Casciato Chris
Form 4
September 14, 2010

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
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(Print or Type Responses)

1. Name and Address of Reporting Person [*]
Casciato Chris

(Last) (First) (Middle)

1735 MARKET STREET, SUITE LL

(Street)

PHILADELPHIA, PA 19103-7583

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SUNOCO INC [SUN]

3. Date of Earliest Transaction (Month/Day/Year)
09/10/2010

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	09/10/2010		J [(1)]		969	A	$ 34.849	3,969	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
								Date Exercisable	Expiration Date	Title	Amount or Number of Shares		
				Code	V	(A)	(D)						

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Casciato Chris 1735 MARKET STREET SUITE LL PHILADELPHIA, PA 19103-7583	X			

Signatures

/s/ John J. DiRocco, Jr., Attorney-in-Fact	09/14/2010
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Granted pursuant to Rule 16b-3(d)(1).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. e discontinued operations not included in the sale to InstruTech Florida, which consist principally of receivables and inventory, are being liquidated through collections of receivables and through subsequent sales of inventory to others, including InstruTech Florida. We cannot provide any assurance of the amounts that we will be paid under the promissory note or the bridge loan or that we will recover from inventory sales or collections of receivables. Thus, a significant portion of the amount we expect to recover from the discontinuance of our contract manufacturing operations is dependent upon the success of the operations of the business of InstruTech Florida, which is outside our control. If the amounts we receive and recover from these discontinued operations are materially less than we expect, it will have a material adverse effect on our financial condition, results of operations and cash flows. OUR DEPENDENCE ON THIRD PARTY PARTNERS AND SUPPLIERS, INCLUDING SOLE SOURCE SUPPLIERS, MAY PREVENT US FROM DELIVERING ACCEPTABLE PRODUCTS OR PERFORMING ACCEPTABLE SERVICES ON A TIMELY BASIS We rely on single source suppliers and highly in demand parts for some of the critical components we use in our products. Our business is dependent on our ability to anticipate our needs for components and products and our suppliers' ability to deliver such components and products in time to meet critical manufacturing and installation schedules. Our business could be adversely affected, for

example, if PowerSecure is unable to obtain, on a timely and cost-efficient basis, sufficient generators to meet its customers' installation schedules. In addition, our business could be adversely affected if we experience supply constraints or if we experience any other interruption or delay in the supply chain which interfere with our ability to manufacture our products or manage our inventory levels. BECAUSE WE ARE DEPENDENT UPON THE UTILITY INDUSTRY FOR A SIGNIFICANT PORTION OF OUR REVENUE, CONTINUED REDUCTIONS OF PURCHASES OF OUR PRODUCTS AND SERVICES BY UTILITIES CAUSED BY REGULATORY REFORM MAY MATERIALLY AND ADVERSELY AFFECT OUR BUSINESS We currently derive a significant portion of our revenue from sales by Metretek Florida of its products and services to the utility industry, and particularly the natural gas utility industry. A key reason that we have experienced variability of operating results on both an annual and quarterly basis has been utility purchasing patterns, including delays of purchasing decisions, as the result of mergers and acquisitions in the utility industry and potential changes to the federal and state regulatory framework within which the utility industry operates. The utility industry is generally characterized by long budgeting, purchasing and regulatory process cycles that can take 39 up to several years to complete. Our utility customers typically issue requests for quotes and proposals, establish committees to evaluate the purchase proposals, review different technical options with vendors, analyze performance and cost/benefit justifications and perform a regulatory review, in addition to applying a normal budget approval process within the utility. In addition, utilities may defer purchases of our products and services if the utilities reduce capital expenditures as the result of mergers and acquisitions, pending or unfavorable regulatory decisions, poor revenues due to weather conditions, rising interest rates or general economic downturns, among other factors. The natural gas utility industry has been virtually the sole market for Metretek Florida's products and services. However, over the last few years, the uncertainty in the utility industry that has resulted from the regulatory uncertainty in the current era of deregulation has caused utilities to defer even further purchases of Metretek Florida's products and services. The continuation of this uncertain regulatory climate will materially and adversely affect our revenues from sales of AMRs. The domestic utility industry is currently the focus of regulatory reform initiatives in virtually every state. These initiatives have resulted in significant uncertainty for industry participants and raise concerns regarding assets that would not be considered for recovery through rate payer charges. This regulatory climate has caused many utilities to delay purchasing decisions that involve significant capital commitments. As a result of these purchasing decision delays, utilities have reduced their purchases of our products and services. While we expect some states will act on these regulatory reform initiatives in the near future, we cannot assure you that the current regulatory uncertainty will be resolved in the short term. In addition, new regulatory initiatives could have a material adverse effect on our business. Moreover, in part as a result of the competitive pressures in the utility industry arising from the regulatory reform process, many utilities are pursuing merger and acquisition strategies. We have experienced considerable delays in purchase decisions by utilities that have become parties to merger or acquisition transactions. Typically, capital expenditure purchase decisions are put on hold indefinitely when merger negotiations begin. If this pattern of merger and acquisition activity among utilities continues, our business may be materially and adversely affected. In addition, if any of the utilities that account for a significant portion of our revenues decide to significantly reduce their purchases of our products and services, our financial condition and results of operations may be materially and adversely affected. MANY OF OUR PRODUCTS AND SERVICES EXPERIENCE LONG AND VARIABLE SALES CYCLES, WHICH COULD HAVE A NEGATIVE IMPACT ON OUR RESULTS OF OPERATIONS FOR ANY GIVEN QUARTER OR YEAR Our products and services are often used by our customers to address critical business needs. Customers generally consider a wide range of issues before making a decision to purchase our products and services. In addition, the purchase of some of our products and services involves a significant commitment of capital and other resources by a customer. This commitment often requires significant technical review, assessment of competitive products and approval at a number of management levels within a customer's organization. Our sales cycle may vary based on the industry in which the potential customer operates and is difficult to predict for any particular transaction. The length and variability of our sales cycle makes it difficult to predict whether particular sales will be concluded in any given quarter. While our customers are evaluating our products and services before they place an order with us, we may incur substantial sales and marketing and research and development expenses to customize our products to the customer's needs. We may also expend significant management efforts, increase manufacturing capacity and order long-lead-time components or materials prior to receiving an order. Even after this evaluation process, a potential customer may not purchase our products. As a result, these long sales cycles may cause us to incur significant

expenses without ever receiving revenue to offset those expenses. WE DO NOT HAVE LONG-TERM OR RECURRING COMMITMENTS WITH MOST OF OUR CUSTOMERS AND MAY BE UNABLE TO RETAIN EXISTING CUSTOMERS, ATTRACT NEW CUSTOMERS OR REPLACE DEPARTING CUSTOMERS WITH NEW CUSTOMERS THAT CAN PROVIDE COMPARABLE REVENUES Because we generally do not obtain firm, long-term volume purchase commitments from our customers, many of our contracts and commitments from our customers are short-term or non-recurring. For example, most of PowerSecure's revenues are derived on a non-recurring, project by project basis, and there is no assurance that its revenues and business will continue to grow. In addition, customer orders can be canceled or rescheduled and volume levels can be reduced. We cannot assure you that our customers will continue to use our products and services or that we will be able to replace, in a timely or effective manner, canceled, delayed or reduced orders with new business that generates comparable revenues. Further, we cannot assure you that our current customers will continue to generate consistent amounts of revenues over time. Our failure to maintain and expand our customer relationships customers would materially and adversely affect our business and results of operations. 40 IF WE ARE UNABLE TO DEVELOP NEW AND ENHANCED PRODUCTS AND SERVICES THAT ACHIEVE MARKET ACCEPTANCE IN A TIMELY MANNER, OUR OPERATING RESULTS AND COMPETITIVE POSITION COULD BE HARMED Our future success will depend on our ability to develop new and enhanced products and services that achieve market acceptance in a timely and cost-effective manner. The development of technology is often complex, and we occasionally have experienced delays in completing the development and introduction of new products and services and enhancements thereof. Successful development and market acceptance of our products and services depends on a number of factors, including: - changing requirements of customers; - accurate prediction of market requirements; - timely completion and introduction of new designs; - quality, price, performance and use of our products; - availability, quality, price and performance of competing products, services and technologies; - our customer service and support capabilities and responsiveness; - successful development of our relationships with existing and potential customers; and - changes in technology, industry standards or end-user preferences. We cannot provide assurance that products and services that we have recently developed or may develop in the future will achieve market acceptance. If our new products and services fail to achieve market acceptance, or if we fail to develop new or enhanced products and services that achieve market acceptance, our growth prospects, operating results and competitive position could be adversely affected. FROM TIME TO TIME WE DEPEND ON REVENUES FROM SIGNIFICANT PURCHASE COMMITMENTS, AND ANY LOSS, CANCELLATION, REDUCTION OR DELAY IN THESE PURCHASE COMMITMENTS COULD HARM OUR BUSINESS AND OPERATING RESULTS From time to time, our subsidiaries have derived a material portion of their revenues from one or more significant customers or purchase commitments. For example, in fiscal 2003 Metretek Florida had a significant purchase order from PSE&G that did not recur, which adversely affected our operating results in fiscal 2004. In fiscal 2004, we had one customer that was responsible for approximately 15% of our consolidated revenues. If such commitments were to be terminated or fail to recur, our revenues and net income would significantly decline. Our success will depend on our continued ability to develop and manage relationships with significant customers and generate recurring revenues from them. We cannot be sure that we will be able to retain our largest customers, that we will be able to attract additional large customers, or that our existing customers will continue to purchase our products and services in the same amounts as in prior years. Our business and operating results would be adversely affected by: - the loss of one or more large customers; - any reduction or delay in sales to these customers; - the failure of large purchase commitments to be renewed or to recur; - our inability to successfully develop relationships with additional customers; or - future price concessions that we may have to make to these customers. RAPID TECHNOLOGICAL CHANGES MAY PREVENT US FROM REMAINING CURRENT WITH OUR TECHNOLOGICAL RESOURCES AND MAINTAINING COMPETITIVE PRODUCT AND SERVICE OFFERINGS The markets in which our businesses operate are characterized by rapid technological change, frequent introductions of new and enhanced products and services, evolving industry standards and changes in customer needs. Significant technological changes could render our existing and planned new products, services and technology obsolete. Our future success will depend, in large part, upon our ability to: - effectively use and develop leading technologies; 41 - continue to develop our technical expertise; - enhance our current products and services; - develop new products and services that meet changing customer needs; and - respond to emerging industry standards and technological changes in a cost-effective manner. If we are unable to successfully respond to these developments or if we do not respond to them in a cost-effective manner, then our business will be

