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## **MAIRS AND POWER GROWTH FUND, INC.**

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May 6, 2010

### **First Quarter Results**

The U.S. Economy has recovered from the deepest recession in a generation and is now accelerating upward. GDP increased 3.2% in the first quarter. While that was less than the 5.6% surge at the end of 2009, the details behind the first quarter growth are particularly encouraging. GDP growth in the early part of the recovery was dominated by inventory replenishing, which is unsustainable unless there is a growing demand for goods. In the first quarter, we saw evidence of real demand, including increased consumer spending. Consumer spending was up 3.6%, which is the fastest rate of growth since the first quarter of 2007.

Inflation remains under control. The core inflation rate, which excludes food and energy prices, rose 0.6% in the first quarter, after rising 1.8% at the end of 2009. That is the lowest rate of growth in more than 50 years. The current reading is well below the Federal Reserve's goal of 1.5% to 2.0%. This low inflation has allowed the Fed to keep interest rates near zero for an "extended period."

The Fund performed better than the overall market in the first quarter with a return of 7.9% versus 5.4% for the S&P 500 index. The Fund outperformed the market because of its significant holdings in Industrial stocks and its relative under exposure to Technology. Economically sensitive stocks continue to lead the market as investors attempt to profit from the improving economy.

Individual stocks in the Fund that positively impacted performance in the first quarter included Emerson (+18%), Toro (+18%), Wells Fargo (+15%), and Honeywell (+15%). The individual stocks that impacted the Fund negatively included Daktronics (-17%), Pfizer (-6%) and Bemis (-3%).

For the twelve months ending March 31, 2010, the Fund is up 54.5% versus a comparable 49.8% for the S&P 500 index.

### **Portfolio Company Spotlight**

Stratasys is a small company, but a leader in an industry called rapid prototyping. This technology allows an engineer who has developed a three-dimensional object on a computer-aided design work station to create a physical replica of that design. Historically, the high cost (more than \$100,000) of rapid prototyping machines made it available to only the largest companies with vast research budgets. Stratasys has been a

leader at reducing the cost of rapid prototyping and has helped create the 3-D printing industry. 3-D printing is the same technology as rapid prototyping but at a much more affordable price (less than \$20,000). Stratasys has been successful with its Dimension line of 3-D printers.

Hewlett Packard (HP), which is the world leader in ink-jet and laser printing, recently decided to enter the 3-D printing business. During the first quarter, Stratasys signed an agreement with HP under which it will manufacture printers that carry the HP brand name. Stratasys will significantly benefit from this arrangement because it 1) gives Stratasys access to HP's vast distribution network and marketing expertise and 2) is an endorsement of its core technology by a world class technology company.

The stock reacted favorably to news of the agreement with HP and was up 41% in the first quarter. We expect Stratasys to be successful in its partnership with HP but concluded that the market's enthusiasm had caused the stock to become over valued. While we continue to have a position in Stratasys, we took advantage of the activity to reduce the holding during the quarter.

### **Future Outlook**

So far, we have witnessed an industrial-led recovery and we think that industry will continue to grow in 2010. We expect real GDP growth to be 3% to 4% for the year. Until recently, the consumer has lagged the overall economy as the American family retrenches by aggressively managing household spending and reducing debt.

Consumer spending represents 70% of GDP, and the consumer needs to participate if this recovery is going to be long lasting. The two primary headwinds that keep the consumer from spending are unemployment fears and a loss of personal net worth. We are seeing early indications of improvement on both fronts.

The national unemployment rate remains high at 9.7%. However, U.S. Labor Productivity was above 6% for the last three quarters of 2009. That is an unsustainably high rate as workers who are still employed need to do more work to make up for laid-off employees. People can only be so productive, for so long. Ultimately, when business picks up, employers will be required to hire again. Better job creation figures, along with a declining unemployment, rate will go a long way to improving consumer confidence.

U.S. Household Net worth is improving because of the rising stock market and relative stability of home prices. The S&P/Case-Shiller 20 City Home Price Index showed a slight gain in February. Since a home is generally the consumer's most significant asset, stable home prices will be a catalyst for consumers to increase spending on home maintenance, improvements, and other discretionary items.

As the economy continues to recover, we expect inflation to remain under control. We find the equity market to be an attractive investment and remain optimistic that the market can produce attractive returns going forward.

William B. Frels  
President and Lead Manager

Mark L. Henneman  
Co-Manager

**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 March 31, 2010, Mairs and Power Growth Fund had an annualized expense ratio of 0.71%. For most recent month-end performance figures, visit the Fund's website at [www.mairsandpower.com](http://www.mairsandpower.com), or call Shareholder Services at (800) 304-7404.*

Average Annual Returns as of 03/31/2010:	1 Year	5 Years	10 Years
Mairs and Power Growth Fund <sup>(1)</sup>	54.35%	3.17%	7.66%
S&P 500 Index <sup>(2)</sup>	49.77%	1.92%	-0.65%

- (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.

The stocks mentioned herein represent the following percentages of the total net assets of the Mairs and Power Growth Fund as of March 31, 2010: Emerson Electric Co. 4.4%, Toro Co. 4.6%, Wells Fargo & Co. 3.7%, Honeywell International Inc. 3.6%, Daktronics, Inc. 0.4%, Pfizer Inc. 1.8%, Bemis Co., Inc. 3.1%, Stratasys, Inc. 0.4% and Hewlett Packard 0.0%. 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 objective, 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](http://www.mairsandpower.com). Read it carefully before investing.***