LABONE INC/
Form 10-Q
August 09, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For quarterly period ended June 30, 2005

Commission file number: 0-16946

LabOne, Inc.

10101 Renner Blvd.

Lenexa, Kansas 66219

(913) 888-1770

Incorporated in Missouri

I.R.S. Employer Identification Number: 43-1039532

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes /X/ No / /

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes /X/ No / /

Number of shares outstanding of the only class of Registrant's common stock, $.01 par value, as of July 29, 2005 - 17,489,058.

LabOne, Inc.

Form 10-Q for the Second Quarter, 2005

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PART I. FINANCIAL INFORMATION

ITEM 1 - Financial Statements

LabOne, Inc. and Subsidiaries

Consolidated Balance Sheets
(in thousands, except share and per share data)

	June 30, 2005	December 31, 2004

	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 24,322**	$ 24,070
Accounts receivable, net of allowance for doubtful accounts of $5,567 in 2005 and $4,594 in 2004	**80,659**	73,027
Inventories	**7,800**	7,473
Prepaid expenses and other current assets	**5,429**	6,506
Deferred income taxes	**8,644**	5,556
Total current assets	**126,854**	116,632
Property, plant and equipment, net	**82,011**	62,860
Goodwill	**138,559**	138,163
Intangible assets, net	**18,833**	20,860
Other long-term assets	**4,344**	4,707
Total assets	**$ 370,601**	$ 343,222
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	**$ 27,872**	$ 20,467
Accrued payroll and benefits	**14,740**	17,131
Other accrued expenses	**3,952**	3,381
Current portion of long-term debt	**1,850**	1,925
Total current liabilities	**48,414**	42,904
Deferred income taxes	**9,859**	8,694
Long-term debt	**111,494**	111,549
Other	**211**	108
Total liabilities	**169,978**	163,255
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value per share. Authorized 40,000,000 shares; issued 18,027,729 shares	**180**	180
Additional paid-in capital	**89,826**	87,027
Retained earnings	**117,664**	102,974
Accumulated other comprehensive loss	**(187)**	(94)
Treasury stock of 539,785 shares in 2005 and 796,260 shares in 2004, at cost	**(6,860)**	(10,120)
Total stockholders' equity	**200,623**	179,967
Total liabilities and stockholders' equity	**$ 370,601**	$ 343,222

See accompanying notes to consolidated financial statements.

LabOne, Inc. and Subsidiaries

Consolidated Statements of Operations
(in thousands, except per share data)
(unaudited)

See accompanying notes to consolidated financial statements.

LabOne, Inc. and Subsidiaries

Consolidated Statement of Stockholders' Equity
Six Months Ended June 30, 2005
(in thousands,except share data)
(unaudited)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Comprehensive income	Total stockholders' equity
Balance at December 31, 2004	$ 180	$ 87,027	$ 102,974	$ (94)	$ (10,120)		$ 179,967
Comprehensive income:							
Net earnings			14,690			$ 14,690	14,690
Adjustment from foreign currency translation				(93)		(93)	(93)
Comprehensive income						$ 14,597	
Stock options exercised (255,125 shares)		596			3,243		3,839
Tax benefit from exercise of stock options		2,059					2,059
Stock-based compensation		109					109
Directors' stock compensation (1,350 shares)		35			17		52
Balance as of June 30, 2005	$ 180	$ 89,826	$ 117,664	$ (187)	$(6,860)		$ 200,623

See accompanying notes to consolidated financial statements.

LabOne, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Six months ended June 30, 2005	Six months ended June 30, 2004
Cash flows from operating activities:		
Net earnings	**$ 14,690**	$ 12,167
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	**9,446**	8,852
Provision for loss on accounts receivable	**5,242**	4,893
Income tax benefit from exercise of stock options	**2,059**	1,378
Deferred income taxes	**(1,924)**	(714)
Stock-based compensation	**109**	
Directors' stock compensation	**52**	50
Loss on sale of property, plant and equipment	**113**	62
Change in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	**(12,875)**	(16,391)
Inventories	**(327)**	(595)
Prepaid expenses and other current assets	**1,078**	903
Accounts payable	**7,405**	7,566
Accrued payroll and benefits	**(2,391)**	2,716
Other accrued expenses	**541**	570
Other	**130**	(147)
Net cash provided by operations	**23,348**	21,310
Cash flows from investing activities:		
Capital expenditures	**(26,420)**	(8,830)
Acquisition of businesses	**(392)**	(60,027)
Proceeds from sale of property, plant, and equipment	**71**	23
Acquisition of patents	**(4)**	(24)
Net cash used in investing activities	**(26,745)**	(68,858)
Cash flows from financing activities:		
Net payments on line of credit		(44,253)
Net proceeds (related costs) from issuance of convertible debentures	**(25)**	87,200
Payments on other long-term debt	**(119)**	(199)
Proceeds from exercise of stock options	**3,839**	3,332
Net cash provided by financing activities	**3,695**	46,080
Effect of foreign currency translation on cash	**(46)**	(108)
Net increase (decrease) in cash and cash equivalents	**252**	(1,576)
Cash and cash equivalents at beginning of period	**24,070**	4,651
Cash and cash equivalents at end of period	**$ 24,322**	$ 3,075

Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Income taxes	**$ 8,691**	$ 6,668
Interest	**2,289**	1,798
Supplemental schedule of non-cash investing and financing activities:		
Details of acquisitions:		
Fair value of assets acquired	**$ 392**	$ 60,843
Liabilities assumed		(816)
Cash paid for acquisitions	**$ 392**	$ 60,027

See accompanying notes to consolidated financial statements.

LabOne, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
(Unaudited)

(1) Basis of Presentation

Description of Business

LabOne, Inc. ("LabOne" or the "Company") is is a diagnostic services provider. The services and information LabOne and its subsidiaries provide include: risk assessment information services for the insurance industry; diagnostic healthcare testing; and substance abuse testing services and related employee qualification products.

The financial information furnished herein as of June 30, 2005, and for the periods ended June 30, 2005 and 2004, is unaudited; however, in the opinion of management, it reflects all adjustments, consisting of normal recurring adjustments, which are necessary to fairly state the Company's financial position, the results of its operations and its cash flows. The balance sheet information as of December 31, 2004 has been derived from the audited consolidated financial statements as of that date. The financial statements have been prepared in conformity with generally accepted accounting principles in the United States appropriate in the circumstances, and included in the financial statements are certain amounts based on management's estimates and judgments.

The financial information herein is not necessarily representative of a full year's operations because levels of sales, capital additions and other factors fluctuate throughout the year. These same considerations apply to all year-to-year comparisons. Certain information and note disclosures normally included in the Company's annual financial statements have been condensed or omitted. These condensed, consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

(2) Earnings Per Share

Basic earnings per share is computed using net earnings divided by the weighted average number of common shares outstanding. Diluted earnings per share includes the effects of outstanding stock options and the dilutive effect of the convertible debentures. The par value of the debentures would be settled in cash. Subject to adjustment under certain circumstances as described in the terms of the convertible debentures, the conversion obligation is generally based upon the product of the conversion rate then in effect (25.4463 as of June 30, 2005) and the closing price of LabOne common stock over the measurement period. Should the debentures become convertible under the terms of the conversion rights with a stock price of $51.09 over the measurement period, the conversion obligation would be approximately $1,300 (25.4463 x $51.09), and the settlement upon conversion would consist of $1,000 cash and 5.87 shares ($300/$51.09) of common stock, per $1,000 principal amount of debentures converted, assuming none of the adjustment provisions in the debenture applied to such calculation.

The following table reconciles the weighted average common shares used in the basic earnings per share calculation and the weighted average common shares and common share equivalents used in the diluted earnings per share calculation:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	**2005**	2004
	(in thousands)			
Weighted average common shares for basic earnings per share	**17,470**	17,060	**17,386**	17,002
Dilutive effect of employee stock options	**393**	413	**398**	446
Dilutive effect of convertible debentures	**11**		**6**	
Weighted average common shares for dilutive earnings per share	**17,874**	17,473	**17,790**	17,448

(3) Stock-based Compensation

The Company applies the intrinsic-value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations including FASB Interpretation No. 44, *Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25*, to account for its fixed-plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123*, established accounting and disclosure requirements using a fair-value based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, as amended by SFAS No. 148, the Company has elected to continue to apply the intrinsic-value based method of accounting described above and has adopted only the disclosure requirements of SFAS No. 123.

The following table illustrates the effect on net earnings if the fair-value based method had been applied to all outstanding and unvested options in each period.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	**2005**	2004

	(in thousands)			
Net earnings, as reported	**$ 7,822**	$ 6,287	**$ 14,690**	$ 12,167
Deduct total stock-based employee compensation expense determined under fair-value based method for all stock options, net of tax	**(529)**	(365)	**(1,064)**	(745)
Pro forma net earnings	**$ 7,293**	$ 5,922	**$ 13,626**	$ 11,422
Basic earnings per share:				
As reported	**$ 0.45**	$ 0.37	**$ 0.84**	$ 0.72
Pro forma	**$ 0.42**	$ 0.35	**$ 0.78**	$ 0.67
Diluted earnings per share:				
As reported	**$ 0.44**	$ 0.36	**$ 0.83**	$ 0.70
Pro forma	**$ 0.41**	$ 0.34	**$ 0.77**	$ 0.65

(4) Business Segment Information

The Company operates principally in two lines of business: risk assessment services and clinical. Risk assessment services is segregated into insurance laboratory, paramedical services and other insurance services. Clinical is segregated into healthcare services and substance abuse testing.

