

U.S. DEPARTMENT OF COMMERCE

**RECORDATION FORM COVER SHEET
TRADEMARKS ONLY**Patent and Trademark Office
Docket No. 48220/5

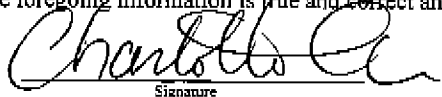
To the Commissioner of Patents and Trademarks: Please record the attached original documents or copy thereof.

1. Name of conveying party(ies): Avalon Digital Marketing Systems, Inc. <input type="checkbox"/> Individual(s) <input type="checkbox"/> Association <input type="checkbox"/> General Partnership <input type="checkbox"/> Limited Partnership <input checked="" type="checkbox"/> Corporation-State: <u>Delaware</u> <input type="checkbox"/> Other: Additional name(s) of conveying party(ies) attached? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	2. Name and address of receiving party(ies): Name: International East-West Capital Associates, Inc. Internal Address: Street Address: 10900 Wilshire Blvd., Suite 950 City: Los Angeles State: CALIFORNIA ZIP: 90024 <input type="checkbox"/> Individual(s) citizenship: _____ <input type="checkbox"/> Association: _____ <input type="checkbox"/> General Partnership: _____ <input type="checkbox"/> Limited Partnership: _____ <input checked="" type="checkbox"/> Corporation-State: <u>Delaware</u> <input type="checkbox"/> Other: _____ Additional name(s) & address(es) attached? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
3. Nature of conveyance: <input type="checkbox"/> Assignment <input type="checkbox"/> Merger <input checked="" type="checkbox"/> Security Agreement <input type="checkbox"/> Change of Name <input type="checkbox"/> Other: Execution Date: February 18, 2003	

4.A. Trademark Application No.(s)	B. Registration No.(s) 2,592,407 2,334,000 2,334,001
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Additional numbers attached? * Yes No

5. Name and address of party to whom correspondence concerning document should be mailed: Charlotte Chen Morrison & Foerster, LLP 555 West Fifth Street, 35th Floor Los Angeles, CA 90013	6. Total number of applications and trademark registrations involved: 3
	7. Total fee (37 C.F.R. § 3.41): \$90.00 <input type="checkbox"/> Enclosed <input checked="" type="checkbox"/> Authorized to be charged to deposit account, referencing Attorney Docket 48220/5
	8. Deposit account number: 03-1952

The Commissioner is hereby authorized to charge any fees under 37 C.F.R. § 1.21 which may be required by this paper, or to credit any overpayment to Deposit Account No. **03-1952**.**DO NOT USE THIS SPACE**
9. Statement and signature.
To the best of my knowledge and belief, the foregoing information is true and correct and any attached copy is a true copy of the original document.
Name: **Charlotte Chen**
 **03/03/03**
Signature Date
Total number of pages comprising cover sheet, attachments and document: **10**Mail documents to be recorded with required cover sheet information to:
Commissioner of Patents and Trademarks
Box Assignments
Washington, D.C. 20231

THIS CONVERTIBLE PROMISSORY NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. IT MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT IN EFFECT WITH RESPECT TO THESE SECURITIES OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO RULE 144 OF SUCH ACT.

**CONVERTIBLE PROMISSORY NOTE
AND SECURITY AGREEMENT**

\$200,000

February 18, 2003

Huntington Beach, California

FOR VALUE RECEIVED, Avalon Digital Marketing Systems, Inc., a Delaware corporation ("**Payor**"), promises to pay to the order of East-West Capital Associates, Inc., a Delaware corporation, or its assigns ("**Holder**"), the principal sum of Two-Hundred Thousand Dollars (\$200,000) ("**Initial Principal Amount**") with interest on the outstanding principal amount at the rate of ten percent (10%) per annum (computed by applying a daily rate equal to 1/365 of the per annum rate to the number of actual calendar days elapsed) or, if less, at the highest rate of interest then permitted under applicable law. Interest shall commence with the date hereof and shall continue on the outstanding principal balance until paid or converted in accordance with the provisions hereof. This convertible promissory note (the "**Note**") is issued pursuant to the terms of that certain Amendment to Agreements (the "**Purchase Agreement**") by and between Payor and Holder of even date herewith.

