METRETEK TECHNOLOGIES INC
Form 10KSB
March 28, 2003

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, 2002

[ ] 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)

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

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.

The issuer's revenues for its fiscal year ended December 31, 2002 were $27,041,505.

As of February 28, 2003, 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 $766,443, based upon $0.17, the last sale price of the Common Stock on such date as reported on the OTC Bulletin Board.

As of February 28, 2003, 6,043,469 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, 2002

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CAUTIONARY NOTE REGARDING 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", "would", "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 our plans, intentions, objectives, goals, strategies, hopes, beliefs, projections and expectations about the following:

- our prospects, including our future revenues, expenses, net income, margins, profitability, cash flow, liquidity, financial condition and results of operations;

- our products and services, market position, market share, growth and strategic relationships;

- our business plans, strategies, goals and objectives;

- market demand for and customer benefits attributable to our products and services;

- industry trends and customer preferences;

- the nature and intensity of our competition, and our ability to successfully compete in our markets;

- the sufficiency of our capital resources, including our cash and cash equivalents, funds generated 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, operate and grow our distributed generation and our contract manufacturing businesses;

- the effects on our business, 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 to be incorrect and 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. 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. Management's Discussion and Analysis of Financial Condition and Results of Operations" 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 from time to time file with or furnish to the Securities and Exchange Commission ("SEC"). Any forward-looking statements contained in this Report speak only as of the date of this Report, and any other forward-looking statement 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, the receipt of new information, the occurrence of 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, sells 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, primarily automatic meter reading systems ("AMRs") that automatically monitor, collect, record, store, manage and transmit operational and usage information from various types of field devices, as well as electronic flow correctors and computers, and other energy measurement products and services. Metretek Contract Manufacturing Company, Inc. ("MCM"), a Melbourne, Florida based majority-owned subsidiary of Metretek Florida, provides outsourced manufacturing services with a primary focus on printed circuit boards, mechanical and electrical assemblies.

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 offices are located at 303 East Seventeenth Street, Suite 660, Denver, Colorado 80203, and our telephone number at those offices 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 availability of energy management information and services to suppliers and users of energy. While our energy products, services and systems have historically been aimed primarily at the natural gas industry, we are focusing more of our current and future products, services and systems 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, operate and expand businesses that are positioned to take advantage of these changes and trends.

In implementing our business strategy, we have acquired or formed the following important businesses:

- 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. and Quality Control Manufacturing, Inc., two printed circuit board ("PCB") 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 2000, we formed PowerSecure to develop and operate our distributed generation business.

- 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.

- In June 2002, we formed MCM as a subsidiary of Metretek Florida to operate and expand our contract manufacturing business.

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 binding agreement or commitment with respect to any material acquisition or disposition.

RECENT DEVELOPMENTS

Reorganization of Metretek Florida. In June 2002, we executed broad management and business changes within Metretek Florida that were intended to stem to growing losses and to exploit new business opportunities within its markets. To that end, we hired Thomas R. Kellogg as President and Chief Executive Officer of Metretek Florida. We also formed MCM and hired a new management team responsible for developing and expanding MCM's contract manufacturing business.

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 21% of its annual revenues from its "parts resale" business in 2002. 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, constructing and operating turn-key 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 to facilitate reliable power with 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 and operation as well as 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 and 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 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 complexity 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, the PowerSecure system provides energy users with a seamless 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 utility's 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 offering 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, engineering, constructing 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 its source of power, which is the generator. While several distributed generation technologies are available, PowerSecure currently utilizes a diesel-powered generator in its turn-key systems. These generators 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 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 five 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 customers ranging from small commercial users of power to large industrial businesses.

In conjunction with the generators and turbines, PowerSecure designs and manufactures its own paralleling switchgear and process controls marketed under the registered trade name "NexGear", which are used to seamlessly shift power between a customer's primary power source and its distributed generation

system. PowerSecure obtained this technology and know-how by acquiring Industrial Automation in 2001. Power from onsite generation systems 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 personnel who oversee all phases of design and installation of generators, paralleling switchgear, 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 associated with ownership. Distributed generation systems must be operated periodically so that they function properly when called upon to supply power. By installing a communication device on the system, PowerSecure remotely starts and operates the system and monitors its performance on a periodic basis. In the event of a mechanical problem, PowerSecure dispatches the appropriate technicians. PowerSecure manages every aspect of its system on behalf of its customers so that the distributed generation is a seamless operation to the customer. For those customers that already have distributed generation systems, PowerSecure offers valuable management services, including fuel management services, preventive and emergency maintenance services, and monitoring and dispatching services. PowerSecure also coordinates the operation of the distributed generation system 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 markets its products and services in various types of packages. PowerSecure's initial marketing focus was, and virtually all of its revenues through December 31, 2002 were derived from, its turn-key distributed generation program. 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 10,000 KW, although PowerSecure has the ability to design and sell even larger turn-key systems. A variation of the turn-key system marketed by PowerSecure involves partnering with natural gas and electricity utilities to develop, market and manage distributed generation systems for their customers. In this "utility partnership" model, PowerSecure partners with a utility to combine its distributed generation package with other products or services of that utility, and assists the utility in marketing PowerSecure's distributed generation package to the utility's customers under the utility's brand name. PowerSecure also offers a "company-owned" distributed generation system program. Company-owned programs will require significant capital to develop and have only been offered on a limited basis through the date of this Report. See "Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operation--Liquidity and Capital Resources." PowerSecure's company-owned program 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 portion of its future business may be derived from its company-owned program, making it less dependant upon sales of turn-key systems.

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

METRETEK, INCORPORATED

Founded in 1977 in Melbourne, Florida and acquired by us in 1994, Metretek Florida has operated primarily as a developer, manufacturer and marketer of automated systems for remotely monitoring and recording energy consumption data from a central location. Metretek's systems generally consist of three components:

- field devices, which are intelligent, communications enabled, data collection devices that are installed in the field and automatically communicate with, and retrieve data from, customer energy meters;

- a communication link, which is typically a telephone wire-line or cellular/PCS connection (analog, digital, circuit switch or IP-based); and

- our DC2000 and PowerSpring software, which provide a platform for automated data collection, management and presentation from energy consumption and other relevant data collected from field devices.

