METRETEK TECHNOLOGIES INC
Form 10-K
March 30, 2004

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

FORM 10-K

(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, 2003

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 registrant as specified in its charter)

DELAWARE	84-1169358
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

303 EAST SEVENTEENTH AVENUE, SUITE 660, DENVER, CO
80203 (Address of principal executive offices, including zip code)

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

Securities registered pursuant to Section 12(b) of the Act: NONE

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

COMMON STOCK, PAR VALUE $.01 PER SHARE

(Title of class)

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

Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to

Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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

Yes [ ] No [X]

As of February 27, 2004, the aggregate market value of the shares of the registrant's Common Stock held by non-affiliates of the registrant was approximately $14,210,108, based upon $2.95, the last sale price of the Common Stock on such date as reported on the OTC Bulletin Board.

As of February 27, 2004, 6,149,421 shares of Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

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METRETEK TECHNOLOGIES, INC.

FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

TABLE OF CONTENTS

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (this "Report") 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 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;
- 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, including our ability to address the redemption requirements related to the Series B Preferred Stock;
- the effects on our business, financial condition and results of operations of the resolution of pending or threatened litigation and claims;
- 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;
- pending or potential business acquisitions, combinations, sales, alliances, relationships and other similar business transactions;

- our ability to successfully develop, operate and grow our new businesses; 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 statements we make from time to time in the future speak only as of the date they are 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. 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 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 provides data collection, telemetry and other types of machine to machine ("M2M") connectivity solutions for

applications such as automatic meter reading ("AMR"), cathodic protection and other types of remote monitoring and collection applications. Metretek Contract Manufacturing Company, Inc. ("MCM"), a Melbourne, Florida based subsidiary of Metretek Florida, provides outsourced manufacturing services with a primary focus on printed circuit boards ("PCB"), mechanical and electrical assemblies.

In this Report, references to "Metretek", "we", "us" and "our" refer to Metretek Technologies, Inc. together with 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 management information and services primarily to suppliers and users of energy. While our 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, as well as to other industries that require data management services. 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 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 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 2002, we formed MCM as a subsidiary of Metretek Florida to

operate and expand our contract manufacturing business.

- In 2003, we developed InvisiConnect((TM)), an M2M connection solution for wireless network technology, to enhance the product, service and technology offerings of Metretek Florida.

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, except as otherwise set forth in the notes to our consolidated financial statements included herewith or elsewhere in this Report.

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 2003. 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 the black-out that struck the Northeast in 2003. 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 become more important to have. 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.

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, because 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((TM))", 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, 2003 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. 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.

Backlog. As of December 31, 2003, PowerSecure's backlog was approximately $4 million, relating to secured contracts for distributed generation projects. These contracts are scheduled to be completed by the end of

the second quarter 2004. Given the irregular sales cycle of customer orders, PowerSecure's backlog at any given time is not necessarily an accurate indication of its future revenues.

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, collecting, processing and managing field data for applications that support the recording of such information from a central location. Metretek Florida's systems generally consist of three components:

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

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

- our DC2000 or PowerSpring software, which provide platforms for automated data collection, management and presentation of information retrieved from field devices or InvisiConnect((TM)), which enables seamless connectivity from IP-based networks to legacy-based serial applications.

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, which historically were natural gas and electricity meters. In the past, Metretek Florida's primary customers have 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 managed by the Metretek Florida system may support critical 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 customer.

Recent changes in the marketplace driven largely by the deployment of IP-based digital wireless internet capabilities being installed by commercial wireless carriers has become a material catalyst for change that is rapidly impacting telemetry and M2M applications world-wide. In order to take advantage of the opportunity to participate in this market dynamic while leveraging its existing core competencies and continuing to serve our existing traditional customer base, Metretek Florida has developed a new family of products, which it calls "InvisiConnect((TM))", that enables digital wireless connectivity to be extended to its existing products and provides solutions that address new market segments as they evolve within the larger M2M market space. In this regard, Metretek Florida seeks to retain and leverage its existing assets and proprietary know-how to build on its core competencies in order to continue to serve its traditional customer base, which is largely driven by utilities supporting C & I AMR applications, while it simultaneously positions itself to supply solutions into numerous other M2M market segments world-wide.

