MAINE PUBLIC SERVICE CO
Form 10-K
March 30, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SEC. 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003

Commission File No. 333-103749

Maine & Maritimes Corporation

(Exact name of registrant as specified in its charter)

Maine

(State or other jurisdiction of incorporation or organization)

30-0155348

(I.R.S. Employer Identification No.)

209 State Street, Presque Isle, Maine

(Address of principal executive offices)

04769

(Zip Code)

Registrant s telephone number, including area code: **207-760-2499**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class: **Common Stock, $7.00 par value**

Name of each exchange on which registered: **American Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

None

Title of Class

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ý. No o.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes o. No ý.

Aggregate market value of the voting stock held by non-affiliates at June 30, 2003: $51,189,661.

The number of shares outstanding of each of the issuer s classes of common stock as of March 15, 2004.

Common Stock, $7.00 par value 1,580,701 shares

DOCUMENTS INCORPORATED BY REFERENCE

The Company s definitive proxy statement to be filed pursuant to Regulation 14A no later than 120 days after December 31, 2003, which is the end of the fiscal year covered by this report, is incorporated by reference into Part III.

MAINE & MARITIMES CORPORATION

FORM 10-K

For the Fiscal Year Ended December 31, 2003

For Glossary of Terms, see Page 95

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PART I

Item 1. Business

General

Maine & Maritimes Corporation (MAM or the Company), a Maine corporation, became a holding company effective June 30, 2003. MAM owns all of the common stock of Maine Public Service Company (MPS). All other shares of MPS common stock were converted into an equal number of shares of MAM common stock, which are listed on the American Stock Exchange (AMEX) under the symbol MAM. The reorganization into a holding company was approved by MPS s shareholders at its annual meeting on May 30, 2003. The U.S. Securities and Exchange Commission (SEC) had previously accepted MAM s S-4A Registration Statement for registration. Other required state and federal regulatory agencies issued necessary approvals on various dates in 2003. Financial results and amounts shown through 2002 and the first three months of 2003 were reported by MPS.

MAM is the parent holding company for MPS, Energy Atlantic, LLC (EA), and Maine & Maritimes Energy Services Company (MAMES). Maine & New Brunswick Electrical Power Company, Ltd (Me&NB), is a wholly-owned Canadian subsidiary of MPS. MAMES (dba The Maricor Group) is the parent company of Maricor Ltd (Maricor), also a wholly-owned Canadian subsidiary. General descriptions of these companies and subsidiaries are discussed more fully below.

Maine & Maritimes Corporation and Subsidiaries

MPS is a regulated electric transmission and distribution utility serving all of Aroostook County and a portion of Penobscot County in northern Maine.

Maine & New Brunswick Electrical Power Company, Ltd, an inactive Canadian subsidiary of MPS, formerly owned MPS s Canadian electric generation assets.

Energy Atlantic, LLC is a licensed, but currently inactive Competitive Energy Supplier (CES) of retail electricity and formerly served the northern and central regions of the state of Maine.

Maine & Maritimes Energy Services Company (dba The Maricor Group) is a development, engineering, energy efficiency and asset management firm focused on markets in the United States providing fee-for-service mechanical and electrical engineering services.

Maricor Ltd is a Canadian subsidiary of Maine & Maritimes Energy Services Company, whose principal business is primarily the delivery of similar products and services as MAMES, but in Canadian markets.

Discussion and Description of the Company s Growth Strategy

MPS s decision to convert to a holding company structure and begin implementation of a diversification and growth strategy was based on a combination of regulatory and economic factors including, but not limited to: (a) the impacts of deregulation and generation divestiture on MPS s revenue model, (b) flat to declining demographic and economic conditions within MPS s service area; (c) regulatory constraints or barriers to implementation of a growth strategy under MPS s organizational structure; (d) a declining rate base as a result of reductions in stranded costs as regulatory assets; and (e) the strategic objective to implement an effective risk management structure associated with the Company s overall growth strategy.

As a result of Maine s deregulation and MPS s generation divestiture, MPS no longer serves as a vertically integrated electric utility. With the exception of stranded cost recovery, MPS s revenues come almost exclusively from regulated transmission and distribution services associated with transporting electric supply. MPS does receive varying returns on its stranded regulatory assets, as well as varying returns on its regulated transmission and distribution rate bases. Generally, stranded cost represents the difference in value or contract value of generation assets in a regulated environment, as compared with market values of these same assets or contracts for purchased power agreements. In a regulated regime, investor-owned public utilities are allowed to make a fair rate of return on their prudently invested capital. In practice, regulators set the price of electricity so that the utility receives enough income to pay its financial obligations plus a reasonable return on its fixed investments. In effect, historical or accounting costs of asset installations determine the current market value of capital. Regulators adjust the revenue stream up or down to allow a public utility to earn the approved rate of return on the book value of its capital, which is also known in a regulatory context as its rate base. MPS continues to earn regulated rates of return on its transmission and distribution assets. MPS s distribution services are regulated by the Maine Public Utilities Commission (the MPUC) and its transmission services are regulated by the U.S. Federal Energy Regulatory Commission (FERC).

Based on MPS s current amortization of stranded costs and approved stranded cost rates of return approved by the MPUC, and subject to a number of variables embedded in the calculation of those stranded costs, the majority of MPS s stranded cost should be recovered by the end of 2012. A significant portion of MPS s stranded costs are associated with an existing non-utility generator (NUG) supply contract referred to in this document as the Wheelabrator-Sherman NUG Contract. The Wheelabrator-Sherman NUG Contract resulted from the passage by the U.S. Congress of the 1978 Public Utilities Regulatory Policy Act (PURPA) and is summarized more fully below. The facility itself is a small bio-mass (principally wood chip) electric generation facility. Over approximately the next eight years, MPS s rate base will decline as these and other stranded costs are reduced or eliminated. Management and the Board of Directors also believe that MPS s rate base will continue to decline as a result of: (a) the economic impact of deregulation and generation divestiture on MPS s core revenue model; (b) MPS s economically lagging service area; and (c) regulatory risks in connection with rate making and stranded cost recovery. Based on management s and the Board of Directors assessment of MPS s declining rate base, the decision was made to create a holding company, subject to shareholder approval, and to implement a comprehensive growth strategy.

Although the majority of MPS s stranded cost rate base will decline gradually over approximately the next eight years, MPS believes it will experience deferred stranded cost freed-up cash flows during the period from 2007 through 2012 as certain stranded costs are recovered. This is a result of MPS s historical decision to levelize its stranded cost portfolio and defer full recovery associated with its Wheelabrator-Sherman NUG Contract, These deferred stranded cost freed-up cash flows will not impact net income. Current plans for the anticipated stranded cost freed-up cash flows include: (a) utilizing such funds to reduce debt; (b) maintaining an optimum regulatory capital structure; and (c) to dividend a portion of the stranded cost freed-up cash flows to the parent MAM for the purpose of financing in part or in whole potential acquisitions consistent with the Company s growth strategy. While MPS believes it will receive full stranded cost recovery and recovery of deferred collections, it cannot predict with certainty future regulatory and/or legislative actions. Regulatory and legislative risks may exist relative to full stranded cost recovery. In addition there are a number of variables, discussed in more detail below that may affect the timing and magnitude of MPS s stranded cost recovery.

Management and the Board of Directors have adopted what they believe to be a realistic and conservative growth strategy, focusing primarily, but not exclusively, on market opportunities within New England and Atlantic Canada. As part of the Company s growth and business strategy, focus and investments are being placed on strategies to improve the overall performance, system reliability, economics and efficiencies of MPS s transmission and distribution systems. These strategies include the adoption of new productivity enhancing technologies, changes in core business processes, adoption of integrated asset management strategies, and development and implementation of long-term transmission and distribution plans. These plans may also include the construction of additional regulated

transmission assets. The goals of these efforts are to reduce overall annual capital, operating, and maintenance expenditures, while improving system and customer service performance.

MAM s growth strategy centers on a diversification approach that expands the Company s business and revenue model to include, without limitation, mechanical and electrical engineering services, energy efficiency solutions, air emissions reductions, asset/facilities management related services and asset/facility ownership, in addition to its continuing focus on regulated and unregulated utility services. Unregulated utility services may include, but not be limited to, energy supply management and unregulated energy assets, such as central utility plants.

The Company is continuing to evaluate potential regulated and unregulated utility acquisitions, such as small electric utilities, local natural gas distribution companies, fuel oil and propane distributors, electric transmission projects and mid-stream natural gas assets across North America. However, the Company cannot assure that such acquisitions can or will be accomplished. Utility-related acquisitions are intended to seek to leverage MPS s and other subsidiaries existing operating infrastructure, including without limitation, call center and collections operations, telecommunications technologies, billing and information technology applications, engineering capabilities, asset management systems, regulatory experience, and management expertise. MAM s proposed overall growth strategy will be heavily influenced by acquisitions that meet certain desired strategic and financial criteria within the general categories defined below. Implementation of the acquisition strategy is dependent upon, among other things, MAM s and its subsidiaries ability to raise sufficient capital. MAM believes that it can raise necessary capital to implement its acquisition strategy, but cannot assure investors of this ability.

<u>Organizational Overview of Proposed Strategic Vision</u>
<u>Showing Examples of Potential Business Sector Acquisitions</u>

* MAM does not warrant that it can or will implement acquisitions in each of the revenue models. However, acquisitions in each of the revenue models will be evaluated and are under consideration.

As a part of the process in developing the Company s growth strategy, market and public policy trends were analyzed for the Atlantic Canada and New England regions. As a result of these analyses, it appears that a number of critical economic, environmental, energy, and infrastructure trends are converging within these regions. In Atlantic Canada, electric transmission appears to be significantly limited and the adequacy of on-peak electric generation also appears to be unclear. The region has historically been highly dependent on oil as an energy source and has limited alternative fuel choice options, such as natural gas or other fuels for its electric generation. As a result, Atlantic

Canada may face near-term on-peak energy shortages and increasing energy price issues. The Company believes both regions appear to face complex energy challenges in the near to long-term. Also, should the cost of energy rise and availability of energy supplies come into question, air quality concerns and related regulation and legislation may inhibit the construction of new, adequate generation within the region. Canada s adoption of the Kyoto Protocol and the 28th Annual Conference of the New England Governors and the eastern Canadian Premiers Resolution 28-7, a resolution concerning environmental projects and issues, are examples of increasing public policies that are placing more stringent air quality requirements on the construction or refurbishment of energy producing or using facilities. Management also believes the combination of energy price, energy availability, and air quality concerns is exacerbated within the region due to additional apparent uncertainty concerning the economics and approval for the refurbishment and retooling of older, existing electric generation facilities that may include, for example a nuclear generation facility within New Brunswick, Canada. Management believes that these public policy issues are placing new pressures on governments and organizations to improve energy efficiency, gain greater control of energy costs, and reduce air emissions. At the same time, Management believes the two regions also face the reality that tax revenues and existing economic growth are inadequate to fund infrastructure renewals associated with schools, hospitals, municipal operations and universities. This recognition appears to be bringing increased focus on the significant deferred maintenance liabilities of public assets, and the requirement to ensure that capital dollars for facility renewals and replacements are spent in the most optimal manner to extend the life of such facilities, i.e. the facility asset lifecycles. Consequently, Management believes that governments, both domestic and foreign, are beginning to require lifecycle asset management plans and the determination of lifecycle costs before additional capital dollars are spent for facility renewals and replacements. The Company s overall growth strategy is primarily based on these beliefs, issues, observed trends, analyses and conclusions.

Utilizing a combination of strategic acquisitions and non-acquisition growth, the Company s business model, includes the acquisition of mechanical and electrical engineering companies offering asset lifecycle management and engineering services. Through the integration of engineering skills and certain asset lifecycle management software accessed by the Company or its subsidiaries; MAMES and Maricor s services are being offered to improve facility energy efficiency, define and reduce deferred maintenance, extend asset lifecycles, and reduce air emissions. These services are also intended to enhance the economic efficiency of a facility s electric and mechanical systems resulting in reduced operating costs. In addition, the Company and its subsidiaries are focused on identifying and developing energy asset related projects that may consist of either small green field development projects located on or related to a customer s premises, or the acquisition of a customer s energy assets, such as a central utility plant or a district energy project, with a long-term contract from one or more customers for the energy asset s output. These development projects may, or may not involve a third party financing and ownership entity. The Company intends to market such services within Atlantic Canada and New England, however it does not intend to be geographically limited to these regions. Specific primary market sectors of emphasis include, without limitation, the government, university, school, hospital, commercial and institutional markets. MAMES and Maricor also offer fee-for-service engineering services, which are provided to a broader cross-section of businesses and industries within the regions.

The Company s intended strategic plan, subject to market opportunities and conditions, also includes the potential acquisition of a small, regional real estate development and facilities management business, which is intended to compliment the Company s asset or facilities-centric engineering business model. Efforts are on-going to evaluate market opportunities for the acquisition of such a firm within the Atlantic Canada and New England regions. The Company s intended objective is to acquire a small to medium real estate portfolio as a part of its acquisition of a real estate development and management company. The targeted real estate portfolio would ideally consist of non-operating and non-retail properties within second and third tier growth markets within the target region, with an increasing focus on the development of public facilities with long-term leases matching financing terms. The Company s entry and timing of such an entry into this market is primarily dependent upon market conditions and the availability of an acquisition on economically acceptable terms. The Company cannot warrant that it can or will succeed in achieving such an acquisition.

Financing of the Company s growth strategy, depending on the specific acquisition target, may take the form of a number of different financing structures involving cash, equities and/or debt. Financing may include, without limitation, the issuance of additional common or preferred stock, vendor take backs, senior debt, private mezzanine debt securities, tax-exempt government bonds, cash or acquisition earn-outs. In addition to its compatibility with the Company s growth strategy, each acquisition target is also being evaluated based on its individual economic and strategic merits relative to long-term shareholder value. As the Company implements its growth strategy, a more definitive stock dividend policy may be adopted. Such a policy, if adopted by the Board of Directors, would be

intended to provide guidance relative to a definitive dividend payout range. The Company, however, remains committed to maintaining a market competitive dividend yield with an increasing focus on a combination of yield and stock value growth. However, the Company cannot warrant or define future dividends or share value.

As a first step in implementing the Company s growth strategy, in November 2003, MAM formed MAMES and its Canadian subsidiary, Maricor in Canada. MAMES and Maricor provide facilities-based mechanical and electrical engineering services, asset lifecycle management services and solutions, energy efficiency, energy reliability, and emissions reduction services. Maricor s first strategic acquisition, Eastcan Consultants, Inc, (Eastcan) took place on December 1, 2003. Eastcan is a regional, mechanical and electrical engineering firm, focused on the Atlantic Canada markets and headquartered in Moncton, New Brunswick, Canada, with an office in Saint John, New Brunswick, Canada. The acquisition represents an initial platform acquisition from which to build and/or acquire additional capabilities. MAMES, dba The Maricor Group intends to continue to evaluate engineering company acquisitions that provide market entry points into key markets within the target regions of New England, the U.S. and Atlantic Canada.

Description of Maine Public Service Company and Maine and New Brunswick Electrical Power Company, Limited

MPS was originally incorporated in the United States as the Gould Electric Company (Gould) in April, 1917 by a special act of the Maine legislature in connection with the purchase and lease of all of the assets of the Maine and New Brunswick Electrical Power Company, Limited, a Canadian company. Me&NB, currently a wholly-owned Canadian subsidiary of MPS, was incorporated in 1903 under the laws of the Province of New Brunswick, Canada. Following the sale of its assets to Gould, Me&NB remained a subsidiary of Gould, and subsequently MPS. Me&NB was primarily a hydro-electric generating company. It owned and operated the Tinker hydro-electric station in New Brunswick, Canada, until June 8, 1999, when these assets were sold by MPS to WPS Power Development, Inc. (WPS-PDI), a subsidiary of WPS Resources Corporation (WPS). Prior to the generating asset sale, Me&NB sold energy not needed to supply its wholesale New Brunswick, Canada customers, to MPS. For the period 2000-2003, Me&NB has been inactive and did not have unaffiliated customer revenues.

Following its incorporation in the United States, Gould changed its name to Maine Public Service Company in August, 1929. MPS was a privately held subsidiary of the Consolidated Electric & Gas Company until 1947, when its capital stock was sold as a result of Consolidated Electric & Gas Company s forced divestiture. From 1947 until its corporate reorganization in 2003, MPS was the corporate parent and traded under the stock symbol MPS on the AMEX. MPS, until its generating assets were sold on June 8, 1999, produced and, until March 1, 2000, purchased electric energy for retail and wholesale customers. MPS continues to provide transmission services to former wholesale energy customers and transmission and distribution services to retail customers in the service territory. Geographically, its service territory is located in a region of northern Maine comprised of all of Aroostook County and a portion of Penobscot County. The service area covers a region approximately 120 miles long and 30 miles wide, with a population of approximately 72,000. Since March 1, 2000, the date retail electric competition in Maine commenced, customers in MPS s service territory have been purchasing energy from suppliers other than MPS. This energy comes from Competitive Electricity Providers (CEP) or, if customers are unable or do not wish to choose a competitive supplier, the Standard Offer Service (SOS) provider. SOS providers are determined through a bid process conducted by the MPUC.

By regulatory order, on June 4, 1984, MPS entered into a Power Purchase Agreement (PPA) with the Sherman Power Company, which assigned its interest in the agreement to the Wheelabrator-Sherman Energy Company (WS), formerly Signal-Sherman Energy Company, for 17.6 megawatts of capacity, the delivery of which began on July, 1986. As stated above, the WS facility is a NUG and qualifying facility as that term is defined by PURPA. This PPA formed the basis of what was to become the Wheelabrator-Sherman NUG Contract. The stated legislative intent of PURPA was to encourage more energy-efficient and environmentally-friendly commercial energy production. PURPA defined a new class of energy producer called a qualifying facility (QF). QFs are small-scale producers of commercial energy who normally self-generate energy for their own needs and/or may sell the output under a PPA to a regulated utility. When a facility of this type meets the FERC s requirements for ownership, size and efficiency, utility companies are obligated under PURPA to purchase energy from these facilities based on a pricing structure referred to in a regulatory context as avoided cost rates. In the case of WS, the avoided cost rates were defined by the MPUC at the avoided cost rate of another facility, the Seabrook nuclear facility s fully embedded production cost, making these rates highly favorable to the producer. The difference between these avoided costs rates and the market rate that would result from an arms length negotiation for the producer s electric capacity is an important component of MPS s WS stranded costs.

The original Wheelabrator-Sherman NUG Contract was scheduled to expire at the end of 2000; however, either party had the option to renew the contract for an additional fifteen years. MPS and WS agreed to amend the Wheelabrator-Sherman NUG Contract with the amendment approved by the MPUC in December, 1997. Under the terms of this amendment, WS agreed to reductions in the price of purchased power of approximately $10 million over the contract s current term. MPS and WS also agreed to renew the contract for an additional six years at agreed-upon prices. MPS made an up-front payment to WS of $8.7 million on May 29, 1998, with the financing provided by the Finance Authority of Maine (FAME). This payment has been reflected as a regulatory asset, as determined by the MPUC in its December, 1997 order and, based on an MPUC order, included in stranded costs and recovered in the rates of the transmission and distribution utility, beginning January 1, 2001. The amended contract helped relieve the financial pressure caused by the closure of Maine Yankee in 1997, as well as the need for substantial increases in MPS s retail rates, and also reduced MPS s stranded costs.

Every two years, the WS output is sold via competitive bids, with the bidding process monitored by the MPUC. The sale of the WS output offsets the WS costs in determining this component of MPS s stranded costs. For the period March 1, 2000 to February 28, 2002, and from March 1, 2004 to the end of the Wheelabrator-Sherman NUG Contract, December 31, 2006, WPS-PDI was the successful bidder. For the period March 1, 2002 to February 29, 2004, EA took delivery of 40% of WS s output, while WPS-PDI took the 60% remainder. MPS records the above-market cost of Wheelabrator-Sherman NUG Contract as a stranded cost.

As stated above, MPS s Canadian Subsidiary, Me&NB has been inactive for the period of 2001-2003, as reflected in the table below.

MPS s research and analyses of its service area indicate that MPS s service area s economy, once heavily influenced by a significant military presence, continues to be dependent upon agricultural and the forest products industries. Potato farming and processing and the manufacturing of forest products, principally lumber, plywood, and oriented strand board, continue to be dominant economic forces within MPS s service area. The growing of broccoli has added diversity to the region s agricultural economic base. Tourism, particularly related to snowmobiling and skiing, appears to be playing an increasingly significant role in the area s economy. The medical industry represents a significant positive and growing economic force within the region, serving as a leading employer and job creation sector. However, data appears to suggest that the northern Maine economy continues to lag behind national economic trends and is experiencing population losses based on census data and recent projections, particularly among the service area s youth and young adults. Attracting new businesses and jobs to northern Maine in an effort to reverse out-migration trends appears to be a continuing challenge to the area s leaders and businesses, including MPS. As a result of its service area s economic challenges, MPS has taken a lead role in forming a public/private partnership for economic progress in cooperation with the Northern Maine Development Commission. Managed by a private-sector investors council, MPS and its staff are serving as a private sector leader in helping to execute a rational and results-oriented economic development program. The Aroostook Partnership for Progress s (APP s) efforts are intended to increase the area s emphasis on economic development through improved focus and funding for economic development.

Energy Atlantic, LLC

EA participated in the wholesale power market during 1999 and until March 1, 2000, when it began selling energy in the retail electricity market within the state of Maine. The retail market consists of two sectors, Standard Offer Service (SOS) and Competitive Energy Supply (CES), as mentioned above. The MPUC requests bids for SOS in each utility service territory. As a result of this bidding process, EA was the SOS provider in Central Maine Power Company s (CMP s) territory from March 1, 2000, until its contract expired on February 28, 2002. Within MPS s service territory, EA provided 20% of the medium non-residential SOS from March 1, 2000 until February 28, 2001.

EA also provided energy to several large commercial customers in CMP s territory under one-year CES contracts, which expired throughout 2001. EA, along with its wholesale energy supplier, was not successful in obtaining any of the SOS in MPS s service territory starting March 1, 2001, nor CMP s service territory starting March 1, 2002.

Originally, power for the sales noted above was obtained under an exclusive wholesale power sales agreement with Engage Energy America, LLC, (Engage), which expired February 28, 2002.

As part of a contract settlement between Engage and EA reached in May 2001, EA was allowed to purchase energy from additional sources. EA secured several wholesale sources of power, enabling it to participate in competitive markets within Maine. EA s CES sales to retail customers during 2003 produced far less operating margin than EA had previously earned from SOS in CMP s territory. On February 24, 2003, EA announced its intent to withdraw from the northern Maine market due to the lack of profitability and perceived risk profile in that market resulting from an illiquid wholesale market, inability to obtain price differentiated wholesale electric products, and other factors. EA continued to serve its existing contracts in northern Maine until their February 27, 2004, expiration date. In addition, EA has not renewed its wholesale agreement for southern Maine supply and has not renewed retail contracts within this region. Management has ceased active retail CES within the state of Maine until market conditions, the availability of supply, the mandate for stringent credit requirements and risk environment improve. Management will continue to monitor both U.S. and Canadian deregulated markets to determine the appropriate timing for possible re-entry into the deregulated retail market. For further information regarding EA, its contract settlement with Engage and its future business plans, see Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, Energy Atlantic Activities, such information is incorporated in this section by this reference.

Maine & Maritimes Energy Services Company (dba The Maricor Group) and Maricor Ltd

In November 2003, MAM formed the wholly-owned subsidiaries MAMES in the United States (dba The Maricor Group), and its Canadian subsidiary, Maricor. MAMES and Maricor are businesses organized to provide, among other things, energy efficiency, energy reliability, air emissions reduction, fee-for-service mechanical and electrical engineering and lifecycle asset management services primarily within eastern Canadian provinces and New England. MAMES is headquartered in Presque Isle, Maine with offices in Portland, Maine and Rockland, Massachusetts.

Maricor s first strategic acquisition, Eastcan Consultants, Inc, (Eastcan) took place on December 1, 2003. Eastcan, now an operating division of Maricor, is a regional, mechanical and electrical engineering firm headquartered in Moncton, New Brunswick, Canada, with an office in St. John, New Brunswick, Canada. Eastcan was formed in 1978, in connection with the amalgamation of several engineering firms in the Moncton, New Brunswick area. Eastcan s combined historical experience is well in excess of five thousand building projects. Eastcan s clients generally include architectural firms, municipal, provincial and federal governments, private institutional, commercial facility owners and industrial or manufacturing operations. Mechanical and electrical engineering service disciplines provided by the Eastcan Division of Maricor include, without limitation, the following:

Mechanical Engineering Services:

- Plumbing
- Heating
- Ventilation
- Air Conditioning

Energy Conservation Studies and Audits

Reports & Investigations

Process Piping

Fire Protection Systems

Boiler Plants

Petroleum Storage and Handling Systems

Electrical Engineering Services:

Lighting Calculations and Layouts

Power Distribution (Buildings, Industrial Plants, Process Equipment)

Power Quality (Emergency generators, UPS systems, Harmonic cancellations)

Fire Alarm Systems

Intrusion Alarm System Integration

Public address system

Power Factor Correction

Reports & Investigations

To complement Maricor s service and product offerings, MAM and MAMES have partnered with Delinea Corporation of Dallas, Texas, a leading software application and business process outsourcing company focused on the energy industry, and acquired exclusive marketing rights to their Strategic Asset Management (SAM) technology-based solutions for select markets within the U.S. and Canada.

Delinea s SAM offerings are industry-leading solutions for organizations that are seeking to preserve and maintain the value of their investments in infrastructure, facilities and fixed assets. SAM provides the technology and services required to effectively manage the total lifecycle of capital assets, as well as the daily operations of facilities and fixed assets. Its strategic planning capabilities are used to quantify, prioritize and optimize the capital investments required to maintain and preserve facilities and assets, while providing decision-making support to effectively manage these critical requirements in accordance with capital budgets and available funding.

Financial Information about Foreign and Domestic Operations

(In Thousands of U.S. Dollars)

	2003	2002	2001
Revenues from Unaffiliated Customers:			
MAM-United States			
MPS-United States	31,739	31,401	31,780
Energy Atlantic-United States	6,064	6,901	15,771
Energy Atlantic-U.S. - SOS Margin		5,802	2,147
Total Domestic	37,803	44,104	49,698
* Subsidiaries-Canada	58		
Total	37,861	44,104	49,698
Intercompany Revenues:			
MAM-United States			
MPS-United States			
EA-United States	9	9	3
Total Domestic	9	9	3
Subsidiaries-Canada			
Total	9	9	3
Operating Income (Loss):			
MAM-United States	(457)		
MPS-United States	3,704	3,523	5,379
EA-United States	(164)	3,349	1,006
Total Domestic	3,083	6,872	6,385
Subsidiaries-Canada	77	(7)	(25)
Total	3,160	6,865	6,360
Net Income (Loss)			
MAM-United States	(418)		
MPS-United States	3,238	3,089	4,331
EA-United States	(116)	3,444	897
Total Domestic	2,704	6,533	5,228
Subsidiaries-Canada	102	10	9
Total	2,806	6,543	5,237
Identifiable Assets:			
MAM-United States	2,408		
MPS-United States	134,996	134,883	136,931
EA-United States	2,024	6,324	5,632
Total Domestic	139,428	141,207	142,563
Subsidiaries-Canada	1,841	779	772
Total	141,269	141,986	143,335

The identifiable assets, by company, are those assets used in each company s operations, excluding intercompany receivables and investments. For 2003 and 2002, identifiable assets reflects the reclassification of accrued removal obligations as a liability from accumulated depreciation.

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* The term Subsidiaries Canada above includes all applicable financial information for Me&NB and Maricor.

Regulation and Rates

The information with respect to regulation and rates is presented in Item 3 below, Legal Proceedings, such information is incorporated in this section by this reference.

Franchises and Competition

Except for consumers served at retail by municipal electric utilities within MPS s service area, MPS has a nearly exclusive franchise to deliver electric energy in its service territory. For additional information on changes to the structure of the electric utility industry in Maine, see Item 7 below, Management s Discussion and Analysis of Financial Condition and Results of Operations, Overview, incorporated herein by this reference. For information on the competitive conditions facing EA, MAMES and Maricor see also Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, Energy Atlantic Activities, such information is incorporated in this section by this reference.

MAMES and Maricor operate in competitive markets and do not have exclusive franchises. Competition comes primarily from other local or regional mechanical and electrical engineering firms, as well as local, regional or national energy services companies. Public policies related to energy, energy efficiency, asset lifecycle management, and air emissions may impact the overall market. The Company has observed that increasing interest rates generally tend to negatively impact the market for fee-for-service mechanical and electrical engineering services. However, increasing interest rates also appear to increase the demand for energy efficiency and asset lifecycle management services. The Company cannot warrant or predict these economic effects and makes no predictive statement as to future market or competitive trends.

Employees

The information with respect to employees is presented in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, Employees, such information is incorporated in this section by this reference.

Subsidiaries, Affiliated and Associated Companies

As stated above, MAM became a holding company effective June 30, 2003. All 1,574,582 shares of MPS common stock were converted on the books on that date into an equal number of MAM common stock, which are listed and traded on the AMEX. MAM owns 100% of the common stock of MPS.

MPS owns 100% of the common stock of Me&NB. Me&NB owned and operated the Tinker hydro-electric station located in the Province of New Brunswick, Canada, prior to its sale on June 8, 1999, and has not conducted active business since the sale.

On August 24, 1998, the MPUC approved the formation of what was then MPS s unregulated subsidiary, EA. EA began formal operations on January 1, 1999, performing various non-core activities, such as wholesale marketing of electric power and the sales of energy-related products and services. EA began retail sales activity on March 1, 2000, the date retail electric competition commenced in Maine. As a start-up unregulated subsidiary, the MPS Board of Directors and the MPUC limited MPS s capital contributions to a maximum of $2 million, subsequently amended to $2.5 million during 2002. With the formation of MAM, MPS s interest in EA was transferred to the new holding company. EA is currently an inactive subsidiary of MAM.

MPS owns 5% of the common stock of Maine Yankee, which operated an 860 MW nuclear power plant (the Plant) in Wiscasset, Maine. On August 6, 1997, the Board of Directors of Maine Yankee voted to permanently cease power operations and to begin decommissioning the Plant. The Plant experienced a number of operational and regulatory problems and did not operate after December 6, 1996. The decision to close the Plant permanently was based on an economic analysis of the costs, risks and uncertainties associated with operating the Plant compared to those associated with closing and decommissioning it. The Plant s operating license from the Nuclear Regulatory Commission (NRC) was due to expire on October 21, 2008. For further information regarding Maine Yankee and its decommissioning progress, see Item 7 below, Management s Discussion and Analysis of Financial Condition and Results of Operations, Maine Yankee, such information is incorporated in this section by this reference.

MPS also owns 7.49% of the common stock of Maine Electric Power Company, Inc., (MEPCO). MEPCO owns and operates a 345-KV (kilovolt) transmission line about 180 miles long, which connects the New Brunswick Power (NB Power) system with the New England Power Pool (NEPOOL).

In November 2003, MAM formed MAMES in the United States, now dba The Maricor Group, and MAMES Canadian subsidiary, Maricor. MAM owns 100% of the stock in MAMES. MAMES has a 100% ownership interest in Maricor. In December 2003, Maricor acquired Eastcan Consultants, Inc., which is a regional mechanical and electrical engineering firm headquartered in Moncton, New Brunswick, Canada with an office in St. John, New Brunswick, Canada. Eastcan is currently an operating division of Maricor. An organizational diagram illustrating the various corporate relationships described in this section is provided above in Part 1, Item 1, Business, General and is incorporated in this section by this reference.

Company Financial Information

The public may read and copy any materials the Company files with the SEC at the SEC s Public Reference Room at 450 Fifth Street, N.W. Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

The Company is an electronic filer and the SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at http://www.sec.gov. The Company also maintains an Internet site containing such reports at www.maineandmaritimes.com. All such reports, including annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, may be downloaded from such site without charge. Also listed at the Company s site under Investor Relations, Corporate Governance, is the Code of Ethics for Senior Financial Officers and all other Principal Executive Officers and Managers, as well as the Company s policy regarding Insider Trading and Dissemination of Inside Information.

Item 2. Properties

As of December 31, 2003, MPS had approximately 380 circuit miles of transmission lines and MPS owned approximately 1,730 miles of distribution lines, all in Aroostook County and a portion of Penobscot County in northern Maine. There are no material physical assets held, owned or controlled by any of the Company s other subsidiaries.

Substantially all of the properties owned by MPS are subject to the liens of the First and Second Mortgage Indentures and Deeds of Trust.

In response to a Maine environmental regulation to phase out Poly Chlorinated Bi-phenol (PCB) transformers, MPS has implemented a program to eliminate transformers on its system that do not meet the new state environmental guidelines. The program will test the almost 13,000 distribution transformers over a ten-year period. In addition, transformers that pass the inspection criteria will be refurbished and refitted with lightning arrestors and animal guards. The initial cost of the ten-year program was estimated to be $5 million. After three years, MPS has spent approximately $1,033,000 under the program. MPS is currently in its fourth year of this ten-year program.

System Security and Reliability

During 2002, the engineering consulting firm of R.W. Beck, Inc. (R.W. Beck), was retained to undertake a comprehensive facilities evaluation and engineering audit of the MPS transmission and distribution systems. The purpose of the evaluation and audit were to provide a comprehensive condition baseline of the transmission and distribution systems as a beginning basis for development of new transmission and distribution system plans and the implementation of asset management initiatives. As a result of the condition baseline and increasing focus on system planning, MPS has implemented a continuous in-the-field inspection program for transmission and distribution. The inspection program has been facilitated by the investment in new mobile equipment allowing for top down inspections versus traditional pole climbing or bottom up processes. Further, MPS has begun development of twenty-year distribution and transmission planning processes. These planning processes are intended to focus on means to improve overall system reliability, while minimizing lifecycle asset management costs and reducing future required capital expenditures.

From a transmission perspective, the R.W. Beck audit noted that transmission lines appeared to be in good condition and reasonably maintained. However, they did note on a relative basis that certain lines were older, but in good condition with the exception of some of the oldest wood pole lines and areas where bird (woodpecker) damage is a problem. Through MPS s in-the-field transmission inspection program, structures in need of repair or replacement are being identified and repaired or replaced. Current plans are to undertake complete inspections of MPS s transmission system every two years.

Audits of the Company s substations and substation-related business processes were also undertaken by R.W. Beck. The overall ratings for substations were lower than desired, due to the fact that almost half of the distribution substations rely on power transformers that have exceeded their useful lives or are within five years of exceeding their useful lives. While certain transformers are beyond their normal life expectancy, MPS has implemented a comprehensive testing program to identify problem transformers, implementing preventive maintenance to extend equipment life expectancies, or replacing such transformers. As part of the system planning process, MPS is developing a plan to replace older transformers, which will focus on consolidating substations where possible, all a part of MPS s long-term system planning process.

MPS had planned to reduce its annual capital expenditures to a level approximately equal to its rate of depreciation. Due to MPS s desire to consolidate facilities and ensure increased system reliability, management believes that renewal and replacement capital expenditures for the next two to three years may remain at more recent historical levels of $4.0 million to $6 million annually. Such expenditure levels do not include the possible construction of additional transmission as later described.

As a result of the closure of an on-system generation facility and uncertainty concerning other merchant and non-merchant generation facilities within the Maritimes and northern Maine regions, MPS continues to evaluate system security, particularly from an on-peak generation resource perspective. Through load-flow analysis and utilization of specific contingency or transmission outage scenarios, it has been determined that under a single contingency or outage condition and during peak load situations, a system-wide outage is possible if at least 50 MW s of on-system generation are not operating. Additionally, under certain conditions, the analyses noted that a second contingency or transmission line outage could not be survived within a thirty-minute time frame when similar conditions existed after a single contingency. Although Maine Public Service Company does not have a bulk delivery transmission system as defined by the Northeastern Power Coordinating Council (NPCC), MPS is using NPCC s standards for planning criteria. It should be noted that potential contingencies that were studied focused on situations that could impact MPS s transmission and distribution systems, even though certain transmission assets are located in Canada and are owned by other companies or organizations. MPS has contingency plans to mitigate such conditions or events in the case that a major transmission outage or system outage occurred.

As a result of internal and external transmission system security studies in the fall of 2002, a unique risk to the MPS system was identified due to a condition on an NB Power breaker at the Beechwood 138 kV substation in Canada. The risk was that for a single breaker malfunction at Beechwood substation, MPS could lose two of its three main interconnections with NB Power. The loss of these interconnections, coupled with the uncertainty of on-system merchant generation levels, required MPS to act to prevent conditions that could result in an outage. Consequently, MPS paid NB Power $125,900 in December of 2003, for installing a series breaker, which eliminated this risk to the MPS transmission system.

In order to address system security and reliability needs, MPS is also evaluating the construction of additional interconnections with NB Power. Such projects, subject to further analysis and regulatory approvals, would increase available and total transmission capacities. In addition, MPS is evaluating the merits of joining a new Independent System Operator (ISO) or Regional Transmission Organization (RTO). At this time it is unclear as to the potential outcome of these efforts. Further, due to shortages of peaking generation capacity within the Maritimes region, MPS is evaluating other non-transmission options to ensure system reliability. Such alternative options may require legislative or regulatory approvals.

Item 3. Legal Proceedings

Item 3 (i) Maine and Maritimes Corporation

(a) Maine Public Utilities Commission, Request for Approval of Reorganization of MPS Into a Holding Company Structure, Docket No. 2002-676

On October 31, 2002, MPS filed a request for MPUC approval of the formation of a Maine-based holding company structure. Under this structure, MPS, EA, as well as other affiliates or subsidiaries, the creation of which was anticipated to occur at a later date, would become subsidiaries of a holding company, HoldCo. In its application, MPS stated that the corporate restructuring would be accomplished through a reverse triangular merger, similar to the one employed in CMP s Application for Approval of Reorganization, of Transactions with Affiliated Interests, and Transfer of Assets, MPUC Docket No. 97-930.

The proposed MPS restructuring constituted a reorganization requiring MPUC approval pursuant to the provisions of 35-A M.R.S.A. § 708. In addition to the proposed reorganization, MPS also requested the approval of certain stock issuances and affiliated interest transactions.

Specifically, MPS requested MPUC approval of the following transactions and arrangements:

1. the creation of a corporation (HoldCo) that became the parent company of MPS through its ownership of all outstanding company stock of MPS;

2. the creation of a corporation (MergeCo) whose only purpose was to facilitate the corporate reorganization and which, when organized, became a wholly-owned subsidiary of HoldCo and which ceased to exist, once it had served its purpose;

3. the conversion and exchange of all the outstanding shares of MPS s common stock into an equal number of shares of HoldCo s common stock (to the degree that the conversion and exchange of MPS stock to be effected in that transaction was deemed to constitute an issuance of utility stock within the meaning of 35-A M.R.S.A. §§ 901and 902);

4. the merger of MergeCo into MPS, with MPS as the surviving corporation, and the resulting conversion of the outstanding shares of MergeCo common stock into a number of shares of the common stock of MPS equal to the

number of shares of MPS s common stock outstanding immediately prior to the share conversion described in item 3 above, which was deemed issued by MPS for this purpose;

5. the dividend by Maine Public Service of its limited liability company interests in Energy Atlantic to HoldCo pursuant to 35-A M.R.S.A. §§ 708, 901 and 902;

6. the execution and delivery of the Managerial and Support Services Agreement and approval of the cost manual submitted in conjunction therewith pursuant to 35-A M.R.S.A. § 707;

7. the winding up and dissolving of Me&NB at such future time as MPS might deem appropriate pursuant to 35-A M.R.S.A. § 708; and,

8. the transfer, after the merger date, (i) of assets that were not necessary or useful within the meaning of Section 1101 of title 35-A, from MPS to any MPS affiliate, and (ii) the transfer of all other assets from MPS to HoldCo or any non-MPS HoldCo subsidiary in the total amount of up to $1,000,000 over the three-year period beginning upon the merger date.

MPS also requested that the Commission authorize the creation of HoldCo and MergeCo within thirty days of the date of its filing. This interim approval was for the limited purpose of making necessary filings with the Securities and Exchange Commission under the Public Utility Holding Company Act and for executing a registration statement under federal securities law. As part of this request for interim approval, MPS also represented that should the Commission have denied its petition for reorganization, or if for any other reason their organization did not occur, it would dissolve both HoldCo and MergeCo.

Subsequent to its filing, MPS received and responded to several requests for information from the MPUC and the Office of Public Advocate, an intervenor in the proceeding, and met on several occasions with interested parties. The parties settled all issues in the proceeding, and entered a signed Stipulation formally approved by the MPUC on March 26, 2003. The text of the MPUC Order, Docket No. 2002-676 may be viewed as Exhibit 99(ao) of this Form 10-K such information is incorporated in this section by this reference. MPS also filed, on March 11, 2003, a Form S-4 Registration Statement with the Securities and Exchange Commission for Maine & Maritimes Corporation the entity designated as HoldCo in this disclosure. The reorganization became effective June 30, 2003.

At MPS s Annual Meeting of Shareholders, held on May 30, 2003, shareholders of MPS voted to approve its plan to create a holding company structure, under MAM. Of the shares eligible to vote, 57.07% voted For the holding company proposal, 10.19% voted Against, and 32.74% abstained or were broker no votes. The reorganization was completed by July 1, 2003. No change in beneficial ownership resulted from the reorganization, which is described in more detail in the Form S-4/A of MAM filed with the Commission on April 15, 2003 and is incorporated in this section by this reference. The filing is reviewable on the SEC s website at http://www.sec.gov/edgar or on the MAM Investor Relations page at http://www.maineandmaritimes.com/corporate/1373T04_CP.PDF.

Under the new holding company corporate structure, MPS became a separate subsidiary of MAM. EA, previously MPS s unregulated competitive electricity supply company also became a direct subsidiary of, MAM. Me&NB, which is an inactive Canadian company, remained a direct subsidiary of MPS.

Following the July 1, 2003 completion of the reorganization, shares of MPS common stock were converted on the books (with no exchange of certificates) into the same number of shares of common stock of MAM. The MAM common stock shares are currently traded on the AMEX under the ticker symbol MAM.

Item 3 (ii) MPS Rate Cases

(a) Maine Public Utilities Commission, Request for Approval of Alternative Rate Plan, MPUC Docket 2003-85.

As reported in prior MPS and MAM quarterly reports on Form 10-Q which are incorporated in this section by this reference, on March 6, 2003, MPS submitted its formal Request for Approval of Alternate Rate Plan (the ARP) (MPUC Docket 2003-85). The proposal was a seven-year rate plan for its distribution delivery services with a target implementation date on or before July 1, 2003. The ARP was an alternative form of regulating MPS s distribution assets, similar to the performance rate plans the MPUC has adopted for CMP and Bangor Hydro-Electric Company. In accordance with a state statute enacted during the course of MPS s ARP proceedings, Maine utilities requesting an ARP are required to file cost-of-service financial information as part of the proceeding. In connection with this aspect of the ARP review and analysis, MPS had been authorized by, and had received final approval from the MPUC to increase its electric delivery rates. Also in connection with this process MPS announced that effective October 1, 2003, MPS would increase the distribution component of its electric delivery rate by 6.23% for a total increase in its electric delivery rate of 3.44%, for a total revenue increase of $940,000. However, during the compliance filing phase of this proceeding, an issue arose concerning the calculation of rate sheets and the corresponding retail distribution and transmission revenues. Following the entry of a procedural order, discovery, and a public conference a Supplemental Stipulation in this case was entered into and filed with the Maine Public Utilities Commission (MPUC) on October 17, 2003, correcting the allocation of revenues between distribution and transmission, and resulting in MPS increased its total electric delivery rate by 3.78%, or a total revenue increase not to exceed $1,126,552. As a result, effective November 1, 2003, MPS distribution rates were increased. This increase included $685,037 in distribution revenues and $441,515 in transmission revenues. A copy of the Stipulation and the Order approving the increase may be viewed on the MPUC website at http://www.state.me.us/mpuc/ and is incorporated in this section by this reference. Following the entry of the order approving the Supplemental Stipulation, the ARP proceeding was bifurcated and on December 29, 2003, MPS notified the MPUC of its intention to withdraw the remaining elements of the ARP docket. For the purposes of future rate proceedings MPS will continue to evaluate if an ARP is in the best interest of MPS, its shareholders and consumers or if it should continue to proceed with cost-of-service rate filings as it has done in the past.

As a part of this rate case, the MPUC approved MPS s request to fix its debt interest rates through the purchase of interest rate swap derivatives. Prior to MPS s fixing of its interest rates through such interest rate swaps, all of its debt had been subject to variable interest rates. Given the long-term nature of MPS s debt, management believed that locking the rates at historically low levels reduced future shareholder and consumer risks associated with the volatility of interest rates. Effective interest rates achieved by the swaps for MPS s variable rate debt through maturity range from 2.79% to 4.68%. See Item 16(a) of this Form 10-K, Note 8 of the Consolidated Financial Statements, Long-Term Debt for a description of these debt issues and associated swap rates.

(b) Maine Public Utilities Commission Investigation into MPS s Stranded Cost Revenue Requirements and Rates in MPUC Docket No.2003-666.

As previously reported in the prior MPS 8-K filing of March 2, 2004, MPS received final approval from the MPUC for the stranded cost revenue component of its electric delivery rates. Under Title 35-A of the Maine Revised Statutes Annotated, Section 3208, the MPUC is required to periodically investigate and adjust the stranded cost charges reflected in the rates of a transmission and distribution utility. In accordance with this provision, on September 16, 2003, in Docket No. 2003-666, the MPUC issued a notice of investigation in order to determine whether MPS s rates must be changed effective March 1, 2004 to reflect any changes in MPS s stranded costs. On February 27, 2004, the MPUC issued an order approving a stipulation under which MPS is allowed to recover $11,785,339 per year to satisfy its approved stranded cost revenue requirements for the rate effective period, which began March 1, 2004, and will end on December 31, 2006. The approved revenue requirement for the rate effective period ended February 29, 2004 was $11,540,000. Under the approved stipulation MPS s stranded cost rates approved in Docket No. 2003-85 will remain in effect during the rate effective period**.** The stipulation approved by the MPUC in Docket No. 2003-666 also approved and reaffirmed each of the elements and associated balances of MPS s recoverable stranded costs.

As explained more fully below, during the course of Docket No. 2003-666 the parties reviewed the manner in which MPS was recovering and accounting for its carrying charges associated with the deferred fuel element of its stranded cost. As a result of the stipulation approved in Docket No. 2003-666, MPS will record deferred income tax expense associated with deferred fuel carrying charges during the rate effective period from March 1, 2004 through December 31, 2006, as compared to past treatment where such expense was deferred for future recovery. Because the deferred fuel carrying charge component of MPS s stranded costs is not expected to be fully amortized until 2012, MPS anticipates that deferred income tax expense will be incurred through 2012, subject to future stranded cost filings with the MPUC. In Dockets Nos. 98-577 and 2001-240, the parties stipulated that MPS would accrue carrying costs on its unrecovered fuel balance (the deferred fuel account) during the respective rate effective period at its net of tax cost of capital rate. Consistent with the stipulation in Docket No. 2001-240, MPS accrued a carrying charge using the net of tax rate of 7.98% through October 31, 2003 applied against its unrecovered deferred fuel balance. From November 1, 2003 to December 31, 2003 MPS accrued its carrying charge using a net of tax rate of 7.06%, based on the cost of capital approved in Docket No. 2003-85 (described in Docket No. 2003-85 Partial Stipulation filed on September 2, 2003).

During the course of the Docket No. 2003-666 proceeding, MPS determined that it had not previously recognized accumulated deferred income taxes with respect to the carrying charges on the deferred fuel account and that the recording of a deferred tax liability on its balance sheet pursuant to FAS 109 in the amount of $2.896 million was required. The deferred fuel balance as of March 1, 2004 prior to any adjustment was $18,838,000. Under the stipulation MPS is allowed to adjust its accumulated deferred income tax account and the deferred fuel balance by $2,896,000, as of March 1, 2004, resulting in a total deferred balance as of March 1, 2004 of $21,734,000. Under the approved stipulation the parties also agreed that the return component on the deferred fuel balance should be reduced in such a manner that ratepayers were held harmless on a net present value basis as a result of the March 1, 2004 adjustment to the deferred fuel balance. During the rate effective period ending on December 31, 2006, the overall pre-tax return component on the deferred fuel balance will be 8.28%, reflecting a 6.17% return on equity. The return on the deferred fuel balance will be reviewed in future stranded cost rate setting proceedings and will be adjusted as necessary in order that the present value of the revenue requirements of the deferred fuel account without the adjustments described above equals the present value of the revenue requirements of the deferred fuel account with the adjustments. MPS concludes that as a result of this stipulation and the foregoing described adjustment to the deferred fuel balance and the accumulated deferred income tax liability that no further adjustment is necessary under FAS 109 in order to reflect prior unrecorded deferred income taxes.

The decreased cost of capital rate beginning on March 1, 2004 will have an impact on future stranded cost earnings and stranded cost freed-up cash flows, but will not impact future distribution or transmission earnings. In the year 2004, MPS anticipates that it will record deferred income tax expense of approximately $412,000 associated with the deferred fuel carrying charges. The amount of deferred income tax expense recorded in future years will vary depending upon the amount of the accrued carrying charge in any year, and the tax rates then in effect. MPS anticipates that earnings from carrying charges on its stranded costs in 2004 will be approximately $267,000 lower than the amount that would have been recorded had MPS continued to use the original cost of capital on its deferred fuel balance, for a total earnings impact of $679,000 in 2004. The impact on future earnings resulting from the agreed upon lower cost of capital, when compared against the cost of capital used in prior stranded cost filings, will vary. Schedules filed by MPS as part of the stipulation in Docket No. 2003-666 reflect the deferred fuel balance as of March 1, 2003, certain additions relating to the Wheelabrator-Sherman above-market contract through December 2006, and the amortization of the deferred fuel balance though 2012. Applying these assumptions, current tax rates and the agreed upon cost of capital, MPS anticipates that the impact on future earnings resulting from recording deferred income taxes on accrued carrying charges and applying a lower cost of capital to the deferred fuel balance could range from $1.0 million in 2005, increasing to $1.2 million in 2007, then gradually decreasing to $17,000 in 2012. These amounts may vary with changes in the deferred fuel balance and other variables which MPS cannot predict with certainty at this time. Management is analyzing means to mitigate the impact of this stipulation on future net income and stranded cost freed-up cash flows.

In addition to the return allowed on its deferred fuel account as set forth above, under the approved stipulation MPS shall be allowed to recover the following pre-tax returns on the applicable stranded cost rate base components during the rate effective period: (i) the pre-tax return on unrecovered balance of the Wheelabrator-Sherman NUG Contract Buydown shall be 2.79% plus its FAME issuance costs; (ii) the pre-tax return on the unrecovered Seabrook Investment and approved special rate contract costs shall be 11.74%; and, (iii) the pre-tax return on the Maine Yankee decommissioning related costs shall be 8.56%. The stipulation and any accompanying exhibits can be found on the MPUC website at www.maine.gov.us/mpuc and are incorporated in this section by this reference.

(c) <u>Federal Energy Regulatory Commission Approval of Wholesale Transmission Rates, FERC Docket No. ER00-1053</u>

The FERC approved MPS wholesale transmission rates effective June 1, 2002, in FERC Docket No. ER00-1053, a proceeding related to MPS s Open Access Transmission Tariff (OATT) discussed below. On August 6, 2002, MPS notified the MPUC of its intention to implement the associated transmission component of its retail transmission and distribution (T&D) rates, with the new rates effective October 1, 2002. The FERC maintains jurisdiction over all transmission rates. This implementation increased overall delivery rates by approximately 2%. MPS increased its transmission rates subject to refund and issuance of a final order by FERC, which was issued in March, 2003.

(d) <u>Federal Energy Regulatory Commission 2003 Open Access Transmission Tariff Formula Rate filing, FERC Docket ER00-1053-009</u>

As previously reported in prior MPS quarterly reports on Form 10-Q which is incorporated in this section by this reference, pursuant to Section 2.4 of the Settlement Agreement filed on September 30, 2000, in Docket No. ER00-1053-000, and accepted by the FERC on September 15, 2000, MPS provided parties and FERC staff on June 10, 2003 the changed Open Access Transmission Tariff (OATT) Formula Rate charges that MPS proposed to apply on June 1, 2003 together with back-up materials. On June 1, 2003 the Formula Rate charges became effective subject to a refund that may occur in connection with a settlement stipulation currently being negotiated by the parties to the proceeding. The initial notification for the 2003 filing was filed with the FERC on March 31, 2003. In its 2003 OATT filing, MPS provided the proposed changes to its

OATT Formula Rate to the intervening parties and FERC staff. In general, MPS sought a slight modification to its rate formula under its transmission tariff. On February 11, 2004, following discussions to resolve all outstanding issues in the 2003 informational filing, MPS, the parties, FERC Trial Staff, and the MPUC reached a settlement agreement (the Settlement Agreement) regarding changes to the MPS Formula Rate. The Settlement Agreement and OATT revisions filed reflect and set forth the agreement reached. Specifically, the parties and the FERC Trial Staff agreed to certain provisions and changes to MPS s Formula Rate and OATT as summarized below and in the revised MPS OATT pages. The revised MPS OATT pages in redline and non-redline format are included in Attachment A to the Settlement Agreement. The provisions and changes agreed to are summarized as follows:

A fixed 11% return on common equity shall continue to be used. The formula makes clear that the return on common equity may not be changed unless pursuant to section 205 or 206 of Federal Power Act, 16 U.S.C. §§ 824d, 824e.

In calculating the weighted overall return, MPS s actual long term debt and preferred costs will be calculated as specified in Note 1 of Statement AV of the Formula Rate. For the three years ending June 1, 2006, MPS s equity ratio will be (1) the actual equity ratio as calculated according to Formula Rate Statement AV or (2) 53%, whichever is lower, and MPS s debt ratio will be (a) the actual debt ratio as calculated according to Formula Rate Statement AV or (b) 100% less 53% less the actual preferred stock ratio, whichever is higher.

Effective January 1, 2004, MPS will begin booking depreciation accruals for the certain plant accounts at the rates specified, and depreciation expense reflecting these rates will be included in the MPS Formula Rate be used in the OATT charges to be effective June 1, 2005. Formula Rate Statement AJ makes clear that the depreciation rates may not be changed unless pursuant to section 205 or 206 of Federal Power Act, 16 U.S.C. §§ 824d, 824e.

Depreciation rates for certain plant accounts will be effective January 1, 2003 and depreciation expense reflecting accruals at these rates and will be included in the MPS Formula Rate and will be used in the OATT charges to be effective June 1, 2004. Formula Rate Statement AJ makes clear that the depreciation rates may not be changed unless pursuant to section 205 or 206 of Federal Power Act, 16 U.S.C. §§ 824d, 824e. Also the proposed amounts of depreciation accrual previously recorded through December 31, 2002 and related to Account 350.2 and 350.3 will not be reversed and will continue to be recognized as credits to rate base.

MPS will continue to include intangible plant in rate base, and in addition, MPS will reduce intangible plant by accumulated amortization (reflected on Formula Rate Statement AE) and include an amortization of intangible plant in the calculation of depreciation and amortization expense. Formula Rate Statement AJ shall be modified to include the intangible amortization in total general plant depreciation and intangible amortization. The transmission labor allocator shall be used to allocate total general plant depreciation and intangible amortization to the transmission function. MPS will use a three-year amortization period for computer hardware and software related intangible plant, except that extraordinary software investment that on a project basis exceed $100,000 shall be amortized over seven years, with appropriate recognition of deferred taxes. In the informational filing MPS makes each year pursuant to Section 2.4 of the Settlement Agreement, MPS will include worksheets that detail the following information regarding projects being amortized in Account 303: a description of the project, beginning and ending balances, the annual amortization and total accumulated amortization for that project. A sample worksheet is included in Attachment B of the Settlement Agreement.

MPS will allocate external regulatory expenses to all customers based on a load ratio share basis beginning with test year 2002 expenses. The current three-year amortization will continue. A conforming change to Formula Rate Schedule 1b will be made.

A revenue credit for rents in Account 454 (pole attachments, etc.) shall be added to the Formula Rate Statement AU. A conforming change to Formula Rate Schedule 2 will be made.

MPS will add a new line item to Schedule 2 of the Formula Rate to reduce rate base for deferred directors fees. The amount of directors fees to be shown on Schedule 2 of the Formula Rate will be developed on Formula Rate Statement AD2.

MPS will modify the Formula Rate Statement AF2 to reduce rate base by the net of amounts in Account 228.3 (i.e. Accounts 228.310, 228.320, and 228.330) minus the amount in Account 186.991. MPS will average the beginning and end of year balances in the accounts and allocate the net of the averages to the transmission function using the transmission labor allocator. Formula Rate Schedule 2 will be modified to add a line item for pensions and benefits.

All costs: (1) of generation, (2) of entering the generation business and (3) of any other non-transmission business (regulated or non-regulated) activities including all deferred income taxes and an appropriate allocation of administrative and general expenses shall be excluded from the transmission rate. Any costs of starting or operating any business other than transmission or distribution that have or will be incurred as of January 1, 2003 shall be separately identified and segregated so that transmission customers can review those costs. MPS will maintain sufficient records to enable customers to monitor these costs and to ensure that these costs are identified and not charged to transmission customers, and to enable MPS to support and explain its allocation of costs. Any information provided by MPS regarding these costs will be treated as supporting documentation under Section 2.3 of the Settlement Agreement and any disputes concerning that information will be resolved under the terms of Section 2.3 and not Section 2.4.

In the informational filing MPS makes each year pursuant to Section 2.4 of the Settlement Agreement, MPS will include worksheets that detail the treatment of deferred taxes related to Accelerated Costs Recovery System (ACRS) / Modified Accelerated Cost Recovery System (MACRS) property. Specifically, MPS will demonstrate by journal or account entries that the tax benefits related to the tax deductions for the retirement of ACRS/MACRS property and for costs of removal of that property were credited to Account 282 or 283. A sample worksheet is included in Attachment B of the Settlement Agreement.

For retail transmission charges, MPS changed the retail transmission rates each year on October 1. Specifically, MPS will add the following language to the Formula Rate Schedule 1.1.1: Retail transmission price changes will take effect on October 1. The transmission revenue effect of any difference (positive or negative) between when transmission price changes would normally occur (June 1) and when they actually occur (October 1) will be accrued with interest, calculated pursuant to Section 35.19a for FERC s regulations and included in the next determination of transmission prices for retail transmission customers. Certain clean-up edits to the Formula Rate were also made.

MPS will also modify OATT Schedule 2, Reactive Support and Voltage Control from Generation Sources Service to specify the allocation of reactive support costs. MPS will allocate reactive support charges on a load ratio share basis. For wholesale customers, charges for reactive support shall occur each month on an as billed basis. For retail customers, the reactive support charges shall be rolled into the retail transmission revenue requirement on a prospective yearly basis with a true-up the next year. This change to Schedule 2 was effective April 1, 2003. MPS also will add Schedule 4 to the Formula Rate to describe the allocation of reactive support costs and modify Schedule 1.1.2 to reflect the allocation for retail transmission customers.

The parties also agreed that if there is a conflict between the Formula Rate and OATT, changes listed in Section 2.2 of the Settlement Agreement and changes reflected on the Formula Rate and OATT pages included in Attachment A to the Settlement Agreement will control.

Consistent with the 2000 Settlement Agreement, the parties also agreed that before each annual (June 1) adjustment under MPS s Formula Rate, MPS shall provide the Parties and Commission Trial Staff with the changed charges that MPS proposes to apply on June 1 together with back-up materials. MPS will use its best efforts to provide that information by May 15 of each year. MPS will submit an informational filing with the Commission setting forth the changed charges by June 15 of each year. If a party to the Settlement Agreement disputes the annual charge change, that party will possess the right to raise any issue with the Commission (even after June 15). MPS will respond to reasonable requests for supporting documentation requested by any party or FERC Trial Staff (even after June 15).

The parties also agreed that by March 1, 2006, MPS will meet with the parties and FERC Trial Staff to determine if any of the parties or FERC Trial Staff believe that the Formula Rate does not produce reasonable results. If MPS and the parties and FERC Trial Staff are unable to reach agreement, then MPS will submit by April 30, 2006, under section 205 of the Federal Power Act, 16 U.S.C. § 824d, a unilateral filing with FERC restating or revising the Formula Rate.

As a result of the settlement, MPS will rebill OATT customers for charges under the OATT related to the implementation of the Rate Formula changes effective June 1, 2003. The rebilling shall include interest computed under 18 C.F.R. § 35.19a. For the purpose of keeping the total retail transmission and distribution rate constant until the October 1, 2004, MPS will not rebill the retail transmission customers until October 1, 2004. At the time of the retail transmission rebilling, MPS will include refunds with interest pursuant to 18 C.F.R. § 35.19a for the rebilling and any appropriate surcharges with interest calculated pursuant to FERC regulations, 18 C.F.R. § 35.19a, associated with the delay in implementation of the 2003 retail transmission change in charges from June 1, 2003 to October 1, 2003. Also included in the rebilling will be the yet unbilled refunds and surcharges associated with past periods, including but not limited to those associated with the delay in implementation of the 2002 retail transmission change in charges from June 1, 2002 to October 1, 2002, and the 2003 retail transmission change in charges from June 1, 2003 to November 1, 2003, and refunds associated with the settlement filed on March 7, 2003 in Docket No. ER03-1053-008.

MPS has requested among other things that the FERC accept the 2003 informational filing and the proposed OATT revisions. On February 17, 2004 FERC issued its Notice of Filing and established a public comment date deadline of March 3, 2004. The matter has been briefed to the Commissioners who had no objections to any provisions of the MPS filing. An order approving the 2003 informational filing and OATT revisions is expected during the first quarter of 2004. The Settlement Agreement, cover correspondence and its attachments are submitted with this filing as Exhibit 99(aq), and are incorporated in this section by this reference.

Item 3(iii) Other MPS Matters:

(a) Maine Public Utilities Commission Notices of Inquiry, MPUC Dockets No. 2003-82; 2003-423.

On February 11, 2003, the MPUC initiated a formal Notice of Inquiry (NOI) into the status of the competitive market for electricity supply in northern Maine (MPUC Docket No. 2003-82). The NOI is not directed at MPS or any specific party or entity but is a general inquiry designed to gather information about the adequacy of existing market structures, rules and laws in light of the limited number of supplier/generator participants in the region. The MPUC s inquiry is for the purpose of identifying potential concerns related to northern Maine s supply and market situation, and to explore possible solutions. In contrast to the rest of Maine, which is part of the Independent System Operator New England (ISO-NE) region, northern Maine and MPS are electrically interconnected to the Canadian Maritimes region, which also includes the electric loads and generation of New Brunswick, as well as Nova Scotia and Prince Edward Island. Load and generation in northern Maine, which comprises MPS s service territory, are interconnected to the rest of Maine and New England only by transmission through New Brunswick. The Northern Maine Independent System Administrator (NMISA) operates the bulk power and transmission systems for the region. The divestiture of generation assets in connection with the Maine Electric Industry Restructuring Act eliminated rate regulation for the production and sale of electricity supply as of March 1, 2000. During the subsequent period of time, the retail and wholesale markets have experienced a limited number of participants. In furtherance of the MPUC s inquiry, it requested comments on a number of issues related to these unique market conditions. MPS has provided comments for the MPUC s consideration. There have been no other material or further developments in this proceeding during 2003. At this time MPS cannot predict the nature or the outcome of any finding, decision or ruling by the MPUC in this proceeding.

On June 18 2003, the MPUC also initiated a similar Notice of Inquiry and Request for Comments concerning Incentives to Promote Energy Efficiency and Security of the Electric Grid (MPUC Docket No. 2003-423). MPS provided comments to the MPUC on July 7, 2003. There have been no other material or further developments in this proceeding during 2003. At this time the Company cannot predict the nature or the outcome of any finding, decision or ruling by the MPUC in this proceeding.

(b) Wholesale Standard Offer MPUC Docket No. 2003-677 and Sale of Capacity and Energy Available from Wheelabrator-Sherman Energy Company.

As previously reported in prior MPS Form 8-K reports, on September 16, 2003, the MPUC issued an Order Regarding Standard Offer Provider For Maine Public Service Company (Docket No. 2003-670) to resolve all issues regarding the upcoming standard offer solicitation for all customer classes in MPS s service territory. Pursuant to Maine s Electric Restructuring Act, the MPUC administers periodic bid processes to select providers of SOS. The current SOS provider arrangement for all three sets of customer classes in MPS s service territory terminated on

February 29, 2004. Accordingly, the MPUC solicited bids for MPS SOS customers beginning on March 1, 2004. WPS ESI was awarded the Standard Offer for all customer classes for the period March 1, 2004 through February 28, 2006, as well as the entitlement to capacity and energy from Wheelabrator-Sherman (WS), located in Sherman, Maine, for the term beginning at the hour ending on 1:00 p.m. on March 1, 2004 through the expiration of the Wheelabrator-Sherman NUG Contract in December 2006. The bid solicitation can be viewed at http://www.mainepublicservice.com.

(c) WPS Canada Generation, Inc. FERC Docket Nos. ER03-689-000, et al.; and WPS Canada Generation, Inc. FERC Docket No.ER-04-210-000; WPS Reactive Power Service Rate (RPS) matter.

On April 1, 2003, as amended on April 8, 2003, WPS Canada filed rate schedules for MPS and the NMISA, Rate Schedule FERC Nos. 2 and 3, respectively to obtain $142,734 per year in compensation for WPS s RPS service. Parties, including MPS intervened and/or protested the WPS RPS rate case. While this charge has no direct effect on MPS or the Company s shareholders, MPS and other parties intervening in the matter, believed that the charge sought by WPS Canada Generation, Inc. (WPS) was not justified and therefore contested the issue. By order issued May 19, 2003, the FERC accepted the RPS rate schedules for filing, established that rate schedules would become effective on April 2, 2003, subject to refund, provided for a hearing, held the hearing in abeyance and established settlement procedures. On July 29, 2003, the Chief Judge ordered the termination of the settlement procedures and ordered the institution of Track II hearing procedures. Direct and rebuttal testimony was submitted. MPS filed its testimony on this case on October 17, 2003. MPS also, as a precautionary measure, included the pass-through of this charge in its settlement proposal in its FERC OATT case described above, in the event that WPS was successful in obtaining FERC approval for this charge. A settlement in principal was reached prior to the commencement of the actual hearing in the matter. The parties finalized a settlement in the matter resolving all outstanding issues in the above referenced dockets and on February 10, 2004 the settlement agreement, its appendices, an Explanatory Statement in Support of the Settlement, and redlined rate sheets were filed with the FERC Presiding Administrative Law Judge.

(d) Maine Public Utilities Commission, Application for Exemption of Chapter 304 (MPUC Docket No. 2003-122).

On February 21, 2003 the Company filed with the MPUC an Application for Exemption of Chapter 304 (MPUC Docket No. 2003-122). In connection with MPS s reorganization (discussed in Item 3 (i) (a) above) and EA s withdrawal from retail electricity markets in northern Maine, MPS filed with the MPUC on February 21, 2003, an Application for Exemption of Chapter 304 to exempt MPS and EA from certain management restrictions. These restrictions had been imposed to allow EA to engage in energy marketing activities within MPS s service territory. A series of settlement conferences were held between the MPUC Advisory Staff, the Office of the Public Advocate, WPS Energy Services, Inc. and MPS. On June 24, 2003, the parties submitted a Stipulation to the MPUC. The MPUC issued an Order Approving Stipulation in this matter on July 24, 2003, which approved a partial waiver of the requirements of Chapter 304 (the 304 Order) and resolved all issues in this matter. Under the provisions of the 304 Order, MPS is exempted from the employee sharing provisions of Chapter 304 of the Commissions Rules subject to certain specified conditions. The exemptions and waivers granted in the 304 Order are expressly contingent on the condition that EA cease marketing in MPS s service territory effective March 1, 2003. The 304 Order also provides that the parties to the proceeding may revisit the matter in the event EA should subsequently choose to re-enter the northern Maine retail electricity market in the future. In connection with its announced intent to withdraw from the retail electricity markets in northern Maine EA has ceased all of its energy marketing activities in MPS service territory effective March 1, 2003, as well as the balance of the State. A copy of the Stipulation and the 304 Order approving the stipulation may be viewed on the MPUC website at http://www.state.me.us/mpuc/.

(e) Settlement of Maine Yankee Litigation.

As has been previously reported by the Company in its 8-K and 10-Q quarterly reports, in May 2000, Maine Yankee terminated its decommissioning operations contract with Stone & Webster Engineering Corp. (Stone & Webster) pursuant to the terms of the contract. Stone & Webster disputed Maine Yankee s grounds for the termination. In June 2000, Stone & Webster filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code with the United States Bankruptcy Court for the District of Delaware. As a result of the Bankruptcy Court approving the Third Amended Plan of Reorganization in the Stone and Webster Bankruptcy, all litigation between Maine Yankee and the bankruptcy estate was settled. In connection with this settlement, Maine Yankee also withdrew its complaint against Envirocare, Inc. in Federal District Court. See Part II, Item 7 below, for a more detailed discussion of Maine Yankee.

Item 4. Submission of Matters to a Vote of Security Holders

At the 2003 Annual Meeting of Stockholders of MPS held on May 30, 2003, two matters were voted upon. First was the uncontested election of Robert E. Anderson, Michael W. Caron, and Nathan L. Grass for terms ending in 2006, and David N. Felch for a term ending in 2004; each was elected.

Second was the approval of the agreement and plan of merger and reorganization to create a holding company structure under Maine & Maritimes Corporation, with the following recorded vote:

	For	Against	Non-Votes and Abstentions
Approval of the Agreement and Plan of Merger and Reorganization	898,535	160,464	515,323

Of the total shares eligible to vote, 57.07% voted in favor of the proposal.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Maine & Maritimes Corporation became a holding company effective June 30, 2003. All 1,574,582 shares of MPS common stock were converted on that date into an equal number of MAM common stock, which are listed and traded on the AMEX under the trading symbol MAM. As of December 31, 2003, there were 890 holders of record of the Company s common stock, with 1,580,512 shares outstanding. As of December 31, 2002, common stock shares outstanding for MPS were 1,574,115.

Dividend data and market price related to the common stock are tabulated as follows for the two most recent calendar years:

	Market Price		Dividends	
	High	Low	Paid Per Share	Declared Per Share
2003				
First Quarter	$ 32.26	$ 24.99	$ .37	$ .37
Second Quarter	$ 32.95	$ 26.36	.37	.37
Third Quarter	$ 36.90	$ 31.60	.37	.37
Fourth Quarter	$ 35.95	$ 34.37	.37	.38
Total Dividends			$ 1.48	$ 1.49
2002				
First Quarter	$ 30.48	$ 28.75	$ .35	$ .35
Second Quarter	$ 30.55	$ 29.50	.35	.35
Third Quarter	$ 29.84	$ 25.60	.35	.37
Fourth Quarter	$ 34.59	$ 24.25	.37	.37
Total Dividends			$ 1.42	$ 1.44

Dividends declared within the quarter are paid on the first day of the succeeding quarter.

The Company has determined that the common stock dividends paid in 2003 are fully taxable for federal income tax purposes. These determinations are subject to review by the Internal Revenue Service, and shareholders will be notified of any significant changes.

Securities Authorized for Issuance Under Equity Compensation Plans

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (c)
Equity compensation plan approved by security holders	10,500	31.48	139,500
Equity compensation plan approved by security holders	0	n/a	0
Total	10,500	31.48	139,500

Sale of Unregistered Securities

On December 1, 2003, the Company issued 5,529 shares of its common stock in connection with the acquisition by its Canadian subsidiary, Maricor Ltd, of all of the outstanding common shares of Eastcan Consultants, Inc., a closely held Canadian corporation. No underwriter was used. The persons who acquired the securities were Michael C. Gillis, Malcolm A. MacLellan, Richard Keirstead, Stephen Erb, and Scott Mowery. The consideration is stated in Item 16(a) to this Form 10-K, Note 14 to the Consolidated Financial Statements, Acquisitions. The securities were issued under the exemption provided by Section 4(2) of the Securities Act of 1933 as a transaction by an issuer not involving a public offering.

Item 6. Selected Financial Data

A five-year summary of selected financial data (1999-2003) is as follows:

Five-Year Summary of Selected Financial Data

	2003	2002	2001	2000	1999
Income Statement Data:					
Revenues (1)	$ 37,860,509	$ 44,104,133	$ 49,698,040	$ 78,238,279	$ 67,456,117
Net Income Available for Common Stock	$ 2,805,601	$ 6,543,421	$ 5,236,527	$ 5,300,632	$ 4,005,556
Basic and Diluted Net Income Per Share of Common Stock	$ 1.78	$ 4.16	$ 3.33	$ 3.34	$ 2.48
Balance Sheet Data:					
Total Assets (2)	$ 141,268,765	$ 141,986,156	$ 143,334,943	$ 150,856,876	$ 171,548,480
Capitalization:					
Long-Term Debt Outstanding	$ 30,680,000	$ 33,765,000	$ 34,940,000	$ 35,990,000	$ 42,015,000
Less amount due within one year	1,450,000	3,085,000	1,175,000	1,050,000	25,000
Long-Term Debt	29,230,000	30,680,000	33,765,000	34,940,000	41,990,000
Common Shareholders Equity	46,984,490	47,029,071	42,731,149	39,585,951	37,159,608
Total Capitalization	$ 76,214,490	$ 77,709,071	$ 76,496,149	$ 74,525,951	$ 79,149,608

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(1) Electric restructuring in Maine began on March 1, 2000, with MPS providing only transmission and distribution (T&D) or delivery services subsequent to that date. Prior to March 1, 2000, MPS provided electric power to its customers by operating its own generating facilities, principally located in Canada, or by purchasing power. The MPUC allowed the recovery of stranded costs from our customers, beginning March 1, 2000. MPS s sales in MWH s are comparable to pre-March 1, 2000 sales. Financial results for periods before March 1, 2000, reflect revenues and associated expenses for delivery charges and electric power provided to our customers. After March 1, 2000, MPS s revenues do not reflect revenues associated with electric power. After considering the differences above, comparisons

of financial results for periods prior to March 1, 2000, to periods after that date are difficult and the Company makes no conclusion or statement with respect to such comparisons.

(2) For 2003 and 2002, total assets reflects the reclassification of accrued removal obligations as a liability from accumulated depreciation.

See Item 7a, Quantitative and Quantitative Disclosures about Market Risk, incorporated in this section by this reference, concerning material risks and uncertainties which could cause the data reflected herein not to be indicative of the Company s future financial condition or results of operations.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

This Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Company s Consolidated Financial Statements, Item 16(a) of this Form 10-K.

This Management s Discussion and Analysis contains certain forward-looking statements, as defined by the SEC, such as forecasts and projections of expected future performance or statements of management s plans and objectives. These forward-looking statements may be contained in filings with the SEC and in press releases and oral statements. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as anticipate, estimate, expect, project, intend, plan, believe and other words terms of similar meaning in connection with any discussion of future operating or financial performance. These statements are based on the current expectations, estimates or projections of management and are not guarantees of future performance. Some or all of these forward-looking statements may not turn out to be what the Company expected. Actual results could potentially differ materially from these statements. Therefore, no assurance can be given that the outcomes stated in such forward-looking statements and estimates will be achieved.

Factors that could cause actual results to differ materially from our projections include, among other matters, electric utility restructuring; future economic and demographic conditions within MPS s service area and unregulated markets; changes in tax rates; interest rates or rates of inflation; ability to raise capital; pace and success of merger and acquisition efforts; terrorism; changes in the construction industry; changes in Canadian currency rates; length of sales cycles; developments in state, provincial and national legislative and regulatory environments in the United States and Canada; ability to recruit individuals with necessary skill sets; increased competition by existing or new competitors in the Company s unregulated markets; changes in technology; new innovations; changes in NAFTA; increased environmental regulations and other regulatory or market-based conditions.

Overview

MAM, a Maine corporation, became a holding company effective June 30, 2003, and owns all of the common stock of MPS. All of the shares of MPS common stock were converted on the books into an equal number of shares of MAM common stock, which are listed on the AMEX under the trading symbol MAM.

Prior to electric retail deregulation within the state of Maine and its divestiture of generation, MPS served as a regulated and vertically integrated electric utility. As a result of deregulation and generation divestiture, MPS s revenue model and rate base underwent significant change. Today, MPS s returns are based on specifically allowable rates of return, as permitted by the MPUC and the FERC on various physical and regulatory assets, referred to as MPS s rate base. While rates of return may remain more stable, should the overall rate base decline, then earnings will also decline. MPS s current rate base consists primarily of transmission and distribution networks (poles, wires, substations buildings and rolling stock), as well as regulatory assets that include stranded costs associated with the sale of generation, closure of generation and/or purchase power agreements. MPS s primary regulatory asset or stranded cost is associated with the Wheelabrator-Sherman NUG Contract, more fully described within this 10-K (see Item 1 above, Business, Discussion and Description of the Company s Growth Strategy; and Description of Maine Public Service Company (MPS) and Maine and New Brunswick Electrical Power Company, Limited (Me&NB)). In the case of the WS stranded cost, the amount of stranded cost upon which MPS receives a return is based on the difference between the actual contract price and the bid price for the facilities output received through a bid process overseen by the MPUC on a periodic basis.

The Wheelabrator-Sherman NUG Contract expires in late 2006. However, MPS chose to levelize its stranded cost payments from consumers, such that the recovery of stranded costs would be equal over a longer period of time, as opposed to higher consumer costs over a shorter recovery period, declining on an annualized basis. Consequently, the full recovery of WS related stranded costs will not occur until 2012, although payments to WS cease beginning in 2007. As stranded costs decline, absolute returns will consequently decline as the rate base is reduced. During the period 2007 through 2012, MPS will experience strong stranded cost freed-up cash flows as a result of the end of the above-market contract with WS and having levelized its stranded costs. The deferment of stranded costs impacts stranded cost freed-up cash flows, but will not impact net income.

Due to MPS s declining rate base (as a result of deregulation, generation divestiture and amortization of stranded costs), combined with current stranded cost freed-up cash flows forecasts during the period noted, management and the board of directors of MPS determined that now is an opportune time to grow and diversify MPS. As a part of the overall strategy to grow, as noted, MAM was formed as the holding company for MPS and other subsidiaries and affiliated companies. Based on covenants agreed to between MPS and the MPUC in forming the holding company, restrictions were placed on MAM as it relates to the financial management of MPS, helping to insulate the regulated utility from possible detrimental impacts of deregulated companies and diversification. These covenants are described in greater detail in Item 3, Legal Proceedings, Item 3(i)(a) and Item 3(iii)(d).

MAM s overall growth strategy consists of the following proposed strategic and tactical actions:

Improve the overall operation and economic viability of MPS:

Ensure the effective operation of MPS, ensuring its continued contribution to overall MAM earnings and ensuring increased effectiveness of capital deployment based on return on capital employed (ROCE) evaluations.

Improve overall MPS transmission system security through the development of increased total and available transmission capacities, deploying capital for new construction based on a FERC allowed rate of return basis.

Deploy capital based on the development and implementation of comprehensive 20-year transmission and distribution system plans that seek to optimize reliability, while reducing required infrastructure.

Implement integrated asset management systems and processes to improve overall reliability and extend assets lifecycles.

Reorganize the utility, creating and increasing the operational responsibilities of Field Services, migrating increased decision making to the field.

Improve overall management of MPS through improved skill sets, business processes, and systems, including the installation of a new financial system with utility enterprise management components.

Increase the overall integration and application of technologies to achieve increased productivity, such as installation of automated meter reading devices.

Monitor rates to ensure such rates are fully compensatory and allow for achievement of allowable rates of return on equity, requesting rate increases as required from regulatory bodies.

Pursue an acquisition strategy focusing on the roll-up of regional mechanical and electrical engineering firms within New England and the eastern Canadian provinces to provide a platform for additional growth and accretive net income to cover organic growth initiatives.

Identify and pursue acquisitions of smaller regional mechanical and electrical engineering firms that have the ability to dominate individual local markets.

Develop and implement franchised-type systems, processes, products and services to support acquired engineering firms, limiting required integration issues and improving overall performance.

Increase product offerings focused on facility lifecycle management utilizing an information-based technology platform, providing clients turnkey development of asset assessments and asset lifecycle plans, including optimization of their capital expenditure programs.

Increase service offerings in the areas of energy efficiency and air emissions reductions to complement fee-for-service engineering services.

As a part of facility lifecycle management services, identify and evaluate energy-related assets that can be acquired, such as central utility plants and central heating and/or cooling districts.

Identify and evaluate the acquisition or start-up of an energy supply management services company to complement engineering and facility lifecycle management services.

Identify, evaluate and pursue the potential acquisition of other regulated or unregulated energy companies, such as small electric utilities or electric utility non-generating assets, small natural gas local distribution companies, oil distributors and/or propane distributors.

Implement an aggressive acquisition analysis team to evaluate utility-type assets and businesses within North America.

Evaluate opportunities to leverage scale and synergies with MAM s ownership of MPS, a regulated transmission and distribution utility. Potential synergies include the following:

Billing, credit collection and remittance services

Information technology services

Engineering services

Administrative and accounting services

Call center operations

SCADA operations

Human resource related services

Focus on markets that provide a demographic and economic hedge to MPS s service area.

Focus on related businesses within markets that have a complimentary cash flow to offset MPS s inverse bell curve stranded cost freed-up cash flow.

Identify, evaluate and pursue the potential acquisition of regional real estate development and management companies with an existing and diverse portfolio of real estate assets, focused on secondary and tertiary growth markets within the eastern Canadian provinces.

Ensure strong lease coverage of assets with an asset focus on public sector facilities, such as schools and government buildings, where leases match the term of financing.

Focus on a portfolio of commercial and non-retail properties in both downtown redevelopment districts and business park settings.

Focus on the integration of engineering services in support of facility management.

Focus on energy supply chain management optimization.

Beyond the impacts of electric retail deregulation and generation divestiture, management closely monitors legislative activities and regulations. Both regulatory and legislative risks are the major risk concerns impacting MPS. Management believes that as unregulated energy commodity prices increase, long-term concerns exist that increased pressures will be placed on regulated distribution costs. Management anticipates that scale and technology will be the driving forces impacting the long-term view of distribution and transmission assets. Accordingly, management has concluded that acquiring technology and additional businesses that utilize common services can create synergies that achieve scale, thus resulting in better control of increasing operating costs.

In order to enhance overall financial management capabilities and to ensure compliance with the Sarbanes-Oxley Act of 2002, MPS is implementing a tier-one financial system, which includes a utility enterprise management suite. MPS s need for an improved technology system, improved management financial reporting and full compliance with Section 404 of the Sarbanes-Oxley Act has resulted in increased technology and accounting expenditures. Spreading these costs over a larger base of businesses is an important part of our overall strategy.

Although MPS is prohibited, except under certain, very limited regulatory exceptions, from owning and operating electric generation, management is closely evaluating generation resource conditions within northern Maine and the

Canadian Maritimes control area. Management believes that peaking capacity is a significant problem within the region and that this problem is currently exacerbated by uncertainties concerning the future and cost of Orimulsion® fuel supplies to generation facilities within New Brunswick, Canada, as well as the future of the Point Lepreau nuclear generation station also in New Brunswick, Canada. The Company has learned that the New Brunswick Department of Energy has enlisted a nuclear expert to examine and give advice to the government on the potential refurbishment of the Point Lepreau nuclear generation station. Management believes the estimated anticipated cost of $910 million (CN$) to refurbish Point Lepreau, is a significant investment in generation that does not provide additional generation capacity to the region. Given these and other multi-national issues, policies and decisions that impact generation supply planning and adequacy, management is concerned about the uncertainties relative to generation resources availability and the potential impact such uncertainties may have on MPS s, and the Company s future operations.

To address these resource availability concerns, MPS is, among other things, evaluating additional transmission interconnections that could potentially increase its overall total and available transmission capacities with NB Power. MAM anticipates that the effectiveness of these lines will in part be dependent upon the future of an additional 345 KV transmission project currently jointly proposed by NB Power and Bangor Hydro Electric Company, that would among other things provide an additional interconnection of NB Power s system with the New England ISO. This 345 KV transmission project is in the preliminary permit stages and it is not certain that it will be constructed. Management expects to re-evaluate the MPS transmission interconnections should this project not proceed.

Due to the lack of sustainable profitability of EA and its risk profile, MAM also intends to enhance its unregulated earnings over the next several years to replace those previously provided by EA. MAM will retain EA as a subsidiary and maintain its various licenses to ensure EA s option of returning to the retail electric sales market should conditions change and liquidity improve.

Both the ability to raise the necessary capital and the availability of adequate investment capital to allow for full implementation of the MAM strategic vision are critical success factors. MAM is evaluating a number of financing options, including the possible securitization of the above-described stranded cost freed-up cash flows (see Item 1 above, Business, Discussion and Description of the Company s Growth Strategy.) resulting from deferred stranded cost recovery. Such a technique may require regulatory and/or legislative approvals. Other options for financing may include, but are not limited, to the issuance of additional shares of stock, either common or preferred, and various forms of debt. Debt financing strategies may require that MAM set a defined dividend policy providing guidance of a target payout range.

Beyond issues related to capital formation, management anticipates that the effectiveness of MAM s strategic vision and acquisition strategy will be greatly dependent upon the availability and quality of market opportunities. Management believes that by evaluating numerous local markets within the New England, U.S. and Atlantic Canadian provinces, a greater number of small to mid-range acquisition candidates are possible and is therefore focusing its efforts in these regions.

Existing Operations

The accompanying consolidated financial statements include the financial results of the Company and its subsidiaries:

MPS, its electric transmission and distribution delivery company, and its wholly-owned, inactive Canadian subsidiary, Me&NB;

EA, its CES retail electric marketing company;

MAMES, (dba The Maricor Group), and its Canadian subsidiary, Maricor, who provide mechanical and electrical engineering, energy efficiency, air emissions reduction, and lifecycle asset management services.

MPS is an electric transmission and distribution delivery company serving approximately 35,000 retail electric customers in northern Maine. MPS is subject to the regulatory authority of the MPUC for its distribution rates and the FERC for its transmission rates. Current rates are determined using traditional rate base, and rate of return ratemaking principals, including a cost-of-service methodology, used by the regulatory agencies. Other investor-owned electric utilities within the state of Maine are under Alternative Rate Plans (ARP s) and utilize

Performance Based Rates (PBR s). MPS continues to evaluate the merits of an ARP and possible migration to PBR s. (See Part 1, Item 3, Legal Proceedings Item 3 (ii)(a) above). However, management believes that implementation of PBR s under an ARP could result in detrimental financial impacts due to the lack of growth within MPS s service area. Typically, ARP s with PBR s require productivity offsets to achieve allowed rates of return and management believes such productivity offsets will not be achievable in the absence of economic growth.

MAMES, and its wholly-owned Canadian subsidiary, Maricor, offer mechanical and electrical engineering services, including asset development, energy efficiency services, air emissions reduction services, and lifecycle asset management services. In addition, MAMES and Maricor offer a range of solutions to reduce facility lifecycle costs, identify and reduce deferred maintenance liabilities and improve environmental performance. MAMES and Maricor s value proposition encompasses the development, management, operation and modernization of physical assets for environmental and financial sustainability.

Target markets within the eastern Canadian provinces and Atlantic Canada primarily include, but are not necessarily limited to, governments, universities and colleges, hospitals and other health care facilities, schools, commercial retail and office facilities. While not a target market, MAMES and Maricor can and do provide engineering-related services to the industrial sector. MAMES and its subsidiary, Maricor currently have offices in Presque Isle and Portland, Maine; Rockland, Massachusetts; and Moncton and Saint John, New Brunswick, Canada.

The Maricor Group s services categories generally include:

Planning & Efficiency Services facility audit and condition assessments, asset modernization and development planning, energy and environmental performance analysis, capital budgeting and planning services and a web site-based planning advisor;

Operational Services asset operations management and asset information management;

Modernization Services mechanical and electrical engineering, energy engineering, air emissions reductions, project management and commissioning services; and

Development Services energy asset ownership, design and build services, project management and commissioning services, such as central utility or district energy projects.

This section and the accompanying text explain the general financial condition of the Company and its subsidiaries and their results of operations. This explanation includes:

factors that affect our business;

the sources of our revenues and changes between years;

our operating expenses and changes between years;

the sources of our operating capital; and

the impact of the above on our financial condition.

Critical Accounting Policies

In preparing the financial statements in accordance with generally accepted accounting principles, management must often make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures at the date of the financial statements and during the reporting period. Some of those judgments can be subjective and complex, and actual results could differ from those estimates. The Company s most critical accounting policies include the determination of the appropriate accounting for its pensions and other post-retirement benefits, the recognition of its revenues, the effects of utility regulation on its financial statements and its risk management activities.

Revenue Recognition

MPS records an estimate for revenue for electricity delivered, but not yet billed to customers. This estimate requires MPS to make certain assumptions. A change in those assumptions could cause the amounts reported as revenues to change. EA s previous sales can be classified into two general categories: SOS in CMP s service territory which expired February 28, 2002, and CES sales to individual retail customers within the state of Maine, all of which expired by February 27, 2004. For SOS, revenues were received and expenses were paid directly by an escrow agent which was controlled by Engage Energy America, LLC (Engage). EA received a percentage of the net profit from the sale of energy. CMP bore SOS account collection risks, as they were required to remit the amounts billed 26 days after the billing date to the escrow account mentioned above and maintain the billing and customer service relationship. EA recorded the accrued net margin of the SOS activity as revenue in the financial statements. For CES sales, EA negotiated the price directly with the customer, maintained customer service responsibility and had collection risk. EA has withdrawn from the market until market conditions improve and no longer serves CES or SOS customers. CES activity is recorded on a gross basis to include the related revenues and purchased power expenses. Additionally, EA s activity has been accounted for as non-trading since management has determined it does not meet the definition of a trader as defined in EITF 98-10 which was amended by EITF 02-03. Refer to Item 16(a) of this Form 10-K, Note 3 to the Consolidated Financial Statements, Energy Atlantic for further discussion.

Pension and Other Post-retirement Benefit Plans

The Company has pension and other post-retirement benefit plans, principally healthcare benefits, covering substantially all of its employees and retirees. In accordance with Statement of Financial Accounting Standards No. 87, Employer s Accounting for Pensions, and Statement of Financial Accounting Standards No. 106, Employer s Accounting for Post-retirement Benefits Other Than Pensions, the valuation of benefit obligations and the performance of plan assets are subject to various assumptions. The primary assumptions include the discount rate, expected return on plan assets, rate of compensation increase, health care cost inflation rates, expected years of future service under the pension benefit plans and the methodology used to amortize gains or losses. Changes in those assumptions could also have a significant effect on the Company s non-cash pension income or expense or the Company s post-retirement benefit costs. For additional information on the Company s benefit plans, see Item 16(a) of this Form 10-K, Note 10 to the Consolidated Financial Statements, Benefit Plans, which is incorporated in this section by this reference.

Utility Regulation

MPS is subject to the regulatory authority of the MPUC and the FERC. As a result of the ratemaking process, the applications of accounting principles by MPS differ in certain respects from applications by non-regulated businesses. Approximately 84% of the Company s 2003 revenues, as depicted in the Operating Revenues and Energy Deliveries section below, derived from MPS s regulated operations are accounted for pursuant to Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulations.

Prior to the start of deregulation in Maine on March 1, 2000, the MPUC determined the amount of stranded costs to be recovered via rates. MPS s annual amortization of its stranded costs represents the amounts allowed by the MPUC in the determination of revenue requirements.

Results of Operations

Earnings and Dividends

Earnings per share and net income for 2003, along with the corresponding information for 2002 and 2001 are as follows:

	(Dollars in Thousands)		
Net Income *	**2003**	**2002**	**2001**
MAM/MAMES	$ (416)	$	$
MPS-Core T&D	3,338	3,099	4,340
EA	(116)	3,444	897
Total Company	$ 2,806	$ 6,543	$ 5,237
Earnings per Share	$ 1.78	$ 4.16	$ 3.33

** Due to the immateriality of elimination amounts, they have been grouped with appropriate line items*

Net income above is allocated based upon the segment allocation as presented in Item 16(a) of this Form 10-K, Note 4 of the Notes to Consolidated Financial Statements, Segment Information.

As a part of the formation of the holding company, certain MPS staff were transferred to MAM. Also, certain administrative, legal, professional, governance, and professional costs were assigned to MAM, following MPUC approved cost allocation process. In addition, certain costs associated with merger and acquisition due diligence activities were included in MAM costs. In December, 2003, MAM formed MAMES and MAMES Canadian subsidiary, Maricor. In addition, during the same time frame Maricor purchased Eastcan Consultants, a mechanical and electrical engineering firm headquartered in Moncton, New Brunswick, Canada, with an office in Saint John, New Brunswick.

MPS core T & D earnings were $3,378,000 for 2003, compared to $3,099,000 and $4,340,000 in 2002 and 2001, respectively. Earnings for 2003 increased by $239,000 over earnings in 2002. Sales in 2003 increased by 1.9% over 2002, contributing an additional $203,000, net of income taxes. As more fully explained in the Legal Proceedings section of this Form 10-K, the MPUC allowed recovery, over seven years, of the VERP expenses charged to 2002 earnings, resulting in an increase in 2003 net income of $236,000, net of income taxes, after considering two months of amortization. In addition, reductions in transmission and distribution expenses of $131,000, net of income taxes, and in interest costs of $192,000, net of income taxes, also contributed to the increase in earnings. Offsetting these increases in earnings were additional expenses of $245,000, net of income taxes, associated with the approval of the holding company and increases in depreciation and amortization of $122,000, net of income taxes. Earnings for 2002 compared to 2001 were impacted by incremental charges for MPS s Voluntary Early Retirement Program (VERP) of $242,000, net of income taxes, and expenses associated with seeking approval for the formation of the holding company of $105,000, net of income taxes. MPS incurred additional expenses for employee benefits, principally pension and medical costs, and insurance costs, resulting in a reduction in earnings of $723,000, net of income taxes. In addition, consulting fees for evaluating business processes at MPS and legal expenses for regulatory affairs and compliance with provisions of the Sarbanes-Oxley Act of 2002, further reduced net income by $575,000, net of income taxes. Offsetting these additional expenses was a reduction of MPS s borrowing costs of $361,000, net of income taxes, and increased operating revenues for MPS of $235,000, net of income taxes, as 2002 sales were 1.4% more than 2001 sales.

In 2003, EA incurred a loss of $116,000 with the reduction in 2003 CES sales, compared to the two previous years, and with the termination of SOS service in CMP s territory after February 28, 2002. EA earnings for 2002 were $3,444,000, or $2.19 per share. As more fully explained in the Energy Atlantic Activities section below, EA s earnings include $1.89 per share representing the recognition in September 2002, of the final settlement between EA and Engage Energy America, LLC (Engage) and the reversal of regulatory assessments associated with power arrangements. EA earnings in 2001 reflect a $1.08 million charge in accordance with a settlement agreement with EA s supplier for Standard Offer Service in Central Maine Power Company s service territory, Engage Energy America, LLC. This charge reduced earnings per share by $.69.

Return on equity (net income divided by average shareholders equity) for 2003 was 6.0% compared to 14.6% for 2002 and 12.7% for 2001. The core T&D business earned a return on equity of 8% in 2003 compared to 7.6% and 10.5% for 2002 and 2001, respectively. As explained in the Legal Proceedings section of this Form 10-K, the MPUC authorized a return on equity of 10.25% starting November 1, 2003, compared to 10.7% prior to that date.

Effective October 1, 2001, the Board of Directors increased the quarterly dividend by $.03 per share from $0.32 per share to $0.35 per share, or $1.40 per share per year. The quarterly dividend was increased by $0.02 per share to $0.37 per share effective October 1, 2002, for an annual dividend payment of $1.48 per share. Effective January 1, 2004, the Board of Directors increased the quarterly dividend by $0.01 per share to $0.38 per share, for an annual dividend of $1.52 per share.

Off-Balance Sheet Arrangements

Except for operating leases used for office and field equipment, vehicles and computer hardware and software, accounted for in accordance with Financial Accounting Standards No. 13 (FAS 13), Accounting for Leases and