

Greg Payne

Interview conducted by

Mark Jones, PhD

June 4, 1997

SAN DIEGO TECHNOLOGY ARCHIVE



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Greg Payne

Mr. Payne received a Bachelor of Arts in Biology from the University of California San Diego and then immediately went on to work more than 25 years with Hybritech, Inc. in various departments, including research and development, and regulatory affairs. He concurrently served at BCI and Beckman Coulter in management positions. Subsequently, Mr. Payne served in a management position with Gen Probe and then as Director of Regulatory Affairs at Becton Dickinson.

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4 **JONES:** You mean they were bringing corporate partners that might not have made good
5 business sense?

6 **PAYNE:** Well, they were deals that, you know, we were doing too many different things, we
7 were doing all the therapeutics, we were doing all infectious diseases, so many things. We
8 weren't as focused as we should have been. And I think a lot of those things were necessary to
9 bring in operating revenues, and also to position the stock, but after Lilly bought us a lot of
10 those things ended up being canceled.

11 **JONES:** So, your perception was that this was a preparation for the sale.

12 **PAYNE:** I think some of it was, some of the agreements we entered into. My perception. I
13 started in research in 1980, in June of 1980, just working in the lab.

14 **JONES:** Well, let me ask you about your background. What, for instance, was your education?

15 **PAYNE:** I had just received a bachelor's degree in biology from UCSD, and I was out looking for
16 a job. And one of my professors said, 'I know some people who are starting up this little
17 biotech company.' I think he ended up knowing Walt Desmond. Have you interviewed Walt
18 yet?

19 **JONES:** No. He's here?

20 **PAYNE:** Yeah, I can put you in contact. So, I went and interviewed, and I remember
21 interviewing in a three-piece suit, and if you've talk to Gary, you know he's really informal, he
22 doesn't like to wear ties, doesn't like to wear a suit. But they hired me anyway, in spite of the
23 fact that I wore a suit. I started working for Richard Bartholomew. So, I worked in research
24 for a year, maybe a year and a half, and then there was a big push to get all these diagnostic
25 products out on the market. You know, our first kit was for measuring IgE, and it was the first
26 monoclonal antibody kit approved, cleared by the Food and Drug Administration. It wasn't
27 really a big seller, but nevertheless, non-controversial, I think, a milestone. But we had a big
28 push to do a bunch of pregnancy tests in various formats, and ANP for neural tubes defects
29 and stuff, so I moved into the development side and worked for Dennis Muriyama, who I
30 believe is still at Gen-Probe. I worked for Dennis, and others for a while, and I worked for
31 Gunars. I moved into the ICON, well actually before that, when we were still doing these
32 visual bead assays, and I worked for Gunars for a number of years, and Rick Anderson. And
33 that takes us to what '88, '89. I worked on instrument support. We've never really been an
34 instrument company, which is one of the things that hurt us, because that's what out
35 customers really wanted. We made great assays, but they also wanted automation, and we
36 couldn't provide any. But we did have some instruments. One was a manual
37 spectrophotometer called the PHOTON. We had an ICON reader, which read one of our ICONs,
38 and we had an instrument we called the PROTON [?], which we still have, actually. It's a batch
39 analyzer, it's rather antiquated, but it's still selling. Anyway, I worked kind of support
40 functions for that for a couple of years, and then went back and worked on assay development
41 on BONEMARKER, which is the trademark name, it's an osteo [?], and then I came over here to

42 the regulatory affairs department in 1992. I've been here ever since, and now I'm in charge of
43 the department.

44 **JONES:** And as you made these different changes along the way, did you have a choice of
45 where to go, who to work with, or did you basically get assigned to different projects, or did
46 you indicate...?

47 **PAYNE:** I don't know. You'd like to feel that you had more control over your destiny, but
48 sometimes a lot of it was just timing. I remember, I was scheduled to work with Gunars on the
49 ICON initially, the first one spot, but unfortunately, I had just finished working on AFP, the test
50 for AFP with Dennis Muriyama, and I had to go back and deal with some manufacturing
51 problems, so somebody else got assigned to work with Gunars on the ICON. Now I
52 subsequently came in and worked on the ICON products in various forms, the various versions
53 of ICON, for many years, but you know, I would have liked to have worked directly on ICON
54 and not got stuck on the other thing, so there were times when...I think I was always well
55 thought of by the people I worked with, you know, with management, and Adams, and
56 different people recognized that, so I think I got, because of that, I got some of the nicer
57 projects to work on. I made a couple of choices. Probably to go back into assay development
58 and also to come over to regulatory. The choice I remember from going from R&D to
59 development, it wasn't a choice, it was a corporate priority.

60 **JONES:** Was this before Lilly?