materially and adversely affected. We cannot assure you that we will be successful in responding to changing technology or market needs. In addition, products, services and technologies developed by others may render our products, services and technologies uncompetitive or obsolete. Even if we do successfully respond to technological advances and emerging industry standards, the integration of new technology may require substantial time and expense, and we cannot assure you that we will succeed in adapting our products, services and technology in a timely and cost-effective manner. We may experience financial or technical difficulties or limitations that could prevent us from introducing new or enhanced products or services. Furthermore, any of these new or enhanced products, services and technology could contain problems that are discovered after they are introduced. We may need to significantly modify the design of these products and services to correct problems. Rapidly changing technology and operating systems may impede market acceptance of our products, services and technology. Our business could be materially and adversely affected if we experience difficulties in introducing new or enhanced services and products or if these products and services are not received favorably by our customers. Development and enhancement of our products and services will require significant additional expenses and could strain our management, financial and operational resources. The lack of market acceptance of our products or services or our inability to generate sufficient revenues from this development or enhancements to offset their costs could have a material adverse effect on our business. In the past, we have experienced delays in releasing new products and services and enhancements, and we may experience similar delays in the future. These delays or problems in the installation of implementation of our new products and services and enhancements may cause customers to forego purchases of our products and services to purchase those of our competitors. IF WE ARE UNABLE TO CONTINUE TO ATTRACT AND RETAIN KEY PERSONNEL, OUR BUSINESS WILL BE MATERIALLY AND ADVERSELY AFFECTED We believe our future success will depend in large part upon our ability to attract and retain highly qualified technical, managerial, sales, marketing, finance and operations personnel. Competition for qualified personnel is intense, and we cannot assure you that we will be able to attract and retain these key employees in the future. The loss of the services of any of our key personnel could have a material adverse effect on our business. Although we have entered into employment agreements with some of our executive officers, we generally do not have employment contracts with our key employees. In addition, we do not have key person life insurance for most of our key personnel. We cannot assure you that we will be able to retain our current key personnel or that we will be able attract or retain other highly qualified personnel in the future. We have from time to time in the past experienced, and we expect in the future to continue to experience, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. If we are unable to attract and retain highly qualified personnel, our business could be materially and adversely affected. WE FACE INTENSE COMPETITION IN THE MARKETS FOR OUR PRODUCTS, SERVICES AND TECHNOLOGY, AND IF WE CANNOT SUCCESSFULLY COMPETE IN THOSE MARKETS, OUR BUSINESS WILL BE MATERIALLY AND ADVERSELY AFFECTED The markets for our products, services and technology are intensely competitive and subject to rapidly changing technology, new competing 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 and loss of market share, which could significantly reduce our future revenues and operating results. Many of our existing competitors, as well as a number of potential new competitors, have longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical, marketing, 42 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. We cannot assure you that we will have the financial resources, technical expertise, portfolio of products and services or marketing and support capabilities to compete successfully in the future. Our inability to compete successfully or to timely respond to market demands or changes would have a material adverse effect on our business, conditions and results of operations. DOWNTURNS IN GENERAL ECONOMIC AND MARKET CONDITIONS COULD MATERIALLY AND ADVERSELY AFFECT OUR BUSINESS There is potential for a downturn in general economic and market conditions. In recent years, some segments of the economy, including the technology industry in particular, have experienced significant economic downturns characterized by decreased product demand, price erosion, work slowdowns and layoffs. Moreover, there is increasing uncertainty in the energy and technology markets attributed to many factors, including international terrorism and strife, global economic conditions and strong competitive forces. Our future results of operations may experience substantial fluctuations from period to period as a consequence of these factors, and such conditions and other factors affecting capital spending may affect the timing of orders from major customers. An economic downturn coupled with a decline in our revenues could adversely affect our ability meet our capital requirement, support our working capital requirements and growth objectives, maintain our existing financing arrangements, or otherwise adversely affect our business, financial condition and results of operations. As a result, any economic downturns in general or in our markets, particularly those affecting industrial and commercial users of natural gas and electricity, would have a material adverse effect on our business, cash flows, financial condition and results of operations. IF WE FAIL TO EFFECTIVELY MANAGE OUR FUTURE GROWTH, OUR ABILITY TO MARKET AND SELL OUR PRODUCTS AND SERVICES AND TO DEVELOP NEW PRODUCTS AND SERVICES MAY BE ADVERSELY AFFECTED We must plan and manage our growth effectively in order to offer our products and services and achieve revenue growth and profitability in a rapidly evolving market. Our future growth will place a significant strain on our management systems and resources. If we are not be able to effectively manage our growth in the future, our business may be materially and adversely affected. CHANGES IN OUR PRODUCT MIX COULD MATERIALLY AND ADVERSELY AFFECT OUR BUSINESS The margins on our revenues from some of our product and service offerings is higher than the margins on some of our other product and service offerings. In addition, we cannot currently accurately estimate the margins of some of our new and developing products and services due to their limited operating history. Our new products and services may have lower margins than our current products and services. If in the future we derive a proportionately greater percentage of our revenues from lower margin products and services, then our overall margins on our total revenues will decrease and, accordingly, will result in lower net income, or higher net losses, and less cash flow on the same amount of revenues. OUR MANAGEMENT OF MM 1995-2, A PRIVATE PROGRAM, PRESENTS RISKS TO US MGT is our subsidiary that manages and holds a minority ownership interest in MM 1995-2, a private program that owns and operates four oil and gas production water disposal facilities. While MGT does not intend to form any new private programs, it may from time to time increase its economic interest in the program or initiate or manage actions intended to expand the program's assets or activities. This program was financed by a private placement of equity interests raising capital to acquire the assets and business operated by the program. Our management of this program presents risks to us, including: - lawsuits by investors in this program who become dissatisfied with the result of the program; 43 - material adverse changes in the business, results of operations and financial condition of the program due to events, conditions and factors outside of our control, such as general and local conditions affecting the oil and gas market generally and the revenues of the program specifically; - risks inherent in managing a program and taking significant actions that affect its investors; - changes in the regulatory environment relating to the program; - reliance upon significant suppliers and customers by the program; - hazards of oil production water disposal facilities, including environmental hazards; and - changes in technology. If any of these risks materialize and we are unsuccessful in addressing these risks, our financial condition and results of operations could be materially and adversely affected. OUR INTERNATIONAL SALES ACTIVITIES ARE SUBJECT TO MANY RISKS AND UNCERTAINTIES THAT COULD ADVERSELY AFFECT OUR OPERATING RESULTS IF THEY MATERIALIZE We market and sell some of our products and services in international markets. While sales into international markets generated only approximately 2% of our consolidated revenues in fiscal 2004 and 3% in fiscal 2003 and fiscal 2002, one component of our strategy for future growth involves the expansion of our products and services into new international markets and the expansion of our marketing efforts in our current international markets. This expansion will require significant management attention and financial resources to establish additional

offices, hire additional personnel, localize and market products and services in foreign markets and develop relationships with international service providers. However, we have only limited experience in international operations, including in developing localized versions of our products and services and in developing relationships with international service providers. We cannot provide any assurance that we will be successful in expanding our international operations, or that revenues from international operations will be sufficient to offset these additional costs. If revenues from international operations are not adequate to offset the additional expense from expanding these international operations, our business could be materially and adversely affected. We are exposed to several risks inherent in conducting business on an international level that could result in increased expenses, or could limit our ability to generate revenues, including: - difficulties in collecting international accounts receivable and longer collection periods; - the impact of local economic conditions and practices; - difficulties in staffing and managing foreign operations; - difficulties in complying with foreign regulatory and commercial requirements; - increased costs associated with maintaining international marketing efforts; - fluctuations in currency exchange rates; - potential adverse tax consequences; - adverse changes in applicable laws and regulatory requirements; - import and export restrictions; - export controls relating to technology; - tariffs and other trade barriers; - political and economic instability; - reduced protection for intellectual property rights; - cultural and language difficulties; - the potential exchange and repatriation of foreign earnings; and - the localization and translation of products and services. Our success in expanding our international sales activities will depend in large part on our ability to anticipate and effectively manage these and other risks, many of which are outside of our control. Any of these risks 44 could materially and adversely affect our international operations and, consequently, our operating results. We cannot provide any assurance that we will be able to successfully market, sell and deliver our products and services in foreign markets. WE MAY BE UNABLE TO ACQUIRE OTHER BUSINESSES, TECHNOLOGY OR COMPANIES, OR TO FORM STRATEGIC ALLIANCES AND RELATIONSHIPS, OR TO SUCCESSFULLY REALIZE THE BENEFITS OF ANY ACQUISITION OR ALLIANCE In the past, we have grown by acquiring complimentary businesses, technologies, services and products and entering into strategic alliances and relationships with complimentary businesses. We evaluate potential acquisition opportunities from time to time, including those that could be material in size and scope. As part of our growth strategy, we intend to continue to evaluate potential acquisitions, investment opportunities and strategic alliances on an ongoing basis as they present themselves to facilitate our ability to enhance our existing products, services and technology, and to introduce new products, services and technology, on a timely basis. However, we do not know if we will be able to identify any future opportunities that we believe will be beneficial for us. Even if we are able to identify an appropriate acquisition opportunity, we may not be able to successfully finance the acquisition. If we are unable to identify, finance or obtain the benefits of future acquisitions and alliances, our growth may be impaired and our business may be adversely affected. Any future acquisition involves risks commonly encountered in business relationships, including: - difficulties in assimilating and integrating the operations, personnel, technologies, products and services of the acquired business; - the technologies, products or businesses that we acquire may not achieve expected levels of revenue, profitability, benefits or productivity; - difficulties in retaining, training, motivating and integrating key personnel; - diversion of management's time and resources away from our normal daily operations; - difficulties in successfully incorporating licensed or acquired technology and rights into our product and service offerings; - difficulties in maintaining uniform standards, controls, procedures and policies within the combined organizations; - difficulties in retaining relationships with customers, employees and suppliers of the acquired company; - risks of entering markets in which we have no or limited direct prior experience; - potential disruptions of our ongoing businesses; and - unexpected costs and unknown liabilities associated with the acquisitions. For these reasons, future acquisitions could materially and adversely affect our existing businesses. Moreover, we cannot predict the accounting treatment of any acquisition, in part because we cannot be certain whether current accounting regulations, conventions or interpretations will prevail in the future. In addition, to finance any future acquisitions, it may be necessary for us to incur additional indebtedness or raise additional funds through public or private financings. These financings may not be available to us at all, or if available may not be available on terms satisfactory to us or to those whose consents are required for such financings. Available equity or debt financings may materially and adversely affect our business and operations and, in the case of equity financings, may significantly dilute the percentage ownership interests of our stockholders. We cannot assure you that we will make any additional acquisitions or that any acquisitions, if made, will be successful, will assist us in the accomplishment of our business strategy, or will generate sufficient revenues to

offset the associated costs and other adverse effects or will otherwise result in us receiving the intended benefits of the acquisition. In addition, we cannot assure you that any acquisition of new businesses or technology will lead to the successful development of new or enhanced products and services, or that any new or enhanced products and services, if developed, will achieve market acceptance or prove to be profitable. 45 IF WE FAIL TO ADEQUATELY PROTECT OUR INTELLECTUAL PROPERTY RIGHTS, WE COULD LOSE IMPORTANT PROPRIETARY TECHNOLOGY, WHICH COULD MATERIALLY AND ADVERSELY AFFECT OUR BUSINESS Our success and ability to compete depends, in substantial part, upon our ability to develop and protect our proprietary technology and intellectual property rights to distinguish our products, services and technology from those of our competitors. The unauthorized use of our intellectual property rights and proprietary technologies by others could materially harm our business. 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. Although we hold copyrights and trademarks in our business, and we have applied for a patent and the registration of a number of new trademarks and service marks and intend to introduce new trademarks and service marks, we believe that the success of our business depends more upon our proprietary technology, information, processes and know-how than on patents or trademark registrations. In addition, much of our proprietary information and technology may not be patentable. We may not be successful in obtaining any patents or in registering new marks. 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 proprietary rights. Unauthorized third parties may attempt to copy, reverse engineer or otherwise obtain, use or exploit aspects of our products and services, develop similar technology independently, 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 intellectual property. In addition, the laws of some foreign countries may not protect our proprietary rights as fully or in the same manner as the laws of the United States. We may need to resort to litigation to enforce our intellectual property rights, to protect our trade secrets, and to determine the validity and scope of other companies' proprietary rights in the future. However, litigation could result in significant costs or in the diversion of management and financial resources. We cannot assure you that any such litigation will be successful or that we will prevail over counterclaims against us. Our failure to protect any of our important intellectual property rights or any litigation that we resort to in order to enforce those rights could materially and adversely affect our business. IF WE FACE CLAIMS OF INTELLECTUAL PROPERTY INFRINGEMENT BY THIRD PARTIES, WE COULD ENCOUNTER EXPENSIVE LITIGATION, BE LIABLE FOR SIGNIFICANT DAMAGES OR INCUR RESTRICTIONS ON OUR ABILITY TO SELL OUR PRODUCTS AND SERVICES Although we are not aware of any present infringement of our products or technologies on the intellectual property rights of others, we cannot be certain that our products, services and technologies do not or in the future will not infringe on the valid intellectual property rights held by third parties. In addition, we cannot assure you that third parties will not claim that we have infringed their intellectual property rights. We may incur substantial expenses in litigation defending against any third party infringement claims, regardless of their merit. Successful infringement claims against us could result in substantial monetary liability, require us to enter into royalty or licensing arrangements, or otherwise materially disrupt the conduct of our business. In addition, even if we prevail on these claims, this litigation could be time-consuming and expensive to defend or settle, and could result in the diversion of our time and attention, which could materially and adversely affect our business. In recent years, there has been a significant amount of litigation in the United States involving patents and other intellectual property rights. In the future, we may be a party to litigation as a result of an alleged infringement of others' intellectual property. These claims and any resulting lawsuits, if successful, could subject us to significant liability for damages and invalidation of our proprietary rights. These lawsuits, regardless of their success, would likely be time-consuming and expensive to resolve and would divert management time and attention. Any potential intellectual property litigation also could force us to do one or more of the following: - stop selling, incorporating or using our products and services that use the infringed intellectual property; - obtain from the owner of the infringed intellectual property right a license to sell or use the relevant technology, which license may not be available on commercially reasonable terms, or at all; or - redesign the products and services that use the technology. 46 If we are forced to take any of these actions, our business may be seriously harmed. Although we carry general liability insurance, our insurance may not cover potential claims of this type or may not be adequate to indemnify us for all liability that may be imposed. WE FACE SOME RISKS THAT ARE