Products. Metretek Florida's manufactured products fall into three categories: field data collection and telemetry products; electronic gas flow

computers; and application specific software-based solutions. All manufactured products are designed on similar platforms and then customized and configured to provide solutions specific to each customer's specific requirements.

Field Data Collection Products. Data collection products, also known as automatic meter readers or AMRs, are installed on existing utility meters. The AMRs are designed to automatically collect and transmit 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 a utility meter at the point of 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 utility meter. 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 or PowerSpring 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.

Metretek Florida has recently developed communication solutions that enable its customers to better utilize the wireless internet now provided by commercial carriers worldwide through third generation ("3G") technology. With the transition to provide enhanced wireless IP-based M2M and telemetry solutions driven by widescale deployments of third generation 3G wireless, internet-based networks, Metretek Florida has identified two additional market opportunities, and is seeking to exploit those opportunities through its product development efforts. First, the move from analog to IP digital wireless connectivity will drive a significant need to replace existing analog and cellular digital packet data ("CDPD") wireless connections that were installed over the past 20 years. Second, with the deployment of more robust wireless IP connectivity, the opportunity for new applications utilizing 3G technology will spur growth in the telemetry and wireless data sectors of the M2M market space.

Given these market opportunities, Metretek Florida has developed InvisiConnect((TM)), which it plans to provide in conjunction with its new family of digital cellular modem ("DCM") devices using its platform cellular interface technology ("CNI") that is specifically engineered to take advantage of 3G network design for the maximum optimization of overall performance and security. InvisiConnect((TM)) is targeted at both the replacement and new applications market segments. It is applicable to a wide range of data collection, remote monitoring and telemetry solutions, in addition to those typically found in the utility industry. InvisiConnect((TM)) provides a plug and play solution using 3G wireless network technologies that is seamless and transparent to the existing communication enabled field devices, as well as their legacy applications software provided to the customer by any vendor.

Electronic Flow Computers. As a result of a strategic acquisition of assets from American Meter in 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.

Other Field Developments. In addition to supporting data collection, remote telemetry and gas volume 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, which uses a relational database that operates on a Windows NT server, and provides 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 71 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.

In 2003, Metretek Florida expanded its M2M solutions to the electric markets, leveraging its relationship with an existing electric and natural gas utility customer. This was accomplished by integrating its DCM 200 IP-based, wireless internet connectivity solution, and real time data collection device, through Global System for Mobile ("GSM") cellular networks using General Packet Radio Service ("GPRS"), and the 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, to deploy 6,000 units to support the introduction of a new tariff for C&I electric customers at Public Service Electric and Gas in New Jersey ("PSE&G"). The combination of these new wireless internet capabilities in concert with the ANSI standards enable Metretek Florida to more effectively provide large scale solutions for C&I electrical applications. In 2003, over 10% of Metretek Florida's total revenues were generated from the PSE&G project.

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 its 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, telecommunications and M2M industry conferences, symposiums, and trade shows and maintains memberships in several national and regional related 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 products and services to 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 fiscal 2003, 13% of Metretek Florida's annual revenues were generated in international markets, compared to 13% in fiscal 2002 and 11% in fiscal 2001.

Metretek Contract Manufacturing Company, Inc. 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 reorganized this business and its management in fiscal 2002 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.

MCM Markets. During fiscal 2003, MCM performed its contract manufacturing services for a wide variety of customers and markets, including government and defense related products for government suppliers (although MCM did not engage in any contracts with federal, state or local government agencies directly), consumer markets, energy markets, internet markets, transportation markets and communications markets.

MCM Marketing and Customer Service. Through MCM, Metretek Florida offers contract manufacturing services to local, regional and national companies with outsourcing requirements for PCBs and other related assemblies, that are based on one or more of the following niche characteristics; moderate volumes, complex builds, high mix of different board types, high quality requirements or quick turn proto-types with local engineering support required. MCM further strives to differentiate itself by providing on-time deliveries, high quality, cost-effective solutions, and a high level of integrity. This strategy resulted in MCM's contract manufacturing operations generating approximately $2.2 million in revenues in fiscal 2003, compared to $650,000 in fiscal 2002. MCM's value-added services consist of the following:

- turn-key manufacturing,
- engineering design,
- design for manufacturability,
- customer packaging design,
- prototyping,

- plastics and metals component acquisition, and

- repair service center.

