METRETEK TECHNOLOGIES INC
Form 10QSB
November 13, 2001

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001

or

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

Commission File Number 0-19793

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

DELAWARE (State or other jurisdiction of incorporation or organization)	84-1169358 (I.R.S. Employer Identification No.)
600 Seventeenth Street, Suite 800 North Denver, Colorado (Address of principal executive offices)	80202 (Zip code)

(303) 416-9200
(Issuer's telephone number, including area code)

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

Yes X No ___

As of October 31, 2001 there were 6,077,764 shares of the issuer's Common Stock outstanding.

Transitional Small Business Disclosure Format

Yes ___ No X

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METRETEK TECHNOLOGIES, INC.

FORM 10-QSB

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PART I.
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

METRETEK TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

ASSETS	SEPTEMBER 30, 2001	DECEMBER 31, 2000
CURRENT ASSETS:		
Cash and cash equivalents	$ 690,441	$ 468,813
Trade receivables, less allowance for doubtful accounts		

of $297,955 and $548,153, respectively	4,060,220	4,476,841
Other receivables	18,060	7,960
Inventories	3,650,702	3,226,995
Net assets of discontinued operations	384,365	545,454
Prepaid expenses and other current assets	422,396	768,474
Total current assets	9,226,184	9,494,537
PROPERTY, PLANT AND EQUIPMENT, AT COST:		
Equipment	4,114,691	4,391,990
Vehicles	50,227	49,185
Furniture and fixtures	584,094	609,472
Land, building and improvements	735,759	881,859
Total	5,484,771	5,932,506
Less accumulated depreciation	3,205,023	2,862,990
Property, plant and equipment, net	2,279,748	3,069,516
OTHER ASSETS:		
Customer list (net of accumulated amortization of $3,735,117 and $3,401,183, respectively)	5,157,770	5,491,704
Goodwill (net of accumulated amortization of $877,906 and $706,871, respectively)	2,420,512	2,344,711
Patents and capitalized software development (net of accumulated amortization of $795,438 and $691,406, respectively)	490,452	117,650
Other assets	320,448	277,773
Total other assets	8,389,182	8,231,838
TOTAL	$19,895,114	$20,795,891

See notes to unaudited consolidated financial statements.

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METRETEK TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

LIABILITIES AND STOCKHOLDERS' EQUITY	SEPTEMBER 30, 2001	D
CURRENT LIABILITIES:		
Accounts payable	$ 1,159,950	$
Accrued and other liabilities	1,856,528	
Notes payable	2,471,426	
Deposits and capital lease obligations	1,896	

Total current liabilities	5,489,800
LONG-TERM NOTES PAYABLE	1,172,356
COMMITMENTS AND CONTINGENCIES	
REDEEMABLE PREFERRED STOCK - SERIES B, $.01 PAR VALUE; AUTHORIZED, 1,000,000 SHARES; 7,000 ISSUED AND OUTSTANDING; REDEMPTION VALUE $1,000 PER SHARE	7,444,915
STOCKHOLDERS' EQUITY:	
Preferred stock - undesignated, $.01 par value; authorized, 2,000,000 shares; none issued and outstanding	
Preferred stock - Series C, $.01 par value; authorized, 500,000 shares; none issued and outstanding	
Common stock, $.01 par value; authorized, 25,000,000 shares; issued and outstanding, 6,077,764 and 5,908,067 shares, respectively	60,778
Additional paid-in-capital	55,116,789
Accumulated other comprehensive loss	(55,349)
Accumulated deficit	(49,334,175)
Total stockholders' equity	5,788,043
TOTAL	$ 19,895,114

See notes to unaudited consolidated financial statements.

METRETEK TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE SE
	2001	2000	2001
REVENUES:			
Sales and services	$ 5,960,692	$ 4,996,434	$ 22,239,5
Other	(30,577)	53,958	269,1
Total revenues	5,930,115	5,050,392	22,508,6
COSTS AND EXPENSES:			
Cost of sales and services	4,260,904	3,771,220	16,758,3

General and administrative	1,381,268	1,347,150	4,146,5
Selling, marketing and service	355,167	700,345	1,031,0
Depreciation and amortization	344,617	474,372	1,086,6
Research and development	288,170	2,214,006	572,9
Interest, finance charges and other	33,815	33,208	114,6
Total costs and expenses	6,663,941	8,540,301	23,710,2
OPERATING LOSS	(733,826)	(3,489,909)	(1,201,6
MINORITY INTEREST IN LOSS	--	183,727	--
INCOME TAXES	--	--	--
NET LOSS	(733,826)	(3,306,182)	(1,201,6
PREFERRED STOCK DEEMED DISTRIBUTION	(180,477)	(180,477)	(541,4
NET LOSS APPLICABLE TO COMMON SHAREHOLDERS	$ (914,303)	$ (3,486,659)	$ (1,743,0
NET LOSS PER BASIC AND DILUTED COMMON SHARE	$ (0.15)	$ (0.63)	$ (0.
WEIGHTED AVERAGE BASIC AND DILUTED COMMON SHARES OUTSTANDING	6,077,764	5,507,496	6,015,6

See notes to unaudited consolidated financial statements.