Following is a summary of segment information:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2005	2004	**2005**	2004
	(in thousands)			
Revenues:				
Risk assessment services:				
Insurance laboratory	**$ 20,753**	$ 22,722	**$ 41,758**	$ 44,523
Paramedical services	**27,696**	25,285	**55,370**	49,670
Other insurance services	**18,893**	18,110	**37,309**	35,363
Total risk assessment services	**67,342**	66,117	**134,437**	129,556
Clinical:				
Healthcare services	**47,512**	40,603	**93,541**	82,034
Substance abuse testing	**12,794**	10,763	**23,981**	18,718
Total clinical	**60,306**	51,366	**117,522**	100,752
Total	**$ 127,648**	$ 117,483	**$ 251,959**	$ 230,308
Operating earnings:				
Risk assessment services:				
Insurance laboratory	**$ 8,047**	$ 9,640	**$ 16,929**	$ 18,333

Paramedical services	**2,800**	2,722	**5,658**	5,330
Other insurance services	**2,043**	2,944	**4,701**	5,425
Risk assessment sales group	**(1,542)**	(1,655)	**(3,237)**	(3,132)
Total risk assessment services	**11,348**	13,651	**24,051**	25,956
Clinical:				
Healthcare services	**11,040**	5,485	**20,697**	12,297
Substance abuse testing	**2,377**	1,816	**3,740**	3,130
Total clinical	**13,417**	7,301	**24,437**	15,427
General corporate expenses	**(10,931)**	(9,703)	**(21,995)**	(19,422)
Total other expenses, net	**(1,176)**	(1,174)	**(2,295)**	(2,412)
Earnings before income taxes	**12,658**	10,075	**24,198**	19,549
Provision for income taxes	**4,836**	3,788	**9,508**	7,382
Net earnings	**$ 7,822**	$ 6,287	**$ 14,690**	$ 12,167

(5) Commitments and Contingencies

The Company is a party to various claims or lawsuits related to services performed in the ordinary course of the Company's activities. The Company's management and legal counsel anticipate potential claims resulting from such matters that would not be covered by insurance and have appropriately provided for these claims in the consolidated financial statements. The Company believes that the ultimate resolution of these matters will not materially affect the consolidated financial statements of the Company.

(6) Recently Issued Accounting Standards

In December 2004, the FASB issued SFAS 123R which requires the measurement of all employee share-based payments to employees, including grants of employee stock options, using a fair-value-based method and the recording of such expense in the consolidated statements of operations. Due to the Securities and Exchange Commission's delay of the effective date of this pronouncement, the Company plans to adopt the accounting provisions of SFAS 123R for the first quarter of 2006. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition.

In September, 2004, the Emerging Issues Task Force of the Financial Accounting Standards Board (the "EITF") reached a conclusion on EITF Issue No. 04-8 "The Effect of Contingently Convertible Debt on Diluted Earnings Per Share." Contingently convertible debt instruments ("Co-Cos") are subject to the if-converted method under SFAS No. 128, "Earnings Per Share" (SFAS No. 128), regardless of whether a stock price-related conversion contingency included in the instrument has been met. Under prior interpretations of SFAS No. 128, issuers of Co-Cos exclude the potential common shares underlying the Co-Cos from the calculation of diluted earnings per share until the market price or other contingency is met. The effective date of EITF 04-8 is for periods ending after December 15, 2004. The Company accounts for the debentures in accordance with the EITF.

(7) Subsequent event

On August 8, 2005, LabOne announced that it had entered into an Agreement and Plan of Merger (the "Merger Agreement"), dated as of August 8, 2005, by and among LabOne, Quest Diagnostics Incorporated ("Quest") and Fountain, Inc., a wholly-owned subsidiary of Quest ("Merger Sub"), pursuant to which Merger Sub will merge (the "Merger") with and into LabOne, with LabOne continuing as the surviving corporation.

