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Rival sparks innovation at local Honeywell unit

BY SAM BLACK
STAFF WRITER

For decades, Honeywell International Inc. never had to worry about building buzz for its thermostats: All it had to do was make them. But that's changing.

The company, whose home-control unit is based in Golden Valley and employs 3,500 Minnesotans, is facing an upstart rival for the \$500 million U.S. residential thermostat market in Nest Labs Inc. Nest, whose pedigree includes founders who previously designed Apple Inc.'s iPod, has won praise from influential tech bloggers and other media for its thermostat, which had features Honeywell didn't offer.

Honeywell countered with a patent suit against Nest — it says the startup infringes on its own technology — but it's also promising more innovation (and more marketing) from its venerable home-control business, said Beth Wozniak, president of Honeywell's \$2.8 billion Environmental and Combustion Controls division.

Over the next year, Honeywell will introduce connected thermostats with more features than the first Wi-Fi model it launched this summer, she said.

The new units will allow users to remotely monitor and control temperatures and humidity levels — so a homeowner could turn on the heat via a smartphone — and integrate heating controls with home security or lighting.

The company also will launch a Wi-Fi enabled device in 2013 that sells for a little more than \$100, with limited features.

Honeywell will offer new designs, including one that allows users to



Beth Wozniak, president of Honeywell's Golden Valley-based unit, said the company will unveil more Wi-Fi thermostats.

Community banks doing better, with exceptions

BY JIM HAMMERAND AND MEG O'CONNOR
STAFF WRITERS

At least one more Minnesota lender is likely to fail by the end of the year, but overall performance at Twin Cities banks continues to improve, according to an analysis of third-quarter financial reports recently filed by 104 Twin Cities banks.

Capital levels at 1st Regents Bank, a community bank in Andover with about \$50 million in assets, dropped below a threshold that often triggers regulator shutdowns. The bank lost \$908,000 in the first three quarters of 2012. Sometime during the third quarter, the bank's Tier 1 leverage, or core-capital, ratio dropped to 1.61 percent as of Sept. 30.

Regulators consider banks undercapitalized below 4 percent and typically shut them down after they fall below 2 percent. Closures are not announced until the Friday evening when regulators move in. 1st Regents CEO Tom Lund could not be reached for comment.

The bank has lost nearly \$11.15 million on bad loans since it was last profitable in 2007, according to data from the Federal Deposit Insurance Corp. The bank's assets declined from \$90.88 million at the end of 2009 to \$50.21 million at the beginning of the fourth quarter.

The souring financial situation at 1st Regents might have killed a purchase bid for the bank, though the ultimate reasons are unknown.

Tonka Bay couple Shawn and Linda Weinand, shareholders of 1st Regent

Insurers balk at single-bill knee-replacement packages

BY KATHARINE GRAYSON
STAFF WRITER

Troy Simonson thinks Twin Cities Orthopedics (TCO) has a recipe for making knee-replacement surgery easier on patients and cheaper for health plans. The problem is getting insurance companies to cover it.

Golden Valley-based TCO this summer launched a program called Excel, which bills patients once for all aspects of a total-knee replacement procedure, from the surgery itself to medications. The program saves



Troy Simonson of Twin Cities Orthopedics

LESSONS LEARNED

Attorney Brad Pedersen hopes to get his invention, the NanoQ quadcopter, off the ground by seeking investors from crowd-funding website Kickstarter. **Law Spotlight | 8**

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KNEES: Medica is covering practice's 'bundled-payment plan' in a pilot program

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money partly by avoiding hospital stays. TCO instead sends patients to recover in a "spa-like suite" at York Gardens, an assisted-living facility in Edina, said Simonson, TCO's practice administrator.

The full package costs about \$21,000. Overall, the various bills associated with traditional knee-replacement surgery can add up to almost twice that much, he said. And Simonson expects patients will be more satisfied with Excel's approach, due to its efficiency and the comforts of recovering in a more welcoming setting. Patients also avoid getting a flood of bills for various components of the procedure.

"The concept really came from looking at this whole continuum of care and how can we reduce the cost, improve the care and find a way to improve the overall patient experience," Simonson said.

Despite its advantages, Excel is covered by only one Minnesota insurer, Minnetonka-based Medica. Simonson is still in negotiations with Blue Cross and Blue Shield of Minnesota as well as Bloomington-based HealthPartners Inc.

Insurers don't have patient-safety concerns about Excel's approach, but are struggling to accommodate TCO's "bundled payment" approach in which all services related to one treatment are packaged into a single bill. Bundled payments are expected to become more common as health reform proceeds, but TCO's situation is an example of how it's not always easy to pull off, experts said.

In a statement, Eagan-based Blue Cross said it has been in talks with TCO, but bundled pay-

ments don't necessarily equal lower costs for health plans.

"We currently have a number of providers within our network that deliver comprehensive knee-replacement care at similar prices without bundled pricing," the company said in a statement. "We are continually looking at new ways to enhance our members' experience with new models of care and have been in conversations with Twin Cities Orthopedics regarding the cost and health outcomes of their Excel program."

A Medica spokesman said the insurer will cover Excel on a pilot-program basis until sometime in 2014, but declined to elaborate further on its approach to reimbursement. HealthPartners couldn't be reached for comment before press time.

Reimbursement challenges

Health care providers have experimented with bundled payments in recent years, but the logistics of securing reimbursement is a challenge, said Howard Epstein, an internist and chief health systems officer for the Institute for Clinical Systems Improvement (ICSI), a Bloomington-based nonprofit.

"Our health care system — and the nuts and bolts of administering claims and making payments to doctors — isn't generally set up for this. It makes it very cumbersome," he said. "If it was so easy, it would be a lot more prevalent in the marketplace."

Insurers primarily reimburse health providers on a fee-for-service basis, which makes combining all those services together a challenge, said John Schmitt, managing director of Reliance Consulting Group, an Atlanta-based firm that has advised orthopedics groups and other health care organizations on bundled payments.

"If [insurers are] not geared up to make a single payment, it causes a lot of complexity. They want to make sure they don't double pay for something."

He added that TCO is unusual in that it proposed the single-bill concept to insurers. In other areas of the country, insurers are pushing the concept onto health providers.

TCO's Excel will compete with a similar ser-

TCO'S EXCEL

Twin Cities Orthopedics, which has about 25 clinics around the Twin Cities, launched the Excel program this summer.

How it works: Surgery is performed at TCO's facility in Edina. Patients recover in a "spa-like" room at nearby York Gardens. All services, including medications and physical therapy, are packaged into one bill.

Insurance coverage: Medica Inc. Negotiations ongoing with other insurers

Competition: TRIA Orthopaedics's Hilton stay program

Web: tcoexcel.com

vice offered by TRIA Orthopaedic Center in Bloomington. Patients stay at a nearby Hilton hotel rather than a hospital. About 443 patients have gone through the program since it launched in November 2008, said Mary Haugen, director of nursing for TRIA. The program bundles some, but not all, of its bills together.

TRIA has secured coverage from all Minnesota insurers and is pursuing coverage from Medicare.

Haugen credits TRIA's ability to land insurance coverage partly to its decision to do a pilot study, during which it gathered data about quality of care as well as costs. It then presented the data to health insurers. Haugen said TRIA found that the Hilton-stay program can reduce costs by as much as 30 percent.

Going forward, Simonson plans to continue negotiating with insurers. Ultimately, he wants to expand TCO's Excel program to cover other types of orthopedic procedures. The Excel program is only available in Edina, but Simonson would like to expand it to other cities in the metro area.

Meanwhile, other orthopedics groups in the Twin Cities also are considering following TRIA's and TCO's lead. Summit Orthopedics, based in Woodbury, is exploring a bundled payment program, said Adam Berry, the practice's CEO.

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