METRETEK TECHNOLOGIES INC
Form 10QSB
May 14, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2002

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to ______________

Commission File Number 0-19793

METRETEK TECHNOLOGIES, INC.
(Exact name of small business issuer as specified in its charter)

DELAWARE	84-1169358
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
303 East Seventeenth Avenue, Suite 660 Denver, Colorado	80203
(Address of principal executive offices)	(Zip code)

(303) 785-8080
(Issuer's telephone number, including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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 X No ___

As of May 1, 2002 there were 6,077,764 shares of the issuer's Common Stock outstanding.

Transitional Small Business Disclosure Format

Yes ___ No X

METRETEK TECHNOLOGIES, INC.

FORM 10-QSB
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2002

TABLE OF CONTENTS

PART I.
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

METRETEK TECHNOLOGIES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(unaudited)

ASSETS	MARCH 31, 2002	DECEMBER 31, 2001
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,318,940	$ 696,076
Trade receivables, net of allowance for doubtful accounts of $155,565 and $169,632, respectively	4,218,721	4,980,419
Other receivables	2,841	14,929
Inventories	3,122,112	3,135,297
Prepaid expenses and other current assets	824,225	559,562
Total current assets	9,486,839	9,386,283
PROPERTY, PLANT AND EQUIPMENT:		
Equipment	3,902,398	4,150,686
Vehicles	50,227	50,227
Furniture and fixtures	570,983	561,664
Land, building and improvements	736,388	736,388
Total property, plant and equipment, at cost	5,259,996	5,498,965
Less accumulated depreciation	3,168,726	3,318,054
Property, plant and equipment, net	2,091,270	2,180,911
OTHER ASSETS:		
Customer list, net of accumulated amortization of $3,846,428	5,046,459	5,046,459
Goodwill, net of accumulated amortization of $936,946	2,361,472	2,361,472
Patents and capitalized software development, net of accumulated amortization of $848,082 and $818,065, respectively	462,808	489,860
Other assets	717,746	691,042
Total other assets	8,588,485	8,588,833
TOTAL	$20,166,594	$20,156,027

See accompanying notes to unaudited consolidated financial statements.

METRETEK TECHNOLOGIES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

(unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY	MARCH 31, 2002	DECEMBER 31 2001
CURRENT LIABILITIES:		
Accounts payable	$ 1,024,570	$ 1,405,632
Accrued and other liabilities	2,625,558	1,964,513
Notes payable	2,479,362	2,479,172
Total current liabilities	6,129,490	5,849,317
LONG-TERM NOTES PAYABLE	1,341,883	1,268,024
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE PREFERRED STOCK - SERIES B, $.01 PAR VALUE; 1,000,000 SHARES AUTHORIZED; 7,000 ISSUED AND OUTSTANDING; REDEMPTION VALUE $1,000 PER SHARE	7,881,365	7,680,217
STOCKHOLDERS' EQUITY:		
Preferred stock - undesignated, $.01 par value; 2,000,000 shares authorized; none issued and outstanding		
Preferred stock - Series C, $.01 par value; 500,000 shares authorized; none issued and outstanding		
Common stock, $.01 par value; 25,000,000 shares authorized; 6,077,764 shares issued and outstanding	60,778	60,778
Additional paid-in-capital	55,116,789	55,116,789
Accumulated other comprehensive loss	(66,718)	(65,935
Accumulated deficit	(50,296,993)	(49,753,163
Total stockholders' equity	4,813,856	5,358,469
TOTAL	$ 20,166,594	$ 20,156,027

See accompanying notes to unaudited consolidated financial statements.

METRETEK TECHNOLOGIES, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(unaudited)

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
REVENUES:		
Sales and services	$ 6,404,530	$ 4,888,983
Other	(3,247)	259,587
Total revenues	6,401,283	5,148,570
COSTS AND EXPENSES:		
Cost of sales and services	4,704,524	3,738,727
General and administrative	1,336,188	1,402,985
Selling, marketing and service	346,561	342,659
Depreciation and amortization	168,728	367,481
Research and development	144,761	137,907
Interest, finance charges and other	43,203	35,534
Total costs and expenses	6,743,965	6,025,293
OPERATING LOSS	(342,682)	(876,723)
INCOME TAXES	-	-
NET LOSS	(342,682)	(876,723)
PREFERRED STOCK DEEMED DISTRIBUTION	(201,148)	(180,476)
NET LOSS APPLICABLE TO COMMON SHAREHOLDERS	$ (543,830)	$(1,057,199)
NET LOSS PER COMMON SHARE, BASIC AND DILUTED	$ (0.09)	$ (0.18)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING, BASIC AND DILUTED	6,077,764	5,908,067

See accompanying notes to unaudited consolidated financial statements.

METRETEK TECHNOLOGIES, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(unaudited)

	THREE MONTHS ENDED MARCH 31, 2002	THREE MONTHS ENDED MARCH 31, 2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (342,682)	$ (876,723)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	168,728	367,481
Loss on disposal of property, plant and equipment	7,031	
Changes in other assets and liabilities:		
Trade receivables	761,698	575,259
Inventories	13,185	(438,925)
Other current assets	(252,575)	449,271
Other noncurrent assets	(26,704)	27,620
Accounts payable	(381,062)	63,118
Accrued and other liabilities	660,262	(306,565)
Net cash provided by (used in) operating activities	607,881	(139,464)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to capitalized software development	(2,965)	(204,609)
Purchases of property, plant and equipment	(57,101)	(7,895)
Proceeds from sale of property, plant and equipment	1,000	
Net cash used in investing activities	(59,066)	(212,504)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings on line of credit	75,916	767,878
Payments on mortgage loan and capital lease obligations	(1,867)	(12,301)
Net cash provided by financing activities	74,049	755,577
NET INCREASE IN CASH AND CASH EQUIVALENTS	622,864	403,609
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	696,076	468,813
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,318,940	$ 872,422

See accompanying notes to unaudited consolidated financial statements.

METRETEK TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

As of March 31, 2002 and December 31, 2001 and
For the Three Month Periods Ended March 31, 2002 and 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION - The accompanying consolidated financial statements include the accounts of Metretek Technologies, Inc. and its subsidiaries, primarily Southern Flow Companies, Inc. ("Southern Flow"), PowerSecure, Inc. ("PowerSecure"), Metretek, Incorporated ("Metretek Florida"), and PowerSpring, Inc. ("PowerSpring") and have been prepared pursuant to rules and regulations of the Securities and Exchange Commission. The accompanying consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2001.

REVENUE RECOGNITION - During the initial startup period of PowerSecure's operations in 2001, the Company used the completed-contract method of revenue recognition for PowerSecure's contracts. Under the completed-contract method, revenue is recognized when a project or contract is completed or substantially completed. Effective January 1, 2002, the Company elected to change its method of accounting for PowerSecure's contracts to the percentage-of-completion method of accounting. Under the percentage-of-completion method of accounting, PowerSecure recognizes project revenues (and associated project costs) based on estimates of the value added for each portion of the projects completed. Revenues and gross profit are adjusted prospectively for revisions in estimated total contract costs and contract values. Estimated losses, if any, are recorded when identified. Amounts billed to customers in excess of revenues recognized to date are classified as current liabilities. Management believes the percentage-of-completion method of accounting results in a better matching of revenues and costs to the period in which the earnings process occurs and the costs are actually incurred.

