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Lanstein's Multiple Organics bags more than \$13M in revenue.



"Our phone is ringing off the hook from companies looking to sell us equipment," CEO Gilberd says.

PHOTO: JOE HARVEY

Snapping up secondhand goods pays off

Equipment reseller thrives in not-so-booming times

BY ADRIENNE SANDERS
San Francisco Business Times

Townsend Networks has a habit of growing when the economy is not.

The San Francisco firm sells used computer networking equipment to businesses who don't want — or can't afford — to buy it new. When companies are pinched for cash, demand for Townsend's secondhand routers and switches rises. So does supply.

Sinking mortgage-related concerns recently have sold off a couple of hundred million dollars worth of used equipment, said Townsend CEO and co-founder Peter Gilberd. And such distressed asset sales are an especially profitable part of Townsend's business.

"We got more calls in the first three months of this year than I remember getting all of last year," he said. "Our phone is ringing off the hook from companies looking to sell us equipment."

Townsend is still a small player, particularly compared to a rival such as Santa Barbara-based Network Hardware Resale, the leader in used Cisco equipment, a \$3 billion market.

But it has dug a sturdy niche, particularly in brokering Foundry Networks gear, and it's roughly on par with Hula Networks, another San Francisco reseller.

Townsend has 1,500 customers in 30 countries, with roughly 22 percent of its business coming from overseas. Gilberd said that the relatively weak dollar will likely drive up that percentage despite the company's lack of targeted international marketing.

The company's domestic customers include IT-intensive startups like Burlingame-based BitGravity, which built its high-definition video-on-demand system largely on used Foundry equipment from Townsend. Peter Kranz, CEO and Founder of Oakland-based Internet service provider Unwired Ltd. said Townsend's competitive pricing, fast delivery and 12-month guarantee keeps him coming back.

"New equipment from Cisco is very, very expensive. It would cost us half a million dollars per site and we have a few. That level of investment doesn't match the level of return so the alternative is the secondary market."

Townsend's revenue reached \$5 million in 2007 and Gilberd expects it to grow 30 percent this year to \$6.5 million. Profit margins, he said, are growing faster than revenue.

Gilberd plans to add three employees to his staff of nine this year and will move into a 5,000-square-foot space in SoMa from his

original 3,500-square-foot office on Townsend Street, where he started the company in 2002 as Townsend Assets Group. In its early days, Townsend snapped up castoffs like Aeron chairs and PCs from neighborhood dot-coms. Six months after incorporating, before they had secured a first customer, Gilberd and his partner Bob Michaelian borrowed nearly \$1 million from a private lender to buy a large lot of Cisco gear from Cable and Wireless. Through Ebay and other web sites, they found buyers within weeks.

"The deal was immensely profitable and definitely put our company on the map," he said. The co-founders soon began to develop relationships with more customers and resellers and decided to focus on what they saw as the more valuable gear-networking equipment. In January, the company changed its name to Townsend Networks to reflect its specialty.

Gilberd said the team's goal is to build a sellable business by 2010. And, he added, the economy need not remain in a slump to boost Townsend's value. Citing Cisco, he noted, "The good news is that worldwide Internet traffic is growing at a compounded annual rate of 42 percent. By 2011, the U.S. Internet backbone will be 1,160 times bigger than it was in 2000. And we sell Internet plumbing."

SNAPSHOT: Townsend Networks

Company location:

San Francisco.

CEO, co-founder:
Peter Gilberd.

COO, co-founder: Bob Michaelian.

2008 revenue:
\$6.5 million (projected).

2007 revenue:
\$5 million.

2006 revenue: \$3.65 million.

Year founded: 2002.

Number of employees: 9.

Web site:
townsendassets.com