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Q-Optics snags profitable first round

by Lou Whiteman Posted 02:45 EST, 12, Aug 2001

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Try telling Alex Mashinsky that this is not a good market for raising venture capital funding. Just a month after securing \$35 million for one of two startups he founded, the Russian-born, Israel-educated entrepreneur is expected to announce Aug. 13 that he has raised \$11 million in first-round funding for his latest enterprise. The company, New York-based **Q-Optics Inc.**, is building a software operating system designed to provide better management of optical networks.

Warburg Pincus llc of New York led the round with a \$10.5 million contribution. The remainder came from a handful of other contributors, including a venture fund run by **Brobeck, Phleger & Harrison llp**, Mashinsky's law firm on the transaction.

Exact terms of the deal were not released, but Mashinsky said his 1-year-old company was valued at between \$22 million and \$33 million following the funding.

This round comes on the heels of Mashinsky's other company, **Arbinet-thexchange**, snagging \$35 million in its fifth round. That 3-year-old company runs an online spot trading market for long-distance minutes used by Baby Bells, competitive local exchange carriers and Internet service providers. Warburg Pincus is not involved with Arbinet.

Mashinsky said it wasn't easy juggling term sheets coming in on two separate companies. But he said that lessons learned from Arbinet did help him in securing investors for Q-Optics.

Seeing how difficult it is to keep 12 principal investors on the same page — as he has to do as vice chairman of Arbinet — Mashinsky said he wanted to find one strong lead investor for Q-Optics. So when confronted with the luxury of multiple term sheets for the startup, he said he chose Warburg not just on reputation but because it was willing to provide most of the capital on its own.

"In bad markets, everyone wants to pull the cart in multiple directions, making it harder," he said. "By going with Warburg, we have one voice representing our investors, which saves us a lot of time."

Mashinsky said he envisions Q-Optics' software doing for optical networks what **Microsoft Corp.**'s operating systems did for the PC industry in the early 1980s. Just as with computing back then, optics today has "better, faster hardware being created every day, but there is very little software available to make it more user friendly, more manageable," he said.

While optical carriers use methods reminiscent of the 1920s operator-based phone network to connect customers, Mashinsky said he hopes Q-Optics software will automate the process similar to how phone switches changed Ma Bell. Carriers could use the software to quickly provision bandwidth, making it more cost effective to sell bandwidth to customers on a short-term basis.

Many startups and established companies are also working on ways to provision bandwidth using an array of hardware solutions, but Mashinsky insists that Q-Optics is the only firm addressing the problem through a software operating system.

The capital will be used by Q-Optics, which has nine employees, to get through its beta test with five unnamed customers. Mashinsky said he expects to raise additional capital in a year's time and could need two more rounds of funding before Q-Optics is self-sustaining. He expects to hit profitability in about two years.

A portion of future funding could go for an acquisition. Mashinsky said that Q-Optics would consider buying a firm with an existing optical product line to get access to its customer list.

"I believe a lot of the companies out there are going to be trading for cash or less in the near future," he said. "If we can pick up someone with a product that would help us get through to customers, a deal could make sense."

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