Pursuant to the Merger Agreement, at the effective time of the Merger, each outstanding share of common stock, par value $.01 per share, of LabOne, other than any shares owned by LabOne or by any of its subsidiaries and any shares owned by Quest or Merger Sub or any shares owned by any shareholders who are entitled to and who properly exercise dissenters' rights under Missouri law, will be converted into the right to receive $43.90 in cash, without interest. As described below, it is anticipated that all outstanding options to purchase shares of common stock outstanding immediately prior to the effectiveness of the Merger will be canceled and converted into the right to receive $43.90 per share of common stock underlying such options less the exercise price thereof, without interest, subject to applicable tax withholding. Upon consummation of the Merger, the holders of LabOne's 3.5% Convertible Senior Debentures (the "Debentures") in the aggregate principal amount of $103.5 million will have the right to receive such principal amount, plus a specified premium and accrued interest, in an aggregate cash amount of approximately $132 million.

Consummation of the Merger is subject to customary conditions, including (i) approval by the holders of at least two-thirds of LabOne's outstanding common stock, (ii) absence of any law or order prohibiting the closing, (iii) expiration or termination of the Hart-Scott-Rodino waiting period, (iv) subject to certain exceptions, the accuracy of the representations and warranties, and (v) material compliance of each party with its covenants under the merger agreement. LabOne, Quest and Merger Sub have each agreed, subject to certain limitations, to use their reasonable best efforts to take actions required in connection with obtaining such approvals.

The Merger Agreement includes covenants of LabOne that the businesses of LabOne and its subsidiaries will be conducted in all material respects only in the ordinary course of business and in a manner consistent with past practice and that LabOne and its subsidiaries will not take certain actions without the consent of Quest (which may not be unreasonably withheld or delayed), such as engaging in acquisitions of businesses, entering into certain agreements and incurring additional indebtedness for borrowed money in excess of specified amounts.

The Merger Agreement contains certain termination rights for both LabOne and Quest, and further provides that, upon termination of the Merger Agreement under specified circumstances (including entering into a definitive agreement with a third party for a financially superior offer), LabOne may be required to pay Quest a termination fee of $26,500,000.

A copy of the Merger Agreement was filed as Exhibit 2.1 to a Current Report on Form 8-K of LabOne filed on August 8, 2005. The foregoing description of the Merger Agreement is qualified in its entirety by reference to the full text of the Merger Agreement.

ITEM 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations.

Recent Developments

On August 8, 2005, LabOne announced that it had entered into an Agreement and Plan of Merger (the "Merger Agreement"), dated as of August 8, 2005, by and among LabOne, Quest Diagnostics Incorporated ("Quest") and Fountain, Inc., a wholly-owned subsidiary of Quest ("Merger Sub"), pursuant to which Merger Sub will merge (the "Merger") with and into LabOne, with LabOne continuing as the surviving corporation.

Pursuant to the Merger Agreement, at the effective time of the Merger, each outstanding share of common stock, par value $.01 per share, of LabOne, other than any shares owned by LabOne or by any of its subsidiaries and any shares owned by Quest or Merger Sub or any shares owned by any shareholders who are entitled to and who properly exercise dissenters' rights under Missouri law, will be converted into the right to receive $43.90 in cash, without interest. As described below, it is anticipated that all outstanding options to purchase shares of common stock outstanding immediately prior to the effectiveness of the Merger will be canceled and converted into the right to receive $43.90 per share of common stock underlying such options less the exercise price thereof, without interest, subject to applicable tax withholding. Upon consummation of the Merger, the holders of LabOne's 3.5% Convertible Senior Debentures (the "Debentures") in the aggregate principal amount of $103.5 million will have the right to receive such principal amount, plus a specified premium and accrued interest, in an aggregate cash amount of approximately $132 million.

Consummation of the Merger is subject to customary conditions, including (i) approval by the holders of at least two-thirds of LabOne's outstanding common stock, (ii) absence of any law or order prohibiting the closing, (iii) expiration or termination of the Hart-Scott-Rodino waiting period, (iv) subject to certain exceptions, the accuracy of the representations and warranties, and (v) material compliance of each party with its covenants under the merger agreement. LabOne, Quest and Merger Sub have each agreed, subject to certain limitations, to use their reasonable best efforts to take actions required in connection with obtaining such approvals.

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A copy of the Merger Agreement was filed as Exhibit 2.1 to a Current Report on Form 8-K of LabOne filed on August 8, 2005. The foregoing description of the Merger Agreement is qualified in its entirety by reference to the full text of the Merger Agreement.

Overview

LabOne is a diagnostic services provider. The services and information LabOne and its subsidiaries provide include: risk assessment information services for the insurance industry; diagnostic healthcare testing; and substance abuse testing services and related employee qualification products. LabOne's strategy for growth is to (a) continue organic growth in all business segments by maintaining a superior level of service at competitive prices, improved marketing and expanded service offerings to clients; (b) expand managed care relationships; (c) acquire additional laboratory testing and other related businesses; (d) maintain existing competitive advantages of strategically located centralized laboratory facilities, logistics, service and quality levels, and insurance relationships and service offerings; and (e) expand electronic data connectivity capabilities with clients.