1. **Maturity.** Unless sooner paid or converted in accordance with the terms hereof, the entire unpaid balance of principal and all unpaid accrued interest shall become fully due and payable on the earlier to occur of (a) June 18, 2003 or (b) the closing by Payor of a capital-raising transaction involving the sale of equity or debt securities involving gross proceeds to Payor of at least \$500,000 (the "**Maturity Date**").

2. **Payments.**

(a) **Form of Payment.** All payments of principal and accrued interest, other than payment by way of conversion, shall be in lawful money of the United States of America to Holder, at the address specified in Section 9 below, or at such other address as may be specified from time to time by Holder in a written notice delivered to Payor in accordance with Section 9 below. All cash payments shall be applied first to accrued and unpaid interest, and thereafter to principal.

(b) **Prepayment.** The Notes will be not be prepayable, except with the consent of the holders of a majority of the principal amount of this Note then outstanding.

(c) **Acceleration.** In the event any of the following events occurs (each, an "**Acceleration Event**"), the Holder may, by notice to Payor, declare all or a portion of the

outstanding balance of unpaid principal and interest owed to such Holder under this Note due and payable at such time and Payor shall promptly pay such amount, provided, however, that upon the occurrence of any event described in subsections (i) or (ii) of this Section 3(c), the entire outstanding balance of unpaid principal and interest under this Note shall be automatically due and payable at such time without presentment, demand, protest or notice of any kind, all of which are expressly waived by Payor:

(i) Payor becomes insolvent or admits in writing its inability to pay its debts as they mature, makes an assignment for the benefit of creditors, or applies for or consents to the appointment of a receiver, trustee, or similar officer for it or for all or any substantial part of its property or business, or such receiver, trustee or similar officer is appointed, and such appointment shall continue undischarged for a period of 30 days after such appointment;

(ii) any bankruptcy, insolvency, reorganization or liquidation proceeding or other proceeding for relief under any bankruptcy law or any law for the relief of debtors is instituted by or against Payor and is not discharged within 30 days after such institution, or Payor or all or any material part of its business is in the process of dissolution, liquidation, windup or termination whether pursuant to the terms of any agreement, court order, or otherwise;

(iii) Payor fails to perform any obligation under this Note to pay principal or interest, and does not cure that failure within ten (10) days after the date when due;

(iv) there is a sale, transfer or other disposition of all or substantially all of Payor's assets in one transaction or series of related transactions; or

(v) there is a merger or consolidation in which securities possessing more than fifty percent (50%) of the total combined voting power of Payor's outstanding securities are transferred to a person or persons different from the persons holding those securities immediately prior to such transaction.

3. Conversion.

(a) Conversion Shares. The Holder shall have the right but not the obligation, at any time on or prior to the Maturity Date (or after the Maturity Date with the consent of Payor, if any portion of this Note then remains outstanding), upon issuance of a written request for conversion substantially in the form of Annex A attached hereto received by Payor at least five (5) days prior to the date of requested conversion, to convert all or any portion of the Initial Principal Amount of this Note plus any accrued but unpaid interest on such amount as of the date of conversion into shares of common stock, \$.001 par value per share, of Payor (the "*Common Stock*") at a conversion price equal to the lesser of (the "*Conversion Price*"):

(i) \$1.375 per share, or

(ii) the price per share of Common Stock in an equity financing currently proposed to be placed on behalf of the Company by L.H. Friend, Weinress, Frankson & Presson, LLC (the "*Friend Financing*") if such financing is completed prior to the Maturity Date. In case the Holder elects to convert under this paragraph (ii), (A) the Holder will receive



the same terms and be subject to the same conditions as investors in the Friend Financing, including receipt of warrant coverage and investor rights, and (B) the Holder must convert at the time of the first closing under the Friend Financing.

