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IT'S SURVIVAL OF THE FITTEST IN THE TELECOM INDUSTRY

Jan. 13, 2003, ST. LOUIS —The start of 2003 has many industry analysts speculating on what will happen with the economy this year. Chief among the industries on their watch list is telecommunications. While some of these analysts believe telecommunications will begin a comeback, others do not hold such a rosy view of the industry, predicting it will remain flat.

Locally, Primary Network is one of the very few survivors of the telecom implosion of 2000. Primary Network was a natural outgrowth of CDM Fantasy Sports, an on-line gaming company.

CDM Fantasy Sports began in the early 1990s and initially promoted its fantasy games through a nationally distributed sports publication. Players called a toll-free number connected to a 100-person call center, registered, made their payment, chose players and began playing in a fantasy football or baseball league.

As more and more players registered for leagues, the internet replaced the call-center. The nature of fantasy sports is transaction heavy, particularly in the spring with the start of baseball and fall when football season begins.

The volume increased exponentially and the company needed an internet service provider (ISP) that could handle the large volume of traffic to the web site. After researching a number of ISPs, CDM Fantasy Sports determined that they had the expertise and resources to build their own network. The newly-constructed network became known as CDM Online.

In 1995, CDM Online spun off its network operation and created Primary Network. The network was founded to support an already successful company. With a carrier class network in place and excess bandwidth available, Primary set out to sell connections to individuals as well as businesses.

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Primary Network Survival Story

They met with overwhelming success and customers started requesting bundled products including voice service. To meet their customers' demands, Primary Network began offering telephone service by reselling telephone lines through Southwestern Bell.

By 2000, Primary Network's uniqueness was dwarfed by the myriad other companies who sought to copy them in the internet start up world. With the field of competitors becoming increasingly more crowded, the cash flow was starting to dry up and Primary had to consider its options. The only two viable options were a cash infusion from venture capitalists or sell the network.

A cash infusion from venture capitalists would give the bankers a significant say in the operation of Primary, however, selling the network would dramatically improve the cash flow. Within weeks, Mpower Communications of Rochester, NY stepped forward and made an offer to purchase the network and the deal was finalized in June 2000 with a \$145 million stock transaction.

After Mpower took over the operation, they began to upgrade the network by adding a Class 5 switch which would ultimately lower its customers' monthly bills by allowing the company to purchase lines from SBC wholesale and passing on those savings.

The switch was completed by mid 2001 at a cost of \$40 million dollars. By that time, however, Mpower's management in Rochester had decided to withdraw from 17 markets including St. Louis and Kansas City before the transition could be completed. Mpower offered to resell the network back to the original owners and in June 2001, the Primary Network name was brought out of retirement.

The telecommunications industry was in a quagmire by this time. If Primary was going to survive, it needed to reduce its costs which meant it needed to pare down some of its service offerings. The management team quickly decided that the only way to profitability, indeed survival, was to stick with its core competencies. That meant doing what it did best – internet connectivity.

So Primary discontinued all telephone services but continued to offer its customers several options for internet connectivity including broadband access. They also narrowed their market by selling their products business to business.

As Primary gradually wooed back some of their previous customers and won new ones, they added to their product line with services designed to increase productivity for their customers. They currently offer unique products such as e-mail by phone and e-Port.

Today, Primary Network is still a viable telecommunications company as it continues on solid financial ground. The management team credits its success to building a strong foundation and a common sense approach to the day-to-day operation.

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Primary Network Survival Story

“The key to our success has been building a solid foundation,” said Brian Matthews, CEO. “So many of our competitors in the past built companies on virtual foundations using real money and when things got tough, the foundation just crumbled leaving only a pile of loan papers and angry investors in the rubble,” said Matthews.

“We’re planning for a long and financially healthy future. We offer the right products, at the right time and the right price. By sticking to tried and true business models, I think we’ll be around for a long time,” said Matthews.

Primary Network internet access solutions are available in the St. Louis and Kansas City areas. Primary Network is a Rivercity Internet Group company (RCIG). Other companies under the RCIG umbrella include CDM Fantasy Sports, PrimaryClick, Hostirian, Evad Solutions and internet security products.