LabOne's risk assessment services comprise underwriting support services to the life insurance industry including teleunderwriting, specimen collection and paramedical examinations, laboratory testing, and other insurance risk assessment services including medical record retrieval, motor vehicle reports, inspections and credit checks. The laboratory tests performed and data gathered by the Company are specifically designed to assist an insurance company in objectively evaluating the mortality and morbidity risks posed by policy applicants. The majority of the testing is performed on specimens of individual life insurance policy applicants, but also includes specimens of individuals applying for individual and group medical and disability policies.

LabOne's clinical services include laboratory testing services for the healthcare industry as an aid in the diagnosis and treatment of patients. LabOne operates highly automated and centralized laboratory facilities, which the Company believes has significant economic advantages over other laboratory competitors. LabOne markets its healthcare services to managed care companies, insurance companies, self-insured groups, hospitals and physicians and provides management services for hospital based laboratories.

LabOne's clinical services also include substance abuse testing ("SAT") provided to employers to support their drug free workplace programs. LabOne is certified by the Substance Abuse and Mental Health Services Administration ("SAMHSA") to perform substance abuse testing services for federally regulated employers and currently markets these services throughout the country to both regulated and nonregulated employers. Additionally, the Company can provide background checks, social security number verification and other pre-employment data required by employers. The Company's rapid turnaround times and multiple testing options help clients structure programs that best meet their needs, reduce downtime for affected employees and meet mandated drug screening guidelines.

Forward Looking Statements

This Quarterly Report on Form 10-Q may contain "forward-looking statements," including, but not limited to, statements of plans and objectives, statements of future economic performance and statements of assumptions underlying such statements, and statements of the Company's or management's intentions, hopes, beliefs, expectations or predictions of the future. Forward-looking statements can often be identified by the use of forward-looking terminology, such as "could," "should," "will," "will be," "intended," "continue," "believe," "may," "hope," "anticipate," "goal," "forecast," "plan," "estimate" or variations thereof. Forward-looking statements are not guarantees of future performance or results. Forward-looking statements are based on estimates, forecasts and assumptions involving risks and uncertainties that could cause actual results or outcomes to differ materially from those expressed or implied in such forward-looking statements. The uncertainties, risks and assumptions referred to above include, but are not limited to, those described under "Factors Affecting the Company's Future Performance" in Item 7 detailed in the Company's Annual Report on Form 10-K for the year ended December 31, 2004 filed with the Securities and Exchange Commission. Investors are cautioned not to put undue reliance on any forward-looking statement.

RESULTS OF OPERATIONS

SECOND QUARTER ANALYSIS

	Three Months Ended June 30,			
	2005		2004	
	(in thousands)			
Revenues:				
Risk assessment services				
Insurance laboratory	**$ 20,753**	**16%**	$ 22,722	19%
Paramedical services	**27,696**	**22%**	25,285	22%
Other insurance services	**18,893**	**15%**	18,110	15%
Total risk assessment services	**67,342**	**53%**	66,117	56%
Clinical				

Healthcare services	**47,512**	**37%**	40,603	35%
Substance abuse testing	**12,794**	**10%**	10,763	9%
Total clinical	**60,306**	**47%**	51,366	44%
Total	**$127,648**	**100%**	$117,483	100%
Total laboratory services revenue	**$ 81,059**		$ 74,088	
Volumes:				
Risk assessment services (applicants)				
Insurance laboratory	**1,173**		1,324	
Paramedical services	**364**		326	
Clinical (requisitions)				
Healthcare services	**1,129**		1,054	
Substance abuse testing	**937**		843	

Revenue for the quarter ended June 30, 2005, was $127.6 million compared to $117.5 million in the second quarter 2004. The increase of $10.1 million, or 9%, was due to increases in clinical healthcare revenue of $6.9 million, clinical SAT revenue of $2.0 million and risk assessment revenue of $1.2 million. During the second quarter 2005, healthcare services revenue increased to $47.5 million from $40.6 million in 2004 due to a 7% increase in organic testing volumes and an 11% increase in average revenue per patient. Average revenue per patient increased due to an increase in average Lab Card revenue, conversion of a capitated agreement into a fee for service agreement, and the increased usage of tests with a higher average sales price. SAT revenue increased to $12.8 million in the second quarter 2005 from $10.8 million in 2004 due to an 11% increase in organic testing volumes. Risk assessment revenue increased to $67.3 million from $66.1 million in the second quarter 2004 due primarily to increases of $2.4 million in paramedical services and $0.8 million in other insurance services, partially offset by a decrease in insurance laboratory services of $2.0 million. Paramedical services revenue increased due to an increase in the number of paramedical exams performed for new and existing customer accounts. Other insurance services increased primarily due to growth in medical records retrieval. Insurance laboratory revenue decreased 9% due to a decline in the number of applicants tested, partially offset by an increase in the average revenue per applicant. Total laboratory services revenue from risk assessment and clinical was $81.1 million as compared to $74.1 million in the second quarter 2004.