INHERENT IN NATURAL GAS AND ELECTRICAL OPERATIONS Some of our operations are subject to the hazards and risks inherent in the servicing and operation of natural gas assets, including encountering unexpected pressures, explosions, fire, natural disasters, blowouts, cratering and pipeline ruptures, as well as in the manufacture, sale and operation of electrical equipment such as PowerSecure's distributed generation system, including electrical shocks, which hazards and risks could result in personal injuries, loss of life, environmental damage and other damage to our properties and the properties of others. These operations involve numerous financial, business, regulatory, environmental, operating and legal risks. Damages occurring as a result of these risks may give rise to product liability claims against us. We have product liability insurance generally providing up to $6 million coverage per occurrence and $7 million annual aggregate coverage. Although we believe that our insurance is adequate and customary for companies of our size that are engaged in operations similar to ours, losses due to risks and uncertainties could occur for uninsurable or uninsured risks or could exceed our insurance coverage. Therefore, the occurrence of a significant adverse effect that is not fully covered by insurance could have a material and adverse effect on our business. In addition, we cannot assure you that we will be able to maintain adequate insurance in the future at reasonable rates. SOME OF POWERSECURE'S LONG-TERM TURN-KEY CONTRACTS SUBJECT US TO RISKS Some of PowerSecure's contracts for turn-key distributed generation projects have a term of many years, during which time some risks to its business may arise due to its obligations under those contracts, even though PowerSecure believes it has mitigated those risks. For example, PowerSecure is responsible for full maintenance on the generators and switchgear during the term of the contract, but it has set aside reserves expected to be sufficient to cover its maintenance obligations and has purchased maintenance packages designed to cover maintenance on the generators. In addition, changes in circumstances that were not contemplated at the time of the contract could exposure PowerSecure to unanticipated risks or to protracted or costly dispute resolution. WE DEPEND ON SOLE SOURCE OR LIMITED SOURCE SUPPLIERS FOR SOME OF THE KEY COMPONENTS AND MATERIALS IN OUR PRODUCTS, WHICH MAKES US SUSCEPTIBLE TO SUPPLY SHORTAGES OR PRICE INCREASES THAT COULD ADVERSELY AFFECT OUR BUSINESS We depend on sole or limited source suppliers for key components and materials for some of our products such as generators, and if we are unable to obtain these components on a timely basis, we will not be able to deliver our products to customers. Also, we cannot guarantee that any of the parts or components that we purchase, if available at all, will be of adequate quality or that the prices we pay for these parts or components will not increase. For example, PowerSecure is dependent upon on obtaining a timely and cost-effective supply of generators for its distributed generation system, and from time to time these generators are in short supply, affecting the timing and cost of the generators. We may experience delays in production if the supply of any critical components is interrupted or reduced and we have failed to identify an alternative vendor or if there is a significant increase in the cost of such components, which could materially and adversely affect our business and operations. OUR POWERSECURE BUSINESS IS SUBJECT TO MANY BUSINESS RISKS, AND IF ANY OF THEM MATERIALIZE, THEY COULD MATERIALLY AND ADVERSELY AFFECT POWERSECURE'S BUSINESS AS WELL AS OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS PowerSecure's business is dependent, in part, upon its ability to utilize distributed generation to create favorable pricing for customers based on existing tariff structures. If utility tariffs change in some regions, then PowerSecure's business would become less viable in those regions. Moreover, even if such tariffs do not change, if PowerSecure is unable to obtain the expected benefits from those tariffs, its shared savings projects, that are dependent upon such benefits, would be materially and adversely affected. Also, PowerSecure presently utilizes diesel powered generators in its systems. If regulatory requirements in certain regions are modified to make diesel no long viable in those regions, PowerSecure's business could be adversely affected. While PowerSecure, in such case, would utilize its efforts to find alternative power sources, there is no assurance those alternative sources would be economically acceptable. 47 WE COULD BECOME SUBJECT TO BURDENSOME GOVERNMENT REGULATION THAT AFFECTS OUR ABILITY TO OFFER OUR PRODUCTS AND SERVICES OR THAT AFFECTS DEMAND FOR OUR PRODUCTS AND SERVICES Our business operations are subject to varying degrees of federal, state, local and foreign laws and regulations. Regulatory agencies may impose special requirements for implementation and operation of our products, services or technologies that may significantly impact or even eliminate some of our target markets. We may incur material costs or liabilities in complying with government regulations. In addition, potentially significant laws, regulations and requirements may be adopted or imposed in the future. Furthermore, some of our customers must comply with numerous laws and regulations. The modification or

adoption of future laws and regulations could adversely affect our business and our ability to continually modify or alter our methods of operations at reasonable costs. We cannot provide any assurances that we will be able, for financial or other reasons, to comply with all applicable laws and regulations. If we fail to comply with these laws and regulations, we could become subject to substantial penalties which could materially and adversely affect our business. OUR BUSINESS COULD SUFFER IF WE CANNOT MAINTAIN AND EXPAND OUR CURRENT STRATEGIC ALLIANCES AND DEVELOP NEW ALLIANCES One element of our business strategy is the development of corporate relationships such as strategic alliances with other companies to provide products and services to existing and new markets and to develop new products and services and enhancements to existing products and services. We believe that our success in the future in penetrating new markets will depend in large part on our ability to maintain these relationships and to cultivate additional or alternative relationships. However, we cannot assure you that we will be able to develop new corporate relationships, or that these relationships will be successful in achieving their purposes. Our failure to continue our existing corporate relationships and develop new relationships could materially and adversely affect our business. TERRORIST ACTIVITIES AND RESULTING MILITARY AND OTHER ACTIONS COULD ADVERSELY AFFECT OUR BUSINESS The terrorist attacks on September 11, 2001 disrupted commerce throughout the world. In response to such attacks, the U.S. is actively using military force to pursue those behind these attacks and initiating broader actions against global terrorism. The continued threat of terrorism throughout the world, the escalation of military action, and heightened security measures in response to such threats may cause significant disruption to commerce throughout the world. To the extent that such disruptions result in reductions in capital expenditures or spending on technology, longer sales cycles, deferral or delay of customer orders, or an inability to effectively market our products or services, our business and results of operations could be materially and adversely affected. AS A RESULT OF THEIR BENEFICIAL OWNERSHIP OF A LARGE PERCENTAGE OF OUR COMMON STOCK, OUR DIRECTORS, EXECUTIVE OFFICERS AND SIGNIFICANT STOCKHOLDERS COULD EXERT SIGNIFICANT INFLUENCE OVER MATTERS REQUIRING STOCKHOLDER APPROVAL As of March 7, 2005, our executive officers, directors and 5% or greater stockholders beneficially owned, in the aggregate, approximately 43.5% of our outstanding Common Stock, assuming they exercise or convert all stock options and warrants that are exercisable or convertible within 60 days of that date. As a result, these stockholders could, as a practical matter, exercise a significant level of control over matters requiring approval by our stockholders, including the election of directors and the approval of mergers, sales of substantially all of our assets and other significant corporate transactions. The interests of these stockholders may differ from the interests of other stockholders. In addition, this concentration of stock ownership may have the effect of discouraging, delaying or preventing a change in control of us. VIRTUALLY ALL OF OUR SHARES ARE ELIGIBLE FOR FUTURE SALE BY OUR CURRENT STOCKHOLDERS, AND SIGNIFICANT SALES OF THESE SHARES COULD RESULT IN A DECLINE IN OUR STOCK PRICE If our stockholders sell a significant number of shares of our Common Stock in the public market, including shares issuable upon the exercise of outstanding options, warrants and other rights, or if there is a perception that these sales could occur, then the market price of our Common Stock could fall. These sales also might make it more difficult for us to sell equity securities in the future at a time and price that we deem appropriate. On March 7, 2005, 12,192,074 shares of Common Stock were outstanding. On that date, options to purchase 1,991,019 shares of Common Stock were outstanding, and shares that may be acquired upon exercise of these stock options are eligible for sale on the public market from time to time subject to vesting. Also, on that date, 48 warrants to purchase 2,254,232 shares of Common Stock were outstanding. The resale of virtually all shares underlying these options and warrants are covered by currently effective registration statements. The exercise or conversion of outstanding options, warrants and other rights to purchase our Common Stock will dilute the remaining ownership of other holders of our Common Stock. In addition, the sale in the public market of a significant number of these shares issuable upon the exercise of options, warrants and other rights, or the perception that such sales could occur, could cause the price of the Common Stock to decline. CHANGES IN LAWS, REGULATIONS AND FINANCIAL ACCOUNTING STANDARDS COULD MATERIALLY AND ADVERSELY AFFECT OUR BUSINESS AND OUR REPORTED RESULTS OF OPERATIONS Recently enacted changes in the laws and regulations affecting public companies, especially those pertaining to corporate governance and public disclosure such as the Sarbanes-Oxley Act of 2002 and related SEC regulations, have caused us to incur increased costs of compliance and have resulted in changes in accounting standards or accepted practices within our industry. New laws, regulations and accounting standards, as well as the questioning of, or changes to, currently accepted accounting practices may

increase our costs and thus adversely affect our reported financial results, which could have an adverse effect on our stock price. For example, in December 2004, the FASB issued FAS 123(R), which will become effective in our third quarter of fiscal 2005. FAS 123(R) will result in our recognition of compensation expense relating to our employee stock options. Currently, as permitted under FAS 123, we generally do not recognize any compensation related to stock option grants we issue under our stock option plans. Under FAS 123(R), we are required to adopt a fair value-based method for measuring the compensation expense related to employee stock awards that will lead to additional compensation expense. These and other new rules or laws could adversely affect our reported financial results and have an adverse effect on our stock price. New rules could also make it more difficult for us to obtain certain types of insurance, including director and officer liability insurance, forcing us to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors or as our executive officers. WE MAY HAVE DIFFICULTY IMPLEMENTING, IN A TIMELY MANNER, THE INTERNAL CONTROLS PROCEDURES NECESSARY TO ALLOW OUR MANAGEMENT TO REPORT ON THE EFFECTIVENESS OF OUR INTERNAL CONTROLS. Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we will be required to furnish an internal controls report of management's assessment of the effectiveness of our internal controls as part of our Annual Report on Form 10-K for the fiscal year ended December 31, 2006. Our independent registered public accounting firm will then be required to attest to, and report on, our assessment. In order to issue our report, our management must document both the design of our internal controls and the testing processes that support management's evaluation and conclusion. Our management has begun the necessary processes and procedures for issuing its report on our internal controls. However, we may face significant challenges in implementing the required processes and procedures. There can be no assurance that we will be able to complete the work necessary for our management to issue its management report in a timely manner, or that management will be able to report that our internal control over financial reporting is effective. OUR CHARTER DOCUMENTS AND OUR STOCKHOLDER RIGHTS PLAN, AS WELL AS DELAWARE LAW, CONTAIN ANTI-TAKEOVER PROVISIONS THAT COULD DISCOURAGE OR PREVENT A THIRD-PARTY ACQUISITION OF OUR COMMON STOCK, EVEN IF AN ACQUISITION WOULD BE BENEFICIAL TO OUR STOCKHOLDERS Some provisions in our Second Restated Certificate of Incorporation ("Second Restated Certificate"), our Amended and Restated By-Laws ("By-Laws"), and our stockholder rights plan, as well as some provisions of Delaware law, could have the effect of discouraging, delaying or preventing a third party from attempting to acquire us, even if doing so would be beneficial to stockholders. These provisions could also limit the price that investors might be willing to pay in the future for shares of our Common Stock. These provisions include: - a classified Board of Directors in which only approximately one-third of the total Board members are elected at each annual meeting; - the existence of large amounts of authorized but unissued shares of Common Stock and Preferred Stock; 49 - authority for our Board of Directors to issue Common Stock and Preferred Stock, and to determine the price, voting and other rights, preferences, privileges and restrictions of undesignated shares of Preferred Stock, without any vote by or approval of our stockholders; - super-majority voting requirements to effect material amendments to our Second Restated Certificate and By-Laws; - limiting the persons who may call special meetings of stockholders; - prohibiting stockholders from acting by written consent without a meeting; - the dilutive effects of our stockholders rights plan to a potential acquirer; - a fair price provision that sets minimum price requirements for potential acquirers under certain conditions; - anti-greenmail provisions which limit our ability to repurchase shares of Common Stock from significant stockholders; - restrictions under Delaware law on mergers and other business combinations between us and any 15% stockholders; and - advance notice requirements for director nominations and for stockholder proposals. In addition, we have entered into employment agreements with certain executive officers and other employees which, among other things, include severance and changes in control provisions. WE HAVE NOT IN THE PAST AND WE DO NOT CURRENTLY INTEND TO PAY DIVIDENDS ON OUR COMMON STOCK, AND EVEN IF WE CHANGE OUR INTENTIONS OUR ABILITY TO PAY DIVIDENDS IS LIMITED We have never declared or paid any cash dividends on our Common Stock. Therefore, a stockholder will not experience a return on its investment in our Common Stock without selling its shares, because we currently intend on retaining any future earnings to fund our growth and do not expect to pay dividends in the foreseeable future on the Common Stock. Under Delaware law, we are not permitted to make a distribution to our stockholders, including dividends on our capital stock, if, after giving effect to the payment, we would not be able to pay our debts as they become due in the usual course of business or if