(b) Additional Conversion Shares. If any portion of this Note is converted into Common Stock pursuant to Section 3(a) (the "*Converted Amount*") and, within twelve (12) months following the date of issuance of this Note Payor issues Additional Shares of Common Stock (as defined below) with a value greater than \$500,000, for a price per share of Common Stock or with warrant coverage that is more favorable to Holder than the Conversion Price applicable to the Converted Amount (a "*Dilutive Equity Financing*"), then Payor shall issue to Holder additional shares of Common Stock and/or warrants on such terms and in such amount that the Holder would have received (when combined with the shares and warrants actually received by Holder upon conversion of the Converted Amount) had the Holder invested the Converted Amount directly in the Dilutive Equity Financing. For purposes of this Section 3(b), the term "*Additional Shares of Common Stock*" shall mean all shares of Common Stock issued by Payor after the date hereof, other than:

(i) shares of capital stock, or options or warrants to purchase capital stock, issued to officers, directors, employees of or service providers to Payor pursuant to plans and arrangements approved by the Board of Directors of Payor;

(ii) shares issuable upon the exercise or conversion of options, warrants or convertible securities which are outstanding on the date hereof;

(iii) shares of capital stock, or options or warrants to purchase capital stock, issued to financial institutions or lessors in connection with bona fide commercial credit arrangements, equipment financings, real property leases, or similar transactions, the terms of which have been approved by the Board of Directors of Payor; and

(iv) shares of capital stock, or options or warrants to purchase capital stock, issued in connection with bona fide acquisitions, mergers or similar transactions, the terms of which are approved by the Board of Directors of Payor.

(c) Reservation of Shares. Prior to the issuance of this Note, Payor shall have reserved and set aside for issuance to Holder the maximum number of shares of Common Stock as would be issuable upon conversion of this Note as of the date of issuance of this Note.

(d) Effectiveness of Conversion. Any conversion pursuant to this Section 3 shall be deemed to have been effected as of the close of business on the date that is five (5) days following the date on which this Note (or portion thereof) is surrendered at the principal office of Payor accompanied by a written conversion request notice. At such time as such conversion has been effected, the rights of Holder under this Note, to the extent of the conversion, shall cease, and Holder shall thereafter be deemed to have become the holder of record of the shares of capital stock issuable upon such conversion.

(c) Issuance of Certificates. As soon as is reasonably practicable after a conversion has been effected, Payor shall deliver to Holder a certificate or certificates representing the number of shares of capital stock (excluding any fractional share) issuable by reason of such conversion in such name or names and such denomination or denominations as Holder has specified.

(f) No Fractional Shares. If any fractional share of capital stock would, except for the provisions hereof, be deliverable upon conversion of this Note, Payor, in lieu of delivering such fractional share, shall pay an amount equal to the value of such fractional share, as determined by the per share conversion price used to effect such conversion.

(g) Issuance Costs. The issuance of certificate for shares of capital stock issuable upon conversion of this Note shall be made without charge to Holder for any issuance tax in respect thereof or other cost incurred by Payor in connection with such conversion and the related issuance of such shares of capital stock. Upon conversion of this Note, Payor shall take all such actions as are necessary in order to ensure that the capital stock issuable with respect to such conversion shall be validly issued, fully paid and nonassessable.

(h) Compliance with Laws and Regulations. Payor shall take all such actions as may be necessary to assure that all shares of capital stock issued upon conversion may be so issued in conformity with and without violation of any applicable law or governmental regulation or any requirement of any domestic securities exchange upon which such shares of capital stock may be listed (except for official notice of issuance which shall be immediately delivered by Payor upon such issuance).