As a result of the adoption of the new accounting method described above, sales and service revenues for the three months ended March 31, 2002 increased $1,506,774 and net loss for the period ended March 31, 2002 decreased $379,051, or $0.06 per share. There was no financial statement effect on any period prior to December 31, 2001, as a result of the adoption of the new accounting method, due to the short-term nature of PowerSecure's contracts through December 31, 2001.

GOODWILL AND OTHER INTANGIBLE ASSETS - Effective January 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards ("FAS") No. 141, "Business Combinations" and FAS No. 142 "Goodwill and Other Intangible Assets." These pronouncements significantly modify the accounting for business combinations, goodwill, and intangible assets. FAS 141 eliminates the pooling-of-interests method of

accounting for business combinations and further clarifies the criteria to recognize intangible assets separately from goodwill. FAS 142 states that goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed for impairment annually (or more frequently if impairment indicators arise). Separable intangible assets that do not have an indefinite life continue to be amortized over their estimated useful lives. The Company has not yet determined the financial impact that the impairment provisions of FAS 142 will have on its consolidated financial statements. Any impairment charge resulting from the transitional impairment testing will be reflected as a cumulative effect of a change in accounting principle.

The following table reflects unaudited pro forma results of operations of the Company, giving effect to FAS 142 as if it were adopted on January 1, 2001:

	THREE MONTHS ENDED MARCH 31, 2001
Net loss applicable to common shareholders, as reported	$(1,057,199)
Add back: amortization expense, net of tax	164,738
Pro forma net loss applicable to common shareholders	$ (892,461)
Net loss per common share, basic and diluted	
As reported	$ (0.18)
Pro forma	$ (0.15)

RECLASSIFICATION - Certain 2001 amounts have been reclassified to conform to current year presentation. Such reclassifications had no impact on the Company's net loss or stockholders' equity.

In the opinion of the Company's management, all adjustments (all of which are normal and recurring) have been made which are necessary for a fair presentation of the consolidated financial position of the Company and its subsidiaries as of March 31, 2002 and the consolidated results of their operations and cash flows for the three month periods ended March 31, 2002 and March 31, 2001.

2. COMPREHENSIVE LOSS

The Company's comprehensive loss for the three months ended March 31, 2002 and 2001 was $343,465 and $872,314, respectively. The Company's comprehensive loss includes net loss and foreign currency translation adjustments.

3. COMMITMENTS AND CONTINGENCIES

On January 5, 2001, Douglas W. Heins, individually and on behalf of a class of other persons similarly situated (the "Class Action Plaintiff"), filed a complaint (the "Class Action") in the District Court for the City and County of Denver, Colorado (the

"Denver Court") against the "Company, Marcum Midstream 1997-1 Business Trust (the "1997 Trust"), Marcum Midstream-Farstad, LLC ("MMF"), Marcum Gas Transmission, Inc. ("MGT"), Marcum Capital Resources, Inc. ("MCR"), W. Phillip Marcum, Richard M. Wanger and Daniel J. Packard (the foregoing, collectively, the "Metretek Defendants"), Farstad Gas & Oil, LLC ("Farstad LLC") and Farstad Oil, Inc. ("Farstad Inc." and, collectively with Farstad LLC, the "Farstad Entities"), and Jeff Farstad ("Farstad" and, collectively with the Farstad Entities, the "Farstad Defendants"). The 1997 Trust is an energy program of which MGT, a wholly-owned subsidiary of the Company, is the managing trustee, and Messrs. Marcum, Wanger and Farstad are or were the active trustees.

The 1997 Trust raised approximately $9.25 million from investors in a private placement in 1997 in order to finance the purchase, operation and improvement of a natural gas liquids processing plant located in Midland, Texas. The Class Action alleges that the Metretek Defendants and the Farstad Defendants (collectively, the "Class Action Defendants"), either directly or as "controlling persons", violated certain provisions of the Colorado Securities Act in connection with the sale of interests in the 1997 Trust. Specifically, the Class Action Plaintiff claims that his and the class's damages resulted from the Class Action Defendants allegedly negligently, recklessly or intentionally making false and misleading statements, failing to disclose material information, and willfully participating in a scheme or conspiracy and aiding or abetting violations of Colorado law, which scheme and statements related to the specification of the natural gas liquids product to be delivered under certain contracts, for the purpose of selling the 1997 Trust's units. The damages sought in the Class Action include compensatory and punitive damages, interest, attorneys' fees and other costs.

On May 11, 2001, the Denver Court granted in part the Class Action Defendants' motions to dismiss by narrowing certain claims and dismissing the fourth claim for relief, the allegation that the Farstad Defendants, Mr. Packard, MCR and MGT are liable under Colorado law for giving substantial assistance in further any of securities violations, as to all Class Action Defendants except MCR. The Denver Court also granted a motion to dismiss the claims against the Farstad Entities.

On May 24, 2001, the Metretek Defendants filed answers to the Class Action, generally denying its allegations and claims and making cross-claims against the Farstad Defendants. The Metretek Defendants have filed additional cross-claims and third party complaints against the Farstad Defendants alleging fraud, negligent misrepresentation and contractual indemnification and contribution, among other claims. The Farstad Defendants have filed answers generally denying these claims and have asserted cross-claims and third party counter-claims against the Metretek Defendants. The Metretek Defendants have denied the allegations of the Farstad Defendants.

On September 28, 2001, the Denver Court granted the Class Action Plaintiff's motion to certify a class consisting of all investors in the 1997 Trust. Ten investors, representing a net investment of approximately $288,000, have opted out of the class. These investors are pursuing a separate lawsuit in California as described below. As of

the date of this Report, a trial date had not been set in the Class Action and no significant discovery had been conducted.

On May 30, 2001, 21 individual plaintiffs including Michael Mongiello and Charlotte Mongiello, trustees of the Mongiello Family Trust dated 8/1/90 (the "Mongiello Plaintiffs"), filed, and subsequently served, a first amended complaint (the "Mongiello Case") in the Superior Court in the State of California for the County of San Diego (the "California Court) against the Metretek Defendants, the Farstad Defendants, United Pacific Securities, Inc., GBS Financial Corporation, IFG Network Securities, Inc., and numerous officers, directors, employees and brokers related to such brokerage houses (the "California Defendants"). The Mongiello Case contains allegations against the Metretek Defendants similar to those contained in the Class Action. The net investment in the 1997 Trust by the Mongiello Plaintiffs is approximately

$542,000. The Mongiello Plaintiffs' claims for relief include breach of fiduciary duty, sale of securities in violation of California blue sky laws, fraud and deceit, negligent misrepresentation and omission, mutual mistake, rescission, negligence, fraud on senior citizens and declaratory relief. The Mongiello Plaintiffs seek, among other things, compensatory damages, interest, attorneys' fees, rescission and restitution, punitive and exemplary damages, a declaratory judgment and other damages.