61 **PAYNE:** Yeah, in '81, '82, I went over to development, and there really wasn't much choice. We
62 just had to do it, we had to get these products out. I know Richard didn't want to let me go,
63 but he didn't have any choice. But it worked out well, I have no complaints. You know, having
64 moved to the different formats, isotopic kits, enzymatic kits, and ICON kits, moving into some

65 instrumentation support, happened at the time a lot of people left, including Rick Anderson
66 and Gunars who went to Biosite. I was there, I was available, I knew something about the
67 instruments. I was the one who ended up designated to work with another company that was
68 manufacturing them for us. So, that one was just kind of being at that place at that time. Like I
69 said, Hybritech never really has had much in the
70 way of instruments. There was a period of time in the '90s, the early '90s, late '80s, early '90s,
71 when the company wasn't really committed to new instruments, and I think maybe they knew
72 -- an instrument takes a lot to develop, a lot of time, a lot of money -- and maybe they knew
73 Lilly wouldn't support it, but they also had this philosophy like, 'Oh, we don't need an
74 instrument. We can sell premium priced assays.' So, in the mid-'90s, an opportunity came up
75 with the development team, and I decided to move back to development, and I worked there
76 for another year and a half, two years or so, and then another opportunity came up and again I
77 was contacted and decided to take the job in regulatory. But over the years, people would
78 contact me about jobs, and I would always consider them, and determine, you know, whether
79 it was something I wanted to do or not. I had numerous offers to move to manufacturing, but I
80 didn't want to. I wanted to get to the research scientist level in assay development, that had
81 been a goal. I had numerous opportunities to move. They just weren't right.

82 **JONES:** When you first arrived, fresh out of UCSD, the company was still very small -- how
83 many employees were there then?

84 **PAYNE:** I would say that there probably were about thirty.

85 **JONES:** So you had a badge that said #30-something?

86 **PAYNE:** No, I was number fifty. I still have my old badge. Yeah, I was number fifty. A wave of
87 us got hired at that same time, Oonagh Bruni, Jill Hall, Bob Wang came in at that time.

88 **JONES:** You were a young guy then, what was your impression of the company, this new start-
89 up?

90 **PAYNE:** Well, I was pretty impressed with the technology, and the fact that we were one of the
91 leading companies in the exploitation of monoclonal antibodies. It was a technique that had
92 come about in the mid-70s, and I had always planned, actually, on working for a
93 company....You know, you go to school, you're a science major, and you like science and all, but
94 you really don't know what you're going to do when you get out, and sure you know, you do
95 some work in the lab as you go through school, but you're really not sure that's what you want
96 to do. I had planned on working for a couple of years, and then going back to school, but I just
97 got caught up in everything here at Hybritech, and there were always a lot of opportunities.
98 And one of the things that's nice about working in industry as opposed to academics is there
99 wasn't the same stigma attached if you didn't have a PhD. In academics, you're not going to go
100 anywhere without a PhD. But in industry, if you worked hard, and have proven abilities, you
101 get to the same level. I have to admit that once you get to the same PhD level, your upward
102 mobility from there slows down, and you become a little limited, eventually. But at least
103 there's quite a bit of opportunity for people in industry without a PhD to you know, be in
104 charge of a group, or...

105 **JONES:** Is that something that you recognized immediately when you arrived, or were you
106 even thinking in those terms?

107 **PAYNE:** No, when I started in 1980, I was just glad to have a job. I'd been in school for a while,
108 I was twenty-three? I guess I just wanted to have a job, I wanted to see what everything was
109 like. I guess I started realizing that more in probably '82, '83.

110 **JONES:** And when you came in, did everybody coming in at that time get a little piece of the
111 company?

112 **PAYNE:** Yeah, to some extent. Jim Killian here's too, I worked in the lab with him when I
113 started. He actually left and went back to school and got his PhD, and was working at Scripps,
114 and then came back here. Now he's working in operations. You might want to talk to him,
115 too. I'll make a note of that. Getting back to your question, did everybody get a piece of the
116 pie, yeah everybody did. Obviously, some got quite a bit larger pies than others did. I think
117 you had to work here a year before you got anything. They handed them out every January or
118 something.

119 **JONES:** Did that mean anything to you at the time? Did you perceive any value it?

120 **PAYNE:** Yeah, yeah, because it was clear...I got hired in pretty inexpensively, and I didn't
121 complain, because, like I said, it was a job, but you know, a year or two later and you see
122 people getting hired in at the same level for a lot more money, and you go, things aren't right.
123 But yet, I had that stock. So, if I looked at it, if I took that stock and I amortized it out over the
124 years that I've been here, it just brought my salary up to a reasonable level. When I was hired,
125 I settled for the low wages, because if you don't have experience, you have to get it somehow.
126 So, yeah, it was nice. Was the first stock option, eighteen cents? I think the first one I got was
127 eighteen cents, and it got split five for one. So, I think I got stock options ranging anywhere
128 from eighteen cents to twenty dollars.

