3rd Quarter 2004

EDMP, INC. Quarterly Review

VISIONARY INVESTING

The third quarter of 2004 is finally over, representing a continuation of what has thus far been an exasperating year for EDMP and our business perspective investing philosophy. Generally speaking, our portfolio companies continue to meet or exceed expectations on an operating basis, while the quote-unquote "stock market" either ignores the excellence or absurdly punishes it. Although frustrating, we want to be clear that this performance lag only increases our optimism. The farther and tighter you stretch a rubber band the farther and faster it flies when finally released.

Strong Economy

As discussed in last quarter's newsletter, the economy is currently strong and improving. It's not perfect, and never is; however, on balance there is a great deal more strength than weakness. It is important to keep in mind that our economy, like all free economies, is in a constant state of seeking equilibrium. The forces of supply and demand are processes of correction that work magnificently over time. If demand is higher than supply, businesses will increase production to meet it and vice versa. In other words, the economy self corrects itself through a logical and reliable process.

Present, Past, and Future

A supplement to the October 1, 2004 edition of the Kiplinger Letter highlighted two very important perspectives that we would like to share because they provide an elegant backdrop to this newsletter's basic theme. First of all, Kiplinger pointed out and we quote: *"It has never been easier to learn what's going on in the world. Information pours in 24 hours a day, every day, from a range of sources: Nearly 70,000 U.S newspapers, magazines, newsletters and journals, 20,000 TV and radio stations plus hundreds of foreign-based publications and thousands of Web sites and yet is has never been tougher to sort out that information."*

This continuous and instantaneous information overload, that Kiplinger speaks to, contributes greatly to investor anxiety. There is always something to worry about and our attention is constantly being drawn to it. Whether it is war, terrorist attacks, oil prices, budget deficits, employment reports, presidential debates, elections etc., there exists a continuous barrage of events and issues for us to worry about. Unfortunately, this overload of negative, so called news, leaves little time or energy to focus on the greater amount of good that goes unreported. Keep in mind, there are no good news newspapers.

This leads to the second perspective that Kiplinger provided that correlates to EDMP's safe and reliable investment philosophy. Once again we quote Kiplinger: *"For over 80 years, The Kiplinger Letter has played a unique role. Conventional news sources look backward, reporting what happened. We look ahead, anticipating what's next: A turn in the economy. A shift in government policy. An emerging technology or other key trend."*

Like Kiplinger, EDMP has, since our inception, understood that our role as portfolio managers is to look ahead. To be a truly good portfolio manager implies a visionary investing philosophy. The truly good portfolio manager does not fall prey to the traps and pitfalls of past and present worries. Instead, the truly good portfolio manager searches for future opportunities and advantages to exploit among the rubble of past and present occurrences.

As synchronicity would have it, the current edition (Friday, October 1, 2004) of "Business Week Online" is dedicated to a future vision of the economy that is consistent with the current makeup of the portfolios that EDMP manages on your behalf. We highly recommend a careful and thorough reading of this exciting information. For brevity and convenience, and since it supports our thesis, we felt compelled to share a few exciting excerpts from this timely report, and to offer our own editorial comments as they apply to your portfolios.

"Seventy-five years is a mere blink of history's eye. Yet since 1929, when Business Week was first published, the work has been transformed by profound innovation and technological wizardry. Three-quarters of a century ago, there were no safe and effective antibiotics, no jet travel, no commercial television and no computers. Many died of routine infections. A five-day ocean voyage was the main way to get from America to Europe, and "wireless" meant the wood-paneled Radiola in the parlor. Since then our mastery of the physical and biological world has strengthened remarkably. Life expectancy has soared and most of the planet can look forward to being around for 65 years or more. The Green Revolution has transformed agriculture, and the earth can now feed a global population that has tripled since 1929. We've left dusty boot prints on the moon, created the Internet, and learned how to read the human genome. Thanks to these advances—and a string of others—workers are able to produce far more than they did in 1929. Output per hour in the U.S has risen almost fivefold over the past 75 years….

The Stage is Set
So a fair question to ask is this: Should we expect the next 75 years to bring the same sort of exciting and radical innovation that has transformed information technology and health care? Or will the progress be slower and more incremental—an elaboration of existing technologies and industries rather than the birthing of new ones? In short, where is the Innovation Economy heading?

Making predictions about technological change is always perilous. But, as we hope to show in this Special Report, the global economy could be on the cusp of an age of innovation equal to that of the past 75 years. All the right factors are in place: Science is advancing rapidly, more countries are willing to devote resources to research and development, and education, and corporate managers too, are convinced of the importance of embracing change. Across the range of fields, from energy to biotech, and from software to autos, there are innovations brewing that could revolutionize our lives. In recent years scientists in different disciplines have been laying the foundations for nanotech, preparing the way for feats of engineering at the scale of atoms and molecules. Such small wonders could eventually lead to vastly faster computing devices based on carbon nanotubes, miniature medical probes, and new types of lights and solar cells….