our total assets would be less than the sum of our total liabilities plus the amount which would be needed if we were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of stockholders whose preferential rights are superior to those receiving the distribution. 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 by prohibiting the payment of dividends by our subsidiaries without the consent of the lender. 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. OUR STOCK PRICE IS SUBJECT TO EXTREME PRICE AND VOLUME FLUCTUATIONS, WHICH COULD ADVERSELY AFFECT AN INVESTMENT IN OUR STOCK The market price and volume of our Common Stock has in the past been, and in the future is likely to continue to be, highly volatile. The stock market in general has been experiencing extreme price and volume fluctuations for years. The market prices of securities of technology companies have been especially volatile. A number of factors could cause wide fluctuations in the market price and trading volume of our Common Stock in the future, including: - actual or anticipated variations in our results of operations; - announcements of technological innovations; - changes in, or the failure by us to meet, securities analysts' estimates and expectations; - the receipt or loss of significant customer orders; 50 - introduction of new products and services by us or our competitors; - conditions or trends in the energy and technology industries in general, and in the particular markets we service; - announcements by us or our competitors of significant technical innovations, products, services, contracts, acquisitions, strategic relationships, joint ventures or capital commitments; - the lower coverage by securities analysts and the media of issuers with securities trading on the OTC Bulletin Board; - announcements by us or our competitors of the success or status of our business; - changes in the market valuation of other energy or technology companies; - additions or departures of key personnel; - general economic, business and market conditions; and - sales of our Common Stock by our directors, executive officers and significant stockholders. Many of these factors are beyond our control. The occurrence of any one or more of these factors could cause the market price of our Common Stock to fall, regardless of our operating performance. In addition, broad fluctuations in price and volume have been unrelated or disproportionate to operating performance, both of the market in general and of us in particular. Any significant fluctuations in the future might result in a material decline in the market price of our Common Stock. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. We may become involved in this type of litigation in the future. Securities litigation is often expensive and could divert management's attention and resources, which could have a material adverse effect on our business, even if we ultimately prevail in the litigation. WE MAY ISSUE SHARES OF PREFERRED STOCK THAT COULD DILUTE THE INTERESTS OF HOLDERS OF COMMON STOCK Our charter currently authorizes our Board of Directors to issue up to 2,000,000 shares of Preferred Stock on terms to be fixed by the Board of Directors. The terms of our Common Stock do not limit the issuance of shares of Preferred Stock. The issuance of shares of Preferred Stock could dilute the interests of holders of our Common Stock. ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK We are exposed to certain market risks arising from transactions we enter into in the ordinary course of business. These market risks are primarily due to changes in interest rates, foreign exchange rates and commodity prices, which may adversely affect our financial condition, results of operations and cash flow. Our exposure to market risk resulting from changes in interest rates relates primarily to income from our investments in short-term interest-bearing marketable securities, which is dependent upon the interest rate of the securities held, and to interest expenses attributable to our Credit Facility, which is based on floating interest rates as described in "Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations" of this Report. However, we do not believe that changes in interest rates have had a material impact on us in the past or will have a material impact on us in the foreseeable future. For example, a change of 1% in the interest rate on either our investments or our borrowings would not have a material impact on our financial condition, results of operations or cash flow. Since substantially all of our revenues, expenses and capital spending are transacted in U.S. dollars, we are not exposed to significant foreign exchange risk. While we are subject to some market risk from fluctuating commodity prices in certain raw materials we use, we do not believe that our exposure to commodity price changes is material. We do not use derivative financial instruments to manage or hedge our exposure to interest rate changes or other market risks, or for trading or other speculative purposes. 51

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA The information required by this Item is set forth on pages F-1 through F-32 of this Report. ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE On September 30, 2004, we engaged Hein & Associates LLP ("Hein") to serve as our independent registered public accounting firm and dismissed Deloitte & Touche LLP ("Deloitte"). The change in independent registered public accounting firms was approved by the Audit Committee of our Board of Directors and reported on a Current Report on Form 8-K, as amended, dated September 30, 2004. Deloitte audited our financial statements as of and for fiscal 2003 and for all prior fiscal years, and Hein audited our financial statements as of and for fiscal 2004. The audit reports of Deloitte on our consolidated financial statements as of and for fiscal 2003 and fiscal 2002 did not contain an adverse opinion or disclaimer of opinion, and such audit reports were not qualified or modified as to any uncertainty, audit scope or accounting practice, except that Deloitte's independent auditor's report on the Company's consolidated financial statements for fiscal 2002 contained an explanatory paragraph relating to a change in method of accounting for goodwill and other intangible assets with infinite lives as required by Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," which was effective January 1, 2002, and to a change in the Company's method of accounting for contracts from the completed-contract method to the percentage-of-completion method. During fiscal 2002 and fiscal 2003 and subsequent interim periods through the date we changed independent registered public accounting firms, there were no disagreements between us and Deloitte on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of Deloitte, would have caused Deloitte to make reference to the subject matter of the disagreement in connection with its report. In addition, during those same periods, no reportable events, as defined in Item 304(a)(1)(v) of Regulation S-K, occurred, and we did not consult with Hein regarding the application of accounting principles to a specific transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, or any other matters or reportable events as set forth in Item 304(a)(2) of Regulation S-K. ITEM 9A. CONTROLS AND PROCEDURES EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2004, the end of the period covered by this Report. Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations on all control systems, no evaluation of controls can provide absolute assurance that all errors, control issues and instances of fraud, if any, with a company have been detected. The design of any system of controls is also based in part on certain assumptions regarding the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING No change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended December 31, 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. 52 ITEM 9B. OTHER EVENTS None. 53 PART III ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT DIRECTORS AND EXECUTIVE OFFICERS As of March 1, 2005, our executive officers and directors, and their ages and their positions with us, were as follows: NAME AGE POSITION(S) ---- --- ----------- W. Phillip Marcum...... 61 Chairman of the Board, President, Chief Executive Officer and Director A. Bradley Gabbard..... 50 Executive Vice President, Chief Financial Officer, Treasurer and Director Gary J. Zuiderveen..... 45 Controller, Principal Accounting Officer and Secretary Sidney Hinton.......... 42 President and Chief Executive Officer of PowerSecure John Bernard........... 50 President and Chief Executive Officer of Southern Flow Basil M. Briggs (1).... 69 Director Kevin P. Collins (1)... 54 Director Anthony D. Pell (1).... 66 Director ---------- (1) Member of the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee W. PHILLIP MARCUM is a founder and has served as our Chairman of the Board, President and Chief Executive Officer and as a director since our incorporation in April 1991. He also serves as the Chairman of our subsidiaries. Mr.

Marcum currently serves on the board of directors of Key Energy Services, Inc. ("Key"), an oilfield service provider. A. BRADLEY GABBARD is a founder and has served as an executive officer and a director since our incorporation in April 1991. He has served as our Executive Vice President since July 1993 and as our Chief Financial Officer and Treasurer since August 1996 and from April 1991 through July 1993. He also serves as the Executive Vice President and Chief Financial Officer of our subsidiaries. Mr. Gabbard also served as our Vice President and Secretary from April 1991 through July 1993. GARY J. ZUIDERVEEN has served as our Controller, Principal Accounting Officer and Secretary since April 2001. He previously served as our Controller from May 1994 until May 2000 and as our Secretary and Principal Accounting Officer from August 1996 until May 2000. He also serves in one or more of the capacities of Controller, Principal Accounting Officer or Secretary of our other subsidiaries. From June 1992 until May 1994, Mr. Zuiderveen was the General Accounting Manager at the University Corporation for Atmospheric Research in Boulder, Colorado. From 1983 until June 1992, Mr. Zuiderveen was employed in the Denver, Colorado office of Deloitte & Touche LLP, providing accounting and auditing services to clients primarily in the manufacturing and financial services industries and serving in the firm's national office accounting research department. SIDNEY HINTON has served as the President, Chief Executive Officer and a director of PowerSecure since its incorporation in September 2000. He also served as the President and Chief Executive Officer of PowerSpring from May 2000 until January 2001. From February 2000 until May 2000, Mr. Hinton was an Executive-in-Residence with Carousel Capital, a private equity firm. From February 1999 until December 1999, he was the Vice President of Market Planning and Research for Carolina Power & Light (now known as Progress Energy). From August 1997 until December 1998, Mr. Hinton was the President and Chief Executive Officer of IllumElex Lighting Company, a national lighting company. From 1982 until 1997, Mr. Hinton was employed in several positions with Southern Company and Georgia Power Company. JOHN BERNARD has served as the President and Chief Executive Officer and a director of Southern Flow since December 1, 2004. Mr. Bernard has served in several managerial capacities since joining Southern Flow in 54 1988, including serving as the Vice President and General Manager of Southern Flow from June 1998 through November 2004. BASIL M. BRIGGS has served as a director since June 1991. Mr. Briggs has been an attorney in the Detroit, Michigan area since 1961, practicing law with Cox, Hodgman & Giarmarco, P.C., since January 1997. Mr. Briggs was of counsel with Miro, Weiner & Kramer, P.C., from 1987 through 1996. He was the President of Briggs & Williams, P.C., Attorneys at Law, from its formation in 1977 through 1986. Mr. Briggs was the Secretary of Patrick Petroleum Company ("Patrick Petroleum"), an oil and gas company, from 1984, and a director of Patrick Petroleum from 1970, until Patrick Petroleum was acquired by Goodrich Petroleum Company ("Goodrich Petroleum"), an oil and gas company, in August 1995. From August 1995 until June 2000, he served as a director of Goodrich Petroleum. KEVIN P. COLLINS has served as a director since March 2000. Mr. Collins has been a Managing Member of The Old Hill Company LLC, which provides corporate financial and advisory services, since 1997. From 1992 to 1997, he served as a principal of JHP Enterprises, Ltd., and from 1985 to 1992, he served as Senior Vice President of DG Investment Bank, Ltd., both of which were engaged in providing corporate finance and advisory services. Mr. Collins also serves as a director of Key; The Penn Traffic Company, a food retailer; London Fog Industries, Inc., an outerwear designer and distributor; Malden Mills Industries, Inc., a synthetic fleece manufacturer; Mail Contractors of America Inc., a trucking company; and Deluxe Pattern, Inc., a designer of automotive components. Mr. Collins is a Chartered Financial Analyst. ANTHONY D. PELL has served as a director since June 1994. Mr. Pell is President, Chief Executive Officer and co-owner of Pelican Investment Management, an investor advisory firm that he co-founded in November 2001. Mr. Pell is a director of Rochdale Investment Management, Inc. He was the President and a co-owner of Pell, Rudman & Co., an investment advisory firm, from 1981 until 1993, when it was acquired by United Asset Management Company, and he continued to serve as an employee until June 1995. Mr. Pell was a director of Metretek Florida from 1985 until Metretek Florida was acquired by us in March 1994. Mr. Pell was associated with the law firm of Coudert Brothers from 1966 to 1968 and with the law firm of Cadwalder, Wickersham and Taft from 1968 to 1972, specializing in estate and tax planning. In 1972, Mr. Pell joined Boston Company Financial Strategies, Inc. as a Vice President and was appointed a Senior Vice President in 1975. Our Board of Directors currently consists of five members divided into three classes, designated Class I, Class II and Class III, with members of each class holding office for staggered three-year terms. The Class I Directors, whose terms expire at the 2007 Annual Meeting of Stockholders, are Messrs. Marcum and Briggs. The Class II Directors, whose terms expire at the 2005 Annual Meeting of Stockholders, are Messrs. Gabbard and Collins. The Class III Director, whose term expires at the 2006 Annual Meeting of Stockholders, is Mr. Pell. The holders of

our Series B Preferred Stock, voting separately as a class, had the right to elect one member to serve on our Board of Directors until the Series B Preferred Stock was redeemed in December 2004. Pursuant to that right of designation, Mr. Collins had been serving as a director. In December 2004, after the Series B Preferred Stock was redeemed and its holders were no longer entitled to make such a designation, the Board of Directors appointed Mr. Collins to continue to serve on the Board, as a Class II Director. Except as provided above, our directors are elected by the holders of the Common Stock. Each director serves in office until his successor is duly elected and qualified, or until his earlier death, resignation or removal. In the future, any new members added to the Board of Directors will be distributed among the three classes so that, as nearly as possible, each class will consist of an equal number of directors. Our officers are appointed by our Board of Directors and serve at its discretion, subject to their employment agreements, as described in "Item 11. Executive Compensation." AUDIT COMMITTEE Audit Committee Members. Our Board of Directors has established a standing Audit Committee in accordance with Section 3(a)(58)(A) of the Exchange Act. The members of the Audit Committee are Anthony D. Pell, Chairman, Basil M. Briggs and Kevin P. Collins. Our Board of Directors has determined that each member of the Audit Committee is "independent", as that term is used in Item 7(d)(3)(iv) of Schedule 14A under the Exchange Act and Rule 10A-3 under the Exchange Act, and is an "independent director" under the current listing standards of the American Stock Exchange (which standards are utilized by the Board of Directors although as of the date of this Report our Common Stock is traded on the OTC Bulletin Board and not on the American Stock Exchange). 55 Audit Committee Financial Expert. Our Board of Directors has determined that each member of the Audit Committee (Anthony D. Pell, Chairman, Basil M. Briggs and Kevin P. Collins) is financially literate and is an "audit committee financial expert", as that term is defined in Item 401(h)(2) of Regulation S-K under the Exchange Act. SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE Section 16(a) of the Exchange Act ("Section 16(a)") requires our directors and executive officers, and persons who beneficially own more than 10% of our outstanding Common Stock, to file initial reports of ownership on Form 3 and reports of changes in ownership on Form 4 or Form 5 with the SEC, and to furnish us with copies of all such reports that they file. Based solely upon our review of the copies of such reports we have received, and written representations from our directors and executive officers, we believe that, during fiscal 2004, all reports required by Section 16(a) to be filed by such persons were timely filed, except that one report of one transaction by Mr. Pell and one report of one transaction by Mr. Hinton were inadvertently filed late. CODES OF ETHICS We have adopted two codes of ethics, which are designed to encourage our directors, officers and employees to act with the highest level of integrity. These codes were attached as exhibits to our Annual Report on Form 10-K for fiscal 2003 and are available on our website at www.metretek.com under "Investor Info - Corporate Governance." We will provide a copy of these codes without charge upon written request addressed to our Secretary at our principal executive offices. We have adopted the Metretek Technologies, Inc. Code of Ethics for Principal Executive Officer and Senior Financial Officers, which is a code of ethics that applies to our Chief Executive Officer, Chief Financial Officer, Principal Accounting Officer and other senior financial employees. The purpose of the Code of Ethics is to deter wrongdoing and to promote, among other things, honest and ethical conduct and to ensure to the greatest possible extent that our business is conducted in a consistently legal and ethical manner. We have also adopted the Metretek Technologies, Inc. Code of Business Conduct and Ethics, which is a code of conduct that applies to all of our directors, officers and employees. Under the Code of Business Conduct and Ethics, each officer, director and employee is required to maintain a commitment to high standards of conduct and ethics. The Code of Business Conduct and Ethics covers many areas of professional conduct, including conflicts of interest, insider trading, protection of confidential information, and strict adherence to all laws and regulations applicable to the conduct of our business. Directors, officers and employees are strongly encouraged to report any conduct that they believe in good faith to be an actual or apparent violation of the Code of Business Conduct and Ethics. If we make any amendment to, or grant any waiver from, a provision of our Code of Ethics or our Code of Business Conduct and Ethics to any of our directors, executive officers or senior financial officers, we will disclose the nature of such amendment or waiver on our website or in a Current Report on Form 8-K. 56 ITEM 11. EXECUTIVE COMPENSATION SUMMARY COMPENSATION The following table sets forth the total compensation that we paid or accrued for services rendered to us in all capacities during the last three fiscal years by our Chief Executive Officer, by the four other most highly compensated executive officers (based on total salary and bonus in fiscal 2004) serving at the end of the fiscal year, and by one other former executive officer who would have been included if he had still been an executive officer at the end of fiscal 2004 (the "Named Executive Officers"): SUMMARY COMPENSATION TABLE LONG TERM COMPENSATION AWARDS