Cost of sales increased $5.6 million, or 7%, in the second quarter 2005 as compared to the prior year, due primarily to increases in payroll expense, paramedical services and medical records retrieval fees. Payroll increased due to increased testing volumes in the healthcare and substance abuse laboratory testing segment and growth of other insurance services. Paramedical services expense increased due to an increase in the number of paramedical exams performed. Medical records retrieval expenses increased due to increased sales. Risk assessment cost of sales, including all of the above mentioned factors, increased to $50.7 million in 2005 from $47.5 million in the second quarter 2004. Clinical healthcare cost of sales increased to $26.8 million as compared to $25.8 million in the second quarter 2004. Clinical SAT cost of sales expenses increased to $8.7 million as compared to $7.4 million in the second quarter 2004 primarily due to increased specimen volume and a transition to more oral fluid drug testing.

As a result of the above factors, gross profit for the quarter increased $4.6 million, or 12%, from $36.9 million in 2004 to $41.4 million in 2005. Risk assessment gross profit decreased $2.0 million, or 11%, to $16.6 million in the second quarter 2005. Clinical healthcare gross profit increased $5.9 million, or 40%, to $20.8 million in 2005 from $14.8 million in 2004. Clinical SAT gross profit increased $0.7 million, or 20%, to $4.1 million in 2005 from $3.4 million in the second quarter last year.

Selling, general and administrative expenses increased $2.0 million, or 8%, in the second quarter 2005 as compared to the prior year. This increase is primarily due to increases in payroll, depreciation and legal expenses. Risk assessment overhead expenditures increased to $5.3 million in 2005 from $5.0 million in the second quarter 2004. Clinical healthcare overhead expenditures increased to $9.7 million as compared to $9.4 million in 2004 due to increases in payroll expense and depreciation. Clinical SAT overhead expenditures increased to $1.7 million as compared to $1.6 million in 2004. Corporate overhead expenses increased to $10.9 million from $9.7 million in the second quarter 2004 primarily due to increases in depreciation, software maintenance and payroll expenses.

Operating earnings increased 23% from $11.2 million in the second quarter 2004 to $13.8 million in 2005. Risk assessment services operating earnings decreased 17% to $11.3 million in 2005 as compared to $13.7 million in the second quarter 2004. Clinical healthcare services operating earnings increased 101% to $11.0 million in 2005 as compared to $5.5 million in 2004 reflecting an increase in average selling price per patient, increased capacity utilization and continued improvements in cost reduction initiatives including reduced expenses for outside laboratory services and lower lab supplies expense per specimen. Clinical SAT operating earnings increased 31% to $2.4 million in the second quarter 2005 as compared to $1.8 million in 2004. Corporate operating expenses increased 13% to $10.9 million compared to $9.7 million in the second quarter 2004.

Non operating expenses were flat as compared to last year. The effective income tax rate was 38% in the second quarter 2005 as compared to 38% in 2004.

The combined effect of the above factors resulted in net earnings of $7.8 million, or $0.44 per diluted share in the second quarter 2005, compared to $6.3 million, or $0.36 per diluted share in 2004.

YEAR TO DATE ANALYSIS

	Six Months Ended June 30,			
	2005		2004	
	(in thousands)			
Revenues:				
Risk assessment services				
Insurance laboratory	**$ 41,758**	**17%**	$ 44,523	19%
Paramedical services	**55,370**	**22%**	49,670	22%
Other insurance services	**37,309**	**15%**	35,363	15%
Total risk assessment services	**134,437**	**53%**	129,556	56%
Clinical				
Healthcare services	**93,541**	**37%**	82,034	36%
Substance abuse testing	**23,981**	**10%**	18,718	8%
Total clinical	**117,522**	**47%**	100,752	44%
Total	**$251,959**	**100%**	$230,308	100%
Total laboratory services revenue	**$ 159,280**		$ 145,275	
Volumes:				
Risk assessment services (applicants)				

Insurance laboratory	**2,350**	2,614
Paramedical services	**723**	643
Clinical (requisitions)		
Healthcare services	**2,222**	2,120
Substance abuse testing	**1,792**	1,472

