

Competitor acquires online storage company FreeDrive

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In the heat of Internet mania in November 1999, Jack Sandner, a hard-nosed Chicago businessman and former chairman of the Chicago Mercantile Exchange, predicted that FreeDrive, his start-up offering free storage online of digital photos, files and music, would be the next Net miracle.

Online storage is "going to be the next big thing, like e-mail. Within five years, we'll have \$1 billion in revenue and 30 million to 40 million people using FreeDrive," Sandner told the Chicago Sun-Times. "I see us joining hands with a huge Internet portal, such as Yahoo! or America Online."

FreeDrive, which had \$20 million in backing from Motorola Inc., EMC and EDS, was sold in an all-stock transaction to its leading rival, Xdrive Technologies Inc. of Marina del Rey, Calif., which has raised \$150 million from AOL Time Warner, Softbank and many others. The size of the deal, announced Monday, was not disclosed.

Xdrive and FreeDrive, both privately held, were the leaders in the online storage market, which has struggled to find a viable business model.

Karl Klessig, Xdrive's president and chief executive and a graduate of Lane Tech High School and the Illinois Institute of Technology, said the new company's headquarters will be in suburban Los Angeles, but the company will build here on FreeDrive's corporate and reseller programs. "We will maintain a presence in Chicago, but we're still discussing how big that will be," he said. FreeDrive has 16 employees.



Jack Sandner

Dean DeBiase, chief executive at FreeDrive, who will be on the Xdrive executive board, said, "This is a good deal for Xdrive and great for our customers because we're more viable."

FreeDrive got its start in 1993 just before the Internet started to emerge as a mass medium, when Sandner and Michael Rhodes, who had been a trader with Sandner's firm, RB&H Financial, started FuturesNet, a secure electronics communications system for futures traders.

The company developed Nextranet, an "instant intranet" with office services, including communications tools and space to park files on which workers collaborate. But Nextranet didn't catch on.

Sandner had sunk \$2 million into the technology, but had few customers.

In 1998, FreeDrive began to offer free online storage, emulating Hot-

mail, which made Internet e-mail popular by offering free accounts. Tech publications raved about FreeDrive, and the company took off in 1999, going in six months from 100,000 members to more than 1 million. The company hoped to make money from banner ads and e-commerce transaction fees.

Klessig said about 30 companies went after the online data storage market. He said Xdrive and FreeDrive, which had strong financial backing, became the leaders and survived while 20 rivals went under.

Klessig said free storage attracted tens of millions of consumers. "The problem was while casual users are interesting, they're not the ones you could build a business on."

"Free" no longer was a virtue. FreeDrive repositioned itself around paying customers, especially trying to win over businesses that put storage to work for their employees or offered online storage to their customers.

Last summer, Sandner stepped aside from day-to-day operations but remained on the board, saying he would be a "rainmaker" to work his Rolodex to make corporate contacts for FreeDrive. He will not be on the Xdrive board.

DeBiase said that with the merger, "We've eliminated the competition. Nobody is left in the space and the market for online storage is starting to pick up because companies want to communicate with their supplier networks outside their firewalls."