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Photo courtesy Port of Long Beach

Port of Long Beach: container cargo imports declined 23.5% in January compared to same month last year

Port Discord Starts to Seep Into OC

ECONOMY: Inventories, air shipments help blunt effects so far

By MEDIHA DIMARTINO

Most Orange County-based companies that rely on seaborne shipments have so far managed to work around the labor dispute that's jamming West Coast ports.

Some have stocked up on inventory, while others are resorting to costly air shipments of critical merchandise.

All are counting on an end to cargo bottlenecks before supply chains begin to fray.

"We're hoping for things to be resolved soon, so



Wilson: Irvine-based Toshiba unit "in pretty good shape"

Asia. "While we altered our forecasting and inventory strategies as soon as we started realizing the

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that everyone can get back to normal business operations as quickly as possible," said Daniel Kelley, vice president of marketing at Fountain Valley-based D-Link Systems Inc., the North American unit of D-Link Corp. in Taiwan, which generates about \$1 billion in annual sales of its routers and Wi-Fi cameras made in various markets in

Vans Looks to Asia for Next Chapter of Growth

APPAREL: Expects to near \$3 billion in sales by 2017

By MEDIHA DIMARTINO

Kevin Bailey's goals for Vans Inc. seem quite ambitious.

The president of Vans and VF Corp.'s action-sports division said the Cypress-based footwear and apparel brand will reach the \$2.2 billion revenue mark by year-end.

Revenue will rise to \$2.9 billion by 2017, should the retail stars align with Bailey's vision.

He's no dreamer—Vans' sales jumped 17% last year to \$2 billion.

Where will he find another \$1 billion in new business in three years, though?

Vans' Greensboro, N.C.-based parent has had that in mind since 2012, Bailey said, when it identified the Asia Pacific market as "Vans' fastest growth region," with revenues "expected to nearly triple by the end of 2016 to \$170 million."

VF Corp. doesn't break down revenue figures per region, but it may have underestimated the Asia Pacific market's potential—the market's 2014 sales were about \$200 million and growing quicker than

Vans 82



Bailey: Vans "still relatively new as a brand in the Asia-Pacific region"

Sales of New Homes Reach 10-Year High

REAL ESTATE: Top builders in area combine to top 4,000 mark in 2014

By MARK MUELLER

More than \$3.5 billion was spent on new homes in Orange County last year as the area's busiest builders reported the most sales here in a decade.

The county's 30 largest homebuilders sold 4,032 new single-family homes, condominiums and townhomes here in 2014, a 13% increase from a year earlier, according to this week's Business Journal list.

It's the highest sales total seen in Orange County for new homes since 2004, when sales totaled 4,700 (see chart, page 28).

Single-family home sales, which totaled 2,681, were up by 10% from 2013 and increased for the fourth straight year.

Condo and townhouse sales posted a 20% year-over-year increase, the second year-over-year increase in a row for the segment. Those sales totaled 1,351 last year.

Total new-home sales in Orange County have increased every year since 2009, when the local market bottomed out with fewer than 1,500 sales.

Data for the list was provided by the Costa Mesa

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Quality's New Quantity Adoption of Electronic Medical Records Prompts Diversification at Software Maker

By VITA REED

Quality Systems Inc. has gone from darling to diversification, and the shift in gears looks to be giving the Irvine-based medical software maker and its shares a shot in the arm.

Its core business has long been the software behind electronic medical records that dentists and doctors use to manage their practices.

Lately it has developed a much broader product base to pick up some slack as the



Plochocki: Quality has "transitioned into 32 different product offerings"

adoption of electronic medical records brings maturity to the market's segment.

"We started to see [that] the adoption curve for medical records, like all curves, has a beginning, a middle and an end," said Quality Chief Executive Steven Plochocki. "As our sector was starting to go down the back side of the bell curve, where adoption was starting to hit the 60% to 70% mark, we knew that we needed to restructure operationally and even in our research and development."

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The only source of
knowledge is experience.

— Albert Einstein

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Quality Systems

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Plochocki, who joined Quality's board in 2004 and became chief executive in 2008, said the company has now "transitioned into 32 different product offerings."

The new products have helped stop an unusual slide for Quality shares, which have risen 10% since the start of the year, with a recent market value of just over \$1 billion.

Heyday, Decline

Quality was a steady darling of Wall Street in the days before federal healthcare reform, consistently among the hottest public companies based in OC in terms of growth and market value. Its shares rose 738% between 2000 and 2009.

The run came to a halt toward the end of the decade and continued into last year, when shares dipped 24%.

Much of the decline came as expected benefits from healthcare reform—which mandated an eventual shift to electronic medical records—proved slow to materialize.

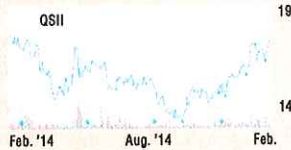
Quality then decided to restructure with an emphasis on development and sales of new products to complement and supplement its electronic medical records business.

The company, which had \$444.7 million in revenue in the 12 months ended March 31, has spent recent months making sure its lengthy list of clients gets familiar with its new product lineup.

Plochocki pointed out one key new product: revenue cycle management software for cod-

Quality Systems Inc.

- **Headquarters:** Irvine
- **Business:** Medical software maker
- **Founded:** 1974
- **Ticker symbol:** QSII (Nasdaq)
- **Fiscal 2014:** \$444.7 million
- **Recent earnings:** \$6.7 million in December quarter
- **Market value:** About \$1.04 billion



ing and documenting health insurance claims to help doctors manage their payments and cash flow.

"It has the best tailwinds of all our product lines," he said.

The revenue cycle management product accounted for \$20.4 million, or 16% of Quality's \$123.4 million revenue in the three months ended Dec. 31, Plochocki said.

Reimbursement Codes

He credits upcoming regulations that will create more billing codes for Medicare, the federal insurance program for elderly people, as a spur to sales.

Medicare will have about 74,000 reimbursement codes by fall compared to about 20,000 today, Plochocki said.

"That will rise to 140,000 reimbursement

codes by 2017," he said.

The company's diversification thrust also takes in population health software, which assists hospitals and other care providers in taking care of groups of people with common conditions, such as diabetics, in an approach that's seen as central to healthcare reform.

Quality also has developed software products for patient management; electronic data interface, which allows the exchange of data via electronic communications; and interoperability, where different types of technology receive and exchange information.

"All of these pieces are vital for physicians to be able to manage patients in low-cost settings so that they can become successful under the new payment model," Plochocki said. "We are now starting to sell them very quickly and rapidly into our large installed base."

'Capitation'

Plochocki referred to the growth of alternative payment models under federal healthcare reform nationwide, such as "capitation," which occurs when insurance providers give doctors set amounts of money in a period of time to take care of their patients.

California adopted capitation in the 1970s and 1980s through HMOs.

Plochocki said federal agencies are hastening moves toward capitation.

"Medicare issued a statement the other day that they want to have at least 90% of Medicare by 2018 totally under a value-based [payment] model," he said.

Quality got in position for such shifts in part with a boost to its R&D spending, which

rose 34% to \$41.5 million in the 12 months ended March 31. The R&D budget equated to about 9% of its revenue, compared with 7% the year prior.

Its goal in making the change was "helping physicians move from the fee-for-service world that we [operated] in into the brand-new, value-based modeling world where they're going to be paid basically a capitated rate, and they're going to have to manage patients very diligently," Plochocki said.

'Resumption of Growth'

"They necessarily had to diversify," said Gene Mannheimer, a longtime Quality observer and senior research analyst at New York-based **Topeka Capital Markets**.

And it has worked, bringing "a resumption of growth" in recent quarters that "is really driven by newer areas of business," Mannheimer said.

One example is Quality's 2013 acquisition of Costa Mesa-based **Mirth Corp.**, which makes technology that helps healthcare providers and institutions such as hospitals achieve interoperability.

"We believe that an expanding [revenue cycle management] pipeline, new product launches and strategic partnerships ... will drive growth going forward," Chicago-based **Zacks Investors Service** said in a research note issued after Quality released its financial results for the three months ended Dec. 31.

So far, so good—Quality swung to a \$6.7 million profit in the quarter from a \$12.6 million loss in the three months ended in December 2013. Its revenue grew 13% over the same period a year earlier. ■

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