

## **Streamload/MediaMax/TheLinkup death spiral dogs Nirvanix**

By Mary A. C. Fallon • 07/31/2008

The "cloud" start-up Nirvanix (DEMO 08) is talking about this week isn't its usual "Internet storage is the future" rap. Instead it's a shadow cast by the meltdown of the company from which it sprang, Streamload (DEMOfall 05), which ceases operation Aug. 8 under its new name - TheLinkup.

Firebombs and misinformation lobbed from the blogosphere have shaken investors, Nirvanix CEO Patrick Harr, and TheLinkup, Inc. CEO Steve Iverson, who espouse different perspectives about the meltdown of an online storage service that will leave about 20,000 paying subscribers without their digital music, video, and photo files.

Blogging this week Nirvanix responded to a year-long tirade from often-anonymous bloggers with its own post disavowing responsibility for losses.

Meanwhile, Iverson and TheLinkup's only other employee John Hood, who manages customer support, have spent a hellish past 12 months answering angry, sometimes abusive, subscribers and bloggers as the duo tried to salvage their broken and broke San Diego company.

"I have gone through multiple experiences in past of building and turning around companies but never like this with firebombs from anonymous people with the express intent to take us down," Harr said.

This meltdown is peppered with hard-learned lessons.

"This is such a bad year," Iverson said. "We made a mistake and users have the right to be upset. Just as many free users are upset as paying users."

It began in 1998 when Steve Iverson, now 32, was an undergraduate student at Pomona College in California studying adaptive data compression algorithms that could squeeze big digital files down to a size affordable for an Internet storage service company. Then the concept was new and companies weren't positioning online storage as "cloud computing" as they do today.

After his college graduation, Iverson founded and self-funded Streamload and evangelized online storage for digital audio files before MP3 players were popular.

Streamload's promise attracted angel investor and computer software entrepreneur Charlie Jackson, whose FutureWave Software went on to become Adobe's Flash. The company chalked up four profitable years, Iverson said. With Jackson as chairman, by August 2004 Streamload had secured \$1.2 million from lead investor Windward Ventures as well as the Enterprise Technology Fund and his hometown - San Diego. That year Iverson was a finalist for Ernest & Young's entrepreneur-of-the-year award.

A year later on the DEMOfall 05 stage, Iverson introduced Streamload's MediaMax product as "a suite of ultra-high capacity online services that helps you manage, share, and access all the files and digital media in your life." Back then as "the world's largest online media center," the MediaMax product aimed at Apple and other companies offering Internet file storage. From 2002 to 2006, Streamload garnered accolades from a handful of technology magazines for innovative products.

But by December 2006, when Streamload's product - MediaMax Version 4 - was available, the 20-person company was losing money and facing more competitors offering free online storage.

With Iverson's blessing, Patrick Harr, former CEO at Preventsys and an entrepreneur in residence at Enterprise Partners Venture Capital, was recruited in January 2007 to raise money and help Streamload adapt to new market conditions, said Dave Titus, an investor and on the board of both Streamload and Nirvanix.

Streamload's storage system was large and complex. In 2006, it was managing more than a petabyte of files (equivalent to roughly one million gigabytes) and the size of its user database along had grown to five terabytes, Titus said.

During Harr's first 60 days, he assessed the situation. Dragging Streamload down was the cost of maintaining nine years worth of data files from free or inactive accounts that brought in no money but cost to maintain, he said. Also troubling Harr was the "abuse" by some of Streamload's non-paying customers using the free storage for illicit files like pirated music and pornography. The FBI received several warrants to search Streamload's files including one after Harr joined the company, he said.

While doubting the viability of Streamload's business model, Harr was excited about its technical prowess.

"It was managing a petabyte and a half of storage and had done that well," Harr said. "But the company began to outpace itself and couldn't scale on its older technology. The engineering team had turned over twice. Its business model was very broken. And I was flooded with customer complaints. I give Steve a lot of credit, but he pushed the envelope too hard, too quickly and didn't check in with the market."

Iverson remained passionate about selling MediaMax as a consumer product. Harr advocated letting it "gracefully die" and creating a new company selling "cloud" storage to paying enterprise customers, he said.

More trouble happened on June 15, 2007 when a Streamload system administrator's script accidentally misidentified and deleted "good data" along with the "dead data" of some 3.5 million former user accounts and files. It would take until October 2007 for a third-party firm to recover 96% of MediaMax customers' files and bring them back online, Harr said.

Despite the ongoing problem with customers' files, on July 1, 2007 Streamload's board of directors split the company into two independent businesses. Streamload changed its name to Nirvanix. It kept many of the former company's physical assets and employees, and secured \$12 million in initial venture funding.

The MediaMax consumer product and its disgruntled customers went to Iverson as CEO of a "new" business that adopted the product name. MediaMax, Inc. had only about \$500,000 in working capital at this point, Iverson said. Programmers started working on the fifth version of the product. The "new" company planned to disable its free online storage service and to convert customers to a \$6 a month subscription model. Iverson sold his Nirvanix stock for "a small amount of money. I didn't wait for the homerun," he said.

However, MediaMax Version 5 didn't score. Some customers were irate that the old free service was disabled before they retrieved their files. Others were upset that the V5 product, despite having some interesting features, isn't meet basic needs. Like Version 4, iMediaMax Version 5 suffered from feature creep. By October 2007, Iverson blogged "on version 5 we added features that people didn't want, we didn't focus on making our core functionality the best it could be."

By April 8, 2008 with the popularity of social networking soaring, Iverson decided to re-launch 10-month-old MediaMax, Inc. as a new company called The Linkup - marketed as "a social networking site based around storage." This final move unraveled the company. Iverson told customers they had three weeks to use the MediaMax Version 5 "mover" tool to migrate their personal files to TheLinkup's new data center, but the code didn't work correctly. The files - stored on servers owned by Nirvanix but not part of the Nirvanix storage delivery network product - wouldn't transfer, Harr said.

After more than two months of fending off angry customers and failing to write code that moves the files, TheLinkup is closing next Friday.

"No one has the time, money, or inclination to do the engineering to figure out why the files didn't migrate," Titus said. Paul Scott of Windward Ventures, acting as the company's chief financial officer, is contemplating filing company bankruptcy and other strategies to wind down the company and pay creditors, Iverson said.

Iverson said he hasn't had much time to contemplate what he's learned from the death spiral of his first company other than "MediaMax and Nirvanix didn't share the same vision for their relationship. I overlooked it, thinking it will work itself out. This has been painful, but all the successes along the way outweigh that pain in the long run."

### **Chronology of a Meltdown**

12/06 - Struggling financially and technically, Streamload markets MediaMax Version 4 and manages eight billion files.

01/07 - Streamload founder Steve Iverson is replaced as CEO by Patrick Harr. Iverson becomes Streamload's chief technology officer.

04/07 - Streamload's board formally approves splitting the company into two, separate businesses.

06/15/07 – Streamload accidentally misidentifies and deletes "good data" along with the "dead data" of 3.5 million files.

07/01/07 - Streamload becomes Nirvanix, Inc. with Harr as CEO. Nirvanix spins out MediaMax, which adopts its consumer product's name as its company name with Iverson as CEO.

07/07 - Iverson tells 20,000 MediaMax subscribers in a blog post that their files are inaccessible.

09/07 - Nirvanix secures \$12 million in venture funding.

10/07 - 96% of the MediaMax customer files are recovered by a third party.

10/10/07 - Nirvanix introduces a storage delivery network product for enterprises.

10/07 - Iverson blogs MediaMax Version 5 "is not what people want."

12/07 - Nirvanix secures \$5 million from Intel Capital.

01/28/08 - Nirvanix introduces a network expansion and new media services at DEMO 08.

04/08/08 - MediaMax relaunches itself as TheLinkup, Inc. and tells customers to transfer their MediaMax Version 5 files to TheLinkup.

04/15/08 - Nirvanix secures \$1 million from a European VC, topping its financing at \$18 million.

04/30/08 - Transferring files to TheLinkup fails. Customers are allowed to continue using their MediaMax accounts.

07/09/08 - TheLinkup blog announces the company's Aug. 8 closing.

07/28/08 Nirvanix blogs about MediaMax/TheLinkup to "clarify false information."

08/08/08 - TheLinkup's self-imposed deadline to shut down