METRETEK TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	NINE MONTHS ENDE SEPTEMBER 30	
	2001	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,201,606)	$(11,
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation and amortization	1,086,631	1,
Minority interest in PowerSpring	--	(
Stock based compensation expense	--	
Loss on disposal of property, plant and equipment	87,425	
Changes in other assets and liabilities, net of effect of acquisitions:		

Trade receivables	416,621	(
Inventories	(423,707)	
Other current assets	335,978	
Other noncurrent assets	(46,661)	
Accounts payable	125,220	3,
Accrued and other liabilities	120,641	(
Net cash provided (used) by continuing operations	500,542	(8,
Net cash provided (used) by discontinued operations	161,089	(
Net cash provided (used) by operating activities	661,631	(8,
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition	--	(
Additions to capitalized software development	(476,834)	
Additions to property, plant, equipment	(117,632)	(3,
Proceeds from sale of property, plant and equipment	323,810	
Net cash used by investing activities	(270,656)	(3,
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from private placement	--	10,
Net payments on line of credit	(1,011,541)	(
Proceeds from new line of credit	1,172,356	
Payment on notes payable	(125,000)	
Exercise of stock options and warrants	--	3,
Payments on capital lease obligations	(205,162)	
Net cash provided (used) by financing activities	(169,347)	13,
NET INCREASE IN CASH AND CASH EQUIVALENTS	221,628	
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	468,813	
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 690,441	$ 1,

See notes to unaudited consolidated financial statements.

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

As of September 30, 2001 and December 31, 2000 and
For the Three Month Periods Ended September 30, 2001 and 2000 and
For the Nine Month Periods Ended September 30, 2001 and 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements include the accounts of Metretek Technologies, Inc. and its subsidiaries, primarily Metretek, Incorporated ("Metretek Florida"), Southern Flow Companies, Inc. ("Southern Flow"), PowerSecure, Inc. ("PowerSecure") and PowerSpring, Inc. ("PowerSpring") and have been prepared pursuant to rules and regulations of the Securities and Exchange Commission. The accompanying consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2000.

Minority interest amounts included in the consolidated financial statements represented an outside shareholder's 12.5% ownership interest in PowerSpring. As of March 31, 2001 the Company repurchased that minority interest. In addition, certain 2000 amounts have been reclassified to conform to current year presentation.

Due to the short-term nature of the PowerSecure contracts, the Company uses the completed-contract method of revenue recognition. Under the completed-contract method, revenue is recognized only when a contract is completed or substantially completed.

In the opinion of the Company's management, all adjustments (all of which are normal and recurring) have been made which are necessary for a fair presentation of the consolidated financial position of the Company and its subsidiaries as of September 30, 2001 and the consolidated results of their operations and cash flows for the three and nine month periods ended September 30, 2001 and 2000.

2. COMPREHENSIVE LOSS

The Company's comprehensive loss for the nine months ended September 30, 2001 and 2000 was $1,251,029 and $11,535,140, respectively. The Company's comprehensive loss includes net loss and foreign currency translation adjustments.

3. POWERSPRING TERMINATION

Effective as of March 31, 2001, the Company completed various actions in furtherance of the discontinuance of its PowerSpring subsidiary as an entity and the restructuring of its business, including the transfer of management and control of the PowerSpring product to Metretek Florida. As part of those actions, the Company,

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PowerSpring and John A. Harpole entered into a Termination Agreement and Mutual Release that terminated the employment of Mr. Harpole, formerly the Vice President of PowerSpring, and set forth the terms and conditions of the termination, which included the termination of various agreements and instruments to which the Company, PowerSpring and Mr. Harpole were parties.

In connection with the termination: (i) the $741,666 promissory note made by PowerSpring to Mr. Harpole was cancelled, and the related security agreement pursuant to which PowerSpring had granted a security interest in its asset to Mr. Harpole was terminated, (ii) Mr. Harpole transferred his 2,500,000 shares of PowerSpring common stock, which represented 12.5% of the outstanding capital stock of PowerSpring, back to PowerSpring, (iii) Mr. Harpole's employment and non-competition agreement was terminated, (iv) PowerSpring transferred the assets and business of Mercator to Mercator Energy LLC ("New Mercator"), a new limited liability company formed by Mr. Harpole, (v) PowerSpring agreed to pay $250,000 to Mr. Harpole over the next year, (vi) the

Company reduced the exercise prices of Mr. Harpole's warrants to purchase 60,000 shares of Company common stock by $1.50 per share to a range of $3.00 to $4.00, (vii) the Company issued Mr. Harpole options to purchase 80,000 shares of common stock at $2.00 per share, (viii) PowerSpring retained New Mercator on an eight month consulting basis at $5,000 per month, and (ix) the parties entered into a standard mutual release of all claims.

The Company recorded other income in March 2001 of approximately $255,000, which represents the difference between the note amount of $741,666 and the costs to the Company in connection with the termination of PowerSpring.

4. ACQUISITION

On April 10, 2001, the Company, through its wholly-owned subsidiary PowerSecure, acquired Industrial Automation Corp. ("Industrial Automation"), a North Carolina corporation. The Company issued 150,000 restricted shares of its common stock in exchange for all of the issued and outstanding capital stock of Industrial Automation. As a result of the acquisition, Industrial Automation has become a wholly-owned subsidiary of PowerSecure.

Industrial Automation, founded in 1991 and headquartered in Greensboro, North Carolina, is in the business of designing and marketing process controls used in distributed generation operations. This acquisition is intended to enhance PowerSecure's technology and time to market in the field of distributed generation.

PowerSecure also entered into five-year employment and non-competition agreements with each of the two former owners of Industrial Automation. The employment and non-competition agreements include an "earn out" that generally entitles the former owners to any net earnings of PowerSecure arising from projects commenced by Industrial Automation prior to the acquisition. The acquisition was accounted for as a purchase, and therefore the results of operations of Industrial Automation have been

combined with those of the Company effective April 10, 2001. The entire amount of the purchase price of $246,836, including costs of the acquisition, have been allocated to goodwill. Pro forma results of operations for the nine months ended September 30, 2001 and 2000 assuming the acquisition had occurred on January 1, 2001 and 2000 have not been included herein as the effects of the acquisition were not material to the Company's results of operations.

5. CREDIT FACILITY

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

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

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

Borrowings under the Credit Facility are limited to a borrowing base consisting of the sum of 85% of Southern Flow's eligible accounts receivable plus the lesser of 20% of Southern Flow's eligible inventory (consisting primarily of raw materials and finished goods inventory) or $200,000. As of September 30, 2001, Southern Flow had a borrowing base of $1,802,038 under the Credit Facility, of which $1,172,356, had been borrowed, leaving $629,682 in unused Credit Facility availability.

