

CONFIDENTIAL

HAPPY THINGS

MEMORANDUM OF TERMS

This Memorandum of Terms represents only the current thinking of the parties with respect to certain of the major issues relating to the proposed private offering and does not constitute a legally binding agreement. This Memorandum of Terms does not constitute an offer to sell or a solicitation of an offer to buy securities in any state where the offer or sale is not permitted.

THE OFFERING

<i>Issuer:</i>	Happy Things, a Delaware corporation (the “ <i>Company</i> ”)
<i>Securities:</i>	Series A Preferred Stock (the “ <i>Series A Preferred</i> ”)
<i>Valuation of the Company:</i>	\$3,000,000 pre-money
<i>Amount of the offering:</i>	Up to \$1,000,000
<i>Consideration:</i>	Cash
<i>Number of securities:</i>	{ _____ } shares
<i>Price per share:</i>	{ \$ _____ }
<i>Investors:</i>	Jack Sparrow or affiliated entities, and other investors acceptable to the Company.
<i>Anticipated closing date:</i>	Initial closing on or before April 3, 2013, with one or more additional closings within 60 days thereafter.

TERMS OF THE PREFERRED

<i>Dividends:</i>	<i>Dividend rate:</i> 8%
	<i>Cumulation:</i> Noncumulative
	<i>Priority:</i> <i>Pari passu</i> with common.
<i>Liquidation preference:</i>	<i>Pari passu</i> with common (no liquidation preference).
<i>Redemption:</i>	The Series A Preferred will not have redemption rights.
<i>Conversion:</i>	The Series A Preferred may be converted at any time, at the option of the holder, into shares of common stock. The conversion rate will initially be 1:1, subject to anti-dilution and other customary adjustments.

***Automatic conversion:***

Each share of preferred stock will automatically convert into common stock, at the then applicable conversion rate, upon (i) the closing of a firmly underwritten public offering of common stock (a “***Qualified Public Offering***”), or (ii) the consent of the holders of {specify consent threshold} of the then outstanding shares of the preferred stock.

***Anti-dilution:***

*Adjustments.* The conversion price of the Series A Preferred will be subject to adjustment, on a broad-based weighted-average basis, if the Company issues additional securities at a price per share less than the then applicable conversion price.

*Exceptions.* There will be no adjustment to the conversion price for:

- shares issued upon conversion of the Series A Preferred; and
- shares that are otherwise excluded by consent of holders of a majority of the Series A Preferred.

***“Pay-to-play” requirement:***

If a holder of preferred stock fails to participate in this financing on a *pro rata* basis, then such holder .

***General voting rights:***

Each share of preferred stock will have the right to a number of votes equal to the number of shares of common stock issuable upon conversion of each such share of preferred stock. The preferred stock will vote with the common stock on all matters except as specifically provided in the certificate of incorporation or as otherwise required by law.

***Voting for directors:***

The holders of Series A Preferred will be entitled to elect five directors. The holders of common stock will be entitled to elect twenty directors. Any additional directors will be elected by the holders of preferred stock and common stock voting together.

***Protective provisions:***

Consent of the holders of at least 50% of the Series A Preferred will be required to:

- declare or pay any dividend or distribution or approve any repurchase with respect to the preferred stock (except as otherwise provided in the certificate of incorporation) or the common stock (subject to customary exceptions).

## **INVESTOR RIGHTS**

***Director liability:***

The directors will be entitled to customary indemnification from the Company and reimbursement of reasonable costs of attendance at board meetings.

***Information rights:***

The Company will deliver to each holder of at least {\_\_\_\_\_} shares of Series A Preferred:

- unaudited annual financial statements within 120 days following year-end; and
- unaudited quarterly financial statements within 45 days following quarter-end.

The information rights will terminate upon an initial public offering.

**EMPLOYEE MATTERS**

***Proprietary information agreements:***

The Company will have all employees and consultants enter into proprietary information and inventions agreements.

**OTHER MATTERS**

***Purchase agreement:***

The investment will be made pursuant to a stock purchase agreement which will contain, among other things, appropriate representations and warranties of the Company and the investors and appropriate conditions of closing.

***Finders:***

The Company and the investors will each indemnify the other for any finder's fees for which they are respectively responsible.

***Conditions precedent:***

The investment will be subject to customary conditions, including but not limited to:

- completion of due diligence to the satisfaction of the investors;
- negotiation and execution of definitive agreements customary in transactions of this nature;
- receipt of all required authorizations, approvals and consents;
- delivery of customary closing certificates; and
- the absence of material adverse changes with respect to the Company.

*(Signature page follows)*

This Memorandum of Terms reflects our mutual intentions as a basis for proceeding toward negotiation of definitive agreements.

**HAPPY THINGS**

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*Signature*

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*Print name*

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*Print title*

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*Date*

**JACK SPARROW**

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*Signature*

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*Print name*

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*Print title*

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*Date*