129 **JONES:** And when you came in, what was the atmosphere like? What was it like going to work
130 every day?

131 **PAYNE:** In the beginning anyway, you know, you had the TGs on Friday, and I assume that
132 eventually that kind of atmosphere sort of evaporated as the company started to get bigger.

133 Well, it was always an exciting company to work for. It was always exciting in those days,
134 primarily because you were always learning new things. You always kind of felt like you were
135 doing things that not many other people in the country, or the world, were doing, which was
136 nice. We used to have the TGs on Fridays, every Friday, and it was actually a good time for all
137 the people in the lab, for everybody to mingle. You know, in a big company, you'd never talk
138 to the president or CEO. But there were times when you were in conversations with Ted, or
139 you know, there were times when we'd be in the cafeteria and they'd have food, and beer and
140 wine and stuff, and Tom Adams would come up and ask me a question. He'd be talking to
141 somebody else and come over and ask me a question. So you would interact with everybody
142 in the company, and that really made it nice because you really got to know people

143 **JONES:** Did that change as the years went by?

144 **PAYNE:** Well, I think it's going to change no matter what as you get to be a bigger company.
145 Obviously, it makes it more difficult. It started to change a little bit when we...We first started
146 out in the La Jolla Cancer Research Foundation buildings.

147 **JONES:** When you arrived, they were still in the trailers?

148 **PAYNE:** Yeah, we were in the trailers. And then, shortly thereafter, we got a building down at
149 Torreyanna, but that was just right down the street. In probably '81 or so, I can't remember,
150 '81, '82, Hybritech purchased, or leased a building over here on Carroll Canyon Road, just
151 down the street, for manufacturing, and it started to be a little bit more disjointed then,
152 because now you had people over there, you know, twenty minutes apart. So the TGs kind of
153 took on a little bit different atmosphere, because there would be some over there, and they'd
154 come over here sometimes. But they were still a lot of fun, and I think they continued to be
155 quit a bit of fun, actually, even after Lilly took us over. I think it was about a year or so after

156 Lilly took us over that....Well, actually, even before Lilly took us over, I think people began to
157 realize that it was a little bit of a liability, providing alcohol to employees. And that's when the
158 drunk driving stuff, the laws came into effect. So, whereas before they would just keep
159 handing out the beer, and people would take beer home after, if it was left over, or sit there all
160 night, or sit there for a couple of hours. They started pulling it in at a certain time, to the point
161 where, when Lilly took us over, it continued for a while, and then I think everybody could kind
162 of see, you know, it's a big liability for a corporation. So what they did was they cut the
163 alcohol out, which immediately cut down the popularity of the TGs. But they continued for a
164 while after that, on a weekly basis. And then they started going every couple of weeks, and we
165 still have them, sometimes, but the nature of TGs has changed.

166 **JONES:** How hard were you working in the early days? How many hours would you put in?

167 **PAYNE:** Yeah, people definitely put in some long hours. I think it depended on the person to
168 some extent. Those with families...Everybody put in a lot of hours. It seemed like Gary was
169 always there. Some weekends.

170 **JONES:** And odd hours working in the lab?

171 **PAYNE:** Right, yeah. Sometimes people would go in on a holiday to finish something up, or
172 late at night. I remember Howard Caudler [?], who I also worked with in the lab, he always
173 had something he had to come in later, in the middle of the night for, it seemed like, or off
174 hours. And Jim Killian was in there a lot. He might be able to help you with that.

175 **JONES:** But there was a sense that people were really committed to the company? Was there
176 a spirit of teamwork?

177 **PAYNE:** Yeah, I think there was a lot of camaraderie, and a lot of excitement about what we
178 were doing. And Ted Greene was also pretty good about pumping up morale.

179 **JONES:** Did he gather everybody at times, to speak?

180 **PAYNE:** There was a lot of stuff at TGs as I recall. There were some all-employee meetings
181 where they would present milestones. Actually, those all-employee meetings probably got
182 larger and larger and more frequent as time went by, because when you're a small company,
183 everybody pretty much knows what's going on, you're all there at one place, but then once the
184 company got split up in a couple different locations, people may not have any reason to go
185 over to the manufacturing facility, which was over here at Miramar, or they wouldn't have had
186 any reason to go over there, so you really needed to start having big company meetings.
187 There were a lot of tours through the labs. There were a lot of investors who came in, a lot of
188 visitors.

189 **JONES:** And who would generally lead the visitors through?

190 **PAYNE:** Ted had his secretary doing that, or David Hale would bring them through. I think
191 actually, my dad at the time was a stockbroker, for Shearson/American Express, and Shearson
192 was doing an underwriting of Hybritech Clinical Partners or something, so he actually came
193 through one time on a tour. Karen Klause, too.