At the end of fiscal 2003, MCM had a direct sales force, of one full-time national sales manager, two indirect representative firms, and two internally assigned program managers servicing selected key customer accounts. Other members of MCM's management are actively involved in sales and sales support as situations warrant. MCM's short term goal is to exploit market opportunities within its immediate region, the Southeast, but MCM is focused on expanding its presence nationwide and is currently developing relationships and recruiting additional indirect representative firms in the Midwest.

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 for those customers that do not wish to invest in the owning, operating and maintaining of a centralized data collection facility and prefer to outsource this function and collect their desired data over the internet from a server residing at Metretek Florida. Currently, the PowerSpring service generates approximately $12,000 per month in recurring usage fees.

Backlog. Metretek Florida's backlog consists primarily of unfulfilled customer orders at any given time related to its AMR and M2M Technology business, plus revenues remaining to be earned at a given time from the uncompleted portions of its existing contracts for its contract manufacturing business. It does not include revenues that may be earned if customers exercise options to make additional purchases. At December 31, 2003, Metretek Florida's backlog was approximately $1,753,000. Metretek Florida expects the entire backlog to be completed in fiscal 2004. The amount of contract backlog is not necessarily indicative of future contract revenues because short-term contracts, modifications to or terminations of present contracts and production delays can provide additional revenues or reduce anticipated revenues. Metretek Florida's backlog is typically subject to large variations from time to time when new contracts are awarded. Consequently, it is difficult to make meaningful comparisons of backlog. Metretek Florida's contracts with its customers generally contain provisions permitting rescheduling, deferral or termination at any time at the convenience of the customer.

CUSTOMERS

Our customers include a wide variety of mid-sized and large businesses, utilities and institutions. During 2003, no single customer accounted for 10% or more of our total revenues. Our revenues derived from sales to customers outside the United States, primarily from Metretek Florida sales, were approximately 3% of our total consolidated revenues in each of our last three fiscal years.

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 data collection and telemetry solutions, including AMR systems, such as Itron, Inc., Elster Metering, ABB, Badger Meter, Inc., Invensys, Inc. and other smaller entities such as Comverge, Inc., Cellnet and Nertec;

- numerous and diverse entities in the InvisiConnect M2M market segments which include; Telenetics, Airlink, Sierra Wireless, Wavecom and Enfora;

- contract manufacturers of all sizes, especially those located within the state of Florida;

- providers of natural gas volume correctors such as Mercury Instruments, Inc., Eagle Research, Instromet and Galvanic Applied Sciences Inc.;

- 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, Williams Energy and Hanover Companies;

- numerous competitors in the M2M space such as Telenetics Corporation, Airlink, Sierra Wireless, Wavecom and Enfora;

- contract manufacturers of allsixes, especially those located within the State of Florida; and

- numerous prospective competitors that may offer energy and data management 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 of 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. In addition, as Metretek Florida expands its product line and market focus to address other new market segments and M2M applications, it will encounter a large number of established competitors who in most instances already have significant market share and brand positioning advantages. 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 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 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.

Regulation of Communication Services. With Metretek Florida's focus on developing digital wireless-enabled data collection, monitoring and telemetry solutions, such as InvisiConnect((TM)), many of its products are or will be subject to regulation and testing by the Federal Communications Commission (the "FCC"). This testing focuses on compliance with FCC specifications for radio frequency emissions. In addition, these products are designed to comply with a significant number of industry standards and regulations, some of which are evolving as new technologies are deployed. For example, our InvisiConnect products must be tested and certified by the PCS

Type Certification Review Board, a wireless communications supported agency, as well as by each individual wireless carrier for use on their respective networks. These tests are principally designed to focus on the operating characteristics of the products supplied to ensure that they will not have any unplanned adverse affects on the carrier's networks as they each have them deployed in various regions The regulatory process can be time-consuming and can require the expenditure of substantial resources. We cannot assure you that the FCC or other testing and certifying authorities will grant the requisite approvals for any of our products on a timely basis, or at all. The failure of our products to comply, or delays in compliance, with the various existing and evolving standards could negatively impact our ability to sell our products. In addition, regulations regarding the manufacture and sale of data communications devices are subject to future change. We cannot predict what impact, if any, such changes may have upon our business.

