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## Arbinet draws \$35 million

By Katherine Goncharoff Posted 06:15 EST, 11, Jul 2001

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A New York-based online exchange with lofty plans to change the dealmaking structure of the telecom industry has closed on a \$35 million fifth round of funding.

New York-based **Arbinet-thexchange**, founded in 1998 by its now vice-chairman Alex Mashinsky, was backed by **EnerTech Capital** of Wayne, Pa., which led the round, **Entrepia Ventures** of New York and **Nichimen Corp.**, a Japanese trading house. Arbinet has managed to retain the support of previous investors **BancBoston Ventures** of Boston; **ComVentures** of Palo Alto, Calif.; **J.P. Morgan Partners** of New York; and **Van Wagoner Capital Management** of San Francisco.

Chicago-based placement agent **Advanced Equities** assisted in the fund-raising effort. Law firm **Paul, Hastings, Janofsky & Walker** of New York advised on the deal.

Arbinet runs an online, real-time and anonymous spot trading market for long-distance minutes used by Baby Bells, competitive local exchange carriers and Internet Service Providers.

The company capitalizes on the vagaries of a world market in which no single carrier connects to every continent and region. For instance, while **AT&T Corp.** lines serve North America, **British Telecom's** network dominates in the U.K. and **Deutsche Telekom** in Germany. Carriers traditionally sign long-term contracts that settle the bills for millions of calls that are handed off between carriers' infrastructure. Arbinet's method allows the phone companies to trade minutes more efficiently.

"Arbinet is all about lowering the cost of operations for all the long-distance phone companies and to provide them with a much more cost effective way of delivering their off-network calls," said Jim McLain, a partner at ComVentures. "The Arbinet model is working, and frankly, the market for this type of service is even more attractive now that the telephone companies are desperate to save money."

The new funding, which brings the company's total private funding to \$114.6 million, came at a lower valuation than the last round. McLain said its value is now "north of \$100 [million] and south of \$200 [million]," though far less than the \$800 million post-round valuation the company achieved when it filed for an IPO in the first quarter of 2000 before an inhospitable stock market squashed those plans.

Arbinet was among the first to introduce online dealmaking to the telecom industry, along with industry pioneers **Band-X** in the U.K. and **RateXchange** in California. There are now at least 20 startups involved in either the trading of long-distance minutes, bandwidth or a combination of the two, though most do not offer a real time market like Arbinet, according to Probe Research of Cedar Knolls, N.J.

Today, thanks to telecom deregulation, there are hundreds of telephone companies handling long-distance calls.

Arbinet executive vice president and CFO Robert Vaters said his money saving system will thrive in the troubled environment for telecoms.

"We are an anonymous, neutral exchange for the trading of excess capacity and in that respect, we help telecom companies save money," Vaters said. "The industry needs our help more than ever. It's under a lot of pressure to get more income out of its assets, and that's what we help them to do."

He said that in the past year the company has grown its customer base from 40 to 130 carriers. It has 100 employees in its offices in New York, London, Los Angeles and Virginia and plans to enter Asia with the aid of assistance of investor Nichimen.

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