On October 5, 2001, the California Court granted the motion by the Metretek Defendants to dismiss the claims against Metretek Technologies, Mr. Marcum and Mr. Wanger for lack of personal jurisdiction. The California Court also granted a similar motion dismissing the claims against the Farstad Defendants for lack of personal jurisdiction. On November 5, 2001, MGT, MCR, MMF, Mr. Packard and the 1997 Trust, as the remaining Metretek Defendants, filed an answer generally denying the allegations and claims in the Mongiello Case. On or about March 29, 2002, the California Court granted this motion. The net investment of the remaining Mongiello Plaintiffs is approximately $288,000. These remaining Mongiello Plaintiffs have opted out of the Class Action. As of the date of this Report, only limited discovery has been conducted. A trial has been set to commence after the trial call scheduled for March 4, 2003.

In January 2002, six individual plaintiffs including Glenn Puddy (the "Puddy Plaintiffs") served a complaint (the "Puddy Case") in the California Court against the same defendants as in the Mongiello Case, containing allegations, legal claims and damages similar to those in the Mongiello Case. The Puddy Plaintiffs and the Mongiello Plaintiffs have the same legal counsel. The net investment of the Puddy Plaintiffs in the 1997 Trust was approximately $89,000. All of the Metretek Defendants have been dismissed from the Puddy Case for lack of personal jurisdiction. A motion by the Puddy Plaintiffs to consolidate the Puddy Case with the Mongiello Case, or to allow the Mongiello Plaintiffs to amend their complaint to add the Puddy Plaintiffs as additional plaintiffs, was denied. The Puddy Plaintiffs have indicated that they intend to appeal these rulings.

Because the foregoing litigation is in early stages, the Company cannot predict the outcome of this litigation or the impact the resolution of these claims will have on its business, financial position or results of operations. The Company intends to vigorously defend the claims against us and the other Metretek Defendants and to vigorously pursue appropriate cross-claims and third party complaints. However, an adverse judgment against the Company in the foregoing litigation could have a material adverse effect on its business, financial condition and results of operations.

From time to time, the Company is involved in other disputes and legal actions arising in the ordinary course of business. The Company intends to vigorously defend all claims against it. Although the ultimate outcome of these claims cannot be accurately predicted due to the inherent uncertainty of litigation, in the opinion of management, based upon current information, no other currently pending or overtly threatened dispute is expected to have a material adverse effect on the Company's business, financial condition or results of operations.

4. SEGMENT INFORMATION

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The Company's reportable business segments include: natural gas measurement services; distributed generation; automated energy data management; and (until April 1, 2001) Internet-based energy information and services.

The operations of the Company's natural gas measurement services segment are conducted by Southern Flow. Southern Flow's services include on-site field services, chart processing and analysis, laboratory analysis, and data management and reporting. These services are provided principally to customers involved in natural gas production, gathering, transportation and processing.

The operations of the Company's distributed generation segment are conducted by PowerSecure. PowerSecure commenced operations in September 2000. The primary elements of PowerSecure's distributed generation products and services include project design and engineering, negotiation with utilities to establish tariff structures and power interconnects, generator acquisition and installation, process control and switchgear design and installation, and ongoing project monitoring and servicing. PowerSecure markets its distributed generation service packages directly to large end-users of electricity, either on a "turn-key" customer-owned basis or through its recently commenced "company-owned" platform, involving distributed generation systems that are owned by PowerSecure and leased to customers on a long-term basis, and through outsourcing partnerships with utilities.

The operations of the Company's automated energy data management segment are conducted by Metretek Florida. Metretek Florida's manufactured products fall into three

categories: remote data collection products; electronic corrector products; and application-specific products. Metretek Florida also provides energy data collection and management services and post-sale support services for its manufactured products.

The operations of the Company's Internet-based energy information and services segment were conducted by PowerSpring through March 31, 2001. Effective April 1, 2001, PowerSpring's business was restructured and the remaining limited business was transferred to Metretek Florida, and since that date the Company has included and reported the remnants of the Internet-based energy information business of PowerSpring with Metretek Florida's automated data management segment.

The Company evaluates the performance of its operating segments based on income (loss) before income taxes, nonrecurring items and interest income and expense. Intersegment sales are not significant.

Summarized financial information concerning the Company's reportable segments is shown in the following table. The "Other" column includes corporate related items, results of insignificant operations and, as it relates to segment profit or loss, income and expense not allocated to reportable segments. Amounts are reported in thousands.

	Natural Gas Measurement Services	Distributed Generation	Automated Energy Data Management	Internet-based Energy Information and Services

MARCH 31, 2002					
Revenues	$ 3,131	$ 1,613	$ 1,660	$	$
Segment profit (loss)	505	(81)	(276)		
Total assets	9,556	2,349	6,748		
Capital expenditures	38	4	9		
Depreciation and amortization	36	11	117		
MARCH 31, 2001					
Revenues	$ 3,290		$ 1,365	$ 234	$
Segment profit (loss)	382	$ (231)	(232)	(287)	
Total assets	9,662	491	6,836	2,943	
Capital expenditures	4		209		
Depreciation and amortization	152		145	66	

12

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

The following discussion of our results of operations for the three month periods ended March 31, 2002 (referred to herein as the "first quarter 2002") and 2001 (referred to herein as the "first quarter 2001") and of our financial condition as of March 31, 2002 should be read in conjunction with our consolidated financial statements and related notes thereto included elsewhere in this report.

SIGNIFICANT ACCOUNTING POLICIES

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. As such, we are required to make certain decisions, judgments, estimates and assumptions that we believe are reasonable based upon the information available that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. These decisions include the selection of the appropriate accounting principles to be applied and the assumptions on which to base accounting estimates. In reaching such decisions, management applies judgment based on its understanding and analysis of the relevant circumstances. Note 1 to our consolidated financial statements contained in our Annual Report on Form 10-KSB for the year ended December 31, 2001 and Note 1 to our consolidated financial statements for the three months ended March 31, 2002 contained elsewhere in this Report provides a summary of the significant accounting policies followed in the preparation of our consolidated financial statements. Other notes to our consolidated financial statements describe various elements of our consolidated financial statements and the assumptions on which specific amounts were determined. While actual results could differ from those estimated at the time of preparation of our consolidated financial statements, management is committed to preparing financial statements that incorporate accounting policies, assumptions and estimates that promote the representational faithfulness, verifiability, neutrality and transparency of the accounting information included in the consolidated financial statements.

RESULTS OF OPERATIONS

The following table sets forth selected information related to our primary business segments and is intended to assist you in an understanding of our results of operations for the periods presented.

