
MAIRS AND POWER BALANCED FUND, INC.

February 23, 2010

Fourth Quarter Results

The Balanced Fund benefited from strength in both the bond and stock markets reflecting continued economic recovery during the final quarter of 2009. With respect to investment performance, the Fund produced a total investment return of 4.1% compared to a somewhat lower return of 3.5% for the benchmark composite index (60% Standard & Poor's 500 Stock Index and 40% Barclays Capital Gov't/Credit Bond Index). Comparable returns for the Dow Jones Industrial Average and Standard & Poor's 500 indices were 8.1% and 6.0%, respectively. The Barclays Capital Gov't/ Credit Bond Index produced a slightly negative return of -0.2% as weak US Treasury returns offset stronger corporate returns resulting from a narrowing of yield spreads in response to the strengthening economy. A peer group of similar balanced funds reported in the Wall Street Journal showed an average return of 3.7% for the same period.

For the full year 2009, the Fund achieved an investment return of 21.4% compared to a lesser benchmark return of 17.7%. Stock returns alone for the popular averages were a greater 22.7% for the DJIA and 26.5% for the S&P 500. However, bond returns were much lower as indicated by a Barclays Capital Gov't/Credit Index return of only 4.5%. The peer group average return for balanced funds shown in the WSJ was up an impressive 23.4% reflecting a generally higher exposure to stocks and a higher weighting in the technology sector which had a strong performance last year. Longer term performance comparisons are generally favorable on a relative basis with the Fund showing a five-year average rate of return of 3.2% compared to 2.4% for the benchmark composite, 2.0% for the DJIA, 0.4% for the S&P 500, 4.7% for the Barclays Capital Bond Index and 2.0% for the WSJ balanced fund peer group.

Recently reported fourth quarter Gross Domestic Product results for the past year were quite a bit better than expected at a positive 5.7% (preliminary basis) even though the final number may be revised downward slightly. While government spending and inventory investment accounted for a major part of the increase, some other signs of underlying strength were evident. Most encouraging was a 13.3% growth in business spending for equipment and software and a 5.7% increase in residential investment. However, overall consumer spending grew only 2.0% reflecting a rising savings rate, debt repayment and continuing high unemployment levels. Fourth quarter corporate profits are estimated to have shown continued growth on the order of 9-10% from the third quarter due primarily to surging productivity gains.

Interest rates have remained relatively stable at both the short and long ends of the curve despite an improving economy. However, improving business conditions have resulted in a continued narrowing of interest rate spreads between corporate bonds and US Treasuries. High unemployment levels together with the absence of any noticeable inflationary pressures have kept the Federal Reserve from signaling any change in monetary policy over the near term. Stock market gains in the fourth quarter and full year seem to have been a direct result of low

interest rates and rising corporate profits. Technology issues led the way with strong earnings growth and rising valuation levels. Many cyclical sectors such as basic industries (metals, mining and forest products) and consumer discretionary (automobiles, internet and catalog retailing) also did well with expectations of continued economic growth. Health care did better in the final quarter as the Obama national health program lost momentum in Congress. The financial sector (banks and insurance) was the worst performing sector reflecting continuing concerns over potential residential and commercial real estate loan losses. Among holdings in the Fund, Corning (+26.1%), American Express (+19.5%), Ingersoll-Rand (+16.5%), Bemis (+14.4%) and ConocoPhillips (+13.1%) did the best while Sturm, Ruger (-25.0%), SUPERVALU (-15.6%), Principal Financial Group (-12.2%), Bank of America (-11.0%) and Hershey (-7.9%) fared the worst during the final quarter.

Future Outlook

While the pace of economic growth is expected to moderate from the initial indication of 5.7% for the final quarter of last year, the rate seems likely to average a respectable 3% or more over the next few quarters. Although below past recovery periods, this rate of growth is nevertheless quite in line with historical experience during the post WWII period. Growth should continue to be fueled by such factors as a stimulative fiscal policy, inventory re-stocking, continued corporate capital spending reflecting a catch-up from past under-spending and rising export demand. However, consumer spending will likely remain disappointing due to sluggish employment growth and a lack of confidence leading to debt repayment and a rising savings rate. With productivity improvement expected to continue at an above average pace, corporate earnings are projected to continue rising at a near “double digit” rate. Corporate earnings also seem likely to continue benefiting from faster foreign growth and currency translation gains resulting from continued weakness in the US dollar.

Although subject to sudden and unanticipated changes, the outlook for interest rates seems subdued for the time being. In this regard, recent Federal Reserve pronouncements suggest no directional changes over the near future absent any future corresponding changes in the outlook for inflation and/or the strength of the overall economy. A major uncertainty continues to be the price of energy which could be influenced by changing world events. With credit spreads having already narrowed to more normal levels, returns on corporate bonds seem likely to be more in line with coupon rates.

Considering the current outlook for corporate earnings and interest rates, the environment for the stock market remains favorable. Moreover, valuation levels (15x S&P 500 estimated earnings of \$70) are historically quite reasonable, especially when measured against the prevailing level of interest rates. Finally, most measures of liquidity suggest ample “buying power” in the hands of investors enabling them to drive prices higher.

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Performance data quoted represents past performance and does not guarantee future results. *The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. As of December 31, 2009, the Mairs and Power Balanced Fund had an annual expense ratio of 0.83%. For most*

recent month-end performance figures, visit the Fund's website at www.mairsandpower.com, or call Shareholder Services at (800) 304-7404.

Average Annual Returns as of 12/31/2009:	1 Year	5 Years	10 Years
Mairs and Power Balanced Fund ⁽¹⁾	21.35%	3.17%	5.54%
S&P 500 Index ⁽²⁾	26.46%	0.42%	-0.95%
Composite Index ⁽³⁾	17.74%	2.43%	2.27%
Barclays Capital Government/Credit Bond Index ⁽⁴⁾	4.52%	4.71%	6.34%
Dow Jones Industrial Average ⁽⁵⁾	22.68%	1.95%	1.30%

- (1) Performance information shown includes the reinvestment of dividend and capital gain distributions, but does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares.
- (2) The S&P 500 Index is an unmanaged index of 500 common stocks that is generally considered representative of the U.S. stock market.
- (3) The Composite Index reflects an unmanaged portfolio of 60% of the S&P 500 and 40% of the Barclays Capital Government/Credit Bond Index.
- (4) The Barclays Capital Government/Credit Bond Index is composed of high-quality, investment grade U.S. government and corporate fixed income securities with maturities greater than one year.
- (5) The Dow Jones Industrial Average is an indicator of stock market prices based on the share values of 30 blue-chip stocks listed on the New York Stock Exchange.

The stocks mentioned herein represent the following percentages of the total net assets of the Mairs and Power Balanced Fund as of December 31, 2009: Corning 1.0%, American Express 0.7%, Ingersoll-Rand 0.5%, Bemis 1.4%, ConocoPhillips 1.7%, Sturm, Ruger 0.2%, SUPERVALU 0.2%, Principal Financial Group 1.3%, Bank of America 0.6% and Hershey 0.4%. All holdings in the portfolio are subject to change without notice and may or may not represent current or future portfolio composition. The mention of specific securities is not intended as a recommendation or offer for a particular security, nor is it intended to be a solicitation for the purchase or sale of any security.

The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the Fund, and it may be obtained by calling Shareholder Services at (800) 304-7404, or visiting www.mairsandpower.com. Read it carefully before investing.