4. Lost, Stolen, Destroyed or Mutilated Notes. In case any Note shall be mutilated, lost, stolen or destroyed, Payor shall issue a new Note of like date, tenor and denomination and deliver the same in exchange and substitution for and upon surrender and cancellation of any mutilated Note, or in lieu of any Note lost, stolen or destroyed, upon receipt of evidence satisfactory to Payor of the loss, theft or destruction of such Note.

5. Security Interest.

(a) As security for each and every obligation, agreement and covenant of Payor to Holder hereunder, including, without limitation, the payment when due of the full amount due hereunder, the payment of all other amounts from time to time owing under this Note, and the full performance of all obligations of Payor hereunder, Payor hereby assigns and pledges to Holder, and grants to Holder, a security interest and lien on, all of Payor's right, title and interest in and to the following described property, whether presently existing or hereafter created or acquired and wherever located (collectively, the "*Collateral*"):

(i) All patents, trademarks, trade names, trade styles, copyrights, licenses, and rights thereunder and registrations thereof, including without limitation U.S. Patent Number 6,449,635;

(ii) All goods, including, but not limited to, machinery, equipment, computers, computer peripherals, furniture, furnishings, fixtures, all motor vehicles, and all accessories, tools, fittings, and parts therefor; and

(iii) All products thereof and all proceeds of the above whether due to voluntary or involuntary disposition, including insurance proceeds.

The terms used to describe such Collateral shall have the meanings assigned by the Uniform Commercial Code as presently enacted in California (the "UCC"); provided that the use of terms which represent only a broader category of items of Collateral (or use of terms which are not defined in the UCC) shall not be deemed to directly or indirectly reduce the more expansive meaning of the terms used in the UCC to define broader categories of such items of Collateral.

(b) Payor shall be entitled, without any consent or approval by Holder, to exercise as it may deem appropriate any and all rights and privileges to which it is entitled as a holder of record of the Collateral, unless and until an Acceleration Event shall have occurred. All non-cash proceeds, any securities or other non-cash property received by Payor in respect of the Collateral, including without limitation any securities or other non-cash property received in exchange for or in addition to the Collateral pursuant to any merger, consolidation or dissolution, shall promptly be delivered in pledge to Holder to be held by Holder and be considered "Collateral" for purposes of this Note. Until the repayment in full of all principal due under this Note, all proceeds (as defined in the UCC) in respect of the Collateral received by Payor and not pledged or applied as a prepayment in accordance with this Note shall be deemed to be held in trust by Payor and as Collateral hereunder for the benefit of Holder.

(c) Payor shall execute all financing statements, continuation statements, assignments, certificates, and other documents and instruments with respect to the Collateral pursuant to the UCC and otherwise as may be necessary or reasonably requested by Holder to perfect or from time to time to publish notice of, or continue or renew the security interests granted hereby (including, without limitation, such financing statements, continuation statements, certificates, and other documents as may be necessary or reasonably requested to perfect a security interest in any additional property or rights hereafter acquired by Payor or in any replacements, products or proceeds thereof), in each case in form satisfactory to Holder. Payor agrees to pay the cost of filing the same in all public offices where filing is necessary or reasonably requested by Holder, and will pay any and all recording, transfer or filing taxes that may be due in connection with any such filing. Payor grants Holder the right, at any time and at Holder's option, and at Payor's expense, to file any or all such financing statements, continuation statements, and other documents pursuant to the UCC and otherwise as Holder reasonably may deem necessary or desirable.

(d) Payor hereby appoints Holder as the Payor's attorney-in-fact to do any and every act that the Payor is obligated by this Note to do, and to exercise all rights of Payor in the Collateral and to make collections and to execute any and all papers and instruments and to do all other things necessary to preserve and protect the Collateral and to make collections and to protect Holder's security interest in the Collateral (without any obligation to do so).

6. Governing Law. This Note is to be construed in accordance with and governed by the internal laws of the State of California without giving effect to any choice of law rule that would cause the application of the laws of any jurisdiction other than the internal laws of the State of California to the rights and duties of Payor and the Holder. All disputes and controversies arising out of or in connection with this Note shall be resolved exclusively by the state and federal courts located in Los Angeles County in the State of California, and each of Payor and the Holder hereto agrees to submit to the jurisdiction of said courts and agrees that venue shall lie exclusively with such courts.