EMPLOYEES

As of February 27, 2004, we had 255 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 existing product and service offerings intended to take advantage of advancements in technology, address anticipated customer requirements and to provide solutions to 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 its traditional utilities customers and to participate in

developing opportunities in other market segments that are evolving in the M2M market. 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.

Our research and development expenses, which include engineering expenses, during 2003 were $627,000, as compared to $552,000 in 2002 and $797,000 in 2001. 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. Our future success will depend, in part, upon the success of our research and development efforts.

The markets for our services are dynamic, characterized by rapid technological developments, frequent new product introductions and evolving industry standards. The constantly changing nature of these markets and their rapid evolution will require us to continually improve the performance, features and reliability of our services, particularly in response to competitive offerings, and to introduce both new and enhanced services as quickly as possible and prior to our competitors. We believe our future success will depend, in part, upon our ability expand and enhance the features of our existing products and to develop and introduce new products designed to meet changing customer needs on a cost-effective and timely basis. Consequently, failure by us to respond on a timely basis to technological developments, changes in industry standards or customer requirements, or any significant delay in product development or introduction, could have a material adverse effect on our business and results of operations. We cannot assure you that we will respond effectively to technological changes or new product announcements by others or that we will be able to successfully develop and market new products or product enhancements.

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, from time to time we do encounter difficulties in acquiring certain components due to shortages that periodically arise, supply problems from our suppliers, obsolesces of parts necessary to support older product designs or our inability to develop alternative sources of supply quickly or cost-effectively and these procurement difficulties 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 a patent protection related to InvisiConnect((TM)) and registrations of additional marks, although we may not be successful in obtaining such patent and registering such marks. In the future, we intend to continue to introduce and register new trademarks and service marks, and to file new patent applications, as we deem appropriate or necessary for our business and marketing needs.

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;
- the 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 in this Item.

Although we do not believe that our products or technologies infringe on the intellectual property rights of third parties, and we are not aware of any currently pending claims of infringement, 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.

SEGMENT INFORMATION

Financial information related to our segment operations for the past three fiscal years is set forth in Note 14, "Segment and Related Information" of the notes to our consolidated financial statements included elsewhere in this Report.

AVAILABLE INFORMATION

Our corporate internet address is www.metretek.com. Through our website we make available, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) and 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file them with or furnish them to the SEC. Our SEC filings are also available on the SEC's website at www.sec.gov. The information on our website is not incorporated by reference into this Report.

ITEM 2. PROPERTIES

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 $4,631, 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 $32,900 and terms expiring at various dates through 2008. 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, consisting of 12,134 square feet in the aggregate. The leases on these facilities have a monthly rental obligation of $11,600 and expire at various dates through 2009.

Metretek Florida leases its principal business offices, which are located in Melbourne, Florida and consist of 45,000 square feet, for its executive, manufacturing, engineering, warehouse and marketing operations. The lease has a monthly rental obligation of $28,228, not including operating costs, and expires on July 1, 2005. Metretek Florida has sub-leased 11,364 square feet of its space on a month-to-month basis for $11,155 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

In January 2001, Douglas W. Heins (the "Class Action Plaintiff"), individually and on behalf of a class of other persons similarly situated, 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 March 27, 2003, we, along with the Class Action Plaintiff, filed a Stipulation of Settlement, which contains the terms and conditions of a proposed settlement intended to fully resolve all claims by the Class Action Plaintiff against us and the other Metretek Defendants in the Class Action. On March 2, 2004, we and the Class Action Plaintiff filed a revised Stipulation of Settlement (as revised, the "Heins Stipulation"), which revises certain terms of the settlement (as revised, the "Heins Settlement"). Because this is a class action, any settlement will be subject to objection by the Class members and will have to be approved by the Denver Court as described below.