There are signs, too, that energy technology is about to make a dramatic leap forward, with the promise of efficient fuel cells, new approaches to solar power, and safer nuclear plants. Such advances have the potential, in the not-too-distant future, to overturn the economics of energy, making the world less dependent on oil and other fossil fuels. And in the biological sciences, the current limits on health and mortality may turn out to be a boundary waiting to be traversed. 'We are finding out how life works in such fundamental ways. If we can leverage that to understand why things go wrong it will have an amazing impact.' Kevin W.

Sharer, CEO of biotech giant Amgen Inc. (NasdaqNM: AMGN-News): 'I liken today to 1946, when the potential for computers and electronics was just emerging.'…

'What's more, the leading engine for innovation—the U.S.—is still strong. 'We still truly have the best graduate programs in science and engineering,' says Shirley Ann Jackson, president of the American Association for the Advancement of Science. 'And we have the kind of economic system and capital markets that support the exploitation of technological innovation.'…

Ultimately, innovation is about continually pushing back the boundaries of what is possible. The true genius of capitalism is that it provides economic incentives for sustained innovation. Will the Information Revolution be followed by a Biotech or Energy or Nano Revolution? No one knows. But with more and more smart people around the world working on new technologies—and the lure of riches if they succeed—the odds are looking better than ever."

At EDMP

We allocate a great deal of our resources and energy toward establishing as clear a vision of the future as possible. It is important to recognize that a vision of the future neither can be nor need be perfect and precise. Instead it must be reasonable and realistic. To a great extent, forecasting the future implies certain leaps of faith that are necessary and important. For example, when we are evaluating companies in technology, pharmaceuticals or biotechnology, we carefully scrutinize their commitments to research and development.

This is important because common sense would dictate that a significant percentage of the future profits these businesses will generate will come from products and technologies that do not even exist today. This has always been the case in the past and it logically follows that this will be the case in the future as well. Therefore, the quality of their scientists and their commitments to innovation are important components of their future growth.

As realists, we understand that not every company we choose will succeed, which is why we diversify. However, due to the power of compounding and the mathematical leverage it provides, we also understand that only a few successes are needed to overcome several failures. More importantly through the process of thorough and diligent research we endeavor to limit our mistakes to disappointing profits rather than large losses.

Another important attribute that EDMP strives for when constructing your portfolios, in addition to diversification, is balanced growth. Consequently we invest the majority of your capital in high quality, above average blue chip growth companies whose futures are more dependant on demographics (population growth & makeup) than technological breakthroughs. Although these companies may not grow as fast, they are more predictable and usually pay an attractive and growing dividend. Therefore, they provide a solid foundation of cash flow, above average growth, and safety.

Examples of our blue chip growth and income holdings would include names like: Home Depot, Leggett & Platt, Sherwin Williams Co, Kimberly Clark Corp, H.J. Heinz, ConAgra, Carnival Corp, Mattel, Newell Rubbermaid, Pitney Bowes, etc. With these companies providing a solid base of above average growth and safety, we can confidently turbo charge the portfolios with higher risk, but exceptional growth potential, tech and biotech opportunities.

There is yet another way that EDMP is currently balancing the growth versus safety strategy with a visionary approach. The pharmaceutical industry currently offers an interesting mix of safety coupled with high but risky opportunity. Demographically, the baby boomer generation and an aging population represent enormous future growth. Big Pharma (Merck, etc.) possesses large war-chests of capital and resources, but alas, a dearth of new compounds to feed growth. On the other hand, there are literally thousands of smaller BioTech companies with promising compounds and limited resources. There is unquestionably not enough venture capital to fund their projects. Therefore, it is logical to assume that mergers, acquisitions and strategic alliances with Big Pharma are inevitable. In other words, we can own the big and financially strong companies in order to participate in the promise of the smaller Biotechs.

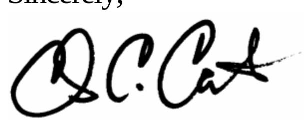
In Summary

A careful analysis of the portfolios that EDMP manages on your behalf will clearly indicate that they are extremely well positioned to participate in the innovation economy that Business Week reported on. United Technologies Corp. is a leader in fuel cells: Teradyne, Intel, Hewlett Packard, Andrew, etc. are leaders in computers and wireless technology, and the list goes on. Most of the profits that we expect them to earn in the future will more likely than not come from products that don't even exist today. Meanwhile, we have our blue chips for safety, growth, and income.

In the short run, we anticipate some relative underperformance as oil stocks and basic materials are currently attracting investor interest. We generally do not participate in these stocks because they are tied to an underlying commodity, do not provide long-term growth, do not generate returns above their cost of capital and require managers to "time the market." We believe your portfolios are well-balanced with good growth prospects, and fully expect to out-perform our benchmark when the commodity price scare plays itself out. Finally and perhaps most importantly our valuations are either sound or extremely attractive. Therefore, for the longer run we remain very confident.

And, as we hope you all agree: in the long run ***Earnings Determine Market Price***. Always have, and always will.

Sincerely,



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