------------------------ ANNUAL COMPENSATION(1) ----------------------------------- SECURITIES OTHER RESTRICTED UNDERLYING ALL OTHER ANNUAL STOCK AWARDS OPTIONS COMPENSATION NAME AND PRINCIPAL POSITION YEAR SALARY($) BONUS($) COMPENSATION ($) (2) (#) (3) ($)(4) ------------------------- ---- --------- --------- ----------- ----------- ---------- ------------ W. Phillip Marcum .... 2004 $311,615 $ 50,000(5) $60,500(6) $110,000 50,000 $ 7,638 Chairman of the Board, 2003 295,000 0 0 0 0 7,138 President and Chief 2002 295,000 0 0 0 0 6,471 Executive Officer A. Bradley Gabbard .... 2004 191,346 55,000(5) 30,250(6) 55,000 25,000 7,638 Executive Vice 2003 175,000 75,000 0 0 0 7,117 Chief President and 2002 175,000 0 0 0 0 6,314 Financial Officer Sidney Hinton (7) .... 2004 253,850 104,186(8) 18,150(6) 33,000 0 7,638 President and CEO, 2003 250,000 117,341(8) 0 0 0 7,138 PowerSecure, Inc. John Bernard (9) .... 2004 112,098 8,000 0 0 25,000 4,547 President and CEO, Southern Flow Gary J. Zuiderveen (10) .... 2004 96,154 10,000 0 0 0 3,982 Controller and Principal 2003 92,692 15,000 0 0 0 3,925 Accounting Officer Thomas R. Kellogg (11) .... 2004 126,538 0 0 0 0 214,984(12) Former President and 2003 175,000 21,354 0 0 0 5,990 CEO, Metretek Florida ---------- (1) Excludes perquisites and other personal benefits, if any, which were less than the lesser of $50,000 or 10% of the total annual salary and bonus reported for each Named Executive Officer. (2) The dollar value of the restricted stock awards during fiscal 2004 is calculated by multiplying the total number of restricted shares by $2.20, the closing sale price of our Common Stock on July 15, 2004, the date of the awards, as reported on the OTC Bulletin Board. These dollar values do not reflect any adjustment for risk of forfeiture or for restrictions on transferability. All shares of restricted stock vest in three equal annual installments, commencing on January 1, 2005, subject to the executive remaining employed with us on the vesting dates, and further subject to immediate vesting upon a change in control. All awards of restricted stock were made under our 1998 Stock Incentive Plan, as amended and restated (the "1998 Stock Incentive Plan"). 57 As of December 31, 2004, based on $2.40, the closing sale price of our Common Stock on such date as reported on the OTC Bulletin Board, Mr. Marcum held 50,000 unvested shares of restricted stock valued at $120,000, Mr. Gabbard held 25,000 unvested shares of restricted stock valued at $60,000, and Mr. Hinton held 15,000 unvested shares of restricted stock valued at $36,000. The executive enjoys all the benefits of ownership of unvested shares of restricted stock, including the right to vote the shares and to receive any dividends and other distributions with respect to the shares on the same terms as any other shares of Common Stock, other than the right to transfer or dispose of the shares. (3) All options vest in three equal annual installments, commencing on the grant date, subject to immediate vesting upon a change in control. As of December 31, 2004, one-third of such options were vested. (4) Amounts paid or accrued on behalf of the Named Executive Officers in fiscal 2004 in this column include the following: Group Long-Term Term Life Disability 401(k) Insurance Insurance Name Matching Premiums Premiums ---- -------- --------- ---------- W. Phillip Marcum ... $6,500 $882 $256 A. Bradley Gabbard .. 6,500 882 256 Sidney Hinton .... 6,500 882 256 John Bernard .... 3,603 688 256 Gary Zuiderveen ..... 3,185 541 256 Thomas R. Kellogg ... 4,241 360 367 (5) Includes a signing bonus paid in connection with the amended and restated employment agreements of $50,000 for Mr. Marcum and $25,000 for Mr. Gabbard. (6) Reflects a tax "gross-up" payment intended to reimburse the executive for taxes payable with respect to the restricted stock grant. (7) Became an executive officer during fiscal 2003. Compensation includes all amounts paid or accrued for the entire fiscal 2003. (8) Bonus resulting from the bonus formula based upon PowerSecure's cash flow from operations, as provided in Mr. Hinton's employment agreement. See "--Employment Agreements, Change in Control and Termination of Employment Arrangements and Other Compensation Arrangements" below. (9) Appointed as the President and Chief Executive Officer of Southern Flow on December 1, 2004. Compensation includes all amounts paid or accrued for the entire fiscal 2004. (10) Fiscal 2003 was the first year his total salary and bonus exceeded $100,000. (11) His employment with us terminated effective October 6, 2004. (12) Includes severance payments, pursuant to his employment agreement, in the amount of $204,167, payable over the 12 month period after his termination. See "--Employment Agreements, Change in Control and Termination of Employment Arrangements and Other Compensation Arrangements" below. EMPLOYMENT AGREEMENTS, CHANGE IN CONTROL AND TERMINATION OF EMPLOYMENT ARRANGEMENTS AND OTHER COMPENSATION ARRANGEMENTS W. Phillip Marcum and A. Bradley Gabbard. On November 1, 2004, we entered into amended and restated employment agreements with W. Phillip Marcum, our Chairman of the Board, President and Chief Executive Officer, and A. Bradley Gabbard, our Executive Vice President and Chief Financial Officer. These amended and restated employment agreements set forth the basic terms of employment for each executive. Under these employment agreements, the employment terms of Messrs. Marcum and Gabbard continue through December 31, 2006 and will be

automatically extended for successive one-year periods, unless either we or 58 the executive gives six months prior written notice of termination. The base salaries under these employment agreements, which are subject to annual upward adjustments at the discretion of the Board of Directors, are currently set at $325,000 for Mr. Marcum and $200,000 for Mr. Gabbard. In addition to the base salary, the employment agreements provide, among other things, for standard benefits commensurate with the management levels involved. The employment agreements also contain certain restrictions on each executive's ability to compete, use of confidential information and use of inventions and other intellectual property. Generally, the employment agreements with Messrs. Marcum and Gabbard provide that if the executive's employment is terminated by us for "cause" (as defined in the employment agreements) or as a result of the executive's death or disability, the executive will be entitled to receive an amount equal to his base salary through the effective date of termination, and all other amounts to which the executive may be entitled under his employment agreement though the effective date of termination. If the employment period expires without being renewed, or if the executive is terminated by us without cause, or if the executive resigns voluntarily, then the executive is entitled to receive severance payments equal to three times annual base salary, payable at a 50% rate over six years, for Mr. Marcum, and one and equal to one-half times annual base salary, payable at a 100% rate over 18 months, for Mr. Gabbard, based on his base salary at the rate in effect upon termination, and continued participation in all our insurance plans for such additional period. The employment agreements also include change in control provisions designed to provide for continuity of management in the event we undergo a change in control. If within three years after a "change in control", the officer is terminated by us for any reason other than for cause, or if the executive terminates his employment for "good reason", as such terms are defined in the employment agreements, then the executive is entitled to receive a lump-sum severance payment equal to three times, for Mr. Marcum, and one and one-half times, for Mr. Gabbard, the amount of his then base salary, together with certain other payments and benefits, including continued participation in all our insurance plans for a period of three years for Mr. Marcum and one and one-half years for Mr. Gabbard. Under these employment agreements, a change in control will be deemed to have occurred only if: - any person or group becomes the beneficial owner of 50% or more of our Common Stock; - a majority of our present directors are replaced, unless the election of any new director is approved by a two-thirds vote of the current (or properly approved successor) directors; - we approve a merger, consolidation, reorganization or combination, other than one in which our voting securities outstanding immediately prior thereto continue to represent more than 50% of our total voting power or of the surviving corporation following such a transaction and our directors continue to represent a majority of our directors or of the surviving corporation following such transaction; or - we approve a sale of all or substantially all of our assets. The employment agreements also provide for us to establish an incentive compensation fund, to be administered by our Compensation Committee, to provide for incentive compensation to be paid to each officer or employee (including Messrs. Marcum and Gabbard) deemed by the Compensation Committee to have made a substantial contribution to us in the event of a change of control of Metretek or of the sale of substantially all of our assets or similar transactions. The total amount of incentive compensation from the fund available for distribution will be determined by a formula based on the amount by which the fair market value per share of the Common Stock exceeds $10.08, multiplied by a factor ranging from 10-20% depending upon the ratio of the fair market value to $10.08. In the case of the sale of a significant subsidiary or substantially all of the assets of a significant subsidiary, a similar pro rata distribution is required. Sidney Hinton. Effective January 1, 2003, PowerSecure entered into an employment and non-competition agreement with Sidney Hinton, the President and Chief Executive Officer of PowerSecure. Mr. Hinton's employment agreement is for a term of three years, and is renewable for additional one-year renewal periods when the term expires, unless either PowerSecure or Mr. Hinton gives 30 days prior written notice of termination. The base salary under Mr. Hinton's employment agreement is currently set at $262,500, subject to annual upward adjustments at the discretion of the Board of Directors of PowerSecure. In addition to the base salary, Mr. Hinton's employment agreement provides, among other things, for standard benefits commensurate with the management level involved, including an annual bonus of 7% of PowerSecure's cash flow from operations. If Mr. Hinton's employment is terminated without cause, or due to the expiration of the employment term or any renewal 59 period, then Mr. Hinton will be entitled to receive a severance payment in the amount of one year's base salary, payable over the subsequent year. Mr. Hinton's employment agreement also contains a one-year non-competition covenant, which becomes two years if Mr. Hinton voluntarily resigns or is terminated by PowerSecure for cause, and certain restrictions on Mr. Hinton's use of confidential information and use of inventions and other intellectual property. Mr. Hinton's employment agreement also includes a