Overview of Business. Metretek Florida's primary focus is to provide fully integrated, "turn-key" systems that allow its customers to remotely monitor, collect and manage data collected from various types of field devices, principally natural gas and electricity meters. Our primary customers have in the past tended to be natural gas utilities or combination natural gas and electric utilities that are supporting the specific market needs of their larger commercial and industrial ("C & I") customers. In most cases, these systems are owned, operated and managed by the utility. In such cases, the data that is managed by the system may support critical utility functions such as billing, load management, tariff enforcement and verification. As such, the Metretek Florida system is normally an integral component of the utility's business processes. In other situations, the systems may support less critical functions of the utility or may be owned by a C & I utility customer.

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 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 (via the communications link) by the AMR to a central location on which Metretek Florida's DC 2000 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.

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 incorporates the basic features of the AMR products and provides the following features and functions:

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

- an on-board microprocessor and memory for calculating and storing corrected natural gas volumes; 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 natural gas pipeline pressure and for monitoring cathodic protection systems, as well as other similar application specific products.

Software-Based Solutions. Metretek Florida continuously maintains and upgrades its DC2000 software system and provide upgrades to its customers that have licensed the use of the software. In exchange for these efforts to maintain compatibility with the latest customer computing environments, Metretek Florida charges customers annual licensing fees. As a value added service, Metretek Florida provides first level support to all customers who have its products currently installed. Second level and on site support is provided through a mutually agreed upon service level agreement tailored to the needs of each customer. Metretek Florida also provides its customers with custom software development and training for additional fees. As a subscription based service, Metretek Florida offers the PowerSpring system as a turn-key solution to customers who are unable or unwilling to purchase and operate a complete Metretek DC2000 system. The PowerSpring solution includes providing and installing the remote data collection devices required to meet the specific needs of the customer and furnishing timely, accurate and properly formatted information in accordance with their requirements 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.

Markets. Historically, Metretek Florida's primary customers have been energy utility companies that have deployed its systems in their natural gas business. Metretek Florida currently has 74 active utility customers that operate DC2000 data collection systems, including 60 of the largest 100 natural gas distribution utility companies in North America. Approximately 32 of these

companies operate both electric and natural gas businesses within their service areas. Recently, Metretek Florida developed products and technologies aimed at expanding its offerings of AMR systems to electric utilities. These products include our recently introduced the digital cellular modem ("DCM") family of field products that enable IP-based, wireless internet connectivity, and real time data collection through global system for mobile ("GSM") cellular networks using general packet radio service ("GPRS"). These products also incorporate American National Standard Institute ("ANSI") C12 compatibility, which has been developed as a standard communications interface for electricity metering in the United States and Canada. The combination of these new technical developments in concert with the ANSI standards enable Metretek Florida to more effectively provide large scale solutions for C&I electrical applications.

Marketing and Customer Service. Metretek Florida utilizes a direct sales force and an independent, indirect distributor and sales representative organization in the United States and the United Kingdom, while it relies solely upon independent representatives and distributors for the promotion, sales and support of our products outside those two countries. Metretek Florida also 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 participates in utility industry conferences, symposiums, and trade shows and maintain memberships in several national and regional utility company associations. Metretek Florida also advertises in and contribute editorially to industry trade journals, utilize direct mail/e-mail and telemarketing and have a home page on the internet (www.metretekfl.com).

International. Outside the United States, Metretek Florida has sold its AMR systems and natural gas volume correctors to gas distribution utility companies in the United Kingdom, Netherlands, Pakistan, Australia, Argentina, Columbia, Taiwan, Korea, Brazil and Canada. All of the six major gas distribution utility companies in Canada own and operate Metretek Florida's AMR systems. During the years ended December 31, 2002 and 2001, approximately 13% and 11%, respectively, of Metretek Florida's annual revenues were generated in international markets.

MCM. In June 2002, Metretek Florida formed MCM to operate and expand its PCB contract manufacturing business. Metretek Florida has been involved in contract manufacturing since 1997, but recently

reorganized this business and its management in order to focus on increasing business from third parties. Through MCM, Metretek Florida offers contract manufacturing services to local, regional and national companies with PCB product requirements that are short run, high quality, and quick turnaround.

PowerSpring. We formed PowerSpring in 1999 as a separate subsidiary 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.

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 manufacturers of power generation equipment with substantial distribution networks, such as Caterpillar, Cummins and Kohler;

- 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 Hanover Companies; 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;

- the value to our customers for the price they pay for our products and services;

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

- 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; and

- the price of our, and of our competitors', products and services.

We believe that we have established ourselves as a niche supplier of high quality, reliable products and services and, therefore, that we currently compete favorably with respect to the above factors other than price. We do not typically attempt to be the low cost producer. Rather, we endeavor to compete primarily on the basis of product 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 any assurance that our products and services will continue to compete favorably in the future against current and future competitors or that we will be successful in responding to changes in other markets including new products and service and enhancements to existing products and service introduced by our existing competitors or new competitor 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. 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. Our inability to compete successfully in any respect or to timely respond to market demands or changes would have a material adverse effect on our business, conditions and results of operations.

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 significant portion of natural gas measurement services is currently performed internally by natural gas producers and pipeline companies, much 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 manufacturers and distributors of generators and related equipment, such as

Caterpillar, Inc., Detroit Diesel Corporation, Cummins Inc., Kohler, Onan 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, Mitsubishi, 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, MGE UPS Systems and PowerWare. Real Energy, Inc. designs, owns and operates permanent on-site power generator systems for commercial real estate owners. Companies developing and marketing energy-marketing software, such as Silicon Energy Co., Invensys, Engage and Elutions, are also potential competitors to the extent they partner with distributed generation equipment manufacturers.

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 C & I meter reading and monitoring in natural gas and electricity applications, many suppliers of residential meter reading systems also offer products for C & I 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 and electricity 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 markets in which Metretek Florida is currently competing or intends 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.

The contract manufacturing market, which is very large, is generally characterized by a diverse group of large international companies followed by a very fragmented group of smaller companies that serve a variety of different types of customers and/or geographic regions. Most of MCM's specific competition comes from local and/or regional firms in the southern half of Florida.

REGULATION

Our business and operations are affected by various federal, state, local and foreign laws, regulations and authorities. However, to date, our

compliance with those requirements has not materially adversely affected our business, financial condition or results of operations.

Regulation of Natural Gas. Natural gas 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 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 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, permitting those customers to purchase natural gas directly from producers or brokers. 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.

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. This deregulatory movement in the electricity industry follows a similar deregulatory movement in the natural gas utility industry. The changing regulatory environment means that new power market participants will be entering into a market traditionally dominated by established utilities. Presently, many states offer or will soon offer deregulated retail access, allowing customers in those states to choose their own suppliers of electricity power generation services, while additional states are transitioning to deregulated status. Deregulation may 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.

