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Portfolio Manager

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**Top Holdings**

Rovi  
 Kansas City Southern  
 Church & Dwight  
 Noble  
 Navistar International  
 Dolby Laboratories  
 Ansys  
 Coach  
 Bally Technologies  
 Sandisk

*Please consider the investment objectives, risks, charges, and expenses of any fund carefully before investing. Contact Eagle at 800.421.4184 or your financial advisor for a prospectus, which contains this and other important information about the funds. Read the prospectus carefully before you invest or send money.*

**Market Overview |** The Russell Midcap Growth Index declined 10.2 percent in the second quarter. Value underperformed growth (the Russell Midcap Value finished -9.6 percent) and large caps underperformed small and mid caps (the Russell 1000 declined 11.4 percent). All major sectors in the benchmark posted losses, with energy down most significantly.

**Portfolio Review |** On an absolute basis, the most significant loss came in materials while the strongest performance was in energy. Relative to the benchmark, the portfolio outperformed in the energy, industrials and information technology sectors due to strong stock selection. The top three contributing stocks for the quarter were Noble, ARM Holdings and SanDisk. We purchased offshore driller Noble after the stock traded below book value due to concerns about the effect of the BP oil spill on other offshore drillers. The stock appreciated from what we viewed as oversold levels and also after an acquisition. Semiconductor intellectual-property holder ARM Holdings reported significantly better-than-expected earnings on strong revenue and cost controls. The company also held a research-and-development (R&D) day and was optimistic about underlying market trends as well as competitive positioning. SanDisk, a provider of flash memory, has benefitted from increased demand in a supply-constrained environment that, in turn, has led to better-than-expected gross margins.

The materials, consumer discretionary and healthcare sectors underperformed relative to the benchmark. In materials, our cyclical holdings declined due to concerns about the broader macroeconomic environment. Our specialty retail and hotels, restaurants and leisure industries lagged the broader consumer discretionary performance. In healthcare, generics manufacturer Mylan declined on concerns about the company's exposure to Europe. The concerns there hinge on austerity measures, which include healthcare utilization, and whether those may prevent the company from meeting its revenue and earnings forecasts. Also, the dollar's appreciation vs. the euro created foreign-currency exchange risk. We continue to believe in the company's long-term business fundamentals and competitive position. The three lagging stocks for the quarter were Mylan, Chico's and Bally Technologies. Women's retailer Chicco met earnings estimates but the stock sold off on concerns that the pace of recovery has slowed. We continue to hold the stock as we believe the company has put in place a number of strategies that will help its long-term growth. Slot-machine producer Bally Technologies declined on fears of stalled spending by its customers. However, we continue to hold the stock because we believe those fears are already fully reflected in the stock price and that Bally has growth opportunities from global expansion as well as new-product launches.

**Outlook |** Equity markets are laboring under a deluge of poor economic news. Despite government stimulus, private-sector unemployment remains stubbornly high. Most government programs seem aimed at providing entitlements rather than promote job growth. Forecasts for economic growth in 2011 have dropped to about 3 percent. That might be a stretch as government stimulus programs begin to run out. The administration's anti-business policies have hurt healthcare companies, oil drilling and potentially financial services. Prospects of higher individual, as well as capital gains, taxes are an incremental negative. Given the poor economic outlook, interest rates figure to stay low at least through year-end. We believe equity markets will be range-bound until there is greater clarity on economic growth for 2011.

Given the austerity measures being implemented in Europe and troubling signs of weakening real estate markets in China, the near-term outlook for commodity prices has deteriorated. As such, we have reduced our overweight exposure to energy and moved to a modest underweight in materials. Despite our concerns over a likely moderation in global economic growth, we continue to hold a

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**Benchmark Index:**

The Russell Midcap Growth Index measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000 Growth Index. It is not possible to invest in an index.

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positive long term view on oil prices. Within the industrial sector, we maintain our favorable bias toward companies with exposure to commercial truck and aerospace end-markets. The outlook for the aerospace industry is bolstered by increasing production rates for new aircraft as well as solid growth in air travel. For the second time in recent months, Boeing announced plans to increase production rates of its 737 aircraft as global air traffic increased 11.7 percent in May, according to the International Air Travel Association.

In the technology sector, global macroeconomic concerns have caused investors to take a "de-risking" stance in the near term, as we await more data that may help indicate how the recovery may play out. Thus far, demand has held in and management teams remain cautiously optimistic. However, the "de-risking" has caused stock valuations to fall and we are now finding more stock ideas with attractive growth profiles trading at what we view as reasonable valuations. Projecting whether healthcare reform would pass was a challenge but predicting how it will be implemented – and the unintended consequences it likely will bring – seems nearly impossible. There are, however, a few industry groups that we believe will benefit from healthcare reform or stimulus dollars including healthcare IT and hospital revenue cycle and supply-cost management.

After a strong first quarter, consumer stocks retreated sharply in the second quarter. Unemployment remains stubbornly high and government stimulus programs will ultimately run their course. We remain bearish on most consumer discretionary groups with the exception of gaming-equipment suppliers, which we believe should benefit from the continued expansion of gaming into new jurisdictions.

Growth companies are expected to increase their earnings at a certain rate. When these expectations are not met, investors may punish the stocks excessively, even if earnings showed an absolute increase. Growth company stocks also typically lack the dividend yield that can cushion stock prices in market downturns. Investing in small- and mid-cap stocks may involve greater risks than investing in larger, more established companies. These companies often have narrow markets and more limited managerial and financial resources. The companies engaged in the technology industry are subject to fierce competition and their products and services may be subject to rapid obsolescence. The values of these companies tend to fluctuate sharply.