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 "Policy"), which was issued by Gulf Insurance Company ("Gulf"). In settlement of the Interpleader Action discussed below, Gulf has agreed to pay into escrow $2,375,000 in Policy proceeds to be used in the Heins Settlement. Pursuant to the Heins Stipulation, we have paid $375,000 into escrow for use in the Heins Settlement, and we have agreed to issue a note payable to the Heins Settlement Fund in the amount of $3.0 million (the "Heins Settlement Note"), and to commence payments thereunder in escrow, upon the earlier of June 30, 2004 or 51 days after the date the Denver Court grants final approval (subject to appeal) of the Heins Settlement. The Heins Settlement Note will 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, and will be guaranteed by the 1997 Trust and all of our subsidiaries. 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 the Heins Settlement Fund will be funded by the escrowed funds and by our payments on the Heins Settlement Note which will then be paid directly to the Heins Settlement Fund.

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.

In addition, we would be required under the Heins Stipulation either to 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.

A preliminary approval hearing by the Denver Court on the Heins Settlement has been set for April 15, 2004. If the Denver Court grants the preliminary approval, then notice of the Heins Settlement will be sent to the Class, and a final approval hearing is expected to be scheduled for late May or early June. We cannot provide any assurance that the Denver Court will grant preliminary or final approval of the Heins Settlement. In addition, final approval by the Denver Court may be subject to post-judgment challenge or appeal.

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 $375,000 and all payments made on the Heins Settlement Note will be returned to us from the escrow account. The $2,375,000 contributed by Gulf will remain in escrow and its disposition will be subject to the determination of the Denver Court. If the Heins Stipulation does receive final and non-appealable approval (or if all time for appeals has expired), the funds may be moved from the escrow account into the Heins Settlement Fund and paid out to the Class.

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 Gulf of at least $2,375,000 in insurance proceeds from the Policy for the benefit of the Heins Settlement Fund (which is discussed further in connection with the settlement of the Interpleader Action);

- 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 and the Interpleader Action discussed below.

On March 28, 2003, Gulf filed an interpleader complaint against the Metretek Defendants, the Farstad Defendants and the Class Action Plaintiff (the "Interpleader Action") in the Denver Court, seeking a determination by the Denver Court as to the proper beneficiaries of the Policy. In March, 2004, we settled the Interpleader Action with Gulf and the Farstad Defendants (the "Interpleader Settlement"). Pursuant to the terms of the Interpleader Settlement, Gulf has agreed to pay into escrow $2,375,000 for use in the Heins Settlement, and has agreed to pay the remainder of the Policy proceeds to the Farstad Defendants. In exchange, we and the Farstad Defendants have agreed to fully release Gulf from all further claims under the Policy.

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. 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.

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

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

No matter was submitted to our security holders during the fourth quarter of 2003.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION

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, 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
YEAR ENDED DECEMBER 31, 2003:		
First Quarter	$ 0.35	$ 0.17
Second Quarter	0.62	0.20
Third Quarter	2.00	0.35
Fourth Quarter	2.90	1.25

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(1) Traded on the Nasdaq National Market until May 31, 2002.

(2) Traded on the Nasdaq SmallCap Market from June 3 through October 14, 2002.

(3) Traded on the OTC Bulletin Board since October 15, 2002.

On February 27, 2004, the last sale price of our Common Stock as reported on the OTC Bulletin Board was $2.95.

HOLDERS

As of February 27, 2004, there were 269 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, Metretek Florida or PowerSecure 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.

EQUITY COMPENSATION PLANS

Information concerning securities authorized for issuance under our equity compensation plans is included in "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data has been derived from our audited consolidated financial statements. The information is not necessarily indicative of results of our future operations, and should be read in conjunction with our audited consolidated financial statements and the notes thereto and with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Report.

