METRETEK TECHNOLOGIES INC
Form 10KSB40
March 28, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

(Mark One)

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

| | 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.
(Name of small business issuer 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, CO 80203
(Address of principal executive offices, including Zip Code)

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

Securities registered under Section 12(b) of the Exchange Act:
NONE

Securities registered under Section 12(g) of the Exchange Act:

COMMON STOCK, PAR VALUE $.01 PER SHARE

(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 |_|

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB. |X|

The issuer's revenues for its most recent fiscal year ended December 31, 2001 were $29,092,786.

As of March 1, 2002, the aggregate market value of the shares of the issuer's Common Stock, the only class of voting or non-voting common equity of the issuer, held by non-affiliates was $1,955,503, based upon $0.43, the last sale price of the Common Stock on such date as reported on the Nasdaq National Market.

As of March 1, 2002, 6,077,764 shares of Common Stock were outstanding.

Transitional Small Business Disclosure Format (check one): Yes | | No |X|

DOCUMENTS INCORPORATED BY REFERENCE
NONE

METRETEK TECHNOLOGIES, INC.

FORM 10-KSB
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

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SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-KSB 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 (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

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, but are not limited to, statements regarding 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, those described in "Additional Factors That May Affect Our Business and Future Results" in Item 6 below, as well as other risks, uncertainties and factors discussed elsewhere in this Report, in documents that we include as exhibits to or incorporate by reference in this Report, and in other reports and documents we file from time to time with the Securities and Exchange Commission ("SEC"). 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 I

ITEM 1. DESCRIPTION OF BUSINESS

BACKGROUND

Metretek Technologies, Inc., through its subsidiaries, is a diversified provider of energy technology measurement products, services and data management systems to industrial and commercial users and suppliers of natural gas and electricity. We currently conduct our operations through three wholly-owned subsidiaries:

- Southern Flow Companies, Inc. ("Southern Flow"), based in Lafayette, Louisiana, which provides a wide variety of natural gas measurement services principally to producers and operators of natural gas production facilities.

- PowerSecure, Inc. ("PowerSecure"), based in Wake Forest, North Carolina, which designs, engineers, sells1 and manages distributed generation systems marketed primarily to industrial and commercial users of electricity.

- Metretek, Incorporated ("Metretek Florida"), based in Melbourne, Florida, which designs, manufactures and sells electronic devices and systems, commonly referred to as automatic meter reading systems ("AMRs"), that automatically monitor, record and transmit data from natural gas custody transfer meters, electronic flow correctors and computers, and other energy measurement products and services including PowerSpring, our internet-based energy information management system.

In this Report, references to "Metretek", "we", "us" and "our" refer to Metretek Technologies, Inc. and its subsidiaries, and references to "Metretek Technologies" refer to Metretek Technologies, Inc. without its subsidiaries, unless we state otherwise or the context indicates otherwise.

We were incorporated in Delaware on April 5, 1991 under the name "Marcum Natural Gas Services, Inc.," and we changed our name in June 1999 to "Metretek Technologies, Inc." Our principal executive office is located at 303 East Seventeenth Street, Suite 660, Denver, Colorado 80203, and our telephone number at that office is (303) 785-8080.

BUSINESS STRATEGY

Our business strategy is to position ourself as an integrated provider of data management products, services and systems that enhance the flow of information and improve the availability of energy to suppliers and users of energy. While our energy products and services have historically been aimed primarily at the natural gas industry, we are focusing more of our current and future products and services to other segments of the energy industry, especially the electricity industry. The energy industry continues to experience fundamental regulatory and structural changes and significant new trends. Our strategy is to acquire, develop and operate businesses that are positioned to take advantage of these changes and trends.

In implementing our business strategy, we have made several important acquisitions:

- In 1993, we acquired substantially all of the assets of the Southern Flow Companies division of Weatherford International Incorporated ("Weatherford").

- In 1994, we acquired Metretek Florida.

- In 1997, we acquired Sigma VI, Inc. ("Sigma VI") and Quality Control Manufacturing, Inc. ("QCMI"), two printed board contract manufacturing firms to support and expand Metretek Florida's operations.

- In 1998, we acquired the electronic corrector business from American Meter Company ("American Meter") to further expand the product and service offerings of Metretek Florida.

- In April 2001, we acquired Industrial Automation, Inc. ("Industrial Automation"), a process control and switchgear design and manufacturing firm, as part of PowerSecure's growth strategy.

While we regularly engage in discussions relating to potential acquisitions and dispositions of assets, businesses and companies, as of the date of this Report we have not entered into any agreement or binding commitment with respect to any material acquisition or disposition.

RECENT DEVELOPMENTS

Development of PowerSecure. We formed PowerSecure in 2000 to carry out our business plan of designing, marketing and operating distributed generation systems for the benefit of industrial and commercial users of energy, primarily electricity. During 2001, a major part of our business strategy was focused upon the development of our distributed generation business, which is operated by PowerSecure. Distribution generation acts as an alternative energy supply, typically to electricity usage, that both provides a reliable back-up energy source during power outages, and adds capacity during peak periods that allows customers to take advantage of particular pricing rates, thus reducing energy costs. The goal of PowerSecure is to provide a complete distributed generation system to industrial and commercial users of energy, primarily electricity. PowerSecure acts as an integrator of distributed peak generation and energy information systems, allowing customers to make use of peak-shaving and load interruption utility incentives.

Acquisition by PowerSecure. On April 10, 2001, PowerSecure acquired Industrial Automation, headquartered in North Carolina. Industrial Automation designs, manufactures and sells process controls and switchgear that is used in PowerSecure's distributed generation operations. This acquisition was intended to enhance PowerSecure's technology and expertise and reduce its project completion time. We issued 150,000 restricted shares of our Common Stock in exchange for all of the issued and outstanding capital stock of Industrial Automation. As a result of the acquisition, Industrial Automation has become a wholly-owned subsidiary of PowerSecure. PowerSecure also entered into five-year employment and non-competition agreements with each of the two former owners of

Industrial Automation. The employment and non-competition agreements include an "earn out" that generally entitles the former owners to any net earnings of PowerSecure arising from projects commenced by Industrial Automation prior to the acquisition. The acquisition was accounted for as a purchase, and therefore the results of operations of Industrial Automation have been combined with those of PowerSecure effective April 10, 2001.

Restructuring of PowerSpring. We formed PowerSpring in 1999 to carry out our business objective of becoming a leading provider of internet-based energy information products, services and technology. The goal of PowerSpring is to provide comprehensive energy consumption data and a broad array of additional information designed to facilitate the purchase and management of natural gas and electricity by commercial energy users. PowerSpring is also intended to provide commercial natural gas and electricity users with a mechanism to manage their energy needs and reduce their energy costs. Our initial focus with PowerSpring was the development of a website to provide a single source of information and services for commercial energy users.

During 2001, we completely restructured PowerSpring by discontinuing most of its business operations and transferring its remaining operations to Metretek Florida. Effective as of March 31, 2001, in furtherance of the discontinuance of our PowerSpring subsidiary as an entity and the restructuring of its business, we completed various restructuring actions including the transfer of management and control of PowerSpring to Metretek Florida. As part of those actions, we, PowerSpring and John A. Harpole entered into a Termination Agreement and Mutual Release that terminated the employment of Mr. Harpole, formerly the Vice President of PowerSpring, and set forth the terms and conditions of the termination, which included the termination of various agreements and instruments to which we, PowerSpring and Mr. Harpole were parties and the transfer of the assets and business of previously-acquired Mercator Energy Incorporated to an entity controlled by Mr. Harpole. Currently, our PowerSpring offerings are included in the operations of Metretek Florida.

SOUTHERN FLOW COMPANIES, INC.

Southern Flow provides a variety of natural gas measurement services principally to customers involved in the business of natural gas production, gathering, transportation and processing. We commenced providing natural gas measurement services in 1991 by acquiring an existing business. We expanded this business significantly in 1993 when we acquired substantially all of the assets of the Southern Flow Companies division of Weatherford. Through its predecessors, Southern Flow has provided measurement services to the natural gas industry since 1953.

Southern Flow provides a broad array of integrated natural gas measurement services, including on-site field services, chart processing and analysis, laboratory analysis, and data management and reporting. Southern

Flow's field services include the installation, testing, calibration, sales and maintenance of measurement equipment and instruments. Southern Flow's chart processing operations include analyzing, digitizing and auditing well charts and providing custom reports as requested by the customer. Southern Flow also provides laboratory analysis of natural gas and natural gas liquids chemical and energy content. As part of its services to its customers, Southern Flow maintains a proprietary database software system which calculates and summarizes energy measurement data for its customers and allows for easy transfer and integration of such data into customer's accounting systems. As an integral part of these services, Southern Flow maintains a comprehensive inventory of natural gas meters and metering parts, and derived approximately 24% of its annual revenues from its "parts resale" business in 2001. Southern Flow provides its services through nine division offices located throughout the Gulf of Mexico, Southwest, Mid-Continent and Rocky Mountain regions.