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 business, our financial condition and results of operations have not been materially adversely affected by environmental laws and regulations. We believe we are in material compliance with those environmental laws and regulations to which we are subject. We do not anticipate that we will be required in the near future to make material capital expenditures due to these environmental laws and regulations. However, because environmental laws and regulations are frequently changed and expanded, we are unable to provide any assurance that the cost of compliance in the future will not be material to us.

EMPLOYEES

As of February 28, 2003, we had 230 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 materially adversely affected.

RESEARCH AND DEVELOPMENT

Most of our basic research and development activities are conducted by Metretek Florida. Metretek Florida's research and development efforts are focused on enhancements to its product and service offerings intended to address anticipated customer requirements and potential new markets. Current research and development projects at Metretek Florida include the development of data collection products that utilize the wireless internet provided by the large cellular and PCS providers worldwide to provide real time data collection capabilities to utilities and their customers. From time to time, as our business needs and goals dictate and as our capital resources allow, we may also conduct research and development efforts for our PowerSecure and Southern Flow businesses.

We incurred $552,000 and $797,000 for research and development expenses during the years ended December 31, 2002 and 2001, respectively. 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 enabling us to enter into new markets and better compete in existing markets.

RAW MATERIALS

In our businesses 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, equipment, parts and components for our products and systems from third party vendors and suppliers. While we generally use standard parts and components for our products and systems that are readily available from multiple suppliers, 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 due to our belief that suitable and sufficient alternative vendors would be available, 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 located in Denver, Colorado. This lease has a monthly rental obligation of $4,509, 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 $32,600 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 the notes to our consolidated financial statements included elsewhere in this Report.

PowerSecure leases three facilities, which are located in Greensboro and Wake Forest, North Carolina and Atlanta, Georgia. In the aggregate, these facilities consist of 9,584 square feet and have a monthly rental obligation of $8,834. The leases on these facilities expire from 2004 through 2006.

Metretek Florida leases its principal business offices, located in Melbourne, Florida and consisting of 45,500 square feet, for its executive, manufacturing, engineering, warehouse and marketing operations. The lease has a monthly rental obligation of $33,794, including operating costs, and expires July 30, 2005. Metretek Florida has sub-leased 13,107 square feet of its space on a month-to-month basis for $12,526 monthly rental.

We believe our facilities are suitable and adequate to meet our current and anticipated needs. We continually monitor our facilities requirements, and we believe that any additional space needed in the future will be available on commercially reasonable terms.

ITEM 3. LEGAL PROCEEDINGS

CLASS ACTION AND RELATED LITIGATION

In January 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 us, Marcum Midstream 1997-1 Business Trust (the "1997 Trust"), Marcum Midstream-Farstad, LLC ("MMF"), Marcum Gas Transmission, Inc. ("MGT"), Marcum Capital Resources, Inc. ("MCR"), W. Phillip Marcum, Richard M. Wanger and Daniel J. Packard (the foregoing, collectively, the "Metretek Defendants"), Farstad Gas & Oil, LLC ("Farstad LLC") and Farstad Oil, Inc. ("Farstad Inc." and, collectively with Farstad LLC, the "Farstad Entities"), and Jeff Farstad ("Farstad" and, collectively with the Farstad Entities, the "Farstad Defendants").

The 1997 Trust was an energy program of which MGT, a wholly-owned subsidiary of us, is the managing trustee, and Messrs. Marcum, Wanger, Packard and Farstad are or were the active trustees. The 1997 Trust raised approximately $9.25 million from investors in a private placement in 1997 in order to finance the purchase, operation and improvement of a natural gas liquids processing plant located in Midland, Texas. As the result of contractual, market and operational difficulties, the 1997 Trust ceased operations in 1998.

The Class Action alleges that the Metretek Defendants and the Farstad Defendants (collectively, the "Class Action Defendants"), either directly or as "controlling persons", violated certain provisions of the Colorado Securities Act in connection with the sale of interests in the 1997 Trust. Specifically, the Class Action Plaintiff claims that his and the class's damages resulted from the Class Action Defendants 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, pre- and post-judgment 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 (the "Class") consisting of all investors in the 1997 Trust. Ten investors, representing a net investment of approximately $288,000, opted out of the Class to pursue a separate lawsuit in California, as described below. The net investment of the remaining members of the Class was approximately $7.5 million.

On August 12, 2002, the Metretek Defendants filed a third party complaint against IFG Network Securities, Inc. ("IFG") and Pringle & Herigstad, P.C., seeking contribution. On December 31, 2002, the Metretek Defendants filed a third party complaint against Patrick Sughroue, alleging professional malpractice and seeking contribution.

On December 6, 2002, the Class Action Plaintiff filed a motion for partial summary judgment as to liability on two claims for relief. The Metretek Defendants have received an extension of time to respond to that motion in light of the proposed settlement described below.

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

On March 27, 2003, we, along with the Class Action Plaintiff, filed a Stipulation of Settlement (the "Heins Stipulation"), which contains the terms and conditions of a proposed settlement (the "Heins Settlement") intended to fully resolve all claims by the Class Action Plaintiff against us and the other Metretek Defendants in the Heins Class Action. The Heins Settlement is contingent, among other things, upon the payment of not less than $2,375,000 from the proceeds of our directors' and officers' insurance policy. The Heins Stipulation creates a settlement fund (the "Heins Settlement Fund") for the benefit of the Class. If the Denver Court approves the Heins Settlement and all other conditions to the Heins Settlement are met, then we will pay $2.75 million into the Heins Settlement Fund, of which no less than $2,375,000 must come from the proceeds of our insurance policy. In addition, we will issue a note payable to the Heins Settlement Fund in the amount of $3.0 million (the "Heins Settlement Note"). The Heins Settlement Note would bear interest at the rate of

prime plus three percent (prime + 3%), payable in 16 quarterly installments, each of $187,500 principal plus accrued interest, commencing six months after the effective date of the Heins Settlement. The Heins Settlement Note would be guaranteed by the 1997 Trust and all of our subsidiaries. Under the Heins Stipulation, we are required to obtain the consent of the Class's lead counsel before we can sell any shares of stock of Southern Flow, Metretek or PowerSecure, although such consent is not required if we make a prepayment of at least $1 million on the Heins Settlement Note with the proceeds of any such sale of subsidiary stock. The Heins Stipulation requires the Company to commence its payment obligations thereunder pursuant to an escrow arrangement after the Denver Court issues its final judgment and order approving the Heins Stipulation, but before all appeals, if any, on that judgment and order have been concluded. If the Heins Stipulation does not receive final and non-appealable approval by December 31, 2006, or such later date as is agreed to by the parties, then the escrowed funds will be returned to us.

