

**PROMISSORY NOTE
AND SECURITY AGREEMENT**

AVALON DIGITAL MARKETING SYSTEMS, INC.

\$715,000.00

Date: March 18, 2003

In connection with the engagement of MORRISON & FOERSTER LLP, a California limited liability partnership (the "Firm"), by Avalon Digital Marketing Systems, Inc., a Delaware corporation ("Maker"), and in consideration of legal services previously provided by the Firm pursuant to that engagement, Maker hereby promises to pay to the order of the Firm, at its offices located at 345 California Street, San Francisco, California 94104-2675, or at such other place or to such other party as the holder hereof ("Holder") may from time to time designate in writing, by cashier's check or wire transfer, in lawful money of the United States of America: (a) The principal sum of \$715,000.00, together with (b) interest on the outstanding principal balance of this Note at the rate of ten percent (10%) per annum, as set forth more particularly below. The additional terms set forth below shall govern this Promissory Note and Security Agreement (this "Note").

1. Payment of Principal and Interest. The outstanding principal balance of this Note, together with interest thereon computed at the rate provided above, shall be payable as follows:

(a) If Maker consummates any equity or debt financing transaction (in one transaction or series of related transactions) resulting in gross proceeds to Maker of at least \$100,000, then Maker shall repay such portion of this Note and accrued but unpaid interest thereon as shall equal fifteen percent (15%) of the total net proceeds received by Maker in such transaction as such proceeds are received.

(b) On the tenth calendar day of each month (or the next following business day), Maker shall pay to Holder such amount as shall equal ten percent (10%) of Maker's cash and short term investments, as determined under GAAP on a consolidated basis, determined as of the last business day of the prior month before giving effect to payments on this Note or other indebtedness of Maker or its subsidiaries for the prior month (other than payments on indebtedness owed to Zions First National Bank).

All cash payments shall be applied first to accrued and unpaid interest, and thereafter to principal.

2. Prepayment. The outstanding principal balance of this Note and interest accrued and unpaid thereon may be voluntarily prepaid in whole or in part at any time without premium or penalty. In addition, this Note is subject to mandatory prepayment as follows:

(a) Maker shall repay this Note and accrued but unpaid interest in full immediately upon the sale by Maker of all or substantially all of its operating assets, whether in a single transaction or a series of related transactions.

(b) Maker shall repay this Note and accrued but unpaid interest in full immediately upon a Change in Control of Maker. "Change in Control" shall mean: (1) Maker shall merge into or consolidate with another corporation, as a result of which merger or consolidation persons or entities who are not shareholders of Maker as of the date hereof shall beneficially own more than fifty percent (on a fully diluted basis) of the surviving corporation's outstanding voting securities; (2) another entity shall merge into Maker as the result of which persons or entities who are not shareholders of Maker as of the date hereof shall beneficially own more than fifty percent (on a fully diluted basis) of Maker's outstanding voting securities; or (3) any sale of shares of Maker if after such sale more than fifty percent of the outstanding voting securities of Maker is beneficially owned by persons or entities who are not shareholders of Maker as of the date hereof.

3. Events of Default and Remedies. Upon the occurrence of any of the following events (each, an "Event of Default"):

(a) The failure of Maker to make any payment upon this Note within ten (10) days of the date the same becomes due and payable in accordance with the terms hereof; or

(b) The failure of Maker to observe or perform any other term or provision of this Note and the continuation of such failure for twenty (20) days after notice thereof is given to Maker by the Holder hereof; or

(c) Maker becomes insolvent or bankrupt, commits any act of bankruptcy, generally fails to pay its debts as they become due, becomes the subject of any proceedings or action of any regulatory agency or any court relating to its insolvency, makes an assignment for the benefit of its creditors, or enters into any agreement for the extension or readjustment of all or substantially all of Maker's obligations, or there is appointed a trustee, receiver or similar officer for Maker;

then, upon the occurrence of an Event of Default under subparagraph (c) above automatically, and, upon the occurrence of any other Event of Default at the option of the Holder hereof, (1) the entire unpaid principal balance of and accrued and unpaid interest on this Note shall, without notice to or demand of any kind upon Maker or any other person or entity, immediately become due and payable; and (2) the Holder hereof shall have and may exercise any and all rights, powers and remedies available hereunder, at law or in equity.