Natural gas measurement services are used by producers of natural gas and pipeline companies to verify volumes of natural gas custody transfers. To ensure that such data is accurate, on-site field services and data collection must be coordinated with chart integration and data development and management to produce timely and accurate reports.

The market for independent natural gas measurement services is fragmented, with no single company having the ability to exercise control. Many natural gas producers and operators, and most natural gas pipeline and transportation companies, internally perform some or all of their natural gas measurement services. In addition to price, the primary consideration for natural gas measurement customers is the quality of services and the ability to maintain data integrity, because natural gas measurement has a direct effect on the natural gas producer's revenue and royalty and working interest owner obligations. We believe that we are able to effectively compete by:

- providing dependable integrated measurement services;

- maintaining local offices in proximity to our customer base; and

- retaining experienced and competent personnel.

POWERSECURE, INC.

We formed PowerSecure in the fall of 2000 to engage in the business of designing, engineering, marketing and operating distributed generation systems. In January 2001, PowerSecure received its first distributed generation contract. The goal of PowerSecure is to be a national provider of distributed generation systems, providing customers, primarily industrial and commercial users of electricity, with access to back-up power generation and the ability to take advantage of peak-shaving and load interruption incentives. Distributed generation is on-site power generation that supplements or bypasses the public power grid by generating power at the customer's site. PowerSecure offers a power supply that serves as an alternative source of energy for the customer's business needs. PowerSecure's program covers virtually all elements of the peak-power supply chain, including system design, installation, operation and rate analysis and utility rate negotiation.

Distributed Generation Background. The demand for distributed generation facilities offered by PowerSecure is driven primarily by two factors: the need for high quality, high reliability power; and the economics of energy pricing structures by utilities and other power suppliers. The need for power quality and reliability is driven directly by the needs of industrial and commercial end-users of electricity and, in particular, the specific consequences to an end user of experiencing a power outage or curtailment. This need for reliable power became apparent to many businesses as a result of recent brown-outs and black-outs, especially those in California in 2000. Distributed generation allows a business to improve the reliability of its energy generation by providing a back-up power source that is available if the primary source, for example a local utility becomes unable, for any reason, to provide power. Distributed generation can protect businesses from the adverse effect of power outages caused by storms, utility equipment failures and black-outs and brown-outs resulting from instability on the utility power grids. In addition, businesses utilizing distributed generation are able to mitigate their exposure to energy price increases by being able to supply their own electricity through alternative sources. Spikes in power prices, due to electricity spot price savings, have led many businesses to seek alternative sources of power to protect against these price spikes by "peak shaving". Peak shaving, as it generally applies in PowerSecure's business, means utilizing the back-up power provided by a system of distributed generation to reduce specific demand to avoid the adverse effect of high energy prices charged by utilities during "peak" energy use periods.

In addition, due to the current fragmentation of the energy markets, real-time energy information has at the same time become both more important to have and more difficult to obtain. Many energy suppliers, especially utilities, have complicated pricing and rate structures and tariffs that are difficult for energy users to understand,

which further increases the difficulty of monitoring and managing energy usage and costs. Energy deregulation, with multiple providers of energy and diverse rate structures, adds to this complexity in managing energy usage and costs. In order to effectively manage their energy needs, commercial and industrial users of energy require real-time energy consumption information.

PowerSecure provides a "turn-key" solution to these needs of industrial and commercial users of electricity. By providing a complete and customized program of distributed generation, combined with an energy information management system, the PowerSecure system provides energy users with a seamless interoperative active communication between the supply-side and demand-side components of the customer's power system to capture peak-shaving opportunities and to quickly respond to emergency and interruption situations. The typical distributed generation system is installed and maintained at the customer's location and is small in size relative to a power plant since it is designed to supply power only to that one particular customer.

The primary elements of PowerSecure's turn-key distributed generation package include:

- designing and engineering the distributed generation system;

- negotiating with the utility to establish the electricity inter-connect, and to take advantage of preferred rates;

- acquiring and installing the generators and other system equipment and controls;

- designing building and installing the switchgear and process controls; and

- providing ongoing monitoring and servicing of the system.

Technology. The key component in a distributed generation system is the generator, the source of power. While several distributed generation technologies are available, PowerSecure currently utilizes a diesel-powered generator. These are widely used and constitute a reliable, cost-effective distributed generation technology, able to generate sufficient power with reasonable efficiency at a reasonable cost. However, several new generator technologies are emerging, and PowerSecure intends to utilize one or more of them as they demonstrate the ability to be a commercially viable, affordable, and reliable power source. These new technologies include microturbines, which generate power using a small-scale natural gas-fueled turbine, fuel cells, which combine hydrogen and oxygen as an electrochemical process to produce electricity, and solar cells also known as photovoltaic cells, which convert the sun's energy into electricity.

Internal combustion generators range in individual size from 5 kilowatts ("KW") to 2,250 KW, while gas turbines range in individual size from 1,250 KW to 13,500 KW. Units can be installed individually or in multiple parallel arrangements, allowing PowerSecure to service the needs of both small and large industrial customers, as well as those in between.

In conjunction with the generators and turbines, PowerSecure designs and manufactures its own switchgear and process controls, which are used to seamlessly shift power between a customer's primary power source and its source of distributed generation. PowerSecure obtained this technology and know-how by acquiring Industrial Automation in 2001. Power from onsite generation can be brought online and in parallel with the customer's primary power source without disrupting the flow of electricity. This allows the customer to seamlessly substitute onsite-generated power for that supplied by the utility power plant during times of peak demand.

Staffing. PowerSecure staffs a team of engineering and project management resources that oversee all phases of design and installation of generators, switchgear and process controls, and wireless remote-monitoring equipment. PowerSecure's engineering experience and understanding of distributed generation operations provide it with the capability to create innovative solutions to meet the needs of virtually any customer.

Remote Monitoring and Maintenance and System Management. PowerSecure's remote monitoring and maintenance services are an important part of its system because they differentiate the PowerSecure solution from that of its competitors. PowerSecure monitors and maintains the system for its customers, improving reliability and removing many of the hassles for its customers associated with ownership. Distributed assets must be run periodically so that they function properly when called upon to supply power. By installing a communication device on the system, PowerSecure has the ability to remotely start and run the system and to monitor its performance. In the event of a mechanical problem or if the system is low on fuel, PowerSecure dispatches the appropriate

technicians or local fuel service. PowerSecure manages every aspect of its system on behalf of its customers so that the distributed generation is a seamless operation. For those customers that already have distributed generation systems, PowerSecure can offer valuable management services for their systems. Specifically, PowerSecure offers contracts for fuel management services, preventive and emergency maintenance services, and monitoring and dispatching services. PowerSecure also coordinates the operation of the distributed generation during times of peak demand in order to allow its customers to benefit from complicated utility rate structures. The monitoring device enables PowerSecure to monitor, on a cost-effective basis, a geographically fragmented customer-base from a centralized location.

Sales and Marketing. PowerSecure markets its distributed generation systems primarily through a direct sales force. PowerSecure's marketing efforts are focused on three separate types of packages. PowerSecure's initial marketing focus was, and virtually all of its revenues through December 31, 2001 were derived from, its "turn-key" generation system. In its turn-key program, PowerSecure offers a complete internal distributed generation package, including assistance in locating and arranging financing, directly to industrial and commercial users of electricity that desire to own their own distributed generation system. The size of turn-key distributed generation systems designed and sold by PowerSecure has ranged from 90 KW to 8,000 KW, although PowerSecure has the ability to design and sell even larger turn-key systems. The second package marketed by PowerSecure involves partnering with utilities to develop, market and manage distributed generation systems for customers of the utilities. In the "utility partnership" model, PowerSecure partners with a utility to combine its distributed generation package with other products or services that the utility offers, and assists the utility in marketing PowerSecure's distributed generation package to the utility's customers. PowerSecure has recently commenced offering a third package, a "company-owned" distributed generation system program, which will require significant capital to develop. See "Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operation--Liquidity and Capital Resources." PowerSecure's company-owned model involves the design, engineering, installation, operation and maintenance of distributed generation systems that are owned by PowerSecure and leased to customers on a long-term basis for monthly fees related to the benefits received by the customer. Depending on our ability to raise sufficient additional capital, market conditions and the preferences of industrial and commercial users of electricity, PowerSecure believes that a significant portion of its future business may be derived from its company-owned program, making it less dependant upon sales of turn-key systems.

Contracts and Backlog. As of December 31, 2001, PowerSecure had secured contracts for distributed generation projects with an aggregate present value of approximately $2.4 million. These contracts are scheduled to be completed by the end of the second quarter 2002. Given the irregular sales cycle of customer orders, PowerSecure's backlog at any given time is not necessarily an accurate indication of its future prospects.

Acquisition. On April 10, 2001, PowerSecure acquired Industrial Automation, based in North Carolina, which is in the business of designing and marketing switchgear and process controls used in distributed generation operations. As a result of the acquisition, Industrial Automation has become a wholly-owned subsidiary of PowerSecure. See "Recent Developments - Acquisition by PowerSecure" above.

METRETEK, INCORPORATED

We acquired Metretek Florida in March 1994. Metretek Florida was founded in 1977 in Melbourne, Florida as a developer, manufacturer and marketer of automated systems for remotely monitoring and recording energy consumption from a central location. The "Metretek System" consists of three components:

- a solid state, electronic metering data collection product, with a built-in modem;
- a communication link; and
- a software system for managing the collection and presentation of recorded data.

Products. Metretek Florida's manufactured products fall into three categories: metering data collection products; electronic gas flow computers and volume correctors; and application specific recording products. All manufactured products are designed on similar platforms and then customized and configured for application specific and customer specific requirements.

Metering data collection products, also known as automatic meter readers or AMRs, are installed on existing energy meters. The AMRs are designed to automatically collect and transmit metering data according to a schedule predetermined and preset by the customer. The AMRs contain an electronic printed circuit board ("PCB") assembly, which is designed and programmed to interface with an energy meter at the point of energy consumption. The PCB contains a microprocessor and modem, is packaged with AC or DC power and is installed on, or in close proximity to, the energy meter. Energy consumption data is collected, time-stamped, stored, and then transmitted by the AMR to a central location on which Metretek Florida software, running on a PC, or a PC network, manages the data collection and processing as well as storing the data in a database. Communication from the remotely located AMRs to the central software system is usually accomplished using existing, standard voice grade telephone lines. In some instances, cellular telephones or radios are used for communications, depending upon the availability and expense of telephone lines and upon customer preferences. Energy distribution companies use data from the Metretek System for multiple purposes including system balancing, customer contract compliance, meter reading and billing.

As a result of a strategic acquisition of assets from American Meter in May 1998, Metretek Florida also manufactures and markets a complete line of electronic natural gas flow computers and volume correctors. The corrector product line provides the following features and functions:

- instantaneous, real time correction of metered volumes for variations in flowing gas pressure and temperature;

- on board microprocessor and memory for calculation (per American Gas Association formulas) and storage of corrected gas volumes;

- standard built in modem for remote interrogation, configuration, and data collection; and

- user configurable electronic outputs for control and alarm purposes.

In addition to the AMR and corrector product lines, Metretek Florida manufactures and markets systems consisting of remote recorders and central system software for monitoring and recording gas pipeline pressure and for monitoring cathodic protection systems, and distributed electrical generation systems.

Services. Metretek Florida provides custom software development, various levels of technical support, and training to its customers. It also offers a turn-key service to customers who are unable or unwilling to purchase and operate a complete Metretek System. This turn-key service includes providing and installing the remote recorders, collecting the data in Melbourne, Florida and furnishing timely, accurate, properly formatted data to the customer by means of e-mail, file transfer, or the Internet. The customer is charged monthly, based on the quantity of data collected and the frequency at which it is collected.

In 1997, Metretek Florida acquired two small printed circuit board contract manufacturing firms located in Florida, Sigma VI and QCMI. These strategic acquisitions facilitated Metretek Florida to obtain greater control over the quality and timeliness of its PCB requirements and diversifying and expanding the business of Metretek Florida outside of the utility industry. The automated assembly equipment and experienced personnel acquired permit Metretek Florida to offer contract manufacturing services to local electronics manufacturers who have short run, high quality, quick turnaround requirements. The contract manufacturing business, now operating as Metretek Contract Manufacturing, generates incremental revenue and margin and makes staffing during utility business peaks and valleys more manageable.

Markets. Historically, Metretek Florida's AMR Systems have been sold to natural gas distribution companies who use the system to remotely and automatically monitor and record the consumption of their largest industrial and commercial accounts. Sixty of the largest one hundred gas distribution utility companies in North America currently use the Metretek System. In a deregulated environment, the timely and accurate consumption data provided by the Metretek System is of great value to the gas supply, gas control, marketing, customer service, and billing functions within the gas distribution utility. Electronic gas volume correctors are sold to gas distribution utility companies, gas pipeline companies, gas producers and gatherers, and industrial consumers of natural gas. Contract manufacturing services are marketed in the State of Florida, primarily in Brevard County and surrounding counties.

Marketing and Customer Service. Metretek Florida utilizes a direct sales force and an independent distributor and sales representative organization in the United States and the United Kingdom, and relies solely upon independent representatives and distributors for the promotion, sales, and support of its products outside those two countries. Metretek Florida provides its customers with system installation and start-up service, 24/7 telephone technical support, regularly scheduled product training, custom software development, system monitoring and

troubleshooting, and network management services.

Metretek Florida regularly participates in utility industry conferences, symposiums, and trade shows and maintains membership in several national and regional utility company associations. Metretek Florida also advertises in and contributes editorially to industry trade journals, utilizes direct mail/e-mail and telemarketing and has a home page on the Internet (www.metretekfl.com).

International. Outside the United States, Metretek Florida has sold AMR Systems to gas distribution utility companies in the United Kingdom, Netherlands, Pakistan, Australia, Argentina, Brazil, and Canada. All of the six major gas distribution utility companies in Canada own and operate Metretek Systems. Metretek Europe Ltd, a wholly owned subsidiary of Metretek Florida, located in Camberley, Surrey, United Kingdom, promotes, sells, and supports Metretek Florida products in the United Kingdom and Western Europe. Metretek Florida also sells gas volume correctors in Canada, Columbia, Brazil, Argentina, Australia, Taiwan, and Korea. During each of the past three years, approximately 11% of Metretek Florida's annual sales have been generated in international markets.

Acquisitions. Metretek Florida's business strategy includes the acquisition of, and strategic alliances with, metering equipment manufacturers and software application developers that can utilize or enhance the sale of Metretek Florida's products and services. In 1997, Metretek Florida acquired Sigma VI and QCMI, which were small printed circuit board contract manufacturing firms. In 1998, Metretek Florida acquired substantially all of the assets and business of American Meter pertaining to electronic gas volume correctors and pressure recorders and non radio frequency meter reading devices traditionally sold to the utility industry. In connection with that acquisition, American Meter agreed not to compete with Metretek Florida in the acquired business for five years from the closing date. Under a separate agreement, American Meter and its affiliates have the right to continue to sell the acquired products in certain markets by purchasing the products from Metretek Florida at certain agreed upon prices and re-selling those products to various customer classes at negotiated or market prices.

PowerSpring. We formed PowerSpring in 1999 to carry out our business objective to become the leading Internet provider of energy information products, services and technologies. During 2001, we downsized and restructured PowerSpring by discontinuing most of its operations and transferring to Metretek Florida its product line and most of its remaining assets and obligations. PowerSpring is now operated as a service offering of Metretek Florida rather than as an independent entity.

In order to finance the initial phase of the development of PowerSpring, we took several actions at the Metretek Technologies level to raise capital. In September 1999, we amended our credit facility then in effect to provide the initial financing of PowerSpring. In February 2000, we completed a $14 million private placement of Common Stock, Series B Preferred Stock and Common Stock Purchase Warrants, the proceeds of which were used principally to finance the research and development of Internet technologies and systems to be used by PowerSpring. In August 2000, we completed a call of outstanding warrants we had issued as a dividend in 1998, resulting in total proceeds of approximately $2.6 million that provided additional funding for PowerSpring.

The initial focus of our Internet-based business strategy was to develop and launch a website providing the means for management of real time energy information and the exchange of energy products. In June 2000, PowerSpring launched its website: PowerSpring.com. During the development of PowerSpring, we recognized that once the initial development stage was completed and the website was launched, the further development and growth of PowerSpring would require significant additional funds to support its growth plans, including its continuing and growing overhead, its plans for an aggressive direct sales and marketing effort, and its anticipated capital expense needs, including the capital costs associated with the installation of Metretek Florida's AMR equipment on new customer sites. Unfortunately, we believe that due primarily to the down-turn in the public equity markets for technology stocks in general, and Internet stocks in particular, and the resulting negative effect on private investments in those sectors, we were unable to raise any further capital to finance PowerSpring. By December 31, 2000, PowerSpring had abandoned plans for any significant financings from external sources, and had enacted several significant changes in its business model.

During early 2001, PowerSpring was substantially downsized and laid off almost all of its employees. By that time, the development costs of PowerSpring had been almost entirely terminated, and management had discontinued operating PowerSpring as an independent operating subsidiary. As a result, the Internet-based offerings of PowerSpring, have been substantially restructured and re-defined and have become as the web-based offering of Metretek Florida. The PowerSpring offerings are being marketed to commercial and industrial customers through private labeling and partnering joint ventures and programs with natural gas and electricity utility companies and their affiliates and through strategic relationships. We can offer no assurance or guaranty as to the

future of PowerSpring, either as an entity or as a product line, or as to the extent of any further restructuring and modifications. In addition, we cannot offer any assurance that the PowerSpring offerings will ever be commercially viable or acceptable, or will ever generate substantial revenues or any profits for us.

COMPETITION

The markets for our energy products, services and technology are intensely competitive and are characterized by rapidly changing technology, new and emerging products and services, frequent performance improvements and evolving industry standards. We expect the intensity of competition to increase in the future because the growth potential and deregulatory environment of the energy market have attracted and are anticipated to continue to attract many new competitors, including new businesses as well as established businesses from different industries. Competition may also increase as a result of industry consolidation. As a result of increased competition, we may have to reduce the price of our products and services, and we may experience reduced gross margins, loss of market share or inability to penetrate or develop new market, any one of which could significantly reduce our future revenues and operating results.

Our current and prospective competitors include:

- large and well established providers of AMR systems, such as Itron Corp., Badgar Meter, Inc. and Invensys;

- large, well established and diversified companies like Schlumberger, Emerson Electric, ABB, Siemens and Honeywell that have divisions or subsidiaries devoted to our markets;

- in-house services provided by utilities and major oil and gas companies;

- large, well established and diversified oil and gas companies like Duke Energy and Williams Energy; and

- numerous prospective competitors that may offer energy information and technology.

We believe that our ability to compete successfully will depend upon many factors, many of which are outside of our control. These factors include:

- performance and features functionality and benefits of our, and our competitors', products and services;

- speed of development and implementation of new and enhanced products and services;

- our responsiveness to customers needs;

- ease of use of products and services;

- quality and reliability of our, and of our competitors', products and services;

- reputation;

- sales and marketing efforts;

- our ability to develop and maintain our strategic relationships;

- price of our competitors' products and services; and

- the timing and market acceptance of new products and services and enhancements to existing products and services developed by us and by our competitors.

We believe that we currently compete favorably with respect to the above factors. We do not typically attempt to be the low cost producer. Rather, we endeavor to compete primarily on the business of products and service quality rather than price. In order to be successful in the future, we must continue to respond promptly and effectively to the challenges of technological change and our competitors' innovations. We cannot provide

assurance that our products and services will continue to compete favorably or that we will be successful in facing the increasing competition for new products and enhancements introduced by our existing competitors or new competition entering the market.

Many of our existing and potential competitors have better name recognition, longer operating histories, access to larger customer bases and greater financial, technical, sales marketing, manufacturing and other resources than we do. This may enable our competitors to respond more quickly to new or emerging technologies and changes in customer requirements or preferences and to devote greater resources to the development, promotion and sale of their products and services than we can. Our competitors may be able to undertake more extensive marketing campaigns, adopt more aggressive pricing policies and make more attractive offers to potential employees, customers, strategic partners and suppliers and vendors than we can. Our competitors may develop products and services that are equal or superior to the products and services offered by us or that achieve greater market acceptance than our products do. In addition, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to improve their ability to address the needs of our existing and prospective customers. As a result, it is possible that new competitors may emerge and rapidly acquire significant market share or impede our ability to acquire market share in new markets. Increased competition could also result in price reductions, reduced gross margins and loss of market share, and the inability to develop new businesses, which could materially and adversely affect our business. We cannot provide any assurance that we will have the financial resources, technical expertise, or marketing and support capabilities to successfully compete against these actual and potential competitors in the future.

Numerous companies compete directly with Southern Flow in the natural gas measurement services industry, including companies which provide the same services as Southern Flow and those which provide additional or related field services. Although a majority of natural gas measurement services is currently performed internally by natural gas producers and pipeline companies, most of Southern Flow's direct competition consists of small measurement companies providing limited services and serving limited geographical areas. Southern Flow offers a complete range of natural gas measurement services over a wide geographical area which management believes offers Southern Flow advantages over its competitors.

The market for distributed generation products are highly competitive and rapidly changing and evolving. PowerSecure's competition is primarily from existing distributors of generators, such as Caterpillar, Inc., Detroit Diesel Corporation, Cummins Inc., Kohler and Generac Power Systems, as well as small regional electric engineering firms that compete in certain aspects of distributed generation production. Also, PowerSecure faces competition in some specific portions of its distributed generation business. For example, some small regional electric engineering firms specialize in the engineering aspects of the distributed generation. Similarly, several well established companies have developed microturbines used in distributed generation, such as Capstone Turbine Corporation, Honeywell and Elliot Energy Systems, which develop gas turbines, and NREC (Ingersoll-Rand), as well as a number of major automotive companies. A number of companies are also developing alternative generation technology such as fuel cells and solar cells, such as FuelCell Energy, Inc., Siemens, Westinghouse, Misubishi, Ballard Power Systems, Inc. and Plug Power Inc. Several large companies also are becoming leaders in uninterruptible power supply system technology, including American Power Conversion, Invensys, Liebert (a subsidiary of Emerson Electric), GE Digital Energy, Lucent and MGE UPS Systems.

The market for Metretek Florida's products and services is intensely competitive. Although Metretek Florida's product offering is very specific to the requirements for industrial and commercial meter reading/monitoring in natural gas distribution utility companies, many suppliers of residential meter reading systems also offer products for commercial and/or industrial applications and can be formidable competitors for utility companies desiring to implement residential meter reading and to have all automatic/remote meter reading, including industrial and commercial, performed on a single system. Also, major natural gas meter and instrument manufacturers offer systems to remotely read and interrogate their own equipment, and utility companies that use certain manufacturers' meters exclusively may also choose to buy their communication and data collection products as well. We believe that several large suppliers of equipment, services or technology to the utility industry have developed or are currently developing products or services for the market in which Metretek Florida is currently or is intending to compete. Most of Metretek Florida's present and potential competitors have substantially greater financial, marketing, technical and manufacturing resources, as well as greater name recognition and experience, than Metretek Florida. Metretek Florida competes with a large number of existing and potential competitors in these markets, some of which do not compete in all of the same markets as Metretek Florida. In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties that increase their ability to address the needs of Metretek Florida's prospective customers. Metretek Florida competes primarily on the basis of product quality and reliability, applications expertise, and the

quality of its service and support.

REGULATION

General. Our business and operations are affected in various degrees by federal, state, local and foreign laws, regulations and authorities. However, compliance with those requirements has not materially adversely affected financial condition or results of operations to date.

Regulation of Natural Gas. Our operations are affected in various degrees by political developments and federal and state laws and regulations. In particular, natural gas production, operations and economics are affected by price controls, by environmental, tax and other laws relating to the natural gas industry, by changes in such laws and by changing administrative regulations and the interpretations and application of such laws, rules and regulations. Natural gas industry legislation and agency regulation is periodically changed for a variety of political, economic and other reasons. Natural gas sales have been deregulated at the wholesale, or pipeline, level since Federal Energy Regulatory Commission Order 636 was issued in 1992. Since that time, individual states have been studying various methods for deregulating natural gas sales at the retail level. Some states have already deregulated natural gas sales for industrial customers and certain classes of commercial and residential customers. Other states are currently conducting pilot programs that allow residential and small commercial consumers to select a provider of their choice, other than the local distribution company, to supply their natural gas. As natural gas sales are deregulated, on a state by state basis, we believe that timely collection and reporting of consumption data will be needed and desired by certain customers, utility companies and energy service providers. We believe that we may benefit from such a regulatory environment.

Regulation of Electricity. The electric utility industry continues to undergo fundamental structural changes due to deregulation and growing competition at both wholesale and retail levels. The traditional utility structure, consisting of a vertically integrated system operating as a natural monopoly with rates set in relation to cost, has historically presented utilities with little incentive to improve service quality or operating efficiency. Customer demands and regulatory mandates by federal and state governments are opening the electric utility market to competition, forcing electric utilities to transform themselves from regulated monopolies into competitive enterprises. While regulatory initiatives vary from state to state, many involve a shift away from vertically integrated operations and rate-of-return rate making, in which an electric utility's rates are determined by its return on assets, to performance-based rate making, in which an electric utility's rates and profitability are based upon its cost, efficiency, and service quality. This deregulatory movement in the electricity industry follows a similar deregulatory movement in the natural gas utility industry. Today, many commercial and industrial natural gas customers can purchase natural gas directly from producers or brokers, while utilities are required to provide transportation of such natural gas to customers' facilities. We expect a similar result from electricity deregulation.

Several major electric utilities have recently entered into merger agreements and other consolidation transactions and bought and sold generation assets. The restructuring has also focused on opening the electric power production industry, in certain markets, to full competition in the next few years and ultimately providing customers access to multiple suppliers. Federal legislation, such as the National Energy Policy Act of 1992 (the "Energy Policy Act"), has opened utility transmission lines to independent power producers in an effort to increase competition in the wholesale electric power generation market. Under the Energy Policy Act, individual states have the sole authority to mandate the transport and delivery or "wheeling" of electric power to retail customers. As a result, many states now have legislation or final commission orders to mandate retail wheeling and most of the other states are in various stages of considering the implementation of retail wheeling and unbundling, both at legislative and regulatory levels. Meanwhile, a number of other states are also requiring utilities to "unbundle," or offer as separate services, metering, billing and collection, and more states are formally investigating such unbundling. Unbundling implies that a third party, such as a new power market participant, would be free to own the electric meter that measures usage and attaches to a commercial, industrial or residential customer's premises. Traditionally, the owner of the meter has been the electric utility which has also had a monopoly in providing metering, billing, and collection services.

The changing regulatory environment means that new power market participants will be entering into a market traditionally dominated by established utilities. The established utilities are focused on retaining and increasing their market share as a result of competition. Both new power market participants and established utilities will be striving to optimize their offerings and to distinguish themselves in the market. The same capabilities will enable energy service providers to meet regulatory metering and forecasting requirements, offer superior, competitively-priced services, collect customer information and diversify by adding additional applications as available.

Presently, 16 states and Washington, D.C. offer or will soon offer deregulated retail access, allowing customers in those states to choose their own suppliers of electricity power generation services, while an additional six states are transitioning to deregulated status but the implementation has been delayed. We believe that deregulation will require recordation of electric power consumption data more frequently than is presently customary through a much wider use of daily, hourly and possibly even more frequent meter readings. It is possible that other states will enact electric deregulation in the future, but there is no assurance. We believe that regulatory reform will result in new opportunities for us to provide our products and services, such as AMR and other functions typically performed by utilities, directly to end-user customers. In addition, we believe there are a number of new business opportunities that we will be able to develop for capitalizing on the value of the information that can be derived from our products and services.

Regulation of International Operations. Our international operations are also subject to the political, economic and other uncertainties of doing business abroad including, among others, risks of war, cancellation, expropriation, renegotiation or modification of contracts, export and transportation regulations and tariffs, taxation and royalty policies, foreign exchange restrictions, international monetary fluctuations and other hazards arising out of foreign government sovereignty over certain areas in which we conduct, plan to conduct or in the future may conduct operations.

Regulation of Environment. While various federal, state and local laws and regulations covering the discharge of materials into the environment, or otherwise relating to the protection of the environment, may affect our operations as a result of their effect on natural gas development, exploration, production, transportation and dispensing operations, our operations are not currently subject to substantial environmental laws and regulations. We believe we are in material compliance with those environmental laws and regulations to which we are subject. It is not anticipated that we will be required in the near future to expend amounts that are material in relation to our total capital expenditures program by reason of environmental laws and regulations. However, inasmuch as such laws and regulations are frequently changed, we are unable to predict the ultimate effect on us and on the cost of compliance.

EMPLOYEES

As of March 1, 2002, we had 208 full-time employees. None of our employees is covered by a collective bargaining agreement, and we have not experienced any work stoppage. We consider our relations with our employees to be good. We depend upon our ability to attract, retain and motivate qualified management, technical, sales and other personnel. If we are unable to continue to do so, our business will be adversely affected.

RESEARCH AND DEVELOPMENT

In the past, most of our basic research and development activities have been conducted by Metretek Florida. Metretek Florida's research and development is focused on enhancements to its product and service offering that address anticipated customer requirements and potential new markets. Current research and development projects at Metretek Florida include development of data collection products that utilize cellular telephonic transmissions, the paging network for communication as a less costly alternative to telephonic communication, an Internet-based data logger, internet software applications, and an improved electronic gas volume corrector with new set-up and configuration software.

We incurred $9,917,000 and $797,000 for research and development expenses during the years ended December 31, 2000 and 2001, respectively, of which $9,181,000 and $231,000, respectively, were attributable to PowerSpring. The decrease is primarily due to the restructuring of PowerSpring and the virtual termination of research and development expenses related to PowerSpring's business in the second half of 2000. We intend to continue our research and development efforts to enhance our existing products and services and technologies and to develop new products, services and technologies, but we do not anticipate significant research and development expenditures will be devoted in the future to PowerSpring. However, we do intend to continue to develop the internet capabilities of PowerSecure, Metretek Florida and Southern Flow.

RAW MATERIALS

In our business we purchase memory chips, electronic components, printed circuit boards, specialized sub-assemblies, diesel generators, relays, electric circuit components, fabricated sheet metal parts, machined components, aluminum, metallic castings and various other raw materials for their products. We currently procure, and expect to continue to procure, certain components (such as generators) from single source manufacturers due to

unique designs, quality and performance requirements, and favorable pricing arrangements. While, in the opinion of management, the loss of any one supplier of materials (other than generators) would not have a material adverse impact on our business or operations, shortages in certain components such as memory chips, supply problems from our suppliers or our inability to develop alternative sources of supply quickly or cost-effectively could materially impact and delay our ability to manufacture and deliver our products and therefore could adversely affect our business and operations. We attempt to mitigate this risk by maintaining an inventory of such materials. In addition, some of the raw materials used in PowerSecure's business have significant lead times before they are available, which may affect the timing of PowerSecure's project completions.

INTELLECTUAL PROPERTY

Our success and ability to grow depends, in part, upon our ability to develop and protect our proprietary technology and intellectual property rights in order to distinguish our products, services and technology from those of our competitors. We rely primarily on a combination of copyright, trademark and trade secret laws, along with confidentiality agreements, contractual provisions and licensing arrangements, to establish and protect our intellectual property rights. We hold several copyrights, service marks and trademarks in our business, and we have applied for additional registrations of marks, although we may not be successful in obtaining registrations for one or more of them. We intend to continue to introduce new trademarks and service marks in the future, as our business and marketing needs require.

Despite our efforts to protect our intellectual property rights, existing laws afford only limited protection, and our actions may be inadequate to protect our rights or to prevent others from claiming violations of their intellectual property rights. Unauthorized third parties may copy, reverse engineer or otherwise use or exploit aspects of our products and services, or otherwise obtain and use information that we regard as proprietary. We cannot assure you that our competitors will not independently develop technology similar or superior to our technology or design around our proprietary technology and intellectual property rights. In addition, the laws of some foreign countries may not protect our intellectual property rights as fully or in the same manner as the laws of the United States.

We do not believe that we are dependent upon any one copyright, trademark, service mark or other intellectual property right. Rather, we believe that, due to the rapid pace of technology and change within the energy industry, the following factors are more important to our ability to successfully compete in our markets:

- the technological and creative skills of our personnel;
- development of new products, services and technologies;
- frequent product, service and technology enhancements;
- name recognition;
- customer training; and
- reliable product and service support.

We cannot assure you that we will be successful in competing on the basis of these or any other factors. See "Competition" above.

Although we are not aware of any present infringement of our products or technologies on the intellectual property rights of third parties, we cannot provide any assurance that others will not assert claims of infringement against us in the future or that, if made, such claims will not be successful or will not require us to enter into licensing or royalty arrangements or result in costly and time-consuming litigation.

We may in the future initiate claims or litigation against third parties for infringement of our intellectual property rights to protect these rights or to determine the scope and validity of our intellectual property rights or the intellectual property rights of competitors. These claims could result in costly litigation and the diversion of our technical and management personnel.

ITEM 2. DESCRIPTION OF PROPERTY

We lease our principal executive offices, which consist of 2,925 square feet in Denver, Colorado. We moved into these premises in December 2001 when the lease of our previous executive offices expired. This current lease has a monthly rental obligation of $4,388, including operating costs, and expires December 31, 2004.

Southern Flow leases office facilities in the following locations: Lafayette, Belle Chasse and Shreveport, Louisiana; Jackson, Mississippi; Houston and Victoria, Texas; Tulsa, Oklahoma; and Aztec, New Mexico. These offices have an aggregate of approximately 64,000 square feet, total monthly rental obligations of approximately $32,500 and terms expiring at various times through 2007. In addition, Southern Flow owns and occupies an 8,600 square foot office building in Dallas, Texas, which is subject to a mortgage described in "Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

PowerSecure leases three facilities, which are located in Greensboro and Wake Forest, North Carolina and Atlanta, Georgia. These facilities consist of 9,584 square feet in total, have a total monthly rental obligation of $8,590. These leases on these facilities expire between 2004 and 2006.

Metretek Florida leases its principal business offices, located in Melbourne, Florida and consisting of 56,271 square feet, for its executive, manufacturing, engineering, warehouse and marketing operations. The lease has a monthly rental obligation of $31,748, including operating costs, and expires July 30, 2005. Metretek Florida has sub-leased 17,146 square feet of its space for $12,325 monthly rental.

We consider our current facilities to be suitable and adequate to meet our current needs, although we continually monitor our facilities requirements.

ITEM 3. 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, Marcum Midstream 1997-1 Business Trust (the "1997 Trust"), Marcum Midstream-Farstad, LLC ("MMF"), 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 raised $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, an energy program of which MGT, a wholly-owned subsidiary of Metretek Technologies, is the managing trustee and Messrs. Marcum, Wanger and Farstad are or were the active trustees. 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. As of the date of this Report, a trial date had not been set 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 March 6, 2002, the remaining Metretek Defendants filed a motion to dismiss based on forum nonconviens seeking to dismiss the claims of 11 of the Mongiello Plaintiffs in favor of Colorado as a more convenient forum. The California Court has not ruled on this motion as of the date of this Report. As of the date of this Report, no trial date has been set and only limited discovery has been conducted.

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 is 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, we cannot predict the outcome of this litigation or the impact the resolution of these claims will have on our business, financial position or results of operations. We intend 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 us in the foregoing litigation would have a material adverse effect on our business, financial condition and results of operations.

From time to time, we are involved in other disputes and legal actions arising in the ordinary course of business. We intend to vigorously defend all claims against us. 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 our business, financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to our security holders during the fourth quarter of 2001.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our Common Stock is listed on the Nasdaq National Market and trades under the symbol "MTEK." Our "Dividend Warrants", which were issued as a dividend to stockholders on September 18, 1998, were traded on the Nasdaq SmallCap Market under the symbol "MTEKW" until we redeemed them on August 14, 2000. The following table sets forth, for the periods indicated, the range of the high and low closing sales prices of our Common Stock, as reported on the Nasdaq National Market, and of our Dividend Warrants, as reported on the Nasdaq SmallCap Market:

	COMMON STOCK		D
	HIGH	LOW	HIG
YEAR ENDED DECEMBER 31, 2000:			
First Quarter	$17.63	$ 4.25	$13
Second Quarter	11.88	5.88	7
Third Quarter	6.75	2.63	9
Fourth Quarter	4.31	0.88	
YEAR ENDED DECEMBER 31, 2001:			
First Quarter	$ 2.44	$ 1.25	
Second Quarter	2.05	1.15	
Third Quarter	1.49	0.70	
Fourth Quarter	0.96	0.43	

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* Through August 14, 2000.

HOLDERS

As of March 1, 2002, there were 244 holders of record of our Common Stock. Because many of the shares of our Common Stock are held in street name by brokers and other institutions on behalf of stockholders, we are unable to precisely determine the total number of stockholders represented by these record holders, but we estimate, based upon available information, that there are at least 3,000 beneficial owners of our Common Stock.

DIVIDENDS

We have never declared or paid any cash dividends on our Common Stock, and we do not anticipate declaring or paying any cash dividends on our Common Stock in the foreseeable future. We currently intend to retain all future earnings, if any, for use in the operation and expansion of our business and for the servicing and repayment of indebtedness. As a holding company with no independent operations, our ability to pay dividends is dependant upon the receipt of dividends or other payments from our subsidiaries. The terms of our credit facility limit our ability to pay dividends (other than on our Series B Preferred Stock) by prohibiting the payment of dividends by Southern Flow without the consent of the lender. In addition, the terms of our Series B Preferred Stock contain certain restrictions on our ability to pay dividends on our Common Stock. Future dividends, if any, will be determined by our Board of Directors, based upon our earnings, financial condition, capital resources, capital requirements, charter restrictions, contractual restrictions and such other factors as our Board of Directors deems relevant.

Holders of our Series B Preferred Stock are entitled to receive dividends in cash at the rate of 8% per annum, which dividends may be paid or accrued, plus any additional dividends declared by the Board of Directors, and are entitled, under specified circumstances, to participate in dividends declared or paid on the Common Stock.

RECENT SALES OF UNREGISTERED SECURITIES

On October 26, 2001, our Board of Directors authorized the amendment and restatement of our stockholder rights plan set forth in a Rights Agreement, dated as of December 2, 1991, with Computershare Investor Services, LLC, as rights agent (the "Rights Agent"). Pursuant to such authorization, we entered into an Amended and Restated Rights Agreement, dated as of November 30, 2001 (the "Restated Rights Agreement"), with the Rights Agent. The Board of Directors determined it was desirable and in our best interests and those of our stockholders for us to extend and renew the benefits afforded by the original Rights Agreement and to amend certain provisions

thereof. The Restated Rights Agreement was adopted in the normal course of updating and extending the original Rights Agreement that was scheduled to expire on December 1, 2001 and not in response to any acquisition proposal.

The Board of Directors originally adopted the Rights Agreement, and subsequently authorized its extension, amendment and restatement as set forth in the Restated Rights Agreement, in order to protect our stockholders from coercive or otherwise unfair takeover tactics. In general terms and subject to certain exemptions relating to past transactions, the Restated Rights Agreement works by imposing a significant economic penalty upon any person or group that acquires 15% or more of the outstanding shares of our Common Stock without the approval of our Board. The Restated Rights Agreement should not interfere with any merger or other business combination approved by our Board.

On December 2, 1991, our Board of Directors declared a dividend of one preferred share purchase right (a "Right") for each share of our Common Stock outstanding on December 2, 1991 (the "Record Date"), and further authorized the issuance of one Right for each share of Common Stock issued after the Record Date and prior to the distribution date of the Rights. Once exercisable, each Right entitles the registered holder to purchase one one-hundredth of a share of our Series C Preferred Stock. The terms of our Series C Preferred Stock are such that one one-hundredth of a share of Series C Preferred Stock is intended to be the economic equivalent of one share of our Common Stock. The Restated Rights Agreement extends the expiration date of our stockholder rights plan and effectuated certain amendments to reflect prevailing stockholder rights plan terms and to make certain adjustments as a result of the July 1998 reverse split of our Common Stock. The amendments to the Restated Rights Agreement include the following:

- extending the term of the original Rights Agreement, which was set to expire December 1, 2001, to November 30, 2011;

- reducing the number of shares of our Series C Preferred Stock purchasable upon exercise of a Right from four one-hundredths of a share (resulting from the adjustment due to the July 1998 reverse split of our Common Stock) to one one-hundredth of a share;

- reducing the purchase price of one-hundredth of a share of Series C Preferred Stock pursuant to each Right from $25.00 to $15.00;

- giving effect to, and make certain adjustments due to, the July 1998 reverse split;

- reducing the redemption price of the Rights from $.04 to $.01 per Right;

- updating the original Rights Agreement to comply with current laws and prevailing stockholder rights plan terms; and

- making various other technical and conforming amendments.

The summary description in this Report of the Restated Rights Agreement, including the terms of the Rights and the Series C Preferred Stock, does not purport to be complete and is qualified in its entirety by reference to all the provisions of the Restated Rights Agreement, including the exhibits thereto (which exhibits include the rights, privileges and preferences of the Series C Preferred Stock) and the definitions contained therein, which has been filed with the SEC as an exhibit to our Registration Statement on Form 8-A/A, Amendment No. 5, registering the Rights.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

The following discussion and analysis of our results of operations for the years ended December 31, 2001 ("fiscal 2001") and 2000 ("fiscal 2000") and of our consolidated financial condition as of December 31, 2001 should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Report.

The discussion in this Item, as well as in other Items in this Report, contains forward-looking statements

within the meaning of and made under the safe harbor provisions of Section 27A of the Securities Act and Section 21E of the Exchange Act. 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 and expectations or other characterizations of future events or performance, and assumptions underlying the foregoing. See "Special Note on Forward-Looking Statements" above. Forward-looking statements are not guarantees of future performance or events, but are subject to and qualified by known and 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, including those risks, uncertainties and other factors described below in this Item "-- Additional Factors That May Affect Our Business and Future Results", as well as other risks, uncertainties and factors discussed elsewhere in this Report, in documents that we include as exhibits to or incorporate by reference in this Report, and in other reports and documents that we file from time to time with the SEC. You are cautioned not to place undue reliance on any forward-looking statements, any of which could turn out to be wrong. Any forward-looking statements made in this Report speak only as of the date of 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 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 information related to our current primary business segments and is intended to assist you in understanding our results of operations for the periods presented.

	YEARS ENDED DECEMBER 31,	
	2001	2000
	(dollar amounts in thousands)	
REVENUES:		
Southern Flow	$ 12,918	$ 11,335
PowerSecure	8,975	--
Metretek Florida	6,629	8,999
PowerSpring	277	1,160
Other	294	164
Total	$ 29,093	$ 21,658
GROSS PROFIT:		
Southern Flow	$ 3,390	$ 2,931
PowerSecure	1,877	(40
Metretek Florida	2,321	2,258
PowerSpring	(111)	(351
Total	$ 7,477	$ 4,798

SEGMENT PROFIT (LOSS):		
Southern Flow	$ 1,608	$ 1,193
PowerSecure	403	(243
Metretek Florida	(993)	(1,450
PowerSpring	(612)	(15,720
Other	(1,791)	(1,568
Total	$ (1,385)	$(17,788

During fiscal 2000 and portions of fiscal 2001, we had four reportable business segments: natural gas measurement services; distributed generation; automated energy data management; and internet-based energy information and services. Effective as of April 1, 2001, we restructured the business of PowerSpring as a service offering of Metretek Florida and we terminated the operations of PowerSpring as an independent entity; accordingly, since April 1, 2001 internet-based energy information and services has no longer been reported as a separate business segment but has been included and reported as part of our automated data management segment.

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, 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. PowerSpring commenced limited revenue generating operations in the second quarter of 2000. Effective April 1, 2001, PowerSpring's business was restructured and transferred to Metretek Florida, and since that date we have included and reported the internet-based energy and 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 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.

YEAR ENDED DECEMBER 31, 2001 COMPARED TO YEAR ENDED DECEMBER 31, 2000

Revenues. Our revenues are derived almost entirely from the sales of products and services by our subsidiaries. Our consolidated revenues for fiscal 2001 increased $7,435,000, or 34.3%, compared to fiscal 2000. This increase was primarily due to the first-time generation of revenue by PowerSecure, as well as an increase in revenues by Southern Flow. The increased revenue generation at those subsidiaries was partially offset by a decrease in revenues by Metretek Florida and by PowerSpring. PowerSecure generated $8,975,000 in revenues during fiscal 2001, its first year of revenue generating activities. Southern Flow's fiscal 2001 revenues increased by $1,583,000, or 14.0%, over fiscal 2000, primarily due to an increase in sales and services resulting from an improved domestic natural gas market. During fiscal 2001, PowerSpring's revenues were $536,000, which included approximately $255,000, recorded as other revenues, relating to the restructuring of PowerSpring. This constitutes a decrease in PowerSpring's revenues of $883,000, or 76.1%, compared to fiscal 2000. We do not anticipate any material revenues by PowerSpring as an entity in future quarters due to the disposition of the Mercator business as discussed below and the transfer of the PowerSpring products and business to Metretek Florida. Any future revenues attributable to PowerSpring's business will be recorded as revenues of Metretek Florida. Metretek

Florida's fiscal 2001 revenues decreased $2,370,000, or 26.3%, compared to fiscal 2000, consisting of a $2,091,000 decrease in domestic sales and a $279,000 decrease in international sales. The decrease in Metretek Florida's domestic sales was primarily due to a decrease in circuit board assembly sales resulting from the loss of a major contract manufacturing customer that sold its business. The decrease in international sales resulted from a decrease in demand for products at Metretek Florida's target international market. The following table sets forth a comparison of Metretek Florida's current domestic and international product mix:

	YEAR ENDED DECEMBER 31,			
	2001		2000	
	(dollar amounts in thousands)			
Remote data collection products and systems	$4,656	70.2%	$4,964	55.2%
Electronic corrector products	1,688	25.5%	1,927	21.4%
Circuit board assembly sales	285	4.3%	2,108	23.4%
Total	$6,629		$8,999	

Costs and Expenses. Cost of sales and services includes materials, personnel and related overhead costs incurred to manufacture products and provide services. Cost of sales and services in fiscal 2001 increased

$4,627,000, or 27.7%, compared to fiscal 2000. PowerSecure's costs of sales on distributed generation projects for fiscal 2001 was $7,098,000, compared to $40,000 in fiscal 2000, which involved only limited start-up costs and expenses. PowerSecure's gross profit margin after costs of sales and services was 20.9% for fiscal 2001. Southern Flow's cost of sales and services for fiscal 2001 increased $1,125,000, or 13.4%, compared to fiscal 2000, which increase is almost entirely attributable to increased sales. Southern Flow's gross profit margin after costs of sales and services increased slightly to 26.2% for fiscal 2001 compared to 25.9% for fiscal 2000. Metretek Florida's cost of sales and services for fiscal 2001 decreased $2,433,000, or 36.1%, compared to fiscal 2000. This decrease was primarily due to lower circuit board assembly sales. Circuit board assembly sales generally result in lower gross margins than that of traditional products at Metretek Florida. As a result, although Metretek Florida's revenues for fiscal 2001 decreased approximately 26% compared to fiscal 2000, Metretek Florida's overall gross profit margin increased from 25.1% to 35.0% over the same periods. PowerSpring incurred costs of sales and services in the amount of $388,000 during fiscal 2001, compared to $1,511,000 during fiscal 2000, reflects the restructuring and downsizing of PowerSpring.

General and administrative expenses include personnel and related overhead costs for support and administrative functions. General and administrative expenses for fiscal 2001 decreased $130,000, or 2.3%, compared to fiscal 2000. PowerSpring's general and administrative expenses for fiscal 2001 decreased $1,279,000, or 85.1%, compared to fiscal 2000 as a result of the restructuring and significant downsizing of the business of PowerSpring. The decrease in general and administrative expenses at PowerSpring was partially offset by increased expenses at PowerSecure. PowerSecure's general and administrative expenses increased $1,145,000, or 564.1%, in fiscal 2001 compared to fiscal 2000, as a result of a full year of personnel, travel and overhead costs in fiscal 2001 compared to only limited fourth quarter activities in fiscal 2000.

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 fiscal 2001 decreased $909,000, or 40.0%, compared to fiscal 2000. This decrease in selling, marketing and service expenses was primarily due to the discontinuation of independent sales activity by PowerSpring and a reduction in sales personnel at Metretek Florida.

Depreciation and amortization expenses include the depreciation and amortization of real property, customer lists, goodwill, patents and capitalized software development costs. Depreciation and amortization expenses for fiscal 2001 decreased $291,000, or 17.0%, compared to fiscal 2000. This decrease was due almost entirely to the effects of the impairment of depreciable and amortizable assets at PowerSpring that was recorded in the last three months of 2000. The impairment of these assets reduced depreciation and amortization expenses of PowerSpring assets by $338,000 for fiscal 2001, compared to fiscal 2000. The reduction in depreciation and amortization expenses at PowerSpring was partially offset by an increase of $35,000 in depreciation and amortization expenses at PowerSecure.

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 in fiscal 2001 decreased $9,121,000, or 92.0%, compared to fiscal 2000. This decrease is due

almost exclusively to the virtual termination in research and development expenses related to PowerSpring's business.

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 fiscal 2001 increased $17,000, or 12.2%, compared to fiscal 2000. The increase resulted primarily from increased bank borrowings required to finance PowerSecure projects that commenced in fiscal 2001.

Loss on impairment of assets includes the write down of property, plant, equipment, goodwill and other intangible assets to their estimated fair value. No impairment losses were incurred for fiscal 2001. Loss on impairment of assets for fiscal 2000 was $3,161,000, relating to the write down of certain equipment and goodwill of PowerSpring.

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, as well as 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 December 31, 2001, 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 December 31, 2001, we had working capital of $3,537,000, including $696,000 in cash and cash equivalents, compared to working capital of $4,263,000 on December 31, 2000, which included $469,000 in cash and cash equivalents. These working capital amounts include, and have been materially affected by, the accounting classifications applied to certain of our notes payable and our old and new credit facilities. The amount of our working capital has been reduced by the current portion of the note payable (the "Scient Note") to Scient

Corporation ("Scient"). As discussed below, 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 December 31, 2001, even though Scient has indefinitely stayed further payments on the Scient Note pending resolution of the dispute. The portion of the Scient Note that was carried as a current liability at December 31, 2000 was $1.0 million. Also, as of December 31, 2000, the entire outstanding balance of our prior credit facility with the National Bank of Canada ($1.0 Million) was carried on our consolidated financial statements as a current liability, due to its 2001 maturity date. This prior credit facility was refinanced in 2001 through a new credit facility (the "Credit Facility") with Wells Fargo Business Credit, Inc. (the "Lender"). Since the maturity date of the new credit facility is September 30, 2004, the $1 million outstanding balance as of December 31, 2001 is reflected as long term debt rather than a current liability.

Net cash provided by operating activities was $615,000 in fiscal 2001, consisting of approximately $110,000 of cash provided by operations, before changes in assets and liabilities, and approximately $505,000 of cash provided by changes in working capital and other asset and liability accounts. This compares to net cash used by operating activities of $13,188,000 in fiscal 2000, virtually all of which was attributable to the operations of PowerSpring.

Net cash used by investing activities was $322,000 in fiscal 2001, as compared to $1,171,000 in fiscal 2000. The majority of the net cash used by investing activities during fiscal 2001 was attributable to capitalized software development. The reduction in net cash used by investment activities compared to fiscal 2000 was attributable to the acquisition of Mercator and the addition to property, plant and equipment in fiscal 2000 totaling $1,183,000.

Net cash used by financing activities was $66,000 in fiscal 2001, compared to net cash provided by financing activities of $14,467,000 in fiscal 2000. The net cash used by financing activities during fiscal 2001 primarily represented a slight increase in borrowing on our credit facility and the proceeds from a mortgage loan on a Southern Flow property, offset by payments on capital lease obligations. While we did not receive any proceeds from public or private sales of equities during fiscal 2001, virtually all of the net cash provided by financing activities in fiscal 2000 was attributable to the net proceeds from a $14 million equity private placement of "Units", which consisted of Common Stock, Common Stock Purchase Warrants and Series B Preferred Stock, as well as the proceeds from exercises of our Dividend Warrants and of employee stock options.

During fiscal 2002, we plan to continue, at a slightly reduced level, 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 $797,000 during fiscal 2001. 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, including further development and enhancement of our PowerSpring offering.

Our capital expenditures in fiscal 2001 were approximately $657,000. 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.

On September 24, 2001, Southern Flow entered into a Credit and Security Agreement (the "Credit Agreement") with the Lender, providing for a $2,000,000 Credit Facility. Amounts borrowed under the Credit Facility bear interest at prime plus one percent. The Credit Facility contains minimum interest charges and unused credit line and termination fees, and matures on September 30, 2004. The Credit Facility refinanced our prior credit facility with National Bank of Canada.

The obligations of Southern Flow under the Credit Agreement have been guaranteed by Metretek Technologies, PowerSecure and Metretek Florida (collectively, the "Guarantors"). These guarantees have been secured by a guaranty agreement and a security agreement entered into by each of the Guarantors. The security agreements grant to the Lender a first priority security interest in virtually all of the assets of each of the Guarantors. The Credit Facility is further secured by a first priority security interest in virtually all of the assets of Southern Flow.

The Credit Agreement contains standard affirmative and negative covenants by Southern Flow, including

financial covenants by Southern Flow to maintain a minimum tangible net book value, minimum quarterly and annual net income levels and maximum capital expenditures through 2002. Thereafter, the Lender and Southern Flow must renegotiate the terms of those financial covenants. The Credit Agreement contains other standard covenants related to Southern Flow's operations, including limitations on future indebtedness and the payment of dividends the sale of assets and other corporate transactions by Southern Flow, without the Lender's consent.

Borrowings under the Credit Facility are limited to a borrowing base consisting of the sum of 85% of Southern Flow's eligible accounts receivable plus the lesser of 20% of Southern Flow's eligible inventory (consisting primarily of raw materials and finished goods inventory) or $200,000. As of December 31, 2001, Southern Flow had a borrowing base of $1,770,702 under the Credit Facility, of which $1,025,770 had been borrowed (and of that amount, $469,000 had been advanced to fund the business of PowerSecure), leaving $744,932 in unused Credit Facility availability.

Southern Flow is permitted to advance funds under the Credit Facility to Metretek Technologies, PowerSecure and Metretek Florida, provided that total inter-company indebtedness owing from all Guarantors to Southern Flow may not exceed the greater of the amount of the borrowing base less $150,000 or the cumulative net income of Southern Flow from January 1, 2001. The Credit Facility, which constitutes our primary credit agreement, is expected to be used primarily to fund the operations and growth of PowerSecure, but can also be used to fund the operations of Southern Flow and Metretek Florida.

While the Credit Facility will restrict our ability to sell or finance our subsidiaries without the consent of the Lender, in the event that we are able to secure debt or equity financing for a subsidiary that is a Guarantor or the sale or merger of such subsidiary and such subsidiary repays all advances made to it by Southern Flow, then the Lender has agreed to terminate the applicable restrictions in the Credit Facility relating to such subsidiary as a Guarantor.

On December 3, 2001, Southern Flow financed its Dallas, Texas real estate by entering into a $250,000 mortgage loan agreement (the "Mortgage Loan") with Graham Mortgage Corporation. The unpaid balance of the Mortgage Loan accrues interest at the rate of 9.75%. Monthly principal and interest installment payments in the amount of $2,648.41 commenced January 1, 2002, and all principal and accrued but unpaid interest becomes due and payable on December 1, 2003. The Mortgage Loan is secured by the Dallas, Texas land and building.

Effective as of March 31, 2001, we completed various actions in furtherance of the discontinuance of our PowerSpring subsidiary as an entity and the restructuring of its business, including the transfer of management and control of the PowerSpring offering to Metretek Florida. As part of those actions, we, PowerSpring and John A. Harpole entered into a Termination Agreement and Mutual Release that terminated the employment of Mr. Harpole and set forth the terms and conditions of the termination, which included the termination of various agreements and instruments to which we, PowerSpring and Mr. Harpole were parties. In connection with the termination, among other things; (i) the $741,666 promissory note made by PowerSpring to Mr. Harpole was cancelled, and the related security agreement pursuant to which PowerSpring had granted a security interest in its asset to Mr. Harpole was terminated, (ii) PowerSpring agreed to pay $250,000 to Mr. Harpole over the next year; and (iii) we reduced the exercise prices of Mr. Harpole's warrants to purchase 60,000 shares of Common Stock by $1.50 per share to a range of $3.00 to $4.00. We recorded other income of approximately $255,000 in March 2001, which represents the difference between the note amount of $741,666 and our costs incurred in connection with the termination of PowerSpring.

On September 28, 2000, we issued the Scient Note, a $2.8 million unsecured convertible promissory note payable to Scient, in connection with Scient's consulting services relating to our Internet-based PowerSpring business. The Scient Note is payable in quarterly installments, was to be due March 31, 2002, bears no interest, and is convertible at any time at Scient's discretion into either shares of our Common Stock at the rate of $5.94 per share or shares of PowerSpring common stock at the rate of $0.60 per share. As of December 31, 2001, the outstanding balance of the Scient Note was stated as approximately $2.5 million and reported as such in our consolidated financial statements. However, it is our position that, due to various offsets and issues, we do not owe Scient any further amounts. Scient has acknowledged some of the issues that are in dispute and has stayed any claim for payment for the time being. However, until final resolution is reached, we cannot predict with certainty the ultimate outcome of any dispute with Scient, including whether we will be required to make any further payments under the Scient Note, or the effects of the resolution of this dispute on our liquidity, financial condition or results of operations.

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 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("FAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities", which was amended in June 2000 by FAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities". FAS 133, as amended, establishes methods of accounting for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities, including hedging foreign currency expenses. We adopted FAS 133 for fiscal 2001. Because we do not utilize derivative financial instruments, the adoption of FAS 133 did not have a material impact on our financial position or results of operations.

In June 2001, the FASB issued FAS No. 141 "Business Combinations". FAS 141 requires that all business