In addition, we would be required under the Heins Stipulation to either vigorously prosecute any third party or cross-claims that we believe we have in relation to the Class Action through counsel of our choosing or by requesting that counsel for the Class prosecute these claims. Of the net recovery (after litigation expenses, including legal fees) of any amounts collected from the resolution of these third party claims, 50% would be allocated to the Heins Settlement Fund as additional settlement funds, and 50% would be allocated to offset our obligations under the Heins Settlement Note, first being applied against future payments due under the Heins Settlement Note, with any remainder paid back to us in reimbursement for past payments on the Heins Settlement Note. In addition, the net recovery from the prosecution of any claims by the Class against any of the Farstad Defendants, other than Jeff Farstad as described below, would be treated in the same way as the net recovery from the prosecution of claims by Metretek Defendants as described above.

The Heins Stipulation would fully and finally release all claims between the Class and us and the other Metretek Defendants. Under the Heins Stipulation, the Class would also release Jeff Farstad from claims by the Class against him by reason of his status as a trustee of the 1997 Trust. However, it would not release our claims against him or any claims by either the Class or us against any other Farstad Defendants. In addition, the Heins Stipulation would not release any claims against the brokerage firms involved with the offering of the 1997 Trust's securities that are unique to a particular Class member.

The effective date of the Heins Stipulation is conditioned, among other things, upon the following events:

- payment by our insurance carrier of at least $2,375,000 in insurance proceeds for the benefit of the Heins Settlement Fund;

- the entry by the Denver Court of a preliminary approval order containing certain procedural orders, preliminarily approving the settlement terms and scheduling a settlement hearing;

- the entry by the Denver Court of a Final Judgment and Order directing consummation of the Heins Settlement and containing certain other procedural findings and orders; and

- the final and successful resolution of any appeals related to the Final Settlement and Order and the Heins Stipulation.

We cannot provide any assurance that the foregoing conditions will be satisfied and that the Heins Stipulation will become effective, or if it becomes effective the timing of such effectiveness. Our insurance carrier has not consented to the Heins Settlement or committed to the payment of any insurance

proceeds for the benefit of the Heins Settlement Fund, which are conditions of the Heins Settlement. If the Heins Stipulation does not become effective, we cannot predict the outcome of this litigation or the impact the resolution of the Class Action will have on our business, financial position or results of operations. We and the Metretek Defendants dispute the allegations

of wrongdoing in the Class Action and intend to vigorously defend the claims against us and them and to vigorously pursue appropriate cross-claims and third party claims. However, failure to consummate the Heins Settlement or an adverse judgment against us in the Class Action could have a material adverse effect on our business, financial condition and results of operations.

In May 2001, 21 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 contained allegations against the Metretek Defendants and claims for relief similar to those contained in the Class Action. The net investment in the 1997 Trust by the Mongiello Plaintiffs was approximately $542,000.

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 the claims of the non-California resident Mongiello Plaintiffs on forum non conveniens grounds. On or about March 29, 2002, the California Court granted this motion, dismissing the claims of 11 of the 21 Mongiello Plaintiffs. The net investment of the remaining Mongiello Plaintiffs was approximately $266,000. The ten remaining Mongiello Plaintiffs opted out of the Class Action. In December 2002, the remaining Metretek Defendants settled the Mongiello Case. The settlement did not have a material adverse effect on our business, financial condition or results of operation.

In January 2002, six plaintiffs, including Glenn Puddy (the "Puddy Plaintiffs"), served a complaint (the "Puddy Case") in the California Court against the same defendants as in the Mongiello Case, containing allegations, legal claims and damages similar to those in the Mongiello Case. The Puddy Plaintiffs and the Mongiello Plaintiffs have the same legal counsel. The net investment of the Puddy Plaintiffs in the 1997 Trust was approximately $89,000. All of the Metretek Defendants have been dismissed from the Puddy Case for lack of personal jurisdiction. A motion by the Puddy Plaintiffs to consolidate the Puddy Case with the Mongiello Case, or to allow the Mongiello Plaintiffs to amend their complaint to add the Puddy Plaintiffs as additional plaintiffs, was denied. None of the Puddy Plaintiffs opted out of the Class Action.

SCIENT NOTE LITIGATION

During 1999 and 2000, we retained Scient Corporation ("Scient"), an "eBusiness" consultant, to design and install an eBusiness program that would

enable us to provide our energy management services to commercial customers via an Internet project, which was called "PowerSpring" (the "PowerSpring Project"). In connection with the PowerSpring Project, we paid Scient approximately $7 million in fees and expenses, as part of a total investment by us in PowerSpring in excess of $15.6 million.

In September 2000, as Scient's engagement was being terminated, we issued a non-negotiable promissory note to Scient for approximately $2.8 million (the "Scient Note") for the outstanding balance of services invoiced by Scient in connection with the PowerSpring Project. The Scient Note provided for payments by us in quarterly installments of $250,000 each until March 31, 2002, at which time the remaining balance of the Scient Note was to be paid in full. In June 2001, after we discovered fraudulent activity by Scient and uncovered other matters of dispute in connection with Scient's services and billings, Scient agreed to suspend our payment obligations under the Scient Note until the amount of the fraudulent activity could be resolved. In May 2002, Scient's engagement manager in charge of the PowerSpring Project pleaded guilty to federal wire fraud and mail fraud charges stemming primarily from his activities during Scient's engagement by us.

In July 2002, Scient filed for Chapter 11 bankruptcy protection with the United States Bankruptcy Court for the Southern District of New York (the "Scient Bankruptcy Court"). Although the amount in dispute on the Scient Note was never resolved between us and Scient, on October 17, 2002, we received a letter from Scient's counsel purporting to constitute notice by Scient that we were in breach of the Scient Note for failing to make payments and threatening to initiate enforcement proceedings if the remaining balance, which was then approximately $2.5 million, was not paid in full. In November 2002, we filed a motion with the Scient Bankruptcy Court, seeking to have that court compel Scient and its successors to arbitrate the dispute related to the Scient Note in accordance with

an arbitration provision in our agreement with Scient. In November 2002, we also filed with the Scient Bankruptcy Court a $15.6 million proof of claim against Scient's estate.

In March 2003, we and Scient jointly filed a Stipulation and Order of Settlement (the "Scient Settlement"), which is intended to fully and finally resolve all claims and disputes with Scient. Under the terms of the Scient Settlement, in exchange for our payment of $50,000 to Scient, Scient agreed to release us from any further payment obligations under the Scient Note and we agreed to dismiss our motion to compel arbitration and our proof of claim. The Scient Settlement is subject to final and non-appealable approval by the Scient Bankruptcy Court. Although we cannot provide any assurance that the Scient Settlement will obtain final and non-appealable approval of the Scient Bankruptcy Court, as of the date of this Report, management has no reason to believe that the Scient Settlement will not obtain such approval.

If the Scient Settlement does not become effective, then we intend to vigorously challenge Scient's assertion that we have any remaining obligations under the Scient Note and to vigorously pursue our proof of claim against Scient's estate. However, we cannot provide any assurance that we will prevail in our dispute with Scient. An adverse resolution in this matter requiring us to make significant payments under the Scient Note could have material adverse effect on our liquidity, 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. As of the date of this Report, other than as set forth above, no litigation is currently pending or overtly threatened against us, the adverse outcome of which, indirectly or in aggregate, we believe would have a material adverse impact on our business, financial conditions 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 2002.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Since October 15, 2002, our Common Stock has traded over-the-counter on the OTC Bulletin Board under the symbol "MTEK," Our Common Stock was previously listed and traded on the Nasdaq National Market until May 31, 2002, and on the Nasdaq SmallCap Market from June 3, 2002 through October 14, 2002. 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, the Nasdaq SmallCap Market and the OTC Bulletin Board, as indicated below. Quotations for trades on the OTC Bulletin Board represent inter-dealer prices without adjustment for retail mark-ups, mark-downs or commissions and consequently do not necessarily reflect actual transactions.

	HIGH	LOW
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
YEAR ENDED DECEMBER 31, 2002:		
First Quarter	$0.74	$0.43
Second Quarter (1, 2)	0.78	0.39
Third Quarter (2)	0.60	0.24
Fourth Quarter (2, 3)	0.45	0.11

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(1) Traded on the Nasdaq National Market until May 31, 2002.
(2) Traded on the Nasdaq SmallCap Market from June 2, through October 14, 2002.
(3) Traded on the OTC Bulletin Board since October 15, 2002.

HOLDERS

As of February 28, 2003, there were 338 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 or Metretek Florida 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.

Information concerning securities authorized for issuance under equity compensation plans is set forth below in "Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

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

INTRODUCTION

The following discussion and analysis of our consolidated results of operations for the years ended December 31, 2002 ("fiscal 2002") and 2001 ("fiscal 2001") and of our consolidated financial condition as of December 31, 2002 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 "Cautionary Note Regarding 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 under "-- 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 from time to time file with or furnish to 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.

CRITICAL ACCOUNTING POLICIES

Management's discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements which have been prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates, judgments and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates, including those related to percentage of completion, fixed price contracts, product returns, warranty obligations, bad debt, inventories, cancellations costs associated with long term commitments, investments, intangible assets, assets subject to disposal, income taxes, restructuring, service contracts, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making estimates and judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates and could have a material impact on our consolidated financial statements and it is possible that such changes could occur in the near term.

We have identified the accounting principles which we believe are most critical to understanding our reported financial results by considering accounting policies that involve the most complex or subjective decisions or assessments. These accounting policies described below include:

- revenue recognition;
- allowance for doubtful accounts;
- inventories;
- warranty reserve;
- valuation of goodwill and other intangible assets; and
- deferred tax valuation allowance.

For further discussion of our significant accounting polices, refer to note 1 of the notes to our consolidated financial statements contained elsewhere in this Report.

Revenue Recognition. We recognize product revenue, in accordance with SAB 101, when persuasive evidence of a non-cancelable arrangement exists, delivery has occurred and/or services have been rendered, the price is fixed or determinable, collectibility is reasonably assured, legal title and economic risk is transferred to the customer, and when an economic exchange has taken place. Virtually all product sales are to end users of the product, who are responsible for payment for the product. In limited circumstances, sales representatives or resellers may purchase our products for resale to end users.

In such circumstances, the reseller is responsible for payment to us regardless of whether the reseller collects payment from the end user.

For our long-term distributed generation projects, we recognized revenue and profit as work progresses using the percentage-of-completion method, which relies on estimates of total expected contract revenue and costs. We follow this method as reasonably dependable estimates of the revenue and costs applicable to various stages of a project can be made. Recognized revenues and profits are subject to revision as a project progresses to completion. Revisions in profit estimates are charged to income in the period in which the facts that give rise to the revision become known. In addition, certain contracts provide for cancellation provisions prior to completion of a project. The cancellation provisions provide for payment of costs incurred, but may result in an adjustment to profit already recognized in a prior period.

Service revenue includes chart services, field services, laboratory analysis, allocation and royalty services, professional engineering, installation services, training, and consultation services. Revenues from these services are recognized when the service is performed and the customer has accepted the work.

Software revenue relates the operating systems we license to our customers designed to manage the collection and presentation of recorded data. The license revenue is recognized over the 12-month non-cancelable term of the annual license agreement. The portion of software license fees that has not been recognized as revenue at any balance sheet date is recorded as a current liability. In addition, when a customer engages us to install the software and make any customizations for them, installation service revenue is recognized when the installation and any related customizations have been completed and the customer has accepted the product.

Allowance for Doubtful Accounts. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We assess the customer's ability to pay based on a number of factors, including our past transaction history with the customer and the credit worthiness of the customer. Management specifically analyzes accounts receivable and historical bad debts, customer credit-worthiness, customer concentrations, current economic trends, and changes in our customer payment patterns when we evaluate the adequacy of our allowances for doubtful accounts. We estimate the collectibility of our accounts receivable on an account-by-account basis. In addition, we provide for a general reserve for all accounts receivable. If the financial condition of our customers were to deteriorate in the future, resulting in an impairment of their ability to make payments, additional allowances may be required.

Inventories. Inventories are stated at the lower of cost (determined primarily on a first-in, first-out method) or market (estimated net realizable value). A portion of our inventory is acquired for specific projects; a portion of our inventory is acquired to assemble component parts for use in later assemblies; and a portion of our inventory consists of spare parts and supplies that we maintain to support a full-product range and a wide variety of customer requirements. The portion of our inventory acquired for specific projects tends to be high-dollar value quick turnaround equipment items. The portion of our inventory used to assemble component parts tends to be comprised of electronic parts, which may be subject to obsolescence or quality issues. The portion of our inventory that supports older product lines and other customer requirements may also be slow-moving and subject to potential obsolescence due to product lifecycle and product development plans.

We perform periodic assessments of inventory that includes a review of component demand requirements, product lifecycle and product development plans, and quality issues. As a result of this assessment, we write-down inventory for

estimated losses due to obsolescence and unmarketability equal to the difference between the cost of the inventory and the estimated market value based on assumptions and estimates concerning future demand, market conditions and similar factors. If actual demand and market conditions are less favorable than those estimated by management, additional inventory write-downs may be required.

Warranty Reserve. We provide a standard one-year warranty for hardware product sales and distributed generation equipment. In addition, we offer extended warranty terms on our distributed generation turnkey projects

as well as certain hardware products. We reserve for the estimated cost of product warranties when revenue is recognized, and we evaluate our reserve periodically by comparing our warranty repair experience by product. While we engage in product quality programs and processes, including monitoring and evaluating the quality of our components suppliers and development of methods to remotely detect and correct failures, our warranty obligation is affected by actual product failure rates, parts and equipment costs and service labor costs incurred in correcting a product failure. In addition, our operating history in the distributed generation market is limited. Should actual product failure rates, parts and equipment costs, or service labor costs differ from our estimates, revisions to the estimated warranty liability would be required.

Valuation of Goodwill and Other Intangible Assets. In assessing the recoverability of goodwill and other intangible assets, we make assumptions regarding the estimated future cash flows and other factors to determine the fair value of these assets. If these estimates or their related assumptions change in the future, we may be required to record impairment charges against these assets in the reporting period in which the impairment is determined. For intangible assets, this evaluation includes an analysis of estimated future undiscounted net cash flows expected to be generated by the assets over their estimated useful lives. If the estimated future undiscounted net cash flows are insufficient to recover the carrying value of the assets over their estimated useful lives, we will record an impairment charge in the amount by which the carrying value of the assets exceeds their fair value. For goodwill, the impairment evaluation includes a comparison of the carrying value of the reporting unit which carries the goodwill to that reporting unit's fair value. The fair value of each reporting unit is based upon an estimate of the net present value of future cash flows. If the reporting unit's estimated fair value exceeds the reporting unit's carrying value, no impairment of goodwill exists. If the fair value of the reporting unit does not exceeds its carrying value, then further analysis is required to determine the amount of goodwill impairment, if any.

During the three-month period ended June 30,2002, we completed the initial testing of the impairment of goodwill and concluded that there was no impairment of goodwill. During the three-month period ended December 31, 2002, we completed our annual testing of the impairment of goodwill as of October 1, 2002. As a result of the test, we concluded that no impairment of goodwill existed as of October 1, 2002.

Deferred Tax Valuation Allowance. We currently record a valuation allowance for 100% of our deferred tax assets based on our net operating losses incurred in the past, consideration of future taxable income and ongoing prudent and feasible tax planning strategies. In the event we were to determine that we would be able to realize deferred tax assets in the future in excess of our net recorded amount, an adjustment to the deferred tax assets would increase the income in the period such determination was made. Likewise, in the future, should we have a net deferred tax asset and determine that we would not be able

to realize all or part of that asset, an adjustment to the deferred tax asset would be charged to income in the period that such determination was made.

RESULTS OF OPERATIONS

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

	YEARS ENDED DECEMBER 31,	
	2002	20
	(dollar amounts in thous	
REVENUES:		
Southern Flow	$12,288	$12
PowerSecure	8,229	8
Metretek Florida	6,524	6
PowerSpring	-	
Other	1	
Total	$27,042	$29

	YEARS ENDED DECEMBER 31,	
	2002	20
	(dollar amounts in thous	
GROSS PROFIT:		
Southern Flow	$3,308	$3
PowerSecure	1,944	1
Metretek Florida	1,850	2
PowerSpring	-	
Total	$ 7,102	$ 7
SEGMENT PROFIT (LOSS):		
Southern Flow	$ 1,908	$ 1
PowerSecure	(388)	
Metretek Florida	(969)	
PowerSpring	-	
Other	(3,933)	(1
Total	$ (3,382)	$(1

Our reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Our reportable business segments include: natural gas measurement services; distributed generation; automated energy data management; and (until April 1, 2001) Internet-based energy information and services.

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

The operations of our distributed generation segment are conducted by PowerSecure. PowerSecure commenced operations in September 2000. The primary elements of PowerSecure's distributed generation products and services include project design and engineering, negotiation with utilities to establish tariff structures and power interconnects, generator acquisition and installation, process control and switchgear design and installation, and ongoing project monitoring and servicing. PowerSecure markets its distributed generation products and services directly to large end-users of electricity and through outsourcing partnerships with utilities. Through December 31, 2002, the vast majority of PowerSecure's revenues have been generated from sales of distributed generation systems on a "turn-key" basis, where the customer purchases the systems from PowerSecure. PowerSecure has also generated a small portion of its revenues from "company-owned" distributed generation assets that are leased to customers on a long-term basis.

The operations of our automated energy data management segment are conducted by Metretek Florida. Metretek Florida's manufactured products fall into the following categories: field devices, including metering data collection products and electronic gas flow computers; data collection software products (such as DC2000 and PowerSpring); and communications solutions that can use GSM/GPRS real time wireless internet, traditional cellular radio, 900 MHz unlicensed radio or traditional wire-line phone service to provide connectivity between the field devices and the data collection software products. Metretek Florida also provides energy data collection and management services and post-sale support services for its manufactured products. In June 2002, Metretek Florida formed MCM to conduct and expand its PCB contract manufacturing operations.

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 including non-recurring charges not allocated to its operating segments. Intersegment sales are not significant.

FISCAL 2002 COMPARED TO FISCAL 2001

Revenues. Our revenues are derived almost entirely from the sales of products and services by our subsidiaries. Our consolidated revenues for fiscal 2002 decreased $2,051,000, or 7%, compared to fiscal 2001. The decrease was due to decreased revenues at each of our operating subsidiaries. PowerSecure revenues decreased $747,000, or 8%, during fiscal 2002 compared to fiscal 2001. The decrease in PowerSecure's revenues was due to the reduced size of PowerSecure's completed and in-process projects during fiscal 2002 compared to fiscal 2001. The effect on revenues of the reduced size of PowerSecure's projects was partially offset by the effects of an increase in volume of projects during fiscal 2002 compared to fiscal 2001. PowerSecure had 30 projects completed or in process during fiscal 2002 compared to 24 projects completed (none in process) during fiscal 2001. PowerSecure's average revenue per project for completed and in-process projects was approximately $263,000 during fiscal 2002 compared to approximately $371,000 during fiscal 2001. In addition, PowerSecure's revenues in fiscal 2002 included $294,000 of professional service revenue compared to $43,000 of professional service revenue in fiscal 2001. As discussed below under "Quarterly Fluctuations", PowerSecure's revenues have fluctuated significantly in the past and are expected to continue to fluctuate significantly in the future. Southern Flow's revenues decreased $631,000, or 5%, during fiscal 2002, compared to fiscal 2001, primarily due to a decrease in equipment sales which was partially offset by an increase in chart processing and analysis and field services revenues. The reduction in Southern Flow's equipment sales was due primarily to a reduction in customer requirements for such equipment during fiscal 2002 compared to fiscal 2001. PowerSpring's revenues decreased by $532,000 during fiscal 2002, compared to fiscal 2001, which included approximately $255,000 in other revenues related to the termination of PowerSpring effective March 31, 2001. PowerSpring's monitoring products and services, now operated by Metretek Florida, generated approximately $94,000 of domestic revenues at Metretek Florida during fiscal 2002. Metretek Florida's revenues decreased $105,000, or less than 2%, during fiscal 2002 compared to fiscal 2001, consisting of a decrease in domestic sales of $206,000 partially offset by an increase in international sales of $101,000.

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 for fiscal 2002 decreased $1,384,000, or 6%, compared to fiscal 2001, attributable to the lower sales at PowerSecure, Southern Flow, and PowerSpring partially offset by higher cost of sales and services at Metretek Florida, despite overall lower revenues. PowerSecure's cost of sales and services for fiscal 2002 decreased $814,000, or 11%, compared to fiscal 2001, despite only a 8% decrease in revenues. As a result, PowerSecure's gross profit margin after cost of sales and services increased to 23.6% for fiscal 2002 compared to 20.9% for fiscal 2001. The increase in PowerSecure's gross profit margins is due to a higher percentage of total revenues from professional services, which has higher profit margins to PowerSecure, in fiscal 2002 compared to fiscal 2001. Southern Flow's cost of sales and services for fiscal 2002 decreased $549,000, or 6%, compared to fiscal 2001, despite only a 5% decrease in revenues. As a result, Southern Flow's gross profit margin after cost of sales and services increased slightly to 26.9% for fiscal 2002 compared to 26.2% for fiscal 2001, which is within the range of normal fluctuations for Southern Flow. PowerSpring's cost of sales and services decreased by $388,000 during fiscal 2002 compared to fiscal 2001 due to the termination of PowerSpring as a separate operating entity effective March 31, 2001. Metretek Florida's cost of sales and services for fiscal 2002 increased $366,000, or 9%, compared to fiscal 2001, despite a 2% decline in Metretek Florida's revenues. The increase in Metretek Florida's cost of sales despite an overall decline in revenues reflects higher materials, personnel and related overhead costs attributable to sales of its products and systems and contract manufacturing activities, and in particular relating to start-up costs associated with the formation of MCM. As a result, Metretek Florida's overall

gross profit margin decreased to 28.4% for fiscal 2002, compared to 35.0% for fiscal 2001.

General and administrative expenses include personnel and related overhead costs for support and administrative functions. General and administrative expenses for fiscal 2002 increased $68,000, or 1%, compared to fiscal 2001, due primarily to an increase of $723,000, or 54%, in personnel and related overhead costs associated with the continued development of the business of PowerSecure during fiscal 2002 together with a small increase in personnel cost at Southern Flow during fiscal 2002 compared to fiscal 2001. These increases were partially offset by reduced personnel, travel and overhead costs at Metretek Florida, reduced corporate overhead costs, and the 2001 termination of PowerSpring as a separate operating entity.

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 2002 increased $195,000, or 14%, compared to fiscal 2001. The increase in selling, marketing and service expenses is due to the offsetting effects of the following: (i) an increase in selling and marketing costs at Metretek Florida due to consulting, personnel, and service contract costs associated with Metretek Florida's monitoring products and services transferred from PowerSpring and now operated by Metretek Florida; (ii) an increase in selling and marketing costs related to the continued business development activities of PowerSecure; and (iii) a decrease in selling and marketing costs of PowerSpring, which is no longer operating as a separate subsidiary.

Depreciation and amortization expenses include the depreciation of property, plant and equipment and the amortization of certain intangible assets including capitalized software development costs and other intangible assets that do not have indefinite useful lives. Prior to the required adoption of Statement of Financial Accounting Standards ("FAS") No. 142 "Goodwill and Other Intangible Assets" on January 1, 2002, Southern Flow, Metretek Florida, and PowerSecure also amortized other intangible assets with indefinite useful lives including customer list and goodwill. Depreciation and amortization expenses for fiscal 2002 decreased $760,000, or 54%, compared to fiscal 2001. The decrease in depreciation and amortization expense primarily reflects a reduction of amortization expense in the amount of $465,000, $190,000, and $20,000 at Southern Flow, Metretek Florida, and PowerSecure, respectively, related to goodwill and other intangible assets with indefinite useful lives, which are no longer amortized under FAS 142. The remaining decrease is due primarily to reduced depreciation on surplus property plant and equipment items previously held by PowerSpring prior to its termination that was disposed of throughout 2001.

Research and development expenses include payments to third parties, personnel and related overhead costs for product and service development, enhancements, upgrades, testing and quality assurance. Research and development expenses for fiscal 2002 decreased $245,000, or 31%, compared to fiscal 2001. The decrease is due entirely to reduced personnel related product development expenses at Metretek Florida.

Interest, finance charges and other expenses include interest and finance charges on our credit facility as well as other non-operating expenses. Interest, finance charges and other expenses for fiscal 2002 increased $51,000, or 33%, compared to fiscal 2001. The increase reflects increased borrowings and higher finance charges during fiscal 2002 compared to fiscal 2001.

Provision for litigation costs, net for fiscal 2002 includes the offsetting effects of a $3,505,000 loss attributable to the proposed settlement of the Class Action, which is litigation related to our discontinued MGT subsidiary, offset, in part, by a $1,741,000 gain from the settlement of all claims and disputes with Scient, a former vendor, which resulted in the cancellation of the Scient Note, a promissory note that we issued to Scient in September 2000. See the discussion of this litigation and the details of the settlement arrangements in "Item 3. Legal Proceedings". We incurred no similar litigation costs in fiscal 2001.

Nonrecurring charges for fiscal 2002 include the costs related to the June 2002 changes in management at Metretek Florida, principally termination benefits paid or payable to former Metretek Florida management personnel. There were no similar nonrecurring charges in fiscal 2001.

LIQUIDITY AND CAPITAL RESOURCES

Capital Requirements. 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 the cash flow requirements of PowerSecure, primarily to finance "turn-key" distributed generation projects but also to finance future significant "company-owned" projects, if any, will require significant capital in future periods.

Cash Flow. 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, 2002, we had working capital of $4,090,000, including $885,000 in cash and cash equivalents, compared to working capital of $3,537,000 on December 31, 2001, which included $696,000 in cash and cash equivalents.

Net cash provided by operating activities was $96,000 in fiscal 2002, consisting of approximately $944,000 of cash used in operations, before changes in assets and liabilities, and approximately $1,040,000 of cash provided by changes in working capital and other asset and liability accounts. This compares to net cash provided by operating activities of $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.

Net cash used in investing activities was $545,000 in fiscal 2002, as compared to $322,000 in fiscal 2001. The majority of the net cash used by investing activities during fiscal 2002 was attributable to the purchase of manufacturing equipment at Metretek Florida for use in its contract manufacturing business. The majority of the net cash used by investing activities during fiscal 2001 was attributable to capitalized software development.

Net cash provided by financing activities was $637,000 in fiscal 2002, compared to net cash used in financing activities of $66,000 in fiscal 2001. The net cash provided by financing activities during fiscal 2002 represented net borrowings on Metretek Florida's new line of credit and proceeds from an equipment loan offset, in part, by common stock repurchases and payments on our mortgage loan and capital lease obligations. The net cash used in financing activities during fiscal 2001 was attributable to initial proceeds from Southern Flow's line of credit, offset by payments on a prior existing line of credit, payments on notes payable, and payments on capital lease obligations.

During fiscal 2003, we plan to continue our research and development efforts to enhance our existing products and services and to develop new products and services. Our research and development expenses totaled $552,000 during fiscal 2002. We anticipate that our research and development expenses in fiscal 2003 will total approximately $792,000, virtually all of which will be directed to Metretek Florida's business.

Our capital expenditures in fiscal 2002 were approximately $546,000. We anticipate capital expenditures in fiscal 2003 of approximately $280,000 which will benefit all of our key subsidiaries. In addition, the development of PowerSecure's "company-owned" program business would entail significant additional capital expenditures, which would 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.

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

The obligations of Southern Flow under the Southern Flow Credit Agreement have been guaranteed by Metretek Technologies, PowerSecure and Metretek Florida. 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 Wells

Fargo a first priority security interest in virtually all of the assets of each of the guarantors. The Southern Flow Credit Facility is further secured by a first priority security interest in virtually all of the assets of Southern Flow.

Southern Flow is permitted to advance funds under the Southern Flow

Credit Facility to the guarantors, provided that total inter-company indebtedness owing from all guarantors to Southern Flow at the end of each month may not exceed the cumulative net income of Southern Flow from January 1, 2001 until such date or reduce Southern Flow's tangible book net worth below $1,400,000.

The Southern Flow 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. The Southern Flow 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 Wells Fargo's consent.

Borrowings under the Southern Flow 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, 2002, Southern Flow had a borrowing base of $1,495,000 under the Southern Flow Credit Facility, of which $1,009,000 had been borrowed, leaving $486,000 in unused availability.

On September 6, 2002, Metretek Florida entered into a Credit and Security Agreement (the "Metretek Florida Credit Agreement") with Wells Fargo, providing for a $1,000,000 credit facility (the "Metretek Florida Credit Facility" and, collectively with the Southern Flow Credit Facility, the "Credit Facility"). Amounts borrowed under the Metretek Florida Credit Facility bear interest at prime plus two percent. The Metretek Florida Credit Facility contains minimum interest charges and unused credit line and termination fees, and matures on September 30, 2004. The Metretek Florida Credit Facility operates as an extension of the Southern Flow Credit Facility.

The obligations of Metretek Florida under the Metretek Florida Credit Agreement have been guaranteed by Metretek Technologies, PowerSecure, Southern Flow and MCM. 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 Wells Fargo a first priority security interest in virtually all of the assets of each of the guarantors. The Metretek Florida Credit Facility is further secured by a first priority security interest in virtually all of the assets of Metretek Florida. Metretek Florida is permitted to advance funds under the Metretek Florida Credit Facility to the guarantors, provided that after making such advances the Metretek Florida Credit Facility availability is not less than $100,000, and that total advances to the guarantors do not exceed $500,000.

Borrowings under the Metretek Florida Credit Facility are limited to a borrowing base consisting of the sum of 80% of Metretek Florida's eligible accounts receivable. As of December 31, 2002, Metretek Florida had a borrowing base of $605,000 under the Metretek Florida Credit Facility, of which $462,000 had been borrowed, leaving $143,000 in unused Metretek Florida Credit Facility availability.

The Metretek Florida Credit Agreement contains standard affirmative and negative covenants by Metretek Florida, including financial covenants by Metretek Florida to maintain a minimum tangible net worth, minimum net income levels and maximum capital expenditures. The Metretek Florida Credit Agreement contains other standard covenants related to Metretek Florida's operations, including limitations on future indebtedness and the payment of dividends the sale of assets and other corporate transactions by Metretek Florida, without the Lender's consent. As of December 31, 2002, Metretek Florida was not in compliance with the minimum net income and maximum capital expenditure financial

covenants in the Metretek Florida Credit Agreement, but Wells Fargo has waived these financial covenant requirements for the period ended December 31, 2002 and has established the financial covenants for Metretek Florida for 2003 and thereafter. This non-compliance under the Metretek Florida Credit Agreement created a cross-default under the Southern Flow Credit Agreement, but Wells Fargo has also waived that cross-default and has established the financial covenants for Southern Flow for 2003 and thereafter.

The Credit Facility, which constitutes our primary credit agreement, is used primarily to fund the operations and growth of PowerSecure, as well as the operations of Metretek Florida and Southern Flow. While the Credit Facility will restrict our ability to sell or finance our subsidiaries without the consent of Wells Fargo's, 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 or Metretek Florida, as applicable, then Wells Fargo has agreed to terminate the applicable restrictions in the Credit Facility relating to such subsidiary as a Guarantor.

Heins Stipulation. On March 27, 2003, we filed the Heins Stipulation, which contains the terms and conditions of the Heins Settlement that is intended to fully resolve all claims by the Class Action Plaintiff against us

and the other Metretek Defendants in the Heins Class Action. The Heins Settlement is contingent, among other things, upon the payment of at least $2,375,000 from the proceeds of our directors' and officers' insurance policy. If the Denver Court approves the Heins Settlement and all other conditions