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
	(amounts in thousands)	
REVENUES:		
Southern Flow	$ 3,131	$ 3,290
PowerSecure	1,613	-
Metretek Florida	1,660	1,365
PowerSpring	-	234
Other	(3)	260
Total	$ 6,401	$ 5,149
GROSS PROFIT:		
Southern Flow	$ 835	$ 823
PowerSecure	380	-
Metretek Florida	485	482
PowerSpring	-	(154)
Total	$ 1,700	$ 1,151
SEGMENT PROFIT (LOSS):		
Southern Flow	$ 505	$ 382
PowerSecure	(81)	(231)
Metretek Florida	(276)	(232)
PowerSpring	-	(287)
Other	(491)	(509)
Total	$ (343)	$ (877)

Our reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

Our reportable business segments include: natural gas measurement services; distributed generation; automated energy data management; and (until April 1, 2001) Internet-based energy information and services.

The operations of our natural gas measurement services segment are conducted by Southern Flow. Southern Flow's services include on-site field services, chart processing and analysis, laboratory analysis, and data management and reporting. These services are provided principally to customers involved in natural gas production, gathering, transportation and processing.

The operations of our distributed generation segment are conducted by PowerSecure. PowerSecure commenced operations in September 2000. The primary elements of PowerSecure's distributed generation products and services include project design and engineering, negotiation with utilities to establish tariff structures and power interconnects, generator acquisition and installation, process control and switchgear design and installation, and ongoing project monitoring and servicing. PowerSecure markets its distributed generation service packages directly to large end-users of

electricity, either on a "turn-key" customer-owned basis or through its recently commenced "company-owned" platform, involving distributed generation systems that are owned by PowerSecure and leased to customers on a long-term basis, and through outsourcing partnerships with utilities.

The operations of our automated energy data management segment are conducted by Metretek Florida. Metretek Florida's manufactured products fall into three categories: remote data collection products; electronic corrector products; and application-specific products. Metretek Florida also provides energy data collection and management services and post-sale support services for its manufactured products.

The operations of our Internet-based energy information and services segment were conducted by PowerSpring through March 31, 2001. Effective April 1, 2001, PowerSpring's business was restructured and the remaining limited business was transferred to Metretek Florida, and since that date we have included and reported the remnants of the Internet-based energy information business of PowerSpring with Metretek Florida's automated data management segment.

We evaluate the performance of our operating segments based on income (loss) before income taxes, nonrecurring items and interest income and expense. Other profit (loss) amounts in the table above include corporate related items, results of insignificant operations, and income and expense not allocated to its operating segments. Intersegment sales are not significant.

FIRST QUARTER 2002 COMPARED TO FIRST QUARTER 2001

Revenues. Our revenues are derived almost entirely from the sales of products and services by our subsidiaries. Our consolidated revenues for the first quarter 2002 increased $1,253,000, or 24.3%, compared to the first quarter 2001. The increase was primarily due to the generation of revenue by PowerSecure and an increase in revenues by Metretek Florida, partially offset by a decrease in revenues by Southern Flow and PowerSpring. PowerSecure generated revenues of $1,613,000 during the first quarter 2002. There were no comparable revenues for PowerSecure during the first quarter 2001 because PowerSecure did not commence revenue generating operations until after the first quarter 2001. Metretek Florida's revenues increased $295,000, or 21.6%, during the first quarter 2002 compared to the first quarter 2001, consisting of an increase in domestic sales of $175,000 and an increase in international sales of $120,000. The increase in Metretek Florida's domestic sales was primarily due to an increase in sales of remote data collection products and systems to one natural gas distribution company located in the Midwest. The increase in international sales is attributable to an increase in sales of Metretek Florida's remote data collection products and systems in Canada. A comparison of Metretek Florida's current domestic and international product mix is as follows:

	THREE MONTHS ENDED MARCH 31, 2002		2001	
	(dollar amounts in thousands)			
Remote data collection products and systems	$1,282	77%	$884	65%
Electronic corrector products	305	19%	418	31%
Circuit board assembly sales	73	4%	63	4%
Total	$1,660		$1,365	

Southern Flow's revenues decreased $159,000, or 4.8% during the first quarter 2002, compared to the first quarter 2001, primarily due to a decrease in equipment sales which was partially offset by an increase in chart processing and analysis revenues. The reduction in equipment sales was due primarily to a reduction in customer requirements for such equipment during the first quarter 2002. PowerSpring's revenues decreased by $488,000 during the first quarter 2002, compared to the first quarter 2001, which included approximately $255,000 in other revenues related to the termination of PowerSpring effective March 31, 2001. PowerSpring's monitoring products and services, now operated by Metretek Florida, generated approximately $16,000 of domestic revenues at Metretek Florida during the first quarter 2002.

Costs and Expenses. Costs of sales and services include materials, personnel and related overhead costs incurred to manufacture products and provide services. Cost of sales and services for the first quarter 2002 increased $966,000, or 25.8%, compared to the first quarter 2001, almost entirely attributable to the operations of PowerSecure, and resulting sales and expenses in the first quarter 2002, that commenced after the first quarter 2001. PowerSecure's gross profit margin after costs of sales and services was 23.6% for the first quarter 2002. Metretek Florida's cost of sales and services for the first quarter 2002 increased $292,000, or 33.1%, compared to the first quarter 2001. This increase reflects both increased sales and higher materials, personnel and related overhead costs attributable to sales of its remote data collection products and systems. As a result, Metretek Florida's overall gross profit margin decreased to 29.2% for the first quarter 2002, compared to 35.3% for the first quarter 2001. Southern Flow's cost of sales and services for the first quarter 2002 decreased $171,000, or 6.9%, compared to the first quarter 2001, almost entirely attributable to decreased equipment sales. Southern Flow's gross profit margin after costs of sales and services increased slightly to 26.7% for the first quarter 2002 compared to 25.0% for the first quarter 2001. The increase in Southern Flow's gross profit margin reflects slightly higher margins on increased chart processing and analysis revenues offset by the decreased equipment sales, which generally have lower gross profit margins. PowerSpring's costs of sales and services decreased by $388,000 during the first quarter 2002, compared to the first quarter 2001 due to the termination of PowerSpring as a separate operating entity effective March 31, 2001.

16

General and administrative expenses include personnel and related overhead costs for the support and administrative functions. General and administrative expenses for the first quarter 2002 decreased $67,000, or 4.8%, compared to the first quarter 2001, due primarily to reduced corporate overhead costs; reduced personnel, travel and overhead costs at Metretek Florida; and the 2001 termination of PowerSpring. These reductions were partially offset by increased overhead costs associated with the continued development of the business of PowerSecure during the first quarter 2002.

Selling, marketing and service expenses consist of personnel and related overhead costs, including commissions for sales and marketing activities, together with advertising and promotion costs. Selling, marketing and service expenses for the first quarter 2002 increased $4,000, or 1.1%, compared to the first quarter 2001. The slight increase in selling, marketing and service expenses is due to the offsetting effects of the following: (i) an increase in selling and marketing costs at Metretek Florida due to increased sale activity; (ii) an increase in selling and marketing costs related to the continued business development activities of PowerSecure; and (iii) a decrease in selling and marketing costs resulting from the 2001 termination of PowerSpring.

Depreciation and amortization expenses include the depreciation of property plant and equipment and the amortization of certain intangible assets including capitalized software development costs and other intangible assets that do not have indefinite useful lives. Prior to the required adoption of Statement of Financial Accounting Standards ("FAS") No. 142 "Goodwill and Other Intangible Assets" on January 1, 2002, Southern Flow and Metretek Florida also amortized other intangible assets with indefinite useful lives including customer list and goodwill. Depreciation and amortization expenses for the first quarter 2002 decreased $199,000, or 54.1%, compared to the first quarter 2001. The decrease in depreciation and amortization expense primarily reflects a reduction of amortization expense in the amount of $116,000 and $49,000 at Southern Flow and Metretek Florida, respectively, related to goodwill and other intangible assets with indefinite useful lives, which are no longer amortized under FAS 142. The remaining decrease is due primarily to reduced depreciation on surplus property plant and equipment items previously held by PowerSpring prior to its termination that was disposed of throughout 2001.

Research and development expenses include payments to third parties, personnel and related overhead costs for product and service development, enhancements, upgrades, testing, and quality assurance. Research and development expenses for the first quarter 2002 increased $7,000, or 5.0%, compared to the first quarter 2001. The slight increase is due entirely to personnel related product development expenses at Metretek Florida.

Interest, finance charges and other expenses include interest and finance charges on our credit facility as well as other non-operating expenses. Interest, finance charges and other expenses for the first quarter 2002 increased $8,000, or 21.6%, compared to the first quarter 2001. The increase reflects increased borrowings throughout the first three months of 2002 compared to the same period in 2001.

QUARTERLY FLUCTUATIONS

Our quarterly revenues, expenses, margins, net income and other operating results have fluctuated significantly from quarter-to-quarter and from year-to-year in the past and are expected to continue to fluctuate significantly in the future due to a variety of factors, many of which are outside of our control. These factors include, without limitation, the following:

- the size, timing and terms of sales and orders, including customers delaying, deferring or canceling purchase orders, or making smaller purchases than expected;

- our ability to implement our business plans and strategies and the timing of such implementation;
- the timing, pricing and market acceptance of our new products and services, and those of our competitors;
- the pace of development of our new businesses;
- the success of our brand building and marketing campaigns for our PowerSecure and PowerSpring products and services;
- the growth of the market for distributed generation systems and online energy products, services and information;
- changes in our pricing policies and those of our competitors;
- variations in the length of our product and service implementation process;
- changes in the mix of products and services having differing margins;
- changes in the mix of international and domestic revenues;
- the life cycles of our products and services;
- budgeting cycles of utilities;
- general economic and political conditions;
- economic conditions in the energy industry, especially in the natural gas and electricity sectors;
- the effects of governmental regulations and regulatory changes in our current and new markets;
- changes in the prices charged by our suppliers;
- our ability to make and obtain the expected benefits from acquisitions of technology or businesses, and the costs related to such acquisitions;
- changes in our operating expenses; and
- the development and maintenance of business relationships with strategic partners.

Because we have little or no control over most of these factors, our operating results are difficult to predict. Any substantial adverse change in any of these factors

could negatively affect our business and results of operations.

Our revenues and other operating results depend upon the volume and timing of customer orders and payments and the date of product delivery. The timing of large individual sales is difficult for us to predict. Because our operating expenses are based on anticipated revenues and because a high percentage of these are relatively fixed, a shortfall or delay in recognizing revenue could cause our operating results to vary significantly from quarter-to-quarter and could result in significant operating losses in any particular quarter. If our revenues fall below our expectations in any particular quarter, we may not be able to reduce our expenses rapidly in response to the shortfall, which could result in us suffering significant operating losses in that quarter.

PowerSecure's operations generated revenues for the first time during the second quarter of 2001. Although PowerSecure has a limited operating history, we expect the revenues, costs, gross margins, cash flow, net income and other operating results of PowerSecure to vary from quarter-to-quarter for a number of reasons, including the factors mentioned above. PowerSecure's revenues will depend in large part upon the timing of projects being awarded to PowerSecure, and to a lesser extent the timing of the completion of those projects. In addition, distributed generation is an emerging market and PowerSecure is a new competitor in the market, so there is no established customer base on which to rely or certainty as to future contracts. Another factor that could cause material fluctuations in PowerSecure's quarterly results is the amount of recurring, as opposed to non-recurring, sources of revenue. Through March 31, 2002, virtually all of PowerSecure's revenues constituted non-recurring revenues, but a greater proportion of PowerSecure's revenues will be from recurring sources in future years if PowerSecure is able to successfully develop and market its "company-owned" business platform.

Metretek Florida historically derives substantially all of its revenues from sales of its products and services to the utility industry. Metretek Florida has experienced variability of operating results on both an annual and a quarterly basis due primarily to utility purchasing patterns and delays of purchasing decisions as a result of mergers and acquisitions in the utility industry and changes or potential changes to the federal and state regulatory frameworks within which the utility industry operates. The utility industry, both domestic and foreign, is generally characterized by long budgeting, purchasing and regulatory process cycles that can take up to several years to complete.

Due to all of these factors and the other risks discussed in this Report, you should not rely on quarter-to-quarter or year-to-year comparisons of our results of operations as an indication of our future performance. Quarterly or annual comparisons of our operating results are not necessarily meaningful or indicative of future performance.

LIQUIDITY AND CAPITAL RESOURCES

We require capital primarily to finance our:

- operations;

- inventory;
- accounts receivable;
- research and development efforts;
- property and equipment acquisitions;
- software development;
- debt service requirements; and
- business and technology acquisitions and other growth transactions.

In addition, we anticipate that PowerSecure's capital requirements may increase significantly in fiscal 2002 in order to fund its purchases of equipment and technology to be used in its "company-owned" distributed generation systems.

We have historically financed our operations and growth primarily through a combination of cash on hand, cash generated from operations, borrowings under credit facilities, and proceeds from private and public sales of equity. As of March 31, 2002, we had working capital of $3,357,000, including $1,319,000 in cash and cash equivalents, compared to working capital of $3,537,000 on December 31, 2001, which included $696,000 in cash and cash equivalents. Our working capital balances at March 31, 2002 and December 31, 2001 have each been reduced by the balance of the note payable (the "Scient Note") to Scient Corporation ("Scient"). The amount due under the Scient Note is in dispute, and we do not believe we owe Scient any further amounts thereunder. However, due to the March 31, 2002 stated maturity date of the Scient Note, the entire balance of the Scient Note ($2.5 million) is carried on our consolidated financial statements as a current liability as of March 31, 2002 and December 31, 2001, even though Scient has indefinitely stayed our obligation to make any further payments on the Scient Note pending resolution of the dispute. Until this dispute is finally resolved, we cannot predict the amount, if any, of any further payments we will be required to make under the Scient Note, or the effects of such resolution on our liquidity, financial condition or results of operations.

Net cash provided by operating activities was $608,000 for the three months ended March 31, 2002, consisting of approximately $775,000 of cash provided by changes in working capital and other asset and liability accounts, and approximately $167,000 of cash used in operations, before changes in assets and liabilities. This compares to net cash used in operating activities of $139,000 during the same period in 2001, of which $509,000 was attributable to cash used in operations, before changes in assets and liabilities, and $370,000 was provided by changes in working capital and other asset and liability accounts.

Net cash used by investing activities was $59,000 for the three months ended March 31, 2002, as compared to $213,000 during the same period in 2001. The majority of the net cash used by investing activities during the three months ended March 31, 2002 was attributable to the purchase of equipment items at Southern Flow and Metretek Florida. The reduction in net cash used by investment activities compared to the same period in 2001 was attributable to a reduction in capitalized software development costs.

Net cash provided by financing activities was $74,000 for the three months ended March 31, 2002, compared to net cash provided by financing activities of $756,000 during the same period in 2001. The net cash used by financing activities during the three months ended March 31, 2002 represented an increase in borrowings on our credit facility. Virtually all of the net cash provided by financing activities during the comparable period in 2001 was attributable to borrowings on our line of credit to fund PowerSecure's initial operating activities and to fund software development costs.

During the remainder of 2002, we plan to continue our research and development efforts to enhance our existing products and services and to develop new products and services. Our research and development expenses totaled $145,000 during the three months ended March 31, 2002. We anticipate that our research and development expenses in fiscal 2002 will total approximately $600,000, virtually all of which will be directed to Metretek Florida's business.

Our capital expenditures during the three months ended March 31, 2002 were approximately $60,000. We anticipate capital expenditures in fiscal 2002 of approximately $250,000, primarily for the purchase of equipment to be used in Southern Flow's and PowerSecure's businesses. However, the development of PowerSecure's "company-owned" business will require and depend upon us raising substantial additional capital. We cannot provide any assurance we will be successful in raising additional capital, or that the amount of any additional capital that we are able to raise will be sufficient to allow PowerSecure to meet our objectives for its growth and development or will be on favorable terms.

In September 2001, Southern Flow entered into a Credit and Security Agreement (the "Credit Agreement") with Wells Fargo Business Credit, Inc., providing for a $2,000,000 credit facility (the "Credit Facility"). As of March 31, 2002, Southern Flow had a borrowing base of $1,587,131 under the Credit Facility, of which $1,101,686 had been borrowed (and of that amount, approximately $756,000 had been advanced to fund the business of PowerSecure), leaving $485,445 in unused Credit Facility availability.

Based upon our plans and assumptions as of the date of this Report, we currently believe that our capital resources, including our cash and cash equivalents, amounts available under the Credit Facility and funds expected to be generated from our operations, will be sufficient to meet our anticipated cash needs during the next 12 months, including our working capital needs, capital requirements and debt service commitments, other than the development of the "company-owned" business of PowerSecure. However, unanticipated events, over which we have no control, could increase our operating costs or decrease our ability to generate revenues from product and service sales. We cannot provide any assurance that these sources of liquidity will be available when needed or that our actual cash requirements will not be greater than we currently expect. In addition, an adverse resolution related to the dispute as to the amount we owe under the Scient Note could also significantly increase our cash requirements beyond our available capital resources. Accordingly, we may require additional funds to support our working capital requirements, our operations or our other cash flow needs.

We expect that the development and growth of PowerSecure, including equipment and other capital costs of developing distributed generation systems for its company-owned business package, will require us to raise significant additional funds, beyond our current capital resources. In addition, from time to time as part of our business plan, we engage in discussions regarding potential acquisitions of businesses and technologies. While our ability to finance future acquisitions will probably require us to raise additional capital, as of the date of this Report, we have not entered into any agreement committing us to any such acquisition. In addition, we continually evaluate our cash flow requirements as well as our opportunity to raise additional capital in order to improve our financial position. We may seek to raise any needed or desired additional capital from the proceeds of public or private equity or debt offerings at the Metretek Technologies level or at the subsidiary level or both, from asset or business sales, from traditional credit financings or from other financing sources.

Our ability to obtain additional capital when needed or desired will depend on many factors, including general economic and market conditions, our operating performance and investor sentiment, and thus cannot be assured. In addition, depending on how it is structured, a capital raising financing could require the consent of the Lender or of the holders of our Series B Preferred Stock or both. Even if we are able to raise additional capital, the terms of any financings could be adverse to the interests of our stockholders. For example, the terms of debt financing could restrict our ability to operate our business or to expand our operations, while the terms of an equity financing, involving the issuance of capital stock or of securities convertible into capital stock, could dilute the percentage ownership interests of our stockholders, and the new capital stock or other new securities could have rights, preferences or privileges senior to those of our current stockholders. We cannot assure you that sufficient additional funds will be available to us when needed or desired or that, if available, such funds can be obtained on terms favorable to us and our stockholders and acceptable to the Lender and to the holders of our Series B Preferred Stock, if their consents are required. Our inability to obtain sufficient additional capital on a timely basis on favorable terms could have a material adverse effect on our business, financial condition and results of operations.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued FAS No. 141 "Business Combinations". FAS 141 requires that all business combinations be accounted for under the purchase method of accounting. FAS 141 also changes the criteria for the recognition of intangible assets acquired in a business combination separately from goodwill and requires unallocated negative goodwill to be written off immediately as an extraordinary gain. FAS 141 is applicable to all business combinations initiated after June 30, 2001.

In June 2001, the FASB also issued FAS No. 142 "Goodwill and Other Intangible Assets". FAS 142 addresses accounting and reporting for intangible assets acquired and the accounting and reporting for goodwill and other intangible assets subsequent to their

acquisition. Under the provisions of FAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but rather are tested at least annually for impairment. Separable intangible assets that do not have an indefinite life continue to be amortized over their estimated useful lives.

We adopted the provisions of FAS 141 and 142 effective January 1, 2002. The non-amortization provisions of FAS 142 resulted in a $165,000 reduction in our net loss applicable to common shareholders in the first quarter 2002, and is expected to reduce our full-year net loss or increase our full-year net income applicable to common shareholders by approximately $675,000. We have not yet determined the financial impact that the impairment provisions of FAS 142 will have on our consolidated financial statements. Any impairment charge resulting from the transitional impairment testing will be reflected as a cumulative effect of a change in accounting principle.

In October 2001, the FASB issued FAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which addresses financial accounting and reporting for the impairment and disposal of long-lived assets. While FAS 144 supercedes FAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", it retains many of the fundamental provisions of FAS 121 for recognition and measurement of the impairment of long-lived assets to be held and used and for measurement of long-lived assets to be disposed of by sale. FAS 144 also supercedes the accounting and reporting provisions of APB Opinion No. 30, "Reporting Results of Operations-Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unused and Infrequently Occurring Events and Transactions", for the disposal of segments of a business. FAS 144 establishes a single accounting model, based on the framework established in FAS 121, for long-lived assets to be disposed of by sale. We adopted the provisions of FAS 144 effective January 1, 2002. Adoption of FAS 144 had no effect on our financial position or results of operations.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-QSB contains "forward-looking statements" within the meaning of and made under the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. From time to time in the future, we may make additional forward-looking statements in presentations, at conferences, in press releases, in other reports and filings and otherwise. Forward-looking statements are all statements other than statements of historical facts, including statements that refer to plans, intentions, objectives, goals, strategies, hopes, beliefs, projections, expectations or other characterizations of future events or performance, and assumptions underlying the foregoing. The words "may", "could", "should", "will", "project", "intend", "continue", "believe", "anticipate", "estimate", "forecast", "expect", "plan", "potential", "opportunity" and "scheduled", variations of such words, and other similar expressions are often (but not always) used to identify forward-looking statements. Examples of forward-looking statements include statements regarding, among other matters, our plans, intentions, beliefs and expectations about the following:

- our prospects, including our future revenues, expenses, net income, margins, profitability, cash flow, liquidity, financial condition and results of operations;
- our products and services, market position, market share, growth and strategic relationships;
- our business plans, strategies, goals and objectives;
- market demand for and customer benefits attributable to our products and services;
- industry trends and customer preferences;
- the nature and intensity of our competition, and our ability to successfully compete in our market;
- the sufficiency of funds, from operations, available borrowings and other capital resources, to meet our future working capital, capital expenditure, debt service and business growth needs;
- pending or potential business acquisitions, combinations, sales, alliances, relationships and other similar business transactions;
- our ability to successfully develop and operate our PowerSecure business;
- the effects on our financial condition and results of operations of the resolution of pending or threatened litigation; and
- future economic, business, market and regulatory conditions.

Any forward-looking statements we make are based on our current plans, intentions, objectives, goals, strategies, hopes, beliefs, projections and expectations, as well as assumptions made by and information currently available to management. You are cautioned not to place undue reliance on any forward-looking statements, any or all of which could turn out to be wrong. Forward-looking statements are not guarantees of future performance or events, but are subject to and qualified by substantial risks, uncertainties and other factors, which are difficult to predict and are often beyond our control. Forward-looking statements will be affected by assumptions we might make that do not materialize or prove incorrect or by known or unknown risks, uncertainties and other factors that could cause actual results to differ materially from those expressed, anticipated or implied by such forward-looking statements. These risks, uncertainties and other factors include, but are not limited to, the following:

- our history of losses and no assurance of future profitability;
- our ability to obtain, on favorable terms if at all, and to maintain a sufficient amount capital and liquidity to meet our operating and capital requirement and growth needs, including the sufficiency of the Credit Facility;
- our ability to successfully and timely develop, market and operate PowerSecure's systems, including its products, services, and technologies, and also including new and future platforms and offerings;
- the effects of pending and future lawsuits, including the expenses of defending claims against us and the effects of the ultimate resolution thereof;
- our lack of operating history in our new businesses and the unproven business models in our PowerSecure business;

- the complexity, uncertainty and time constraints associated with the

development and market acceptance of new product and service designs and technologies;
- the effects of intense competition in our markets, including the introduction of competitors' products, services and technologies and our timely and successful response thereto, and our ability to successfully compete in those markets;
- utility purchasing patterns and delays and potential changes to the federal and state regulatory frameworks within which the utility industry operates;
- fluctuations in our operating results, and the long and variable ales cycles of many of our products and services;
- restrictions imposed on us by the terms of our Series B Preferred Stock and our Credit Facility;
- the effects and timing of the resolution of any dispute with Scient over payment obligations;
- the negative effect that dividends on our Series B Preferred Stock have on our results of operations;
- the effect of rapid technologic changes on our ability to maintain competitive products, services and technologies;
- our ability to attract, retain and motivate key management, technical and other critical personnel;
- our ability to secure and maintain key contracts, business relationships and alliances;
- our ability to make successful acquisitions and in the future to successfully integrate and utilize any acquired product lines, key employees and businesses;
- changes in the energy industry in general, and technological and market changes in the natural gas and electricity industries in particular;
- the impact and timing of the deregulation of the natural gas and electricity markets;
- our ability to manage the anticipated growth of PowerSecure;
- the capital resources, technological requirements, and internal business plans of the natural gas and electricity utilities industry;
- restrictions on our capital raising ability imposed by the terms of the Credit Facility and the Series B Preferred Stock;
- dividends on the Series B Preferred Stock increasing our future net loss available to common shareholders and net loss per share;
- general economic and business conditions, including downturns in market conditions;
- effects of changes in product mix on our expected gross margins and net income;
- risks inherent in international operations;
- risks associated with our management of private energy programs;
- the receipt and timing of future customer orders;
- unexpected events affecting our ability to obtain funds from operations, debt or equity to finance operations, pay interest and other obligations, and fund needed capital expenditures and other investments;
- our ability to protect our technology, including our proprietary information, and

our intellectual property rights;
- the effects of recent terrorist activities and resulting military and other actions;
- the effects of the potential delisting of the Common Stock from the Nasdaq National Market;
- the impact of current and future laws and government regulations affecting the energy industry in general and the natural gas and electricity industries in particular; and
- other risks, uncertainties and other factors that are discussed in this report or that are discussed from time to time in our other reports and filings with the SEC and the exhibits to such filings, including but not limited to our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2001.

Any forward-looking statements contained herein speak only as of the date of this Report, and any other forward-looking statements we make from time to time in the future speaks only as of the date it is made. We do not intend, and we undertake no duty or obligation, to update or revise any forward-looking statement for any reason, whether as a result of changes in our expectations or the underlying assumptions, new information, future or unanticipated events, circumstances or conditions or otherwise.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On January 5, 2001, Douglas W. Heins, individually and on behalf of a class of other persons similarly situated (the "Class Action Plaintiff"), filed a complaint (the "Class Action") in the District Court for the City and County of Denver, Colorado (the "Denver Court") against Metretek Technologies, Inc. (the "Company"), Marcum Midstream 1997-1 Business Trust (the "1997 Trust"), Marcum Midstream-Farstad, LLC ("MMF"), Marcum Gas Transmission, Inc. ("MGT"), Marcum Capital Resources, Inc. ("MCR"), W. Phillip Marcum, Richard M. Wanger and Daniel J. Packard (the foregoing, collectively, the "Metretek Defendants"), Farstad Gas & Oil, LLC ("Farstad LLC") and Farstad Oil, Inc. ("Farstad Inc." and, collectively with Farstad LLC, the "Farstad Entities"), and Jeff Farstad ("Farstad" and, collectively with the Farstad Entities, the "Farstad Defendants"). The 1997 Trust is an energy program of which MGT, a wholly-owned subsidiary of the Company, is the managing trustee, and Messrs. Marcum, Wanger and Farstad are or were the active trustees.

The 1997 Trust raised approximately $9.25 million from investors in a private placement in 1997 in order to finance the purchase, operation and improvement of a natural gas liquids processing plant located in Midland, Texas. The Class Action alleges that the Metretek Defendants and the Farstad Defendants (collectively, the "Class Action Defendants"), either directly or as "controlling persons", violated certain provisions of the Colorado Securities Act in connection with the sale of interests in the 1997 Trust. Specifically, the Class Action Plaintiff claims that his and the class's damages resulted from the Class Action Defendants allegedly negligently, recklessly or intentionally making false and misleading statements, failing to disclose material information, and willfully participating in a scheme or conspiracy and aiding or abetting violations of Colorado law, which scheme and statements related to the specification of the natural gas liquids product to be delivered under certain contracts, for the purpose of selling the 1997 Trust's units. The damages sought in the Class Action include compensatory and punitive damages, interest, attorneys' fees and other costs.

On May 11, 2001, the Denver Court granted in part the Class Action Defendants' motions to dismiss by narrowing certain claims and dismissing the fourth claim for relief, the allegation that the Farstad Defendants, Mr. Packard, MCR and MGT are liable under Colorado law for giving substantial assistance in further any of securities violations, as to all Class Action Defendants except MCR. The Denver Court also granted a motion to dismiss the claims against the Farstad Entities.

On May 24, 2001, the Metretek Defendants filed answers to the Class Action, generally denying its allegations and claims and making cross-claims against the Farstad

Defendants. The Metretek Defendants have filed additional cross-claims and third party complaints against the Farstad Defendants alleging fraud, negligent misrepresentation and contractual indemnification and contribution, among other claims. The Farstad Defendants have filed answers generally denying these claims and have asserted cross-claims and third party counter-claims against the Metretek Defendants. The Metretek Defendants have denied the allegations of the Farstad Defendants.

On September 28, 2001, the Denver Court granted the Class Action Plaintiff's motion to certify a class consisting of all investors in the 1997 Trust. Ten investors, representing a net investment of approximately $288,000, have opted out of the class. These investors are pursuing a separate lawsuit in California as described below. As of the date of this Report, a trial date had not been set in the Class Action and no significant discovery had been conducted.

On May 30, 2001, 21 individual plaintiffs including Michael Mongiello and Charlotte Mongiello, trustees of the Mongiello Family Trust dated 8/1/90 (the "Mongiello Plaintiffs"), filed, and subsequently served, a first amended complaint (the "Mongiello Case") in the Superior Court in the State of California for the County of San Diego (the "California Court) against the Metretek Defendants, the Farstad Defendants, United Pacific Securities, Inc., GBS Financial Corporation, IFG Network Securities, Inc., and numerous officers, directors, employees and brokers related to such brokerage houses (the "California Defendants"). The Mongiello Case contains allegations against the Metretek Defendants similar to those contained in the Class Action. The net investment in the 1997 Trust by the Mongiello Plaintiffs is approximately $542,000. The Mongiello Plaintiffs' claims for relief include breach of fiduciary duty, sale of securities in violation of California blue sky laws, fraud and deceit, negligent misrepresentation and omission, mutual mistake, rescission, negligence, fraud on senior citizens and declaratory relief. The Mongiello Plaintiffs seek, among other things, compensatory damages, interest, attorneys' fees, rescission and restitution, punitive and exemplary damages, a declaratory judgment and other damages.

On October 5, 2001, the California Court granted the motion by the Metretek Defendants to dismiss the claims against Metretek Technologies, Mr. Marcum and Mr. Wanger for lack of personal jurisdiction. The California Court also granted a similar motion dismissing the claims against the Farstad

Defendants for lack of personal jurisdiction. On November 5, 2001, MGT, MCR, MMF, Mr. Packard and the 1997 Trust, as the remaining Metretek Defendants, filed an answer generally denying the allegations and claims in the Mongiello Case. On or about March 29, 2002, the California Court granted this motion. The net investment of the remaining Mongiello Plaintiffs is approximately $288,000. These remaining Mongiello Plaintiffs have opted out of the Class Action. As of the date of this Report, only limited discovery has been conducted. A trial has been set to commence after the trial call scheduled for March 4, 2003.

In January 2002, six individual plaintiffs including Glenn Puddy (the "Puddy

Plaintiffs") served a complaint (the "Puddy Case") in the California Court against the same defendants as in the Mongiello Case, containing allegations, legal claims and damages similar to those in the Mongiello Case. The Puddy Plaintiffs and the Mongiello Plaintiffs have the same legal counsel. The net investment of the Puddy Plaintiffs in the 1997 Trust was approximately $89,000. All of the Metretek Defendants have been dismissed from the Puddy Case for lack of personal jurisdiction. A motion by the Puddy Plaintiffs to consolidate the Puddy Case with the Mongiello Case, or to allow the Mongiello Plaintiffs to amend their complaint to add the Puddy Plaintiffs as additional plaintiffs, was denied. The Puddy Plaintiffs have indicated that they intend to appeal these rulings.

Because the foregoing litigation is in early stages, the Company cannot predict the outcome of this litigation or the impact the resolution of these claims will have on its business, financial position or results of operations. The Company intends to vigorously defend the claims against us and the other Metretek Defendants and to vigorously pursue appropriate cross-claims and third party complaints. However, an adverse judgment against the Company in the foregoing litigation could have a material adverse effect on its business, financial condition and results of operations.

From time to time, the Company is involved in other disputes and legal actions arising in the ordinary course of business. The Company intends to vigorously defend all claims against it. Although the ultimate outcome of these claims cannot be accurately predicted due to the inherent uncertainty of litigation, in the opinion of management, based upon current information, no other currently pending or overtly threatened dispute is expected to have a material adverse effect on the Company's business, financial condition or results of operations.

ITEM 5. OTHER INFORMATION

The Common Stock of the Company is listed and trades on the Nasdaq National Market. On February 14, 2002, the Company received a notice from the Nasdaq Stock Market that the Common Stock had failed to maintain compliance with the $1.00 minimum bid price requirement and the $5 million public float requirement for continued listing on the Nasdaq National Market. If the Company is unable to regain compliance with these requirements by May 15, 2002, the Common Stock will be subject to delisting from the Nasdaq National Market. At that time, the Company can either apply to transfer the Common Stock listing to the Nasdaq SmallCap Market, which is the Company's current intention, or appeal Nasdaq's delisting determination. Since the Company's ability to fulfill the listing requirements of the Nasdaq Stock Market is driven in large part by market forces outside of its control, the Company cannot provide any assurance that it will be able to regain compliance with the continued listing requirements of the Nasdaq National Market or, if the Common Stock listing is transferred to the Nasdaq Small Cap Market, to maintain compliance with the listing requirements of the Nasdaq SmallCap Market. If the Company is not able to maintain its listing on the Nasdaq National Market or, if the Common Stock listing is transferred to the Nasdaq SmallCap Market, to maintain its listing on Nasdaq SmallCap Market, then trading activity in the Common Stock could decline significantly, which could cause the trading price of the Common Stock to decline further.

29

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

18 Letter on Change in Accounting Principles

(b) FORM 8-K

The Company did not file any Current Reports on Form 8-K during the quarter ended March 31, 2002.

30

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

METRETEK TECHNOLOGIES, INC.

Date: May 13, 2002 By: /s/ W. Phillip Marcum

W. Phillip Marcum
President and Chief Executive Officer

Date: May 13, 2002 By: /s/ A. Bradley Gabbard

A. Bradley Gabbard
Executive Vice President
and Chief Financial Officer

31