7. Amendment. Any term of this Note may be amended and the observance of any term of this Note may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of Payor and the holders of Notes representing at least a majority of the aggregate amount of indebtedness incurred by Payor under this Note.

8. Notices. Except as may be otherwise provided herein, all notices or other communications hereunder shall be in writing and shall be deemed given upon delivery if delivered personally, two business days after mailing if mailed by prepaid registered or certified mail, return receipt requested, or upon confirmation of good transmission if sent by facsimile, addressed as follows:

(a) If to Holder, to:

East-West Capital Associates, Inc.
 10900 Wilshire Boulevard
 Suite 950
 Los Angeles, California 90024
 Telephone: (310) 209-6150
 Facsimile: (310) 209-6160
 Attention: Ravin Agrawal

with a copy to:

Buchalter, Nemer, Fields & Younger, P.C.
 601 S. Figueroa Street
 Los Angeles, California 90017
 Telephone: (213) 891-5130
 Facsimile: (213) 896-0400
 Attention: Stuart Buchalter

(b) If to Payor, to:

2120 Main Street
 Suite 200
 Huntington Beach, California 92648
 Phone: (714) 536-6200
 Fax: (714) 536-6280
 Attention: Robert Webber

with a copy to:

Morrison & Foerster LLP
 555 West 5th Street, Suite 3500
 Los Angeles, California 90013
 Telephone: (213) 892-5200
 Facsimile: (213) 892-5454
 Attention: Allen Z. Sussman, Esq.

9. Expenses. If any action at law or in equity is necessary to enforce or interpret the terms of this Note, the prevailing party shall be entitled to reasonable attorney's fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.

10. Severability. If one or more provisions of this Note are held to be unenforceable under applicable law, such provision shall be excluded from this Note and the balance of the

Note shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

[The next page is the signature page]



IN WITNESS WHEREOF, Payor has caused this Convertible Promissory Note to be duly
executed by its officers, thereunto duly authorized as of the date first above written.

**AVALON DIGITAL MARKETING
SYSTEMS, INC.**

By: Robert Weber
Name: ROBERT WEBER
Title: CEO

(199)

ANNEX A TO CONVERTIBLE PROMISSORY NOTE
NOTICE OF CONVERSION

To: Avalon Digital Marketing Systems, Inc. (the "Payor")

1. The undersigned Holder hereby submits this Notice of Conversion to Payor and elects to acquire _____ shares of common stock, \$.001 par value per share (the "Common Stock"), of Payor pursuant to the terms of the attached Convertible Promissory Note (the "Note").

2. The undersigned Holder hereby represents that it is acquiring the Common Stock solely for investment for Holder's own account not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that Holder has no present intention of selling, granting any participation in, or otherwise distributing the same.

3. The undersigned Holder is an "accredited investor" within the meaning of Rule 501 of Regulation D of the Securities and Exchange Commission, as presently in effect.

4. The undersigned Holder agrees not to make any disposition of all or any portion of the Common Stock received upon conversion of the Note unless and until (i) there is then in effect a registration statement under the Securities Act of 1933, as amended (the "Act") covering such proposed disposition and such disposition is made in accordance with such registration statement; or (ii) the Holder shall have notified the Company of the proposed disposition and shall have furnished the Company with a statement of the circumstances surrounding the proposed disposition, and if reasonably requested by the Company, the Holder shall have furnished the Company with an opinion of counsel reasonably satisfactory to the Company that such disposition will not require registration of such shares under the Act.

5. Please issue a certificate representing said shares of Common Stock in the following name:

Name:

Address:

IN WITNESS WHEREOF, the holder of the Note has executed this Notice of Conversion effective as of _____.

NOTE HOLDER

By:

Name:

Title: