into a consulting agreement, which requires the Company to pay to the consultant, \$0.25 for each unit of the P5 sold.
- b. In June 2000, the Company entered into a memorandum of understanding, which provides for an exclusive and renewable, two-year license for a certain component of P5 starting from the date P5 is launched. Exclusivity is based on a minimum number of P5 units sold of 100,000 for the first nine months after launch, 150,000 units in the second nine months after launch and 300,000 units in the third nine months after launch. The memorandum of understanding will be automatically renewed for additional years if royalties are \$400,000 for the first year and \$750,000 for each year thereafter. Royalties are 2.5% of P5's net sales. Included in product development expense for the year ended December 31, 2000 is an advance royalty payment of \$55,000. An additional \$20,000 advance royalty payment is due upon delivery of an acceptable prototype of the component.

- c. In July 2000, the Company entered into an agreement for product development with a company, which is owned by a person who is related to certain members of the Company (see Note 7). Pursuant to the agreement, the Company is required to pay royalties of 1.8% on net sales of P5 and 9% of the license fee collected by the Company with respect to P5.
- d. In August 2000, the Company entered into a memorandum of understanding, which provides for a renewable, two-year license for a certain component of P5. Royalties are calculated as the number of units of P5 sold multiplied by the greater of a) \$0.25 and b) the difference between the manufacturing cost of the licensed component and an alternative component with a minimum license fee of \$125,000 per annum. Should the Company not use the licensed component no royalties would be due pursuant to the memorandum of understanding. Included in product development expense for the year ended December 31, 2000 and for the nine-month period ended September 30, 2001 are development fees of \$25,000 and \$25,000, respectively.
- e. In January 2001, the Company entered into memorandum of understanding for the development of certain components of P5. Pursuant to the memorandum of understanding, the Company is required to pay royalties of 1% of P5's net sales to the developer. A nonrefundable royalty advance of \$10,000 and \$5,000 is included in product development for the year ended December 31, 2000 and for the nine-month period ended September 30, 2001, respectively. The Company is required to pay a further royalty advance of \$35,000 should the Company incorporate the component developed pursuant to the memorandum of understanding into P5. Should the Company not incorporate the component developed pursuant to the memorandum of understanding into P5, it will not to be obligated to pay the \$35,000 royalty advance nor the 1% royalty on future sales.
- f. In July 2001, the Company entered a development agreement for the development of certain components of P5. Pursuant to this development agreement, the Company paid a development fee of \$90,000 for the nine-month period ended September 30, 2001. Thereafter, the Company, at its discretion, may continue the monthly fee and for a period of nine additional months on a month-to-month basis. In addition to the development fee, the Company is required to pay base royalties of 1% of net sales generated from P5 and an additional 0.5% of net sales generated from P5 if the developer meets certain milestones defined in this development agreement.

6. MEMBERS' CAPITAL AND NOTE RECEIVABLE

In December 1999, LCG Capital Group, LLC acquired a 50% interest in the Company for an aggregate purchase price of \$2,500,000. The consideration received was comprised of \$500,000 in cash and a \$2,000,000 note. The note bore interest at the rate of 6% per annum, had a maturity date of December 13, 2002 and was secured by the membership interest of LCG capital Group, LLC. The remaining 50% interest in the Company represents ownership by the founders of the Company. The note receivable for members' capital was fully repaid in July 2001.

Edgar Filing: JPAL INC - Form PRER14A

The Company recorded interest income of \$20,465 and \$103,459 for the nine-month period ended September 30, 2001 and for the year ended December 31, 2000, respectively.

10

7. RELATED PARTY BALANCES AND TRANSACTIONS

Accrued compensation of \$247,203 and \$221,267 at September 30, 2001 and December 31, 2000, respectively, is payable to certain officers and members of the Company. The amounts are due on demand and are non-interest bearing.

Advances are from entities that are affiliated with LCG. The advances are payable on demand and bear interest at the rate of 10% per annum.

Advances from LCG are non-interest bearing and payable on demand.

Included in prepaid expense, deposits and other assets at September 30, 2001 and December 31, 2000 is \$22,500 which represents the Company's portion of a letter of credit required to secure computer leases and \$6,000 relating to a security deposit on premises due from LCG.

Included in product development costs are \$105,000 and \$145,000 for the year ended December 31, 2000 and for the period from June 1, 1999 to December 31, 1999, respectively, paid to a company owned by an individual related to certain members of the Company.

Included in marketing expense are \$66,400 for the nine-month period ended September 30, 2001, paid to a company owned by a person related to certain members of the Company.

Included in general and administrative expenses are costs incurred of \$141,800, \$147,840 and \$0 for the nine-month period ended September 30, 2001, the year ended December 31, 2000 and for the period from June 1, 1999 to December 31, 1999, respectively, by two entities that are related to certain members of LCG. Such costs include consulting fees, employee salaries, occupancy, telephone and computer leases. In the case of employee salaries, costs are allocated to the Company based on the time each employee conducts business specific to the Company. In the case of the other expenses, costs are allocated based on a percentage of resources used by the Company.

8. CONTRIBUTION AGREEMENT

In August 2001 and as amended as of October 31, 2001 and November 30, 2001, the Company and its members entered into an agreement (the "Contribution Agreement") with JPAL, a publicly traded company, to contribute their membership interests in the Company in exchange for up to 11,000,000 common shares of JPAL (the "Exchange"). Pursuant to the Contribution Agreement, the shareholders of JPAL will retain their shares in JPAL. The members of the Company will receive shares of common stock of the merged entity representing approximately 60% of the equity of the merged entity, on a fully diluted basis.

The transaction is expected to be accounted for as a reverse acquisition in which the Company is the accounting acquirer and JPAL is the legal acquirer. The management of the Company is expected to remain the

Edgar Filing: JPAL INC - Form PRER14A

management of the merged entity. Since the Exchange is expected to be accounted for as a reverse acquisition and not a business combination, no goodwill is expected to be recorded in connection with the Exchange and the costs incurred in connection with the Exchange are expected to be accounted for as a reduction of additional paid-in capital.

The Exchange is contingent upon JPAL having, immediately prior to the Exchange:

- o \$4,500,000 in cash plus \$35,000 in additional cash necessary to repay certain loans; and
- o Capitalization of: (i) 4,695,055 issued and outstanding common shares and; (ii) up to 2,625,714 warrants to purchase common shares at the exercise price of between \$3.00 and \$3.75 per common share.

The Exchange may be terminated by either party if the closing does not occur on or before January 31, 2002, which date may be extended for up to 30 days by the mutual consent of the parties.

11

Concurrent with the Exchange, the Company expects to establish a stock incentive plan pursuant to which the merged entity may grant options, stock appreciation rights, restricted stock and/or other equity-based incentives to its directors, employees, consultants and advisors for up to an aggregate of 3,500,000 shares of its common stock.

* * * * *

12