change in control provision designed to provide for continuity of management in the event we or PowerSecure undergo a change in control. The employment agreement provides that if within three years after a change in control, Mr. Hinton is terminated by us for any reason other than for "cause", or if Mr. Hinton terminates his employment for "good reason", as such terms are defined in the employment agreement, then Mr. Hinton is entitled to receive a lump-sum severance payment equal to one year's then base salary, together with certain other payments and benefits, including continued participation in all our insurance plans for a period of one year. During 2003, PowerSecure issued approximately 14% of its outstanding common stock to its employees, including approximately 7% of its common stock to Mr. Hinton. In November 2004, we issued 950,000 shares of our Common Stock to those PowerSecure employees, including 485,401 shares of our Common Stock to Mr. Hinton on the same terms as to all other PowerSecure employee-shareholders, in exchange for their PowerSecure shares. See "Item 13. Certain Relationships and Related Transactions." As a result of that stock exchange, PowerSecure has become a wholly-owned subsidiary. Thomas R. Kellogg. In June 2002, Metretek Florida entered into an employment and non-competition agreement with Thomas R. Kellogg, the President and Chief Executive Officer of Metretek Florida from that time through the date of his termination. Mr. Kellogg's employment agreement was for an initial term of one year, renewable for additional one-year renewal periods. Mr. Kellogg resigned effective October 6, 2004. In connection with his resignation, Mr. Kellogg entered into a termination agreement and mutual release with us, providing for the termination of his employment with us, a one year severance equal to his annual base salary in accordance with his employment agreement, payment of accrued but unpaid bonuses and vacation time, and an extension of his stock options to remain exercisable for two years after the termination date. The base salary under Mr. Kellogg's employment agreement was set at $175,000. In addition to the base salary, Mr. Kellogg's employment agreement provided, among other things, for standard benefits commensurate with the management level involved, a bonus of 7% of Metretek Florida's cash flow from operations, options to purchase 100,000 shares of our Common Stock at $1.50 per share, and 8% of the common stock of MCM. Mr. Kellogg's employment agreement also provided for incentive compensation in the event of a sale of the core business of Metretek Florida, consisting generally of all Metretek Florida business other than the contract manufacturing business. Mr. Kellogg's employment agreement also contained a one-year non-compete covenant and certain restrictions on Mr. Kellogg's use of confidential information and use of inventions and other intellectual property. MCM had issued shares totaling 13% of its outstanding common stock to two of its employees, each of whom terminated his employment with us during fiscal 2004, including to Mr. Kellogg as described above. Metretek Florida repurchased all those shares in connection with the termination of their employment. Accordingly, as of December 31, 2004, Metretek Florida owned all of the outstanding shares of MCM. 60 STOCK OPTION GRANTS The following table sets forth certain information with respect to stock options granted during fiscal 2004 to the Named Executive Officers. We did not grant any stock appreciation rights, alone or in tandem with stock options, during fiscal 2004. OPTION GRANTS IN LAST FISCAL YEAR INDIVIDUAL GRANTS --- POTENTIAL REALIZABLE VALUE NUMBER OF AT ASSUMED ANNUAL RATES OF SECURITIES % OF TOTAL STOCK PRICE APPRECIATION UNDERLYING OPTIONS GRANTED EXERCISE FOR OPTION TERM($)(5) OPTIONS GRANTED TO EMPLOYEES IN PRICE EXPIRATION ------------------------- NAME (#)(1) FISCAL YEAR (2) ($/SH)(3) DATE (4) 5%($) 10%($) ------------------- -------------- --------- ---------- ------- -------- W. Phillip Marcum .... 50,000(4) 13.1% $3.06 7/14/14 $96,222 $243,836 A. Bradley Gabbard ... 25,000(4) 6.5% 3.06 7/14/14 48,111 121,918 Sidney Hinton .... -- -- -- -- -- -- John Bernard .... 25,000(4) 6.5% 3.06 9/23/14 48,111 121,918 Gary Zuiderveen ...... -- -- -- -- -- -- Thomas R. Kellogg .... -- -- -- -- -- -- ---------- (1) These options are incentive stock options granted under our 1998 Stock Incentive Plan, have ten year terms and vest in three equal installments, commencing on the grant date, subject to immediate vesting upon a change in control. (2) Based upon options to purchase an aggregate of 382,000 shares of Common Stock granted to employees during fiscal 2004. (3) The exercise price of these options is equal to or greater than the fair market value of the Common Stock on the date of grant, based upon the last sale price of the Common Stock on such date as reported on the OTC Bulletin Board. (4) These options may terminate before their terms expire due to the termination of the optionee's employment or the optionee's disability or death. (5) The dollar amounts in these columns set forth the hypothetical gains that could be achieved for the respective option grants, assuming that the market price of our Common Stock appreciates in value from the date of grant through the term of the options at the annualized rates of 5% and 10%, respectively, contained in the table, which rates are specified by SEC rules and do not represent our estimate or projection of the future appreciation of the price of our Common Stock. There is no

assurance that the rates of appreciation set forth in this table can be achieved or that the amounts reflected will be received by the optionees. In addition, the potential realizable value set forth in these columns is net of the option exercise price but before taxes associated with any exercise. Actual gains, if any, on option exercises will be dependent on, among other things, the timing of such exercises and the future performance of our Common Stock. 61 STOCK OPTION EXERCISES AND VALUES The following table sets forth information with respect to stock options held by the Named Executive Officers on December 31, 2004. AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES NUMBER OF SECURITIES VALUE OF UNEXERCISED SHARES UNDERLYING UNEXERCISED OPTIONS IN-THE-MONEY OPTIONS AT ACQUIRED VALUE AT FISCAL YEAR-END(#) FISCAL YEAR-END($)(2) ON REALIZED ----------------------------- -------------------------- NAME EXERCISE(#) ($)(1) EXERCISABLE UNEXERCISABLE EXERCISABLE UNEXERCISABLE ---- ----------- -------- ----------- ------------ ----------- ------------ W. Phillip Marcum .... -- -- 266,667 33,333 $200,000 $ 0 A. Bradley Gabbard ... -- -- 245,833 16,667 190,000 0 Sidney Hinton .... -- -- 145,000 -- 112,500 0 John Bernard .... -- -- 22,875 21,334 9,150 4,200 Gary J. Zuiderveen ... 2,000 $2,100 29,000 -- 20,000 0 Thomas R. Kellogg .... -- -- 100,000 -- 90,000 0 ---------- (1) For purposes of this table, the value realized is calculated based upon the excess of the closing sale price of our Common Stock on the date of exercise as reported on the OTC Bulletin Board, over the exercise price of the option, and does not necessarily indicate that the optionee sold the shares of Common Stock acquired up the exercise, or if sold, the proceeds realized by the optionee upon such sale. (2) For purposes of this table and in accordance with SEC rules, the value of unexercised in-the-money options is calculated based upon the excess, if any, of $2.40, the closing sale price of our Common Stock on December 31, 2004 as reported on the OTC Bulletin Board, and the exercise price of the option. An option is "in-the-money" if the fair market value of the underlying shares of Common Stock exceeds the exercise price of the option. However, the actual value, if any, that an optionee may realize upon exercise of a stock option will be dependent upon the future performance of our Common Stock and the optionee's continued employment through the vesting period. DIRECTOR COMPENSATION Directors who are also our officers or employees do not receive any additional compensation for serving on the Board of Directors or its committees. All directors are reimbursed for their out-of-pocket costs of attending meetings of the Board of Directors and its committees. Directors who are not also our officers or employees ("Non-Employee Directors") receive a monthly retainer of $2,000 per month for their service on our Board of Directors and any committees thereof, including attending meetings. Non-Employee Directors also receive stock options under an annual formula ("Annual Director Options") under our 1998 Stock Incentive Plan. Under the formula for these Annual Director Options, each person who is first elected or appointed to serve as a Non-Employee Director is automatically granted an option to purchase 5,000 shares of Common Stock. On the date of the annual meeting of stockholders each year, each Non-Employee Director is automatically granted an Annual Director Option to purchase 2,500 shares of Common Stock, unless he was first elected within six months of that date. All Annual Director Options vest and become exercisable immediately upon grant. Additional non-formula options can be granted to Non-Employee Directors under the 1998 Stock Incentive Plan in the discretion of the Board of Directors. All Annual Director Options granted to Non-Employee Directors are non-qualified stock options 62 exercisable at a price equal to the fair market value of the Common Stock on the date of grant and have ten year terms, subject to earlier termination in the event of the termination of the optionee's status as a director or the optionee's death. Annual Director Options remain exercisable for one year after a Non-Employee Director dies and for that number of years after a Non-Employee Director leaves the Board of Directors (for any reason other than death or removal for cause) equal to the number of full or partial years that the Non-Employee Director served as a director, but not beyond the original ten year term of the option. Any other option granted to a director may contain different terms at the discretion of the Board. As of March 1, 2005, options to purchase 337,511 shares of Common Stock were outstanding to our current Non-Employee Directors, at exercise prices ranging from $0.46 to $17.38 per share. COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION The members of the Compensation Committee of our Board of Directors are Basil M. Briggs, Chairman, Anthony D. Pell and Kevin P. Collins. No member of our Compensation Committee is or has ever been an officer or employee of Metretek Technologies or any of its subsidiaries. None of our executive officers serves as a member of the board of directors or of the compensation committee of any other entity that has one or more executive officers serving as a member of our Board of Directors or of our Compensation Committee. 63 ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS The following

table sets forth information regarding the beneficial ownership of our Common Stock as of March 7, 2005 (except as otherwise indicated in the footnotes below) by: - each person who is known by us to beneficially own 5% or more of the outstanding shares of our Common Stock; - each of our directors; - each of the Named Executive Officers; and - all of our directors and executive officers as a group. The share ownership information in the following table is based upon information supplied to us by the persons named in the table and upon filings made by such persons with the SEC. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes either voting or investment power with respect to securities. Unless otherwise indicated below, to our knowledge, each person named in the table below has sole voting and investment power with respect to the shares of Common Stock beneficially owned by such person, subject to applicable community property laws. In computing the "Number" and the "Percent of Class" beneficially owned by a person, beneficial ownership includes any shares of Common Stock issuable under options, warrants, conversion rights and other rights that are exercisable on or within 60 days of March 7, 2005. These underlying shares, however, are not included in computing the "Percent of Class" of any other persons. The "Percent of Class" is based upon 12,192,074 shares of Common Stock outstanding on March 7, 2005. The business address for all of our Named Executive Officers and directors is 303 East Seventeenth Avenue, Suite 660, Denver, Colorado 80203. SHARES OF COMMON STOCK --------------------------- NAME OF BENEFICIAL OWNER NUMBER PERCENT OF CLASS ----------------------- --------- ---------------- DDJ Capital Management, LLC (1)..................... 2,057,938 15.9 141 Linden Street, Suite 4 Wellesley, Massachusetts 02482 Gruber & McBaine Capital Management, LLC (2)......... 1,172,612 9.5 50 Osgood Place, Penthouse San Francisco, CA 94133 Special Situations Funds (3)......................... 960,328 7.6 153 East 53rd Street New York, New York 10022 Sidney Hinton (4)................................... 744,101 6.0 General Motors Trust Company, as trustee for GMAM Investment Funds Trust II (5).................... 685,976 5.5 767 Fifth Avenue New York, New York 10153 W. Phillip Marcum (6)............................... 498,301 4.0 A. Bradley Gabbard (7).............................. 410,285 3.3 Anthony D. Pell (8)................................. 164,764 1.3 Basil M. Briggs (9)................................. 127,138 1.1 Kevin P. Collins (10)............................... 118,165 0.9 Gary J. Zuiderveen (11)............................. 47,132 0.4 John Bernard (12)................................... 23,768 0.2 Thomas R. Kellogg (13)............................. 100,000 0.8 All directors and executive officers as a group (8 persons)(14)....................... 2,133,654 16.2 ---------- (1) Information based, in part, on Amendment No. 6 to Schedule 13D filed with the SEC on December 16, 2004, by DDJ Capital Management, LLC ("DDJ"), B III-A Capital Partners, L.P. ("B III-A Capital Partners") and GP III-A, LLC ("GP III-A"), indicating beneficial ownership as of December 9, 2004. Information also based, in part, on Amendment No. 3 to Schedule 13G filed with the SEC on February 64 16, 2005 by General Motors Trust Company, as trustee for GMAM Investment Funds Trust II ("GMAM") and General Motors Investment Management Corporation ("GMIMCO"), indicating beneficial ownership as of December 31, 2004. Includes 221,497 shares of Common Stock held by B III-A Capital Partners, 664,484 shares of Common Stock held by DDJ Canadian High Yield Fund, and 442,998 shares of Common Stock held by GMAM. GP III-A is the general partner of, and DDJ is the investment manager for, B III-A Capital Partners. DDJ is the investment advisor to the DDJ Canadian High Yield Fund. DDJ is an investment manager for GMAM. Also includes 728,969 shares of Common Stock that may be acquired upon the exercise of currently exercisable warrants, of which warrants to purchase 121,497 shares are owned by B III-A Capital Partners, warrants to purchase 364,484 shares are owned by DDJ Canadian High Yield Fund, and warrants to purchase 242,988 shares are owned by GMAM. (2) Information based, in part, upon Schedule 13G filed with the SEC on February 14, 2005 by Gruber & McBaine Capital Management, LLC ("GMCM"), Jon D. Gruber ("Gruber"), J. Patterson McBaine ("McBaine"), Eric B. Swergold ("Swergold"), J. Lynn Rose ("Rose") and Lagunitas Partners LP ("Lagunitas"), indicating beneficial ownership as of December 31, 2004. Includes 161,289 shares of Common Stock that may be acquired upon the exercise of currently exercisable warrants, of which warrants to purchase 112,903 shares of Common Stock are held by Lagunitas, warrants to purchase 29,032 shares of Common Stock held by Gruber & McBaine International ("GMI"), warrants to purchase 9,671 shares of Common Stock are held by Gruber, and warrants to purchase 9,671 shares of Common Stock are held by McBaine. GMCM is the manager of GMI and the general partner of Lagunitas. Gruber and McBaine are the managers, controlling persons and portfolio managers of GMCM and have voting control and investment discretion over the securities held by Lagunitas and GMI. GMCM, Gruber, McBaine, Swergold and Rose constitute a group within the meaning of Rule 13d-5(b). Lagunitas is not a member of any group and disclaims beneficial ownership of the securities with respect to its ownership is reposited. (3) Information based, in part, upon Amendment No. 3 to Schedule 13G filed with the SEC on February 11, 2005 by

Austin W. Marxe and David M. Greenhouse, indicating beneficial ownership as of December 31, 2004. Austin W. Marxe and David M. Greenhouse are the controlling principals of AWM Investment Company, Inc. ("AWM"). AWM is the general partner of MGP Advisors Limited Partnership ("MGP Partners") and the general partner of and the investment advisor to Special Situations Cayman Fund, L.P. MGP Advisors is the general partner of and investment adviser to Special Situations Fund III, L.P. Messrs. Marxe and Greenhouse are also members of MG Advisers, L.L.C. ("MG Advisers"), the general partner of and the investment advisor to Special Situations Private Equity Fund, L.P. and members of SST Advisers, L.L.C. SST Advisers, L.L.C. is the general partner of and investment advisor to Special Situations Technology Fund, L.P. and Special Situations Technology Fund II, L.P. Includes 198,308 shares of Common Stock held are held by Special Situations Fund III, 120,522 shares of Common Stock held by Special Situations Private Equity Fund, 15,365 shares of Common Stock held by Special Situations Technology Fund, 80,187 shares of Common Stock held by Special Situations Technology Fund II and 65,782 shares of Common Stock held by Special Situations Cayman Fund. Also includes 480,164 shares of Common Stock that may be acquired upon the exercise of currently exercisable warrants, of which warrants to purchase 198,308 shares are owned by Special Situations Fund III, warrants to purchase 120,522 shares are owned by Special Situations Private Equity Fund, warrants to purchase 15,365 shares are owned by Special Situations Technology Fund, warrants to purchase 80,187 shares are owned by Special Situations Technology Fund II and warrants to purchase 65,782 shares are owned by Special Situations Cayman Fund. (4) Includes 145,000 shares that may be acquired by Mr. Hinton upon the exercise of currently exercisable stock options. Also include 10,000 restricted shares that are subject to risk of forfeiture prior to vesting. (5) See note (1) above. These holdings are included in the holdings of DDJ Capital Management, LLC. (6) Includes 266,667 shares that may be acquired by Mr. Marcum upon the exercise of currently exercisable stock options. Also include 33,333 restricted shares that are subject to risk of forfeiture prior to vesting. 65 (7) Includes 4,187 shares owned by immediate family members of Mr. Gabbard and 255,833 shares that may be acquired by Mr. Gabbard upon the exercise of currently exercisable stock options. Also include 16,666 restricted shares that are subject to risk of forfeiture prior to vesting. (8) Includes 2,937 shares held by Mr. Pell's wife. Also includes 113,415 shares that may be acquired by Mr. Pell upon the exercise of currently exercisable stock options. (9) Includes 9,500 shares owned by Mr. Briggs' wife. Also includes 8,186 shares that may be acquired by Mr. Briggs upon the exercise of currently exercisable stock options. (10) Includes 115,915 shares that may be acquired by Mr. Collins upon the exercise of currently exercisable stock options. (11) Includes 37,334 shares that may be acquired by Mr. Zuiderveen upon the exercise of currently exercisable stock options. (12) Includes 22,875 shares that may be acquired by Mr. Bernard upon the exercise of currently exercisable stock options. (13) Mr. Kellogg's employment with us terminated effective October 6, 2004. Includes 100,000 shares that may be acquired by Mr. Kellogg upon the exercise of currently exercisable stock options. (14) Includes 965,225 shares that may be acquired upon the exercise of currently exercisable stock options. Also include 59,999 restricted shares that are subject to risk of forfeiture prior to vesting. See note notes (5) through (12). EQUITY COMPENSATION PLAN INFORMATION We have three compensation plans that have been approved by our stockholders under which our equity securities have been authorized for issuance to directors, officers, employees, advisors and consultants in exchange for goods or services: - our 1991 Stock Option Plan; - our Directors' Stock Option Plan; and - our 1998 Stock Incentive Plan. The following table sets forth information about the shares of our Common Stock that may be issued upon the exercise of outstanding options, warrants and other rights under all of our existing equity compensation plans as of December 31, 2004, all of which have been approved by our stockholders: NUMBER OF SECURITIES REMAINING AVAILABLE FOR NUMBER OF SECURITIES TO WEIGHTED-AVERAGE FUTURE ISSUANCE UNDER BE ISSUED UPON EXERCISE EXERCISE PRICE OF EQUITY COMPENSATION PLANS OF OUTSTANDING OPTIONS, OUTSTANDING OPTIONS, (EXCLUDING SECURITIES WARRANTS AND RIGHTS WARRANTS AND RIGHTS REFLECTED IN COLUMN (A)) PLAN CATEGORY (A) (B) (C) ------------ ---------------------- -------------------- ------------------------ Equity compensation plans approved by security holders (1) 1,986,352(2) $2.22(3) 595,865 Equity compensation plans not approved by security holders -- -- -- --------- ----- ------- Total............................ 1,986,352(2) $2.22 595,865 ========= ===== ======= 66 ---------- (1) Represents options to purchase shares of Common Stock granted under our 1991 Stock Option Plan, our Directors' Stock Option Plan and our 1998 Stock Incentive Plan. We will not grant any future options under our 1991 Stock Option Plan or our Directors' Stock Option Plan. (2) Includes 90,000 unvested shares of restricted stock. (3) This calculation excludes shares subject to restricted stock awards, as there is no exercise price associated with these awards. ITEM 13. CERTAIN RELATIONSHIPS

AND RELATED TRANSACTIONS In March 2004, MGT, though Conquest Acquisition, repurchased performance shares and preferred shares in MM 1995-2, of which MGT is the managing trustee, from Odessa Exploration Incorporated, a subsidiary of Key Energy Services, Inc. ("Key"), for an aggregate purchase price of $454,000. W. Phillip Marcum, our Chairman of the Board, President and Chief Executive Officer, and Kevin P. Collins, a member of our Board of Directors, are also members of the board of directors of Key. The transaction was approved by our Audit Committee, of which Mr. Collins is a member but abstained from voting, as being on terms no less favorable to us than could be obtained from an independent party. On November 22, 2004, we completed the issuance of 950,000 shares of our Common Stock in exchange for the minority 13.9% interest in PowerSecure owned by the employee-shareholders of PowerSecure. The issuance was made pursuant to Stock Purchase Agreements ("Purchase Agreements") , dated as of September 10, 2004, between us and the employee-shareholders of PowerSecure, Inc. A total of 485,401 shares of our Common Stock were issued to Sidney Hinton, the President of PowerSecure, in exchange for his PowerSecure shares on the same terms as the shares of Common Stock were issued to the other PowerSecure employee-shareholders. During fiscal 2004, Mr. Hinton's son was employed by PowerSecure in a sales and administrative capacity and received total compensation, including salary and bonus, of $53,154 for fiscal 2004 and received two stock option grants for a total of 10,000 shares of our Common Stock at an exercise price of $3.06 per share. We have entered into indemnification agreements with each of our directors and certain of our executive officers. These agreements require us to indemnify such directors against certain liabilities that may arise against them by reason of their status or service as officers or directors, to the fullest extent permitted by Delaware law, to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified. We maintain an insurance policy covering our officers and directors under which the insurer has agreed to pay the amount of any claim made against our officers or directors that such officers or directors may otherwise be required to pay or for which we are required to indemnify such officers and directors, subject to certain exclusions and conditions, up to policy limits. Any material transaction between us and any related party must be approved by our Audit Committee, which is comprised solely of independent directors. 67 ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES On September 30, 2004, we engaged Hein & Associates LLP ("Hein") to serve as our independent registered public accounting firm and dismissed Deloitte & Touche LLP ("Deloitte"). Deloitte audited our financial statements as of and for fiscal 2003 and for all prior fiscal years, and Hein audited our financial statements as of and for fiscal 2004. See "Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure." FEES The aggregate fees for professional services rendered to us by Deloitte in fiscal 2003 and 2004 prior to its dismissal and for professional services rendered by Hein in fiscal 2004 since its engagement were as follows: FISCAL 2004 FEES ------------------- FISCAL 2003 FEES HEIN DELOITTE DELOITTE -------- -------- ---------------- Audit Fees (1) .... $100,000 $20,000 $139,000 Audit-Related Fees (2) ... 16,939 21,683 0 Tax Fees (3) .... 20,295 0 0 All Other Fees .... 0 0 0 -------- -------- -------- Total .... $137,234 $41,683 $139,000 ======== ======= ======== --------------- (1) "Audit Fees" represents fees billed for professional services rendered for the audits of our consolidated annual financial statements and for the reviews of our consolidated interim financial statements included in our Quarterly Reports on Form 10-Q. (2) "Audit-Related Fees" represents fees billed for professional services rendered by Deloitte in fiscal 2004 in connection with two registration statements filed by us with the SEC in connection with a private placement transaction, and for professional services rendered by Hein during fiscal 2004 relating to the audit of our 401(k) plan and the audit of MM 1995-2, an unconsolidated affiliate. (3) "Tax Fees" represents fees billed for professional services rendered by Hein for tax compliance, tax advice and tax planning for us and for MM 1995-2 during fiscal 2004. The Audit Committee has determined that the provision of non-audit services by Hein in fiscal 2004 was compatible with maintaining their independence. Deloitte did not provide any non-audit services during fiscal 2003. AUDIT COMMITTEE PRE-APPROVAL POLICY Our Audit Committee has adopted a policy that requires the Audit Committee to pre-approve all audit and non-audit services to be provided by the independent registered public accounting firm. The Audit Committee may delegate this pre-approval authority to one or more of its members. Such a member must report any decisions to the Audit Committee at the next scheduled meeting. In accordance with this pre-approval policy, all professional services provided by our independent registered public accounting firm during fiscal 2004 were pre-approved by the Audit Committee. 68 PART IV ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES (A) DOCUMENTS FILED AS A PART OF THIS REPORT: 1. Financial Statements The following consolidated financial statements of Metretek Technologies, Inc. are included on pages F-1 to F-32 of this Report: Report of Independent Registered

Public Accounting Firm Report of Independent Registered Public Accounting Firm Consolidated Balance Sheets as of December 31, 2004 and 2003 Consolidated Statements of Operations for the Years Ended December 31, 2004, 2003 and 2002 Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2004, 2003 and 2002 Consolidated Statements of Cash Flows for the Years Ended December 31, 2004, 2003 and 2002 Notes to Consolidated Financial Statements 2. Financial Statement Schedules The following schedule is filed as part of this Report: Schedule II - Metretek Technologies, Inc. Valuation and Qualifying Accounts For the Years Ended December 31, 2004, 2003 and 2002 The following consolidated financial statements of Marcum Midstream 1995-2 Business Trust are included on pages G-1 to G-11 of this Report: Report of Independent Registered Public Accounting Firm Consolidated Balance Sheets as of December 31, 2004 and 2003 Consolidated Statements of Income for the Years Ended December 31, 2004, 2003 and 2002 Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2004, 2003 and 2002 Consolidated Statements of Cash Flows for the Years Ended December 31, 2004, 2003 and 2002 Notes to Consolidated Financial Statements All other financial statement schedules are omitted because the required information is not applicable or required or is presented in our consolidated financial statements and notes thereto. 3. Exhibits Number Description ------ ----------- (3.1) Second Restated Certificate of Incorporation of Metretek Technologies, Inc. (Incorporated by reference to Exhibit 4.1 to Metretek's Registration Statement on Form S-3, Registration No. 333-96369.) (3.2) Amended and Restated By-Laws of Metretek Technologies, Inc. (Incorporated by reference to Exhibit 4.2 to Metretek's Registration Statement on Form S-8, Registration No. 333-62714.) (4.1) Specimen Common Stock Certificate. (Incorporated by reference to Exhibit 4.1 to Metretek's Registration Statement on Form S-18, Registration No. 33-44558.) (4.2) Amended and Restated Rights Agreement, dated as of November 30, 2001, between Metretek Technologies, Inc. and Computershare Investor Services, LLC. 69 (Incorporated by reference to Exhibit 4.1 to Metretek's Registration Statement on Form 8-A/A, Amendment No. 5, filed November 30, 2001.) (4.3) Amendment No. 1, dated as of April 22, 2004, to Amended and Restated Rights Agreement between Metretek Technologies, Inc. and ComputerShare Investor Services, LLC. (Incorporated by reference to Exhibit 10.6 to Metretek's Current Report on Form 8-K filed May 6, 2004). (4.4) Registration Rights Agreement, dated as of December 9, 1999, by and among Metretek Technologies, Inc. and the Unit Purchasers. (Incorporated by reference to Exhibit 4.4 to Metretek's Current Report on Form 8-K filed December 22, 1999). (4.5) Form of Securities Purchase Agreement, dated as of April 29, 2004, by and among Metretek Technologies, Inc. and the purchasers a signatory thereto ("Investors"). (Incorporated by reference to Exhibit 10.1 to Metretek's Current Report on Form 8-K filed May 6, 2004). (4.6) Form of Registration Rights Agreement, dated as of April 29, 2004, by and among Metretek Technologies, Inc. and the Investors. (Incorporated by reference to Exhibit 10.2 to Metretek's Current Report on Form 8-K filed May 6, 2004). (4.7) Form of Warrant, dated May 3, 2004, to be issued by Metretek Technologies, Inc. to the Investors. (Incorporated by reference to Exhibit 10.3 to Metretek's Current Report on Form 8-K filed May 6, 2004). (4.8) Form of Warrant, dated May 3, 2004, to be issued by Metretek Technologies, Inc. to Roth Capital Management, LLC, as placement agent. (Incorporated by reference to Exhibit 10.4 to Metretek's Current Report on Form 8-K filed May 6, 2004). (4.9) Form of Warrant, dated May 3, 2004, to be issued by Metretek Technologies, Inc. to Preferred Stockholders. (Incorporated by reference to Exhibit 10.5 to Metretek's Current Report on Form 8-K filed May 6, 2004). (10.1) 1991 Stock Option Plan, as amended and restated December 5, 1996. (Incorporated by reference to Exhibit 10.2 to Metretek's Annual Report on Form 10-KSB for the year ended December 31, 1996.)* (10.2) Directors' Stock Option Plan, as amended and restated December 2, 1996. (Incorporated by reference to Exhibit 10.3 to Metretek's Annual Report on Form 10-KSB for the year ended December 31, 1996.)* (10.3) Amended and Restated Employment Agreement, dated as of November 1, 2004, by and between Metretek Technologies, Inc. and W. Phillip Marcum. (Incorporated by reference to Exhibit 10.1 to Metretek's Current Report on Form 8-K, filed November 3, 2004)* (10.4) Amended and Restated Employment Agreement, dated as of November 1, 2004, by and between Metretek Technologies, Inc. and A. Bradley Gabbard. (Incorporated by reference to Exhibit 10.2 to Metretek's Current Report on Form 8-K, filed November 3, 2004)* (10.5) Metretek Technologies, Inc. 1998 Stock Incentive Plan, amended and restated as of June 14, 2004. (Incorporated by reference to Exhibit 4.3 to Metretek's Registration Statement on Form S-8, Registration No. 333-116431.)* (10.6) Form of Incentive Stock Option Agreement under the Metretek Technologies, Inc. 1998 Stock Incentive Plan, as amended.. (Incorporated by reference to Exhibit 10.1 to Metretek's Current Report on Form 8-K, filed August 25, 2004)* 70 (10.7) Form of Non-Qualified Stock Option Agreement under the Metretek Technologies, Inc. 1998 Stock Incentive Plan, as amended. (Incorporated by reference to Exhibit 10.2 to Metretek's Current Report on Form 8-K, filed August 25,