194 **JONES:** And Hybritech Clinical Partners was a private placement with a lot of high net
195 individuals -- a lot of those people came and visited?

196 **PAYNE:** Yeah, I think so. I mean, we didn't always get introduced to everybody. Again, like I
197 said, I was mostly in the lab.

198 **JONES:** And when you were working in the lab, did you have a lot of autonomy, in terms of,
199 you know, you have a project to do, in terms of how to do it?

200 **PAYNE:** Yeah, that kind of always depended on a number of factors. One, it depended on the
201 project, and two, it depended on how competent you were, obviously. I had a lot less
202 autonomy when I started. Several years later, I was probably *the* person in the lab, and I had a
203 lot of reporting, not necessarily reporting directly to me for reviews, but reporting to me on a
204 daily work basis, including a bunch of part-time people. So, the amount of autonomy I had
205 increased over time, as my skills increased.

206 **JONES:** What kind of management styles did the various people who were in charge of these
207 various projects have?

208 **PAYNE:** That always varied, because initially, there were a lot of PhDs that were brought in to
209 run a lot of this stuff.

210 **JONES:** From academic settings?

211 **PAYNE:** Sure, and just because you have a PhD doesn't mean you have good management
212 skills, and in fact, a lot of times, you don't. So there were some, you know...and the Human
213 Resources Department was small and in its infancy, too. So, there wasn't very much help. And
214 as I moved up the ranks, you know, the interesting thing is that you work in the lab and you're
215 good at what you do, and you're good at working at the bench, so they promote you to work as
216 a supervisor, and you're out. It's kind of an interesting dichotomy there. And after a while,
217 they started bringing in some management classes, and helping, but you were pretty much on
218 your own. And so the crop of people, the young people that worked their way up from inside
219 the lab to supervisory responsibilities came by it sort of naturally, or they picked up
220 whatever they could on the way. And maybe they even ended up being selected because they

221 showed some management skills. So, after a while, you got a group of people that had better
222 managing skills. You know, just because you had a PhD didn't mean you were any good at
223 managing people. You were probably very good at science.

224 **JONES:** When you got to the point that you were supervising people, had you developed a
225 certain philosophy based on your experience of how to do it?

226 **PAYNE:** Sure.

227 **JONES:** And what was your approach?

228 **PAYNE:** Well...

229 **JONES:** It wasn't something that you consciously thought about?

230 **PAYNE:** No, it wasn't. That's not to say that the scientists that we had at the very beginning
231 weren't good supervisors, or weren't good managers. It was just that perhaps a lot of them
232 didn't have any training in it, they didn't have any reinforcement, so it was just like sink or
233 swim, and here you have to do it, and some of them did better than others, and some of them
234 probably never wanted to do that, you know, I think, you need to accommodate all different
235 types. It takes a lot of different types of people to make a successful company. No one person,
236 no matter how intelligent they are can bring a product to market. It takes all these people. So,
237 you had to have the right people maybe working in the research phase, and the right people
238 then to work more on development, to interface more with operations people. You know, it
239 took all different types. I think Gary, for instance, he, over time, ended up getting more and
240 more management responsibility, and then actually, he kind of shed that, because he didn't
241 want that. It kept him out of the science. And there were some that were that way. And to
242 me, it made more sense, to, you know, if somebody's passion was really to be involved with

243 science day-to-day, why make them a manager if they don't want to be? But then, you have to
244 account for how are you going to manage these people?

245 **JONES:** Well, when the company starts to grow and you have these different things going on
246 in different parts of the company, you have to coordinate different activities, did that just sort
247 of emerge organically, too? Did it just sort of happen?

248 **PAYNE:** Well, in the early days, it was very much a research and development driven company.
249 Research and development had a lot of power, and we would essentially do all of the
250 submission work, and all of the testing and everything in R&D, on R&D lots. And we would,
251 and I'm not saying it derogatorily, but we would shove it over the wall to manufacturing, and
252 they would sink or swim. You know, it was a small company, and a lot of the necessary
253 processes weren't in place. We just didn't know. And we ended up in situations where we
254 manufactured product that really didn't meet the same performance specs and claims as the
255 ones that were developed in research. So, we had to work that out. I think it was a big
256 challenge for us, in transitioning from a research organization to actually making product. For
257 a while, some of the management in operations found they could hire anybody. I really
258 shouldn't name names, but anyway, this management philosophy in operations was we could
259 hire anybody, and it was just expanding so fast, it was hire anybody. And it didn't matter if
260 you had a science background or not. So, we'd be working in development to write these
261 manufacturing documents, but you know, you have to have a little bit of knowledge of basic
262 science, of basic techniques, before you can use this. So, one of the things that I still remember
263 coming up as a big problem was, we would say in our documents, 'dialyze the antibody,' which
264 meant put the antibody solution which we had precipitated via high salt concentrations. You
265 would put it in a bag, a semi-permeable membrane, and all the low molecular weight salts
266 would dialyze out, go out through that membrane, and essentially what you'd end up doing

267 over time, over multiple changes of this buffer, you would end up lowering the salt
268 concentration. Well, I think anybody that knew any science at all would know that when you
269 did that, you had to put a magnetic stir bar at the bottom, and that you had to have good
270 mixing in order to get efficient dialysis. Well, all of a sudden, we're working on these
271 documents, and they'd say, 'Well, it didn't say stirring so we didn't stir.' Well, you know, what
272 happened to your common sense? What happened to your basic knowledge? All of a sudden
273 then, these documents, because of this philosophy in operations that anybody could come in,
274 had to be really specific. We had to say 'with stirring,' and so on. I don't know, I always
275 thought it was kind of funny, and I guess I was a little resentful of the fact, because you can't
276 just pull in anybody off the street to make the products. So, there were some things that we
277 had to go through. I think that there were a lot of things that the development people had to
278 go through in learning about what it takes to make products under Good Manufacturing
279 Practices, you had to document things very well, you had to have somebody verify it, you had
280 to follow established procedure. It was a little tough for some of the people in development.

281 **JONES:** Well, Hybritech is doing very new stuff at this time, the early '80s, what were Good
282 Manufacturing Practices? Did the FDA have this stuff all worked out?

283 **PAYNE:** Oh yeah, they were well-defined. It's in the 21 CFR 820.

284 **JONES:** Yeah, but I mean for the specific application or interpretation for what Hybritech was
285 doing.

286 **PAYNE:** No, they're broad guidelines, but they do tell you that you have to have documented
287 procedures, that the procedures, when somebody does it, they have to be signed, any
288 corrections -- they don't go into a lot of detail, but you have to design your system and to meet
289 that, because the GMPs cover, not only in vitro diagnostics, they cover a lot of other medical

290 devices, so you have to make them apply. But it was tough getting some of those systems in
291 place, you know, early on.

292 **JONES:** Well, do you think a lot of that was because it was so novel, because nobody had ever
293 done anything like this before?

294 **PAYNE:** No, because there were companies that were out there that were making product at
295 the time. I guess I'm just pulling one out for example, Miles Labs, Calstat, all these other ones
296 doing it. I mean, we were a young company. The oldest people at the company were probably
297 forty, and that was really unusual. And the people at the company were very educated, but a
298 lot of them, maybe they hadn't been around in the industry long enough to know a lot of these
299 things. As time went by, we hired more and more people in from the outside that had some of
300 this experience, and they had to develop the systems and put them in place. You know, there
301 were growing pains.

302 **JONES:** I talked to Ron Taylor, and he told me that first manufacturing facility was somewhere
303 around here?

304 **PAYNE:** Right down the street, 7120 Carroll Canyon Rd. We don't have that building anymore.
305 The building's there, but we don't use it anymore.

306 **JONES:** Well, I've heard stories about 30,000 mice a month going in and out of this building --
307 that sounds like kind of an unusual operation. Were people really doing that elsewhere,
308 immunizing animals in those numbers?

309 **PAYNE:** Well, the typical way immunodiagnostics had been made previous to that had been
310 with polyclonal serum. The amount of serum that you could bleed from a rabbit is a lot more
311 than the amount of serum you would get from a mouse, or even ascites. I think there were

312 some companies doing it. Maybe not on the same scale. We were definitely in front of the
313 pack. But there were other small companies like Monoclonal Antibodies, Inc., that were
314 working hard.

315 **JONES:** What was the perception of the competition at this time? There was Monoclonal
316 Antibodies, Genetic Systems?

317 **PAYNE:** I don't know. This is just from my perspective. I remember, and again, why I think of
318 the competition is because when you were preparing your submissions, and again, they were
319 mostly 510k submissions, you had to show that yours was substantially equivalent to another
320 product that was on the market, or that had been cleared. And I remember going against
321 clinical assays from Calstat. But I remember doing a lot of testing, CEA testing against Abbott.
322 Abbott was a big competitor of ours. And Monoclonal Antibodies was also a competitor of
323 ours, on HCG and HL testing fronts, and a more rapid test.

324 **JONES:** Was it in the air, did everybody have a general idea about what they were doing? Did
325 you talk about it?

326 **PAYNE:** Oh yeah, yeah. That's true. Abbott's always been a big competitor. They're a
327 formidable competitor. I remember they came out with a QUANTUM, and again, we really
328 didn't have very much in the way of instruments, so we made a module that could fit into the
329 QUANTUM, I think, to be able to use the wavebreaks [?] that we used on our chemistries. And
330 then Abbott came in, they went through all their instruments and cut the connection, so we
331 couldn't do that anymore. Abbott was always a pretty fierce competitor, in fact, there were
332 several people that were hired from Abbott, and Abbott had lawsuits against us.

333 **JONES:** Because of non-compete clauses?

334 **PAYNE:** Yeah, they said that those people were stealing their secrets away. Yeah, there were
335 several people, and we ended up with some people from Abbott who kind of came in a
336 roundabout way, too. So, we were always keenly aware that Abbott was a major competitor.

337 **JONES:** Well, the first big suit, Hybritech sued Abbott for infringement?

338 **PAYNE:** Well, Respress would be a better one to talk to. There were lots of suits. Abbott sued
339 us a couple times over hiring people. I'm trying to think of these people's names, and I can't.
340 And we sued Abbott once, I think, for bundling, bundling a bunch of tests or something, and I
341 don't know what happened with that. And, when did we get the TANDEM patent? In the mid-
342 80s, there were some suits with the TANDEM patent. I think Gary would be a better person to
343 talk to about that, because I know he was deposed a lot, which is a very fun process. And then
344 we also had the ICON patent, which we sued them on, as well. And I did get deposed on that
345 one.

346 **JONES:** But that seems like it would be pretty clear cut -- this was Gunars Valkirs' invention,
347 right?

348 **PAYNE:** Well, there were a couple of people that were actually on the patent. I think it was
349 Gunars and Cole Owen.

350 **JONES:** Was he on the patent? Did he contribute?

351 **PAYNE:** I don't know. He was in there. I'd have to say that primarily, it was Gunars', but there
352 were a couple of other people listed on the patent. No, that was a tough one, I think. Abbott
353 came out right after ICON, Abbott came out with their own TESTPACK [?] that they had
354 invented. I think what they really had done was reverse engineered the ICON, because if you
355 look at Abbott, if you look at TESTPACK and ICON, they were very similar. I got deposed for

356 that ICON patent, but I don't know how it finally resulted. But to this day, I think, Abbott is
357 still a pretty fierce competitor. For instance, we really developed the market for PSA testing.
358 We got approval, I think, in '85 or '86 for the first PSA format. The PSA market was really kind
359 of slow. There were really a lot of people who did a lot of work to build that market. Dale
360 Sevier was very involved with that, and we were very fortunate, in that, in the early '90s, we
361 went and got, the original approval was for monitoring people who were already diagnosed
362 with prostate cancer, and in the mid '90s, we decided to go for approval for use in detection of
363 those people that might have prostate cancer, in conjunction with the digital rectal exam. And
364 we received clearance in the early '90s, and to date, we're the only company that has approval
365 for that. But yet, eighty percent of the market now is probably owned by Abbott because they
366 have instrumentation, and everybody is using their assay off-label, because they don't have
367 approval for this. So, FDA regulates us, but they don't regulate the clinical labs, so once it goes
368 in the clinical labs, the clinical labs can do whatever they want. So, in essence, Abbott just kind
369 of stole the market, because again, most of the market is for detection, not monitoring of those
370 people who already have diagnosed prostate cancer. Most of Abbott's sales are coming in off-
371 label.

372 **JONES:** Well, has this always been kind of a David and Goliath thing, Hybritech vs. Abbott? Has
373 that been the perception around here?

374 **PAYNE:** Yeah, and I think, from my perspective, I think Abbott's been a pretty formidable, and
375 a pretty reasonable, company. I think the thing that gives Abbott, the rough, bad name is the
376 sales reps. I think their sales reps are pretty...they're real aggressive. They're known for that,
377 you know, for maybe operating a little bit out of the standards of the other people in the
378 industry.

379 **JONES:** But Hybritech's been able to survive...

380 **PAYNE:** In spite of everything?

381 **JONES:** Well, you know, the mismatch of resources

382 **PAYNE:** Yeah, absolutely. Actually, I think it's pretty amazing that we've done as well as we
383 have. The other thing that happened is, Lilly bought us in '86, and there were these ten-year
384 CPUs, contingency payment units, so they couldn't sell us for ten years, and what happened is,
385 you could see that, in the mid-80s, my perception was that Hybritech was purchased for the
386 therapeutic side, not for the diagnostics side, and we used to always hear that, 'Yeah,
387 therapeutics is always going to be the big thing.' So, those of us working on the diagnostics
388 side are going, 'Yeah, look at all this money we're bringing in.' And we eventually ended up
389 being profitable, just on the diagnostics side of it. And the therapeutics side suffered from a
390 number of issues, the market was changing fast, the FDA was being more sophisticated.
391 Timing is everything. If you didn't design your process and your product correctly up front,
392 and you made all these changes, and now you want to get approval for it, it was really tough.
393 And also around the late '80s, Lilly started to get disenchanted with Hybritech.

394 **JONES:** Because the therapeutics hadn't evolved?

395 **PAYNE:** Yeah. The promise wasn't there. And I think it was political at Lilly as well. And I
396 think that people did as best they could at the time, but again, there maybe wasn't the same
397 amount of up-front planning that was required. And since a therapeutic product takes so long
398 to get through an agency, there's bound to be process changes and different things that
399 happen, and that really compounds it, when you get to the end and say, 'Boy, yeah, but this is
400 what we submitted, so this is what we were originally going to do.' It makes it more difficult,
401 where diagnostics had a quicker approval time. We were getting 510k approvals, you know,
402 in under a month a lot of times. And so, it was easier to react to market situations than for the

403 people on the therapeutics side. So, Lilly kind of got disenchanted with it, and in the early '90s
404 you could see Lilly decided to divest itself of its non-drug companies. And Lilly, I think a lot of
405 it was benign neglect with Lilly. They just didn't know what to do with us and how to manage
406 us. And of course, they weren't willing to pour the money in to give what we really needed,
407 which was an instrument to sell assays. So, the therapeutic side went out in '93 or so, '94?
408 They closed down therapeutics. They hadn't at that time made the announcement that they
409 were going to divest all their other non-pharmaceutical companies, but you could see the
410 writing on the wall, and then the following year, they decided to divest all their non-
411 pharmaceutical, and Lilly got into a little bit of trouble from a compliance point of view. FDA,
412 at that point in time, you know, they were quite a bit friendlier in the early '80s, and then they
413 started being really compliance oriented in the '90s, and they decided to make an example of a
414 couple of lead companies, to scare everybody. So, they really went after Lilly. They did an
415 inspection back at Lilly, and Lilly got a big warning letter. They came in and nailed physio-
416 control, they nailed us, they nailed IVAC.

417 **JONES:** What were the particular problems they identified here?

418 **PAYNE:** Well, we had invalidated our software, that's what they got us for. I can't remember
419 what they got everybody else for, but they were just basically coming to try to get everybody
420 to shape up in the industry, and they made a big example of a couple of companies. And I
421 think every single one of the Lilly subsidiaries had an inspection, a GMP inspection, and got a
422 warning letter of some sort.

423 **JONES:** Did this cost a lot of money then to comply?

424 **PAYNE:** Yeah. I think it did cost a lot. Now, did we need to? In some areas, yeah, we probably
425 did, but the government can come in and inspect and always find something wrong. But
426 anyway, they really targeted Lilly.

427 **JONES:** And that just made them even more eager to...?

428 **PAYNE:** Maybe. Maybe. So, they divested all of their non-pharmaceutical companies, with the
429 exception of a couple, one, IVAC, which was not doing real good and got a warning letter, and
430 Pacific Biotech, which is another rapid diagnostic company right down the street that Lilly
431 bought, and it wasn't doing good, and Hybritech. And the problem was that Hybritech was the
432 last, because of those CPUs, they couldn't sell us, right till the end. So, there was a period, it
433 seems like three or more years, where nobody wanted to make a decision around here
434 because they were always afraid, 'Oh, it might screw up the purchase.' These companies
435 would be coming in to look to purchase Hybritech, but who wants to purchase a company like,
436 'Well here, I'll buy the company,' but you can't take it over for three years. So we were really
437 in a crappy position. And we were the last company to go, in a last minute deal to Beckman.
438 We were originally going to be sold to, Beckman was originally interested in us, but they were
439 trying to bundle Hybritech and PBI, and Beckman didn't want to take over PBI. They felt they
440 were too much of a liability. They didn't want them. So, they said, 'Forget it.' And then, you
441 know, various other people like EG&G came through, and other people, and then right at the
442 end, there was a guy named Scheuler from Abbott, an ex-Abbott person. He was going to
443 come in and run the company and sell off a lot of the assets, basically just strip it, and right at
444 the last minute, Lilly said, 'Nope. We don't want to sell it to him,' and they just gave it, sold it
445 inexpensively to Beckman. And that was '95, '96.

446 **JONES:** Well, going back to the time when Lilly was buying the company, did you know about
447 it?

448 **PAYNE:** No. It was really a well-kept secret. That's interesting that you should ask, because it
449 was really a well-kept secret. And maybe I was just too junior in the lab, you know, I didn't
450 know what was going on, but I remember that when the announcement was made, I don't
451 remember the day, but it was early morning, and my dad called me up in the lab. My dad was a
452 stockbroker, and he said, 'Hybritech's stock has stopped trading. What's going on?' And I said,
453 'I don't know.' And right at that time, they had a very impromptu meeting called in the lobby
454 with Kabakoff. And I remember going out there and Kabakoff announcing that Lilly had
455 purchased us. And everybody was pretty excited about it. Everybody thought it was a great
456 deal. Because there had been times, I think, when the company had been just really struggling
457 to keep afloat, and we all knew that. You know, when there's not that much revenue.

458 **JONES:** So you recognized this as a financial windfall?

459 **PAYNE:** Yeah, I think everybody was really excited about it. But then with a new company,
460 there always comes change. Things changed here, and change can be good, and some people
461 work better in an entrepreneurial environment and some people work better in a bigger
462 environment, and you know, you saw David Hale leave, and some other people leave, and Lilly
463 sent some people up. Lilly, for a couple years, it seemed, used Hybritech as a training ground,
464 sending out some of their young execs and saying, you know, 'Here, have at it. Play around.'
465 So, there was a wave of people that kind of left right after Lilly bought us. I think that's
466 probably to be expected.

467 **JONES:** Well, when people did start to leave, and especially the senior people who are
468 connected to the capital, and...

469 **PAYNE:** Well, they got their money out, so they were happy they were gone.

470 **JONES:** Well, yeah, but they started all these other companies and there started to be a real
471 industry here. Before, it was just Hybritech, basically.

472 **PAYNE:** There was a little resentment in some respects, sometimes, like, you know, OK, here's
473 all these people, they made their millions and now we're stuck, and there was a feeling
474 sometimes, I think, that certain things were done just to sell the company, and they knew
475 they'd never have to live these deals through, so after Lilly bought us, it fell to the rest of us to
476 deal with these things.

477 **JONES:** Well, this industry started to grow here, were there more opportunities? Did you ever
478 think, 'Well, gee, if this doesn't work out with Lilly, you know, I can go some other place?'

479 **PAYNE:** Sure. Oh, absolutely. And I interviewed. I've interviewed at a number of places here.
480 But I always found enough...I really like the people here. Hybritech's always been real special,
481 you know? I always had enough room for advancement and growth, moving around, that
482 instead of moving companies, I just moved departments. So, I didn't leave. But there was like
483 Synbiotics, there were a lot of people that went there, a veterinary company, veterinary
484 diagnostics. There were some people that went to Quidel. Quidel is almost as old as
485 Hybritech, but it's really never done much. You know, it kind of went along, and maybe even
486 in the last year, it's kind of gotten better, but so although you could see there were a lot of
487 these companies out there being started, they weren't doing much. They weren't really doing
488 very well. And so you go, 'Hmm, Hybritech's doing pretty good. Why should I go?' I mean
489 there were years when we were getting ten percent bonuses, eight percent bonuses. So, why
490 should you move? And there were a lot of companies that just never did very well. Telios bit
491 it. Synbiotics never really did much. Quidel, again, has never really done very much. There's
492 not too many that are doing well. Do you think Biosite's doing well.

493 **JONES:** They appear to be.

494 **PAYNE:** Biosite's doing well. Dura Pharmaceuticals. And I think you could almost look at the
495 thing....you know, there's probably certain problems that companies go through at each stage,
496 and you could probably say in this industry that OK, here's a company, they've got this many
497 people, they've got sales of this much, here's their problems. And you know, those companies
498 all have those problems. And a lot of people left thinking, 'Oh, I'll fix all this stuff,' only to
499 realize that they've got the same problems wherever they go. The early '90s was particularly
500 bad for biotech here in San Diego. Funding dried up and there were a couple of problems.
501 Telios had something in trial and it didn't pan out and that just crashed everything. A lot of
502 the companies here, it seems like there's more drug or biological companies here than
503 diagnostics. The diagnostics are more even-keeled in some respects because their cycle times
504 are shorter, their approval times are shorter, revenue streams can begin coming in a little
505 quicker, whereas, see biotech companies, or pharmaceuticals, like, maybe let's say Gensia,
506 where David Hale went, you know, it was just going great guns, and then all of a sudden, the
507 FDA said, 'Man, we don't like your thing, your product.' They didn't have anything else. And it
508 takes so long in the pipeline, and they've invested so much that they burn up all this money.

509 **END INTERVIEW**

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The San Diego Technology Archive (SDTA), an initiative of the UC San Diego Library, documents the history, formation, and evolution of the companies that formed the San Diego region's high-tech cluster, beginning in 1965. The SDTA captures the vision, strategic thinking, and recollections of key technology and business founders, entrepreneurs, academics, venture capitalists, early employees, and service providers, many of whom figured prominently in the development of San Diego's dynamic technology cluster. As these individuals articulate and comment on their contributions, innovations, and entrepreneurial trajectories, a rich living history emerges about the extraordinarily synergistic academic and commercial collaborations that distinguish the San Diego technology community.