	YEAR ENDED DECEMBER 31,				
	2003	2002	2001	2000	
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
Consolidated Statement of Operations Data:					
Total revenues	$ 39,312	$ 27,303	$ 29,342	$ 21,757	$
Costs and expenses					
Cost of sales and services	28,483	19,938	21,322	16,695	
General and administrative	6,482	5,709	5,641	5,637	
Selling, marketing and service	1,601	1,555	1,360	2,269	
Depreciation and amortization	691	658	1,418	1,710	
Research and development	627	552	797	9,917	
Interest, finance charges and other	285	205	154	137	
Loss on impairment of assets	-	-	-	3,161	
Provision for litigation costs, net	-	1,764	-	-	
Nonrecurring charges	-	258	-	-	
Total costs and expenses	38,169	30,639	30,692	39,526	
Operating income (loss)	1,143	(3,336)	(1,350)	(17,769)	
Minority interest	(207)	-	-	860	
Income taxes	(57)	(46)	(35)	(19)	

Net income (loss)	879	(3,382)	(1,385)	(16,928)	
Preferred stock deemed distribution	(890)	(852)	(777)	(5,446)	
Net loss applicable to Common shareholders	$ (11)	$ (4,234)	$ (2,162)	$(22,374)	$
Net loss per common share, Basic and diluted	$ (0.00)	$ (0.70)	$ (0.36)	$ (4.13)	$
Weighted average common shares outstanding, basic and diluted	6,043	6,077	6,031	5,412	

	DECEMBER 31,				
	2003	2002	2001	2000	1999
	(IN THOUSANDS)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 2,102	$ 885	$ 696	$ 469	$ 362
Working capital	5,964	4,097	3,596	4,390	6,744
Total assets	23,327	19,199	20,294	20,822	19,618
Long-term notes payable	5,227	4,691	1,268	1,930	870
Redeemable preferred shares	9,422	8,532	7,680	6,903	1,450
Total stockholders' equity	1,169	1,165	5,358	7,277	15,259

Our net loss for fiscal 2001, 2000 and 1999 included goodwill amortization of $675,000, $847,000 and $661,000, respectively. On January 1, 2002, we adopted Statement of Financial Accounting Standards (SFAS) No.

142, "Goodwill and Other Intangible Assets", which required us to discontinue the amortization of goodwill. See note 1 of our consolidated financial statements included elsewhere in this Report.

Certain amounts prior to fiscal 2003 have been reclassified to conform to fiscal 2003 presentation. Such reclassifications had no impact on our net income (loss) or stockholders' equity.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our consolidated results of operations for the years ended December 31, 2003 ("fiscal 2003"), December 31, 2002 ("fiscal 2002") and December 31, 2001 ("fiscal 2001") and of our consolidated financial condition as of December 31, 2003 and 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" at the beginning of this Report. 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.

OVERVIEW

We are a diversified provider of energy technology products, services and data management systems primarily to industrial and commercial users and suppliers of natural gas and electricity. As a holding company, we conduct our operations and derive our revenues through our three operating subsidiaries, each of which operates a separate business:

- Southern Flow, which provides natural gas measurement services;

- PowerSecure, which designs, sells and manages distributed generation systems; and

- Metretek Florida, which designs, manufactures and sells data collection and energy measurement monitoring systems and provides contract manufacturing services.

We commenced operations in 1991 as an energy services holding company, owning subsidiaries with businesses designed to exploit service opportunities primarily in the natural gas industry. Since then, our business has evolved and expanded through acquisitions of companies, businesses and new product lines that have allowed us to reach not only a broader portion of the energy market (including the electricity market) but also markets outside of the energy field. Over the past two years, we have focused our efforts on growing our businesses by offering new and enhanced products, services and technologies, and by entering new markets, within a framework emphasizing the goal of achieving profitable operations on a sustained basis. During fiscal 2002, we made a number of management and business changes within Metretek Florida that were intended to stem its growing losses, and to exploit new business opportunities. To that end, we formed MCM in fiscal 2002 to conduct and expand our contract manufacturing business, which provided a significant contribution to our revenues during fiscal 2003. As a result, Metretek Florida's revenues increased by almost 50% in fiscal 2003 over fiscal 2002. In addition, a combination of this expanded revenue base and the execution of a number of cost-cutting and efficiency steps resulted in a reduction in segment losses at Metretek Florida during fiscal 2003. Metretek Florida continues to explore ways to expand its business and revenues, especially as it moves into the wireless communications market

through its new remote data collection technology called InvisiConnect((TM)), which commenced sales at the end of fiscal 2003.

During fiscal 2003, the distributed generation business and operations of PowerSecure expanded significantly. PowerSecure's revenues during fiscal 2003 were more than double its fiscal 2002 revenues. PowerSecure accomplished this growth by winning a number of large contracts during fiscal 2003, and by expanding its internal services. Also during fiscal 2003, Southern Flow had another profitable year, although its segment profit and revenue base did decline slightly primarily as the result of a reduction in customer requirements stemming from industry and market forces.

We recorded a net loss applicable to common shareholders of $11,000 during fiscal 2003. This compares to a loss of $4,234,000 during fiscal 2002. Overall, our consolidated revenues during fiscal 2003 increased by more than $12 million, representing a 44% increase over fiscal 2002 consolidated revenues. The deemed distribution on our Series B Preferred Stock was $890,000 during fiscal 2003, and will reduce any net income, or increase any net loss, during fiscal 2004.

During the fourth quarter of fiscal 2003, we enhanced and expanded the term, capacity and flexibility of our working capital borrowing facility by entering into new credit agreements with our primary lender. As a result, we have secured a line of credit of $3 million, subject to our borrowing base which varies over time, through September 2006. We face a significant challenge to our liquidity during 2004. On December 9, 2004, we are required to redeem all shares of our Convertible Series B Preferred Stock that remain outstanding on such date, unless the terms of the Series B Preferred Stock are restructured, at an aggregate redemption price of approximately $10 million (if no shares are converted into Common Shares prior to such date), which includes the liquidation preference plus accrued and unpaid dividends through the date of redemption. This is discussed in more detail below in this Item under " -- Liquidity and Capital Resources" and " -- Additional Factors That May Affect Our Business and Financial Results."

Another important factor in our liquidity relates to the settlement of the Class Action lawsuit. The Heins Settlement is subject to certain conditions, including court approval. Under the Heins Settlement, we are required to commence payments on a four year $3 million promissory note on the earlier of June 30, 2004 or shortly after final court approval. If the Heins Settlement is not approved, then we will be required to recommence our defense of the Class Action, with all of the costs and risks inherent in litigation. See "Item 3. Legal Proceedings" in this Report and "-Liquidity and Capital Resources" below in this Item.

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 the 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 revenue recognition and 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.

Further information about our significant accounting polices is included in 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 distributed generation projects, we recognize 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 because 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, contract manufacturing 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 to the sale and licensing to our customers of software operating systems 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. We completed our annual testing of the impairment of goodwill as of October 1, 2003. As a result of the test, we concluded that no impairment of goodwill existed as of October 1, 2003.

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 in understanding of our results of operations for the periods presented:

	YEARS ENDED DECEMBER 31,		
	2003	2002	2001
	(ALL AMOUNTS REPORTED IN THOUSANDS)		
Revenues:			
Southern Flow	$ 11,805	$ 12,288	$ 12,918
PowerSecure	17,122	8,229	8,975
Metretek Florida	9,775	6,524	6,629
PowerSpring	-	-	277
Other	610	262	543

Total	$ 39,312	$ 27,303	$ 29,342
GROSS PROFIT:			
Southern Flow	$ 2,993	$ 3,308	$ 3,390
PowerSecure	4,902	1,944	1,877
Metretek Florida	2,324	1,850	2,321
PowerSpring	-	-	(111)
Total	$ 10,219	$ 7,102	$ 7,477
SEGMENT PROFIT (LOSS):			
Southern Flow	$ 1,619	$ 1,953	$ 1,642
PowerSecure	1,574	(388)	403
Metretek Florida	(272)	(969)	(993)
PowerSpring	-	-	(612)
Other	(1,778)	(3,933)	(1,791)
Total	$ 1,143	$ (3,337)	$ (1,351)

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. 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, 2003, 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 data collection and telemetry segment are conducted by Metretek Florida. Metretek Florida's manufactured products fall into the following categories: field devices, including data collection

products and electronic gas flow computers; data collection software products (such as InvisiConnect((TM)), DC2000 and PowerSpring); and communications solutions that can use public networks operated by commercial wireless carriers

to provide real time IP-based wireless internet connectivity, 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 data collection, M2M telemetry connectivity and post-sale support services for its manufactured products and turn-key solutions. 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 collection segment.

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

FISCAL 2003 COMPARED TO FISCAL 2002

Revenues. Our revenues are derived almost entirely from the sales of products and services by our subsidiaries. Our consolidated revenues for fiscal 2003 increased by more than $12 million, or 44%, over our consolidated revenues for fiscal 2002 to a record $39.3 million. This increase resulted from the significant increases in revenues by PowerSecure and by Metretek Florida, although it was partially offset by a slight decrease in revenues by Southern Flow.

The 108% increase in PowerSecure's revenues during fiscal 2003 was due to a significant increase in the number of PowerSecure's completed and in-process projects. PowerSecure had 63 projects completed or in process during fiscal 2003 compared to 30 projects completed or in process during fiscal 2002. PowerSecure's average revenue per project for completed and in-process projects was essentially unchanged, at $267,000 during fiscal 2003 compared to $263,000 during fiscal 2002, although the size of the projects varied significantly. We believe PowerSecure is successfully identifying and closing more projects as a result of an increasingly effective sales effort and increased marketplace awareness of its presence. PowerSecure's fiscal 2003 revenues also included $288,000 of service related revenues, as compared to $350,000 during fiscal 2002. As discussed below in this Item under "--Quarterly Fluctuations", PowerSecure's revenues have fluctuated significantly in the past and are expected to continue to fluctuate significantly in the future, and consist primarily of non-recurring sales. Accordingly, there is no assurance that PowerSecure's revenues will continue to increase on an annual basis in the future.

The 50% increase in Metretek Florida's revenues in fiscal 2003 compared to fiscal 2002 was comprised primarily of an increase in domestic sales of $2,873,000, together with a slight increase in international sales of $377,000. The increase in Metretek Florida's domestic sales was due to an increase of $2,798,000 in sales of field devices, data collection software products, and communications solutions products, combined with an increase of $1,440,000 in its contract manufacturing sales. The increase in domestic sales of field devices, data collection software products, and communications solutions products was attributable primarily to shipments on a significant order from Public Service Electric and Gas ("PSE&G") of New Jersey. The increase in domestic circuit board contract manufacturing sales was due primarily to the

initial shipments on a significant multi-year contract to build electronic assemblies for a large domestic furniture manufacturer. As discussed below in this Item under "--Quarterly Fluctuations", Metretek Florida's revenues depend upon the volume and timing of customer orders and payments and the date of product delivery. The timing of large individual sales, such as the sale of Metretek Florida products to PSE&G, is difficult for us to predict, and customers from time to time defer or cancel purchase orders. Accordingly, Metretek Florida's revenues are expected to continue to fluctuate significantly in the future, for a number of reasons discussed below in this Item under " -- Quarterly Fluctuations." There is no assurance that Metretek Florida's revenues will continue to increase on an annual basis in the future.

Southern Flow's revenues decreased by approximately 4% during fiscal 2003, as compared to fiscal 2002. We believe that the decrease in Southern Flow's revenues was primarily attributable to service cutbacks by some customers concerned about future oil price volatility, and to Gulf Coast weather incidents that reduced Southern Flow's opportunities to provide on-site field services to its customers.

Costs and Expenses. The following table sets forth our costs and expenses during the periods indicated:

	YEAR ENDED DECEMBER 31,		YEAR-OVER-YEAR DIFFERENCE	
	2003	2002	$	%
	(In thousands)			
Costs and Expenses:				
Costs of Sales and Services				
Southern Flow	$ 8,812	$ 8,980	$ (168)	-2%
PowerSecure	12,220	6,284	5,936	94%
Metretek Florida	7,451	4,674	2,777	59%
Total	28,483	19,938	8,545	43%
General and administrative	6,482	5,709	773	14%
Selling, marketing and service	1,601	1,555	46	3%
Depreciation and amortization	691	658	33	5%
Reserarch and development	627	552	75	14%
Interest, finance charges and other	285	205	80	39%
Provision for litigation costs, net	-	1,764	(1,764)	-100%
Nonrecurring charges	-	258	(258)	-100%
Income taxes	57	46	11	24%

Costs of sales and services include materials, personnel and related overhead costs incurred to manufacture products and provide services. The 43% i