2004)* (10.8) Form of Restricted Stock Agreement under the Metretek Technologies, Inc. 1998 Stock Incentive Plan, as amended. (Incorporated by reference to Exhibit 10.3 to Metretek's Current Report on Form 8-K, filed August 25, 2004)* (10.9) Form of Indemnification Agreement between Metretek Technologies, Inc. and each of its directors. (Incorporated by reference to Exhibit 10.21 to Metretek's Annual Report on Form 10-KSB for the year ended December 31, 1999.) (10.10) Prototype - Basic Plan Document for the Metretek - Southern Flow Savings and Investment Plan. (Incorporated by reference to Exhibit 4.7 to Metretek's Registration Statement on Form S-8, Registration No. 333-42698.)* (10.11) Adoption Agreement for the Metretek - Southern Flow Savings and Investment Plan. (Incorporated by reference to Exhibit 4.8 to Metretek's Registration Statement on Form S-8, Registration No. 333-42698.)* (10.12) Credit and Security Agreement, dated as of September 24, 2001, by and between Wells Fargo Business Credit, Inc. and Southern Flow Companies, Inc. (Incorporated by reference to Exhibit 10.1 to Metretek's Current Report on Form 8-K filed October 5, 2001.) (10.13) Form of Guaranty, dated as of September 24, 2001, by each of Metretek Technologies, Inc., PowerSecure, Inc. and Metretek, Incorporated for the benefit of Wells Fargo Business Credit, Inc. (Incorporated by reference to Exhibit 10.2 to Metretek's Current Report on Form 8-K filed October 5, 2001.) (10.14) Form of Security Agreement, dated as of September 24, 2001, between Wells Fargo Business Credit, Inc. and each of Metretek Technologies, Inc., PowerSecure, Inc. and Metretek, Incorporated. (Incorporated by reference to Exhibit 10.3 to Metretek's Current Report on Form 8-K filed October 5, 2001.) (10.15) First Amendment to Credit and Security Agreement, dated as of November 19, 2002, between Southern Flow Companies, Inc. and Wells Fargo Business Credit, Inc. (Incorporated by reference to Exhibit 10.31 to Metretek's Annual Report on Form 10-KSB for the year ended December 31, 2002.) (10.16) Second Amendment to Credit and Security Agreement and Waiver of Defaults, dated as of March 26, 2003, between Southern Flow Companies, Inc. and Wells Fargo Business Credit, Inc. (Incorporated by reference to Exhibit 10.32 to Metretek's Annual Report on Form 10-KSB for the year ended December 31, 2002.) (10.17) Third Amendment to Credit and Security Agreement, dated as of April 4, 2003, between Southern Flow Companies, Inc. and Wells Fargo Business Credit, Inc. (Incorporated by reference to Exhibit 10.1 to Metretek's Quarterly Report on Form 10-Q for the period ended March 31, 2003.) (10.18) Fourth Amendment to Credit and Security Agreement, dated as of September 24, 2003, between Southern Flow Companies, Inc. and Wells Fargo Business Credit, Inc. (Incorporated by reference to Exhibit 10.4 to Metretek's Current Report on Form 8-K filed October 3, 2003.) (10.19) Fifth Amendment to Credit and Security Agreement, dated as of March 29, 2004, between Southern Flow Companies, Inc. and Wells Fargo Business Credit, Inc. (Incorporated by reference to Exhibit 10.1 to Metretek's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2004.) 71 (10.20) Sixth Amendment to Credit and Security Agreement and Waiver of Defaults, dated as of December 8, 2004, between Southern Flow Companies, Inc. and Wells Fargo Business Credit, Inc. (Incorporated by reference to Exhibit 10.2 to Metretek's Current Report on Form 8-K filed December 14, 2004.) (10.21) Credit and Security Agreement, dated as of September 6, 2002, by and between Wells Fargo Business Credit, Inc. and Metretek, Incorporated (Incorporated by reference to Exhibit 10.1 to Metretek's Current Report on Form 8-K filed September 12, 2002.) (10.22) Form of Guaranty, dated as of September 6, 2002, by each of Metretek Technologies, Inc., PowerSecure, Inc., Metretek Contract Manufacturing Company, Inc. and Southern Flow Companies, Inc., Incorporated for the benefit of Wells Fargo Business Credit, Inc. (Incorporated by reference to Exhibit 10.2 to Metretek's Current Report on Form 8-K filed September 12, 2002.) (10.23) Form of Security Agreement, dated as of September 6, 2001, between Wells Fargo Business Credit, Inc. and each of Metretek Technologies, Inc., PowerSecure, Inc., Metretek Contract Manufacturing Company, Inc. and Southern Flow Companies, Inc. (Incorporated by reference to Exhibit 10.3 to Metretek's Current Report on Form 8-K filed September 12, 2002.) (10.24) First Amendment to Credit and Security Agreement and Waiver of Defaults, dated as of March 26, 2003, between Metretek, Incorporated and Wells Fargo Business Credit, Inc. (Incorporated by reference to Exhibit 10.33 to Metretek's Annual Report on Form 10-KSB for the year ended December 31, 2002.) (10.25) Second Amendment to Credit and Security Agreement, dated as of September 24, 2003, between Metretek, Incorporated and Wells Fargo Business Credit, Inc. (Incorporated by reference to Exhibit 10.5 to Metretek's Current Report on Form 8-K filed October 3, 2003.) (10.26) Third Amendment to Credit and Security Agreement, dated as of November 13, 2003, between Metretek, Incorporated and Wells Fargo Business Credit, Inc. (Filed herewith.) (10.27) Fourth Amendment to Credit and Security Agreement and Waiver of Defaults, dated as of March 24, 2004, between Metretek, Incorporated and Wells Fargo Business Credit, Inc. (Filed herewith.) (10.28) Fifth Amendment to Credit and Security Agreement and Waiver of Defaults, dated as of June 3, 2004, between Metretek, Incorporated and Wells

Fargo Business Credit, Inc. (Incorporated by reference to Exhibit 10.1 to Metretek's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2004.) (10.29) Sixth Amendment to Credit and Security Agreement and Waiver of Defaults, dated as of December 8, 2004, between Metretek, Incorporated and Wells Fargo Business Credit, Inc. (Incorporated by reference to Exhibit 10.1 to Metretek's Current Report on Form 8-K filed December 14, 2004.) (10.30) Credit and Security Agreement, dated as of September 24, 2003, by and between Wells Fargo Business Credit, Inc. and PowerSecure, Inc. (Incorporated by reference to Exhibit 10.1 to Metretek's Current Report on Form 8-K filed October 3, 2003.) (10.31) Form of Guaranty, dated as of September 24, 2003, by each of Metretek Technologies, Inc., Metretek, Incorporated, Metretek Contract Manufacturing Company, Inc. and Southern Flow Companies, Inc., Incorporated for the benefit of Wells Fargo Business Credit, Inc. (Incorporated by reference to Exhibit 10.2 to Metretek's Current Report on Form 8-K filed October 3, 2003.) 72 (10.32) Form of Security Agreement, dated as of September 6, 2001, between Wells Fargo Business Credit, Inc. and each of Metretek Technologies, Inc., Metretek, Incorporated., Metretek Contract Manufacturing Company, Inc. and Southern Flow Companies, Inc. (Incorporated by reference to Exhibit 10.3 to Metretek's Current Report on Form 8-K filed October 3, 2003.) (10.33) First Amendment to Credit and Security Agreement, dated as of December 8, 2004, between PowerSecure, Inc. and Wells Fargo Business Credit, Inc. (Incorporated by reference to Exhibit 10.3 to to Metretek's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2004.) (10.34) Employment and Non-Competition Agreement, dated as of June 24, 2002, between Metretek, Incorporated and Thomas R. Kellogg. (Incorporated by reference to Exhibit 10.24 to Metretek's Annual Report on Form 10-KSB for the year ended December 31, 2002.)* (10.35) Employment and Non-Competition Agreement, dated as of January 1, 2003, between PowerSecure, Inc. and Sidney Hinton. (Incorporated by reference to Exhibit 10.25 to Metretek's Annual Report on Form 10-KSB for the year ended December 31, 2002.)* (10.36) Form of Stock Purchase Agreement, dated as of September 10, 2004, by and between Metretek Technologies, Inc. and the employee-shareholders of PowerSecure, Inc. (Incorporated by reference to Exhibit 10.1 to Metretek's Current Report on Form 8-K, filed September 13, 2004)* (10.37) Amended Stipulation of Settlement, filed March 3, 2004, among Douglas W. Heins on behalf of himself and all others similarly situated, and Metretek Technologies, Inc., et. al. (Incorporated by reference to Exhibit 10.39 to Metretek's Annual Report on Form 10-K for the year ended December 31, 2003.) (10.38) Order Granting Final Approval of the Partial Settlement, dated June 11, 2004. (Incorporated by reference to Exhibit 99.1 to Metretek's Current Report on Form 8-K filed June 14, 2004.) (10.39) Summary Sheet of Compensation of Non-Employee Directors. (Filed herewith.) (14.1) Metretek Technologies, Inc. Code of Ethics for Principal Executive Officer and Senior Financial Officers. (Incorporated by reference to Exhibit 14.1 to Metretek's Annual Report on Form 10-K for the year ended December 31, 2003.) (14.2) Metretek Technologies, Inc. Code of Business Conduct and Ethics. (Incorporated by reference to Exhibit 14.2 to Metretek's Annual Report on Form 10-K for the year ended December 31, 2003.) (21.1) Subsidiaries of Metretek Technologies, Inc. (Filed herewith.) (23.1) Consent of Hein & Associates LLP (Filed herewith.) (23.2) Consent of Deloitte & Touche LLP (Filed herewith.) (31.1) Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith.) (31.2) Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith.) 73 (32.1) Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 and Rule 13a-14(b) or 15d-14(b) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herewith.) (32.2) Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 and Rule 13a-14(b) or 15d-14(b) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herewith.) ---------- * Management contract or compensation plan or arrangement. (B) ITEM 601 EXHIBITS The exhibits required by this Item are listed under Item 15(a)(3) of this Report, above. (C) FINANCIAL STATEMENT SCHEDULES The financial statement schedules required by this Item are listed under Item 15(a)(2) of this Report, above. 74 SIGNATURES Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized. METRETEK TECHNOLOGIES, INC. By: /s/ W. Phillip Marcum ---------------------------------- W. Phillip Marcum, President and Chief Executive Officer Date: March 21, 2005 POWER OF ATTORNEY KNOW ALL MEN BY THESE PRESENTS, THAT each of the undersigned directors and officers of Metretek Technologies, Inc. hereby constitutes and appoints W. Phