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# MAIRS AND POWER GROWTH FUND, INC.

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August 19, 2010

## Second Quarter Results

After starting out relatively strong, early second quarter stock market gains quickly became losses as investors became increasingly concerned about the durability of the economic recovery. The Fund experienced a disappointing negative return of -9.0% for the second quarter, only slightly better than comparable negative returns of -9.4% for the Dow Jones Industrial Average and -11.4% for the Standard & Poor's 500 Stock Index. The Fund also did modestly better than a peer group Lipper Multi-Cap Core Fund Index, which produced an average negative return of -10.8%.

Second quarter weakness more than offset first quarter gains resulting in a first half negative return of -1.8% for the Fund. Comparable returns for the DJIA and S&P 500 were less favorable at -5.0% and -6.7%, respectively. The peer group Lipper Multi-Cap Core Fund Index turned in a negative return of -5.7% for the period.

Recently reported second quarter economic growth, as measured by Gross Domestic Product, came in at 2.4% (preliminary basis) compared to a first quarter gain of 3.7% (revised). Consumer spending continued to be the major area of disappointment showing modest growth of only 1.6%. Business spending remained strong, showing a surprising 17.0% rate of growth. Government spending was also a positive contributor during the period. Corporate earnings continued to be a bright spot, increasing at an estimated rate of 25% or more, a result of productivity gains and a growing contribution from foreign sources.

Interest rates continued to trend lower in response to expansionary Fed policy and a deteriorating level of confidence in the direction of the domestic economy. Because short-term interest rates have been at historically low levels for some time, most of the recent decline has occurred at the longer end, resulting in a general flattening over the entire length of the interest rate curve.

As one might expect, the recent weakness in the stock market due to economic concerns has been most pronounced in the more cyclically sensitive industry groups, while less sensitive groups have held up much better. In this regard, such sectors as basic industries (building products, chemicals, metals & mining and paper & forest products), consumer cyclicals (automotive, household durables and retail) and technology (communications equipment, electronic equipment & instruments and internet software & services) performed the worst, while consumer staples (food, beverage and household products), certain areas of health care (life sciences and technology) and utilities did the best. Among holdings in the Fund, MEDTOX Scientific (+20.0%), Fastenal (+4.6%), TCF Financial (+4.2%), Ecolab (+2.2%) and Valspar (+2.2%) performed best, while SUPERVALU (-35.0%), Baxter Int'l (-30.2%), SurModics (-21.6%), General Electric (-20.8%) and G & K Services (-20.2%) fared the worst.

## Future Outlook

While many economic indicators have shown recent weakness, we remain confident that the overall U. S. economy will continue to grow, albeit at a reduced rate in the second half, and on into 2011, thus avoiding a “double dip” recession. This assumes, however, that major less developed foreign economies (Brazil, China, India, Indonesia and Mexico) continue to show above average rates of growth in the 5-10% range, because export demand will become a more important factor in helping the U. S. economy continue on a slow growth path. Growth in some of the more important developed economies, mainly in Europe, could also surprise on the upside similar to the second quarter when results exceeded overly pessimistic forecasts.

Important indicators suggesting that the domestic economy may not be as bad as some economists make it out to be include automobile sales, private sector job growth and various manufacturing and services indexes. Business spending also seems likely to continue out-pacing consumer spending in light of competitive pressures both here and abroad, the need to replenish inventories and the fact that corporations have plenty of cash to spend. While consumer spending may remain subdued until the overall employment picture improves, some modest growth seems likely in response to government support programs and wage and benefit increases.

Although corporate earnings growth will likely slow from the torrid rate in recent periods (25%+ estimated for the second quarter), growth could remain above average for a number of quarters to come. Such factors as continuing productivity improvement, faster foreign growth, and favorable currency exchange rates should all benefit reported corporate earnings.

Prospects for the stock market seem quite promising, considering the outlook for corporate earnings together with the historically low level of interest rates. Valuation levels also appear quite reasonable (14 x estimated 2010 S&P 500 earnings), especially when compared with other similar past periods. Finally, volatility seems likely to remain relatively high given the increasing presence of computerized trading programs and shorter time horizons for many investors.

William B. Frels  
President and Lead Manager

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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 June 30, 2010, the 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 Total Returns as of 06/30/2010:	1 Year	5 Years	10 Years	20 Years
Mairs and Power Growth Fund <sup>(1)</sup>	19.27%	0.94%	5.93%	11.94%
S&P 500 Index <sup>(2)</sup>	14.43%	-0.79%	1.59%	7.67%
Dow Jones Industrial Average <sup>(3)</sup>	18.94%	1.66%	1.68%	8.86%
Lipper Multi-Cap Core Fund Index <sup>(4)</sup>	16.87%	0.14%	-0.32%	7.60%

- (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 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.
- (4) The Lipper Multi-Cap Core Fund Index is a non weighted index of the 30 largest funds within the Lipper Multi-Cap investment category. This Index does not include the effect of expenses, is not representative of any specific fund or product and cannot be invested in directly.

The stocks mentioned herein represent the following percentages of the total net assets of the Mairs and Power Growth Fund as of June 30, 2010: MEDTOX Scientific 0.4%, Fastenal 1.1%, TCF Financial 2.9%, Ecolab 5.0%, Valspar 4.5%, SUPERVALU 0.2%, Baxter Int'l 2.3%, SurModics 0.8%, General Electric 2.1% and G & K Services 0.6%. 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.***