Southern Flow is permitted to advance funds under the Credit Facility to the Company, PowerSecure and Metretek Florida, provided that total inter-company indebtedness owing from all Guarantors to Southern Flow may not exceed the greater of the amount of the borrowing base less $150,000 or the cumulative net income of Southern Flow from January 1, 2001. The Credit Facility, which constitutes the

Company's primary credit agreement, is expected to be used primarily to fund the operations and growth of PowerSecure, as well as the operations of Southern Flow and Metretek Florida.

6. COMMITMENTS AND CONTINGENCIES

LITIGATION

On January 5, 2001, Douglas W. Heins, individually and on behalf of a class of other persons similarly situated (the "Denver Plaintiff"), filed a complaint (the "Denver Proceeding") in the District Court for the City and County of Denver, Colorado (the "Denver Court") against the Company, Marcum Midstream 1997-1 Business Trust (the "Trust"), Marcum Midstream-Farstad, LLC, 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 Gas & 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 Denver Proceeding alleges that the Metretek Defendants and the Farstad Defendants (collectively, the "Denver Defendants"), either directly or as "controlling persons", violated certain provisions of the Colorado Securities Act in connection with the sale of interests in Marcum Midstream 1997-1 Business Trust, an energy program of which MGT, a wholly-owned subsidiary of Metretek, is the managing trustee and Messrs. Marcum, Wanger and Farstad are or were the active trustees. Specifically, the Denver Plaintiff claims that his damages resulted from the Denver Defendants allegedly negligently, recklessly or intentionally making false and misleading statements, and/or willfully participating in a scheme or conspiracy and/or 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 Trust's units. The Trust raised $9.25 million from investors in a private placement in 1997 in order to finance the purchase, operation and improvement of a natural gas liquids processing plant located in Texas. The Denver Plaintiff seeks, among other things, to have the Denver Court declare the Denver Proceeding a proper class action and award compensation and/or punitive damages in an unspecified amount, together with interest, attorneys' fees and other costs.

In March 2001, the Denver Defendants filed motions to dismiss the Denver Proceeding, and the Denver Plaintiff filed briefs in response to these motions to dismiss. On May 11, 2001, the Denver Court granted in part the Denver 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 and further of securities violations, as to all Denver Defendants except MCR. The Denver Court also granted a motion to dismiss the Farstad Entities.

On May 24, 2001, the Metretek Defendants filed an answer to the Denver Proceeding, generally denying the allegations and claims therein and setting forth cross-claims against the Farstad Defendants. On July 13, 2001, the Metretek Defendants filed additional cross-claims and third party complaints against the Farstad Defendants. The Farstad Defendants have filed a motion to dismiss these cross-claims and complaints. On October 5, 2001, the Metretek Defendants sought leave to file their second amended cross claims and third party complaint adding jurisdictional allegations against the Farstad Defendants, which filing is not opposed by the Farstad Defendants.

On March 27, 2001, the Denver Plaintiff filed a motion seeking certification of a class with respect to this matter and filed a brief in support of his motion for class certification. On July 27, 2001, the Metretek Defendants and the Farstad Defendants each filed a brief in opposition to the plaintiff's motion for class certification. On September 28, 2001, the Denver Court granted the Denver Plaintiff's motion for class certification with respect to this matter. As of the date of this report, discovery has not commenced and a trial date has not been set.

On May 30, 2001, Michael Mongiello and Charlotte Mongiello, trustees of the Mongiello Family Trust dated 8/1/90, et.al. (the "California Plaintiffs"), filed, and subsequently served, a first amended complaint (the "California Proceeding") in the Superior Court in the State of California for the County of San Diego (the "California Proceeding") against the Metretek Defendants, the Farstad Defendants, United Pacific Securities, Inc., JBS Financial Corporation, IFG Network Securities, Inc., and numerous officers, directors, employees and brokers related to such brokerage houses (the "California Defendants"). The California Proceeding contains allegations similar to those contained in the Denver Proceeding, along with allegations of wrong-doing in and with the sale of interest in the Trust against the additional defendants. The California Plaintiffs' claims for relief include a breach of fiduciary duty, sale securities in violation of California blue sky laws, fraud and deceit, negligent misrepresentation and omission, mutual mistake, justify and rescission, negligence, fraud on senior citizens and declaratory relief. The California Plaintiffs seek, among other things, damages of not less than $712,500, interest, attorneys' fees, rescission and restitution, punitive and exemplary damages, prejudgment interest, a declaratory judgment and other damages.

On August 24, 2001, the Metretek California Defendants filed a motion to stay the California Proceeding, due to the pendency of the Denver Proceeding. On October 9, 2001, the California Plaintiffs filed a brief in opposition to this motion. On October 26, 2001, the California Court denied the stay, relying on the representations of counsel for the California Plaintiffs that his clients planned to opt out of the Denver Proceeding.

On October 5, 2001, the California Court granted the motion by the

Metretek Defendants to dismiss the claims against the Company, 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, the MGT, MCR, Mr. Packard and the Trust (the "Metretek California Defendants") filed an answer generally denying the allegations and claims therein. While discovery has commenced in the California Proceeding, no trial date has been set as of the date of this report.

Because the foregoing litigation is in early stages, the Company cannot predict the outcome of this litigation or the impact the resolution of these claims will have on the business, financial position or results of operations of the Company. The Company intends to vigorously defend the claims against it and the other Metretek Defendants, and intends to vigorously pursue appropriate cross-claims and third party complaints.

From time to time, the Company is involved in other disputes and legal actions arising in the ordinary course of business. The Company intends to vigorously defend all outstanding claims against it. Although the ultimate outcome of these claims cannot be predicted with certainty due to the inherent uncertainty of litigation, in the opinion of management, based upon current information, none of the other currently pending or overtly threatened disputes is expected to have a material adverse effect on the business, financial condition or results of operations of the Company.

7. SEGMENT INFORMATION

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

The Company has four reportable business segments: natural gas measurement services; distributed generation; automated energy data management; and Internet-based energy information and services.

The operations of the Company's natural gas measurement services segment are conducted by Southern Flow. Southern Flow's services include on-site field services, chart processing and analysis, laboratory analysis, and data management and reporting.

These services are provided principally to customers involved in natural gas production, gathering, transportation and processing.

The operations of the Company's distributed generation segment are conducted by PowerSecure. PowerSecure commenced operations in September 2000. The primary elements of PowerSecure's distributed generation products and services include: project design and engineering, negotiation with utilities to establish tariff structures and power interconnects, generator acquisition and installation, process control and design, switch gear acquisition and installation, assistance in obtaining third-party project financing, and ongoing project monitoring and servicing. PowerSecure markets its distributed generation service package primarily through outsourcing partnerships with utilities.

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

The operations of the Company's Internet-based energy information and services segment were conducted by PowerSpring through March 31, 2001. 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.

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

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

	NATURAL GAS MEASUREMENT SERVICES	DISTRIBUTED GENERATION	AUTOMATED ENERGY DATA MANAGEMENT	INTERNET-BASED ENERGY INFORMATION AND SERVICES (1)	OTHE
SEPTEMBER 30, 2001					
Revenues	$9,700,593	$7,741,783	$4,520,568	$ 276,585	$ 269,
Segment profit (loss)	1,183,874	476,459	(933,574)	(612,371)	(1,315,
Total assets	9,752,085	1,527,323	7,248,279	--	1,367,
SEPTEMBER 30, 2000					
Revenues	$8,272,739	$ --	$6,563,420	$ 316,171	$ 285,
Segment profit (loss)	755,791	(69,392)	(647,815)	(11,383,169)	(1,048,
Total assets	9,941,129	2,437	8,950,057	5,748,214	944,

(1) Effective April 1, 2001, the Company's Internet-Based Energy Information and Services segment was restructured and transferred into its Automated Energy Data Management segment.

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

INTRODUCTION

The following discussion of our results of operations for the nine month periods ended September 30, 2001 and 2000 and of our financial condition as of September 30, 2001 should be read in conjunction with our consolidated financial statements and related notes thereto included elsewhere in this report.

RESULTS OF OPERATIONS

The following table sets forth selected information related to our primary business segments and is intended to assist you in an understanding of our results of operations for the periods presented. Segment profit (loss) amounts shown are prior to the deduction of minority interest in PowerSpring.

	Nine Months Ended September 30, 2001	
	(amounts in thousands)	
REVENUES:		
Southern Flow	$ 9,700	$
PowerSecure	7,742	
Metretek Florida	4,521	
PowerSpring	277	
Other	269	
Total	$ 22,509	$
GROSS PROFIT:		
Southern Flow	$ 2,515	$
PowerSecure	1,529	
Metretek Florida	1,548	
PowerSpring	(111)	
Total	$ 5,481	$
SEGMENT PROFIT (LOSS):		
Southern Flow	$ 1,184	$
PowerSecure	476	
Metretek Florida	(934)	
PowerSpring	(612)	(
Other	(1,316)	
Total	$ (1,202)	$ (

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.

We currently have four reportable business segments: natural gas measurement services; distributed generation; automated energy data management; and 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 design, switch gear acquisition and installation, assistance in obtaining third-party project financing, and ongoing project monitoring and servicing. PowerSecure markets its distributed generation service package primarily through outsourcing partnerships with utilities.

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

The operations of our internet-based energy information and services segment were conducted by PowerSpring through March 31, 2001. PowerSpring commenced limited revenue generating operations in the second quarter of 2000. Effective April 1, 2001, PowerSpring's product was restructured and transferred to Metretek Florida.

We evaluate the performance of our operating segments based on income (loss) before taxes, nonrecurring items and interest income and expense. Intersegment sales are not significant.

NINE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2000

Revenues. Our consolidated revenues for the nine months ended September 30, 2001 increased $7,071,000, or 45.8%, compared to the same period in 2000. The increase was primarily due to the first-time generation of revenue by PowerSecure, as well as an increase in revenues by Southern Flow, which increases were partially offset by a decrease in revenues by Metretek Florida. PowerSecure generated revenues of $7,742,000, for which there were no comparable revenues earned in the same period in 2000. Southern Flow's revenues increased $1,427,000, or 17.3%, compared to the same period in 2000, primarily due to an increase in equipment sales and services resulting from an improved domestic natural gas market. PowerSpring generated revenues of $536,000 during the nine months ended September 30, 2001, which included

approximately $255,000 relating to the termination of PowerSpring. Comparable revenues for PowerSpring for the same period in 2000 were $316,000. We do not anticipate any material revenues by PowerSpring as an entity in future quarters due to the disposition of the Mercator business as discussed below and the transfer of the PowerSpring products and business to Metretek Florida. Any future revenues attributable to PowerSpring's business will be recorded as revenues of Metretek Florida. Metretek Florida's revenues decreased $2,042,000, or 31.1%, compared to the same period in 2000, consisting of a decrease in domestic sales of $1,835,000, and a decrease in international sales of $207,000. The decrease in Metretek Florida's domestic sales was primarily due to a decrease in circuit board assembly sales resulting from the loss of a major contract-manufacturing customer which sold its business. A comparison of Metretek Florida's current domestic and international product mix is as follows:

	Nine Months Ended September 30,			
	2001		2000	
	(dollar amounts in thousands)			
Remote data collection products and systems	$2,951	65%	$3,504	54%
Electronic corrector products	1,348	30%	1,408	21%
Circuit board assembly sales	222	5%	1,651	25%
Total	$4,521		$6,563	

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Costs and Expenses. Costs of sales and services include materials, labor, personnel and related overhead costs incurred to manufacture products and provide services. Cost of sales and services for the nine months ended September 30, 2001 increased $5,443,000, or 48.1%, compared to the same period in 2000. PowerSecure's costs of sales on completed distributed generation projects totaled $6,213,000, for which there were no comparable costs incurred in the same period in 2000. PowerSecure's gross profit margin after costs of sales and services was 19.8% for the nine months ended September 30, 2001. Southern Flow's cost of sales and services for the nine months ended September 30, 2001 increased $982,000, or 15.8%, compared to the same period in 2000, almost entirely attributable to increased sales. Southern Flow's gross profit margin after costs of sales and services increased slightly to 25.9% for the nine months ended September 30, 2001 compared to 25.0% for the comparable period in 2000. Metretek Florida's cost of sales and services for the nine months ended September 30, 2001 decreased $1,537,000, or 34.1%, compared to the same period in 2000. This decrease was primarily due to lower circuit board assembly sales. Circuit board assembly sales generally result in lower gross margins than that of traditional products at Metretek Florida. As a result, although Metretek Florida's revenues for the nine months ended September 30, 2001 decreased approximately 31% compared to the same period in 2000, Metretek Florida's overall gross profit margin increased from 31.3% to 34.3% compared to the same period in 2000. PowerSpring incurred costs of sales and services in the amount of $388,000 during the nine months ended September 30, 2001, compared to $602,000 during the same period in 2000.

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General and administrative expenses include personnel and related overhead costs for the support and administrative functions. General and administrative expenses for the nine months ended September 30, 2001 increased $183,000, or 4.6%, compared to the same period in 2000. PowerSecure's general and administrative expenses increased $899,000, or 1,296.1%, compared to the same period in 2000, as a result of nine months of personnel, travel and overhead costs in 2001 compared to only limited activities during the same period in 2000. The increase in general and administrative expenses at PowerSecure was partially offset by a $706,000 reduction in personnel and overhead activities at PowerSpring.

Selling, marketing and service expenses consist of personnel and related overhead costs, including commissions for sales and marketing activities, together with advertising and promotion costs. Selling, marketing and service expenses for the nine months ended September 30, 2001 decreased $698,000, or 40.4%, compared to the same period in 2000. This decrease in selling, marketing and service expenses was primarily due to the discontinuation of independent sales activity by PowerSpring and a reduction in sales personnel at Metretek Florida.

Depreciation and amortization expenses include the depreciation and amortization of real property, customer list, goodwill, patents and capitalized software development costs. Depreciation and amortization expenses for the nine months ended September 30, 2001 decreased $77,000, or 6.7%, compared to the same period in 2000. The decrease is due almost entirely to the effects of the impairment of depreciable and amortizable assets at PowerSpring that was recorded in the last three months of 2000. The impairment of these assets reduced depreciation and amortization expenses of PowerSpring by $96,000 for the nine months ended September 30, 2001, compared to the same period in 2000. The reduction in depreciation and amortization expenses at PowerSpring was partially offset by increased depreciation and amortization expenses at PowerSecure.

Research and development expenses include payments to third parties, personnel and related overhead costs for product and service development, enhancements, and upgrades. Research and development expenses for the nine months ended September 30, 2001 decreased $8,974,000, or 94.0%, compared to the same period in 2000. The decrease is due almost exclusively to the substantial reduction commenced in the second half of 2000 of research and development expenses related to PowerSpring's business.

Interest, finance charges and other expenses include interest and finance charges on our credit facility as well as other non-operating expenses. Interest, finance charges and other expenses for the nine months ended September 30, 2001 increased $2,000, or 1.6%, compared to the same period in 2000. The increase reflects increased bank borrowings in the first nine months of 2001 compared to the same period in 2000.

QUARTERLY FLUCTUATIONS

Our quarterly revenues, expenses, margins and results of operations are difficult to

predict and have fluctuated significantly in the past and are expected to continue to fluctuate significantly in the future due to a variety of factors, many of which are outside of our control. These factors include, without limitation, the following:

- the size, timing and terms of sales, orders, contracts and projects, including customers choosing to push out their purchase commitments, or purchases in smaller than expected quantities;
- our ability to implement our business plans and strategies and the timing of such implementation;
- the timing, pricing and market acceptance of our new products and services, and those of our competitors;
- the pace of development of our new businesses;
- the growth of the market for distributed generation and online energy products, services and information;
- changes in our pricing policies and those of our competitors;
- variations in the length of our product and service implementation process;
- the mix of products and services sold;
- the mix of international and domestic revenues;
- the life cycles of our products and services;
- budgeting cycles of utilities;
- general economic and political conditions;
- economic conditions in the energy industry in general and the natural gas and electricity industries in particular;

- the effects of governmental regulations and regulatory changes in our current and new markets;

- changes in the prices charged by our suppliers;

- the timing of acquisitions of technology or businesses;

- changes in our operating expenses; and

- the development and maintenance of business relationships with strategic partners.

Because many of our operating expenses are relatively fixed, a shortfall in anticipated revenue or delay in recognizing revenue could cause our operating results to vary significantly from quarter-to-quarter and could result in operating losses in any particular quarter. The timing of large individual sales is also difficult for us to predict. As a result, quarterly comparisons of operating results are not necessarily meaningful or indicative of future performance.

PowerSecure's operations generated revenues for the first time during the second quarter of 2001. Although we only have a limited operating history with PowerSecure, consisting of less than a full fiscal year, we expect the revenues and associated costs, gross margins, cash flow and other operating results of PowerSecure to vary from quarter to quarter for a number of reasons, including the factors mentioned above. PowerSecure's revenues will depend in large part upon the timing of projects being awarded to PowerSecure, as well as the timing of the completion of those projects. Because we are using the completed-contract method of revenue recognition, under which we will recognize revenue only when a contract is completed or substantially completed, our recognition of revenues will be dependent upon the timing of completion of projects. In addition, distributed generation is an emerging market and PowerSecure is a new competitor in the market, so there is no established customer base on which to rely or certainty as to future contracts. Another factor that could cause material fluctuations in PowerSecure's quarterly results is the amount of recurring, as opposed to non-recurring, sources of revenue.

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

FINANCIAL CONDITION AND LIQUIDITY

We require capital principally for (i) the financing of inventory and accounts receivable, (ii) research and development expenses, (iii) capital expenditures for property and equipment and software development, and (iv) the funding of possible future acquisitions.

Net cash provided by operating activities of approximately $662,000 for the nine months ended September 30, 2001 was the net result of the following:

(i) approximately $27,000 of cash used by continuing operations, before changes in assets and liabilities; (ii) approximately $528,000 of cash provided by changes in working capital and other asset and liability accounts; and (iii) approximately $161,000 of cash provided by discontinued operations.

We plan to continue our research and development efforts to enhance our existing products and services and to develop new products. Research and development expenses in the amount of $573,000 were incurred in the nine months ended September 30, 2001. We anticipate that our research and development costs in 2001 will total approximately $775,000, all of which is expected to relate to Metretek Florida's business, including further development and enhancement of the PowerSpring product.

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We anticipate capital expenditures in 2001 of approximately $660,000, primarily for product software development for the PowerSpring and PowerSecure products. Capital expenditures for the nine months ended September 30, 2001 were approximately $594,000.

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

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

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

Borrowings under the Credit Facility are limited to a borrowing base consisting of the sum of 85% of Southern Flow's eligible accounts receivable plus the lesser of 20% of Southern Flow's eligible inventory (consisting primarily of raw materials and finished goods inventory) or $200,000. As of September 30, 2001, Southern Flow had a borrowing base of $1,802,038 under the Credit Facility, of which $1,172,356 had been borrowed, leaving $629,682 in unused Credit Facility availability.

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

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

Effective as of March 31, 2001, we completed various actions in furtherance of the discontinuance of our PowerSpring subsidiary as an entity and the restructuring of its business, including the transfer of management and control of the PowerSpring product to Metretek Florida. As part of those actions, we, PowerSpring and John A. Harpole entered into a Termination Agreement and Mutual Release that terminated the employment of Mr. Harpole and set forth the terms and conditions of the termination, which included the termination of various agreements and instruments to which we, PowerSpring and Mr. Harpole were parties.

In connection with the termination, among other things: (i) the $741,666 promissory note made by PowerSpring to Mr. Harpole was cancelled, and the related security agreement pursuant to which PowerSpring had granted a security interest in its asset to Mr. Harpole was terminated, (ii) PowerSpring agreed to pay $250,000 to Mr. Harpole over the next year, and (iii) we reduced the exercise prices of Mr. Harpole's warrants to purchase 60,000 shares of Company common stock by $1.50 per share to a range of $3.00 to $4.00. We recorded other income of approximately $255,000 in March 2001, which represents the difference between the note amount of $741,666 and our costs incurred in connection with the termination of PowerSpring.

On September 28, 2000, we issued a $2.8 million unsecured convertible promissory note to Scient Corporation ("Scient") in connection with Scient's consulting services relating to our Internet-based PowerSpring business. The convertible note is payable in quarterly installments, due March 31, 2002, bears no interest, and is convertible at any time at Scient's discretion into either shares of our Common Stock at the rate of $5.94 per share or shares of PowerSpring common stock at the rate of $0.60 per share. As of September 30, 2001, the outstanding balance of the unsecured note was stated as approximately $2.5 million. However, it is our position that, due to various offsets and issues, we do not owe Scient any further amounts. As of the date of this report, Scient has acknowledged some of the issues that are in dispute and has stayed any claim for payment for the time being. However, until final resolution is reached, we cannot predict with certainty the ultimate outcome of any dispute with Scient, or the effects thereof on our liquidity and operations.

Based on our current plans and assumptions, management believes that our capital resources, including cash and cash equivalents, amounts available under the Credit Facility and funds generated from continuing operations will be sufficient to meet our anticipated cash needs during the next 12 months, including our working capital needs, capital requirements and debt service requirements. However, unanticipated events, over

which we have no control, could increase our operating costs or decrease our ability to generate revenues from product and service sales. In addition, we will also require additional capital in the future in order to make any significant acquisitions of businesses or technologies.

Obtaining additional financing will depend on many factors, including market conditions, our operating performance and investor sentiment. Terms of debt financing could restrict our ability to operate our business or to expand our operations. In addition, if we raise additional capital by issuing capital stock or securities convertible into capital stock, stockholders could suffer a significant dilution of their percentage ownership interests, and the new capital stock or other new securities could have rights, preferences or privileges senior to those of our current stockholders. Depending on how it is structured, our capital raising could require the consent of the Lender or of the holders of our Series B Preferred Stock or both. We also cannot assure you that sufficient additional funds will be available to us on a timely basis or that, if available on a timely basis, such funds can be obtained on terms satisfactory to us and acceptable to the Lender and to the holders of our Series B Preferred Stock, if their consents are required. Our inability to obtain sufficient additional capital on a timely basis on terms that are acceptable could have a material adverse effect on our business, financial condition and results of operations.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("FAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities", which was amended in June 2000 by FAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities". FAS 133, as amended, establishes methods of accounting for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities including hedging foreign currency expenses. We have adopted FAS 133 for our fiscal year ending December 31, 2001. Because we do not utilize derivative financial instruments, the adoption of FAS 133 did not have a material impact on our financial position or results of operations.

In July 2001, the FASB issued FAS No. 141 "Business Combinations". FAS 141 requires that all business combinations be accounted for under the purchase method of accounting. FAS 141 also changes the criteria for the separate recognition of intangible assets acquired in a business combination. FAS 141 is effective for all business combinations initiated after June 30, 2001.

In July 2001, the FASB issued FAS No. 142 "Goodwill and Other Intangible Assets". FAS 142 addresses accounting and reporting for intangible assets acquired, except for those acquired in a business combination. FAS 142 presumes that goodwill and certain intangible assets have indefinite useful lives. Accordingly, goodwill and certain intangibles will not be amortized but rather will be tested at least annually for impairment. FAS 142 also addresses accounting and reporting for goodwill and other

intangible assets subsequent to their acquisition. FAS 142 is effective for fiscal years beginning after December 15, 2001. We have not yet completed our assessment of the impact of FAS 141 and 142 on our financial statements.

In October 2001, the FASB issued FAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which addresses financial accounting and reporting for the impairment and disposal of long-lived assets. While FAS 144 supercedes FAS No. 121, "Accounting for the Impairment of Long -Lived Assets and for Long-Lived Assets to be Disposed Of", it retains many of the fundamental provisions of FAS No. 121 for recognition and measurement of the impairment of long-lived assets to be held and used and for measurement of long-lived assets to be disposed of by sale. FAS 144 also supercedes the accounting and reporting provisions of APB Opinion No. 30, "Reporting Results of Operations-Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unused and Infrequently Occurring Events and Transactions", for the disposal of segments of a business. FAS 144 establishes a single accounting model, based on the framework established in FAS 121, for long-lived assets to be disposed of by sale. FAS 144 will be effective for fiscal years beginning after December 15, 2001. We have not yet completed our assessment of the impact of FAS 144 on our financial statements.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-QSB contains forward-looking statements within the meaning of and made under the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are all statements other than statements of historical facts, including statements concerning management's plans, objectives, goals, strategies, hopes and beliefs; projections about earnings, revenues and other financial and non-financial items, events and performance; statements about proposed products, services, technologies and operations; and statements of assumptions underlying any of the foregoing. The words "may", "could", "should", "will", "project, "intend", "continue", "believe", "anticipate", "estimate", "expect", "plan", "potential", or "scheduled", variations of such words, and similar expressions are intended to identify forward-looking statements. Examples of forward-looking statements include statements regarding, among other matters, our plans, intentions, beliefs and expectations about the following:

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

- the sufficiency of funds, from operations, available borrowings and other capital resources, to meet our future working capital, capital expenditure and business growth needs;

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

- our business plans and strategies;

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

- competition and industry and market conditions, segments and trends;

- our ability to successfully develop and operate our PowerSecure business;

- our ability to successfully develop and operate our restructured PowerSpring business;

- the effects of litigation; and

- future economic, business and regulatory conditions.

These forward-looking statements are based on the current plans, intentions, goals, strategies, type, beliefs and expectations of management as well as assumptions made by and information currently available to management. You are cautioned not to place undue reliance on these forward-looking statements. Forward-looking statements are not guarantees of future performance or events, but are subject to and qualified by a number of known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those express or implied by the forward-looking statements. These risks, uncertainties and other factors include, but are not limited to, the following:

- our history of losses and uncertainty of future profitability;
- our ability to obtain and maintain sufficient capital and liquidity to meet our operating and capital requirement and growth needs, including the sufficiency of the Credit Facility;
- our ability to successfully and timely develop and market PowerSecure's products, services, and technologies;
- our lack of operating history in our new businesses and the unproven business models in our PowerSecure and PowerSpring businesses;
- the successful and timely development and market acceptance of the product, service and technology offerings of PowerSecure;
- the successful restructuring of PowerSpring as a division of Metretek Florida;
- the complexity, uncertainty and time constraints associated with the development and market acceptance of new product and service designs and technologies;
- the effects of competition in our markets, including the introduction of competitors' products, services and technologies and our timely and successful response thereto;
- utility purchasing patterns and delays and potential changes to the federal and state regulatory frameworks within which the utility industry operates;
- fluctuations in our quarterly operating results;
- the effects of pending and future lawsuits, including the expenses of defending claims against us and the effects of the ultimate resolution thereof;
- the effects and timing of the resolution of any dispute with Scient over payment obligations;

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- our ability to attract, retain and motivate key personnel;
- our ability to secure and maintain key contracts, business relationships and alliances;
- our ability to make successful acquisitions and in the future to successfully integrate and utilize any acquired product lines, key employees and businesses;

- changes in the energy industry in general, and technological and market changes in the natural gas and electricity industries in particular;

- the impact and timing of the deregulation of the natural gas and electricity markets;

- our ability to manage the anticipated growth of PowerSecure;

- the capital resources, technological requirements, and internal business plans of the natural gas and electricity utilities industry;

- restrictions on our capital raising ability imposed by the terms of the Credit Facility and the Series B Preferred Stock;

- dividends on the Series B Preferred Stock increasing our future net loss available to common shareholders and net loss per share;

- general economic and business conditions;

- effects of changes in product mix on our expected gross margins and net income;

- risks inherent in international operations;

- risks associated with our management of private energy programs;

- the receipt and timing of future customer orders;

- unexpected events affecting our ability to obtain funds from operations, debt or equity to finance operations, pay interest and other obligations, and fund needed capital expenditures and other investments;

- our ability to protect our proprietary information and technology;

- the impact of current and future laws and government regulations affecting the energy industry in general and the natural gas and electricity industries in

particular; and

- other risks and uncertainties that are discussed in this report or that are discussed from time to time in our other reports and filings with the SEC, including but not limited to our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2000.

We do not intend, and we undertake no duty or obligation, to update or revise any forward-looking statements for any reason, whether as the result of new information, future events or otherwise.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On January 5, 2001, Douglas W. Heins, individually and purportedly on behalf of a class of other persons similarly situated (the "Denver Plaintiff"), filed a complaint (the "Denver Proceeding") in the District Court for the City and County of Denver, Colorado (the "Denver Court") against the Company, Marcum Midstream 1997-1 Business Trust (the "Trust"), Marcum Midstream-Farstad, LLC, 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 Gas & 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 Denver Proceeding alleges that the Metretek Defendants and the Farstad Defendants (collectively, the "Denver Defendants"), either directly or as "controlling persons", violated certain provisions of the Colorado Securities Act in connection with the sale of interests in Marcum Midstream 1997-1 Business Trust, an energy program of which MGT, a wholly-owned subsidiary of Metretek, is the managing trustee and Messrs. Marcum, Wanger and Farstad are or were the active trustees. Specifically, the Denver Plaintiff claims that his damages resulted from the Denver Defendants allegedly negligently, recklessly or intentionally making false and misleading statements, and/or willfully participating in a scheme or conspiracy and/or 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 Trust's units. The Trust raised $9.25 million from investors in a private placement in 1997 in order to finance the purchase, operation and improvement of a natural gas liquids processing plant located in Texas. The Denver Plaintiff seeks, among other things, to have the Denver Court declare the Denver Proceeding a proper class action and award compensation and/or punitive damages in an unspecified amount, together with interest, attorneys' fees and other costs.

In March 2001, the Denver Defendants filed motions to dismiss the Denver Proceeding, and the Denver Plaintiff filed briefs in response to these motions to dismiss. On May 11, 2001, the Denver Court granted in part the Denver 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 and further of securities violations, as to all Denver Defendants except MCR. The Denver Court also granted a motion to dismiss the Farstad Entities.

On May 24, 2001, the Metretek Defendants filed an answer to the Denver Proceeding, generally denying the allegations and claims therein and setting forth cross-claims against the Farstad Defendants. On July 13, 2001, the Metretek Defendants filed

additional cross-claims and third party complaints against the Farstad Defendants. The Farstad Defendants have filed a motion to dismiss these cross-claims and complaints. On October 5, 2001, the Metretek Defendants sought leave to file their second amended cross claims and third party complaint adding jurisdictional allegations against the Farstad Defendants, which filing is not opposed by the Farstad Defendants.

On March 27, 2001, the Denver Plaintiff filed a motion seeking certification of a class with respect to this matter and filed a brief in support of his motion for class certification. On July 27, 2001, the Metretek Defendants and the Farstad Defendants each filed a brief in opposition to the plaintiff's motion for class certification. On September 28, 2001, the Denver Court granted the Denver Plaintiff's motion for class certification with respect to this matter. As of the date of this report, discovery has not commenced and a trial date has not been set.

On May 30, 2001, Michael Mongiello and Charlotte Mongiello, trustees of the Mongiello Family Trust dated 8/1/90, et.al. (the "California Plaintiffs"), filed, and subsequently served, a first amended complaint (the "California Proceeding") in the Superior Court in the State of California for the County of San Diego (the "California Proceeding") against the Metretek Defendants, the Farstad Defendants, United Pacific Securities, Inc., JBS Financial Corporation, IFG Network Securities, Inc., and numerous officers, directors, employees and brokers related to such brokerage houses (the "California Defendants"). The California Proceeding contains allegations similar to those contained in the Denver Proceeding, along with allegations of wrong-doing in and with the sale of interest in the Trust against the additional defendants. The California Plaintiffs' claims for relief include a breach of fiduciary duty, sale securities in violation of California blue sky laws, fraud and deceit, negligent misrepresentation and omission, mutual mistake, justify and rescission, negligence, fraud on senior citizens and declaratory relief. The California Plaintiffs seek, among other things, damages of not less than $712,500, interest, attorneys' fees, rescission and restitution, punitive and exemplary damages, prejudgment interest, a declaratory judgment and other damages.

On August 24, 2001, the Metretek California Defendants filed a motion to stay the California Proceeding, due to the pendency of the Denver Proceeding. On October 9, 2001, the California Plaintiffs filed a brief in opposition to this motion. On October 26, 2001, the California Court denied the stay, relying on the representations of counsel for the California Plaintiffs that his clients planned to opt out of the Denver Proceeding.

On October 5, 2001, the California Court granted the motion by the Metretek Defendants to dismiss the claims against the Company, 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, the MGT, MCR, Mr. Packard and the Trust (the "Metretek California Defendants") filed an answer generally denying the allegations and claims therein. While discovery has commenced in the California Proceeding, no trial date has been set as of the date of this report.

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Because the foregoing litigation is in early stages, the Company cannot predict the outcome of this litigation or the impact the resolution of these claims will have on the business, financial position or results of operations of the Company. The Company intends to vigorously defend the claims against it and the other Metretek Defendants, and intends to vigorously pursue appropriate cross-claims and third party complaints.

From time to time, the Company is involved in other disputes and legal actions arising in the ordinary course of business. The Company intends to vigorously defend all outstanding claims against it. Although the ultimate outcome of these claims cannot be predicted with certainty due to the inherent uncertainty of litigation, in the opinion of management, based upon current information, none of the other currently pending or overtly threatened disputes is expected to have a material adverse effect on the business, financial condition or results of operations of the Company.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

None

(b) REPORTS ON FORM 8-K

Since June 30, 2001, the Company filed the following Current Report on Form 8-K with the Securities and Exchange Commission:

Filing Date	Item No	Description
October 5, 2001	5,7	New Credit Facility

SIGNATURES

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

METRETEK TECHNOLOGIES, INC.

Date: November 12, 2001 By: /s/ W. Phillip Marcum

W. Phillip Marcum
President and Chief Executive Officer

Date: November 12, 2001 By: /s/ A. Bradley Gabbard

A. Bradley Gabbard
Executive Vice President
and Chief Financial Officer