Revenue for the six month period ended June 30, 2005, was $252.0 million compared to $230.3 million in the first six months of 2004. The increase of $21.7 million, or 9%, was due to increases in clinical healthcare revenue of $11.5 million, clinical SAT revenue of $5.3 million and risk assessment revenue of $4.9 million. During the first six months of 2005, healthcare services revenue increased to $93.5 million from $82.0 million in 2004 due to an 11% increase in the average selling price per patient and a 5% increase in testing volumes. SAT revenue increased $5.3 million to $24.0 million in the first six months of 2005 from $18.7 million in 2004 primarily due to a 19% increase in organic testing volumes. Risk assessment revenue increased to $134.4 million from $129.6 million in the first six months due primarily to increases of $5.7 million in paramedical services and $2.0 million in other insurance services, partially offset by a decrease in insurance laboratory services of $2.8 million. Paramedical services revenue increased due to an increase in the number of paramedical exams performed from new customer accounts and the acquisition of a Canadian paramedical provider during 2004. Other insurance services increased primarily due to growth in medical records retrieval. Insurance laboratory revenue decreased 6% due to a 10% decline in the total number of insurance applicants tested by the Company, partially offset by a 5% increase in the average revenue per applicant. Total laboratory services revenue from risk assessment and clinical was $159.3 million as compared to $145.3 million in the first six months of 2004.

Cost of sales increased $11.4 million, or 7%, in the first six months of 2005 as compared to the prior year, due to increases in payroll, paramedical collections and medical records retrieval fees. Payroll increased due to increased specimen volume in the SAT and healthcare laboratory testing segments and growth of paramedical services and medical records retrieval services. Paramedical services increased primarily due to continued growth of the ExamOne paramedical operations. Risk assessment cost of sales, including all of the above mentioned factors, increased to $99.7 million in 2004 from $93.8 million in the first six months of 2004. Clinical healthcare cost of sales increased to $53.1 million as compared to $51.5 million in the first six months of 2004 primarily due to increase payroll expense partially offset by lower outside laboratory expenses and lower laboratory supplies per patient. Clinical SAT cost of sales expenses increased to $16.8 million as compared to $12.9 million in the first six months of 2004 due to payroll, collection kit costs, lab supplies and inbound freight expenses.

As a result of the above factors, gross profit year to date increased $10.3 million, or 14%, from $72.1 million in 2004 to $82.4 million in 2005. Risk assessment gross profit decreased $1.0 million, or 3%, to $34.7 million in 2005. Clinical healthcare gross profit increased $9.9 million, or 33%, to $40.5 million in 2005 from $30.5 million in 2004. Clinical SAT gross profit increased $1.3 million, or 23%, to $7.2 million in 2005 from $5.8 million last year.

Selling, general and administrative expenses increased $5.7 million, or 11%, in the first six months of 2005 as compared to the prior year. This increase is primarily due to increases in payroll, depreciation and severance expenses. Risk assessment overhead expenditures increased to $10.7 million in 2005 from $9.8 million in the first six months of 2004. Clinical healthcare overhead expenditures increased to $19.8 million as compared to $18.2 million in 2004. Clinical SAT overhead expenditures increased to $3.4 million as compared to $2.7 million in 2004. Corporate overhead expenses increased to $22.0 million from $19.4 million in the first six months of 2004 primarily due to higher payroll, depreciation and severance expenses.

Operating earnings increased from $22.0 million in the first six months of 2004 to $26.5 million in 2005. Risk assessment services operating earnings were $24.1 million in 2005 as compared to $26.0 million in 2004. Clinical healthcare services operating earnings increased to $20.7 million in 2005 as compared to $12.3 million in 2004.

Clinical SAT operating earnings were $3.7 million in the first six months of 2005 as compared to $3.1 million in 2004. Corporate operating expenses were $22.0 million compared to $19.4 million in 2004.

Non operating expenses decreased $0.1 million primarily due to higher interest income in the period. The effective income tax rate was 39% in the first six months of 2005 as compared to 38% in 2004.

The combined effect of the above factors resulted in net earnings of $14.7 million, or $0.83 per diluted share in the first six months of 2005, compared to $12.2 million, or $0.70 per diluted share in 2004.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

LabOne's working capital position increased by $4.7 million to $78.4 million as of June 30, 2005 from $73.7 million as of December 31, 2004. Net cash provided by operations was $23.3 million as compared to $21.3 million in the first six months of 2004. The increase is primarily due to higher net earnings. Total cash and cash equivalents as of June 30, 2005, were $24.3 million compared to $24.1 million as of December 31, 2004. Management expects to be able to fund operations from a combination of cash flow from operations and borrowings under its credit facility.

During the first six months of 2005, the Company spent $26.4 million for capital expenditures including $16.1 million related to the new facility in Cincinnati. During the first six months of 2004, the Company spent $60.0 million on acquisitions and $8.8 million for capital expenditures. Acquisitions in 2004 included $43.9 million for Alliance Laboratory Services and $12.2 million for Northwest Toxicology.

Borrowings under the Company's revolving credit facility as of June 30, 2005 were $0.8 million. As of July 29, 2005, the interest rate applicable to borrowings under the credit facility was 5.3%. The credit facility requires a commitment fee ranging from 0.375% to 0.5% on the unused portion of the commitment. Based on covenants as of June 30, 2005, $90.0 million of the remaining $174.2 million was available for borrowing.

As of June 30, 2005, the Company had $9.0 million outstanding of industrial revenue bonds issued to finance the construction of the Company's Lenexa facility. Interest on the industrial revenue bonds is based on a taxable seven-day variable rate which, including letter of credit and remarketing fees, was approximately 4.5% as of July 29, 2005.

ITEM 3 - Quantitative and Qualitative Disclosures about Market Risk.

Market risk exists due to the Company's fixed rate convertible senior debentures. The table below provides information regarding interest rate risk related to fixed-rate debt as of June 30, 2005. The fair value of the Company's convertible senior debentures due June 15, 2034 has been calculated based on the quoted market prices at June 30, 2005. The market price for the convertible senior debentures reflects the combination of debt and the conversion option component of the convertible instrument.

	Book value	Fair value
Convertible senior debentures (in thousands)	$103,500	$118,000
Interest rate (fixed for the term of the debentures)	3.50%	

A foreign currency risk exposure exists due to sales in Canada in Canadian dollars and the direct laboratory expenses associated with this revenue being incurred in US dollars. This exposure is not considered to be material.

ITEM 4 - Controls and Procedures.

Management of the Company, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in the Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report to provide reasonable assurance that the control system's objectives would be met.

There were no changes in the Company's internal control over financial reporting during the second quarter of 2005 that materially affected, or that are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 2 - Unregistered Sales of Equity Securities and Use of Proceeds

(c) In 2000, the Company's Board of Directors authorized a share repurchase program to purchase up to $10 million of LabOne common stock. The program does not have an expiration date. During 2000, the Company repurchased 841,000 shares of common stock at an average price of $7.07 per share for a total of $5.9 million. The Company has not repurchased any shares of common stock since 2000. Approximately $4.1 million remains available for future treasury stock purchases.

ITEM 4 - Submission of Matters to a Vote of Security Holders

The LabOne annual meeting of shareholders was held on May 26, 2005.

1. At the annual meeting, the shareholders of LabOne voted to elect three directors, as follows:

Director	Shares Voted in Favor	Shares Withheld
W. Thomas Grant II	15,464,889	1,184,047
Lawrence N. Kugelman	15,881,299	767,637
John E. Walker	15,833,695	815,242

2. By the vote indicated below, the shareholders of the Company approved the appointment of KPMG LLP as the Company's independent registered public accounting firm for 2005.

Voted in Favor	Voted Against	Abstained
16,257,724	372,105	19,107

3. By the vote indicated below, the shareholders of the Company approved an amendment to the Company's 2001 Long-Term Incentive Plan ("2001 Plan") to (i) increase the number of shares of Common Stock that may be issued under the 2001 Plan's Stock Incentive Program with respect to restricted stock, restricted stock unit awards, performance share awards and other stock-based awards payable in Common Stock from 150,000 to 500,000, and (ii) transfer 800,000 shares of Common Stock from the 2001 Plan's Bonus Replacement Stock Option Program to the 2001 Plan's Stock Incentive Program.

Voted in Favor	Voted Against	Abstained
7,948,463	7,368,453	49,079

ITEM 6 - Exhibits

4.1 Amendment No. 2 to the Rights Agreement between LabOne, Inc. and American Stock Transfer and Trust Company (incorporated by reference from Exhibit 4.1 to LabOne's Current Report on Form 8-K filed April 25, 2005).

10.1 LabOne, Inc. 2001 Long Term Incentive Plan, as amended (incorporated by reference from Exhibit 10.1 to LabOne's Current Report on Form 8-K filed May 31, 2005).

10.2 Second Amendment to John W. McCarty Transition Services Agreement (incorporated by reference from Exhibit 10.1 LabOne's Current Report on Form 8-K filed May 6, 2005).

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. 'SS' 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. 'SS' 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LabOne, Inc.

Date: August 9, 2005

By */s/ John W. McCarty*
John W. McCarty
Executive V.P. and Chief Financial Officer