4. Security Interest.

(a) As security for each and every obligation, agreement and covenant of Maker 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 Maker hereunder, Maker hereby assigns and pledges to Holder, and grants to Holder, a security interest and lien on, all of Maker'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 accounts, accounts receivable, contract rights, chosen in action, money, deposit accounts, certificates of deposit and general intangibles, including tax refund claims, patents, trademarks, trade names, trade styles, copyrights, licenses, and rights thereunder and registrations thereof;

(ii) All inventory whether raw materials, work in process, or finished goods;

(iii) 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;

(iv) All documents, instruments, chattle paper, and letters of credit; and

(v) 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) Maker 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 Event of Default (as defined below) shall have occurred. All non-cash proceeds, any securities or other non-cash property received by Maker 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 Maker and not pledged or applied as a prepayment in accordance with this Note shall be deemed to be held in trust by Maker and as Collateral hereunder for the benefit of Holder.

(c) Maker 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 Maker or in any replacements, products or proceeds thereof), in each case in form satisfactory to Holder. Maker 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. Maker grants Holder the right, at any time and at

Holder's option, and at Maker'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) Maker hereby appoints Holder as the Maker's attorney-in-fact to do any and every act that the Maker is obligated by this Note to do, and to exercise all rights of Maker 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).

5. Attorneys' Fees and Costs. Maker shall pay on demand all reasonable out-of-pocket costs of and expenses of Holder in connection with the collection of amounts due hereunder, including, without limitation, attorneys' fees (including the fees of Holder should it decide to represent itself) incurred in connection therewith, whether any lawsuit is ever filed with respect thereto.

6. Waiver.

(a) Maker and any endorsers hereof, jointly and severally, waive diligence, presentment, protest and demand and also notice of protest, demand, dishonor and nonpayment of this Note, and hereby consent to the acceptance by the Holder hereof of security or the release by the Holder hereof of any security for this Note without any need for any further consent by or notice to, and without in any way affecting the liability of, Maker and any endorsers hereof. The pleading of any statute of limitations as a defense to any demand against Maker or any endorsers hereof is expressly waived by each and all of said parties to the full extent permitted by law.

(b) Maker agrees that the full amount due and owing under this Note to Holder fairly represent the costs of legal services satisfactorily performed by Holder and incurred by Maker at its request and that such amounts represent a liquidated claim for such costs in Holder's favor. As a result of the foregoing, Maker waives any right to contest the payment of any amounts owing hereunder on any claim relating to the performance of legal services or any cost incurred by Holder in connection therewith.

7. Miscellaneous.

(a) The provisions of this Note shall inure to the benefit of and be binding on any successor to Maker, or any assignees hereof, and shall extend to any Holder hereof.

(b) The obligation to pay the Holder of this Note shall be absolute and unconditional and the rights of such Holder shall not be subject to any defense, setoff, counterclaim or recoupment or by reason of any indebtedness or liability at any time owing by Holder to Maker.

(c) This Note shall not be amended unless such amendment is in writing and executed by both Holder and Maker.

(d) This Note shall be governed by and construed in accordance with the internal laws of the State of California without giving effect to its choice of law rules, other than Section 1646.5 of the California Civil Code.

(e) MAKER HEREBY WAIVES ITS RIGHTS TO A TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF OR RELATED TO THIS NOTE OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, IN ANY ACTION, PROCEEDING OR OTHER LITIGATION OF ANY TYPE BROUGHT BY AGAINST MAKER, WHETHER WITH RESPECT TO CONTRACT CLAIMS, TORT CLAIMS, OR OTHERWISE. MAKER HEREBY AGREES THAT ANY SUCH CLAIM OR CAUSE OF ACTION SHALL BE TRIED BY A COURT TRIAL WITHOUT A JURY. WITHOUT LIMITING THE FOREGOING, MAKER FURTHER AGREES THAT ITS RIGHT TO A TRIAL BY JURY IS WAIVED BY OPERATION OF THIS PARAGRAPH AS TO ANY ACTION, COUNTERCLAIM OR OTHER PROCEEDING WHICH SEEKS, IN WHOLE OR IN PART, TO CHALLENGE THE VALIDITY OR ENFORCEABILITY OF THIS NOTE OR ANY PROVISION HEREOF. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS NOTE.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Note as of the date and year first above written.

AVALON DIGITAL MARKETING SYSTEMS, INC.

By: Robert I. Webber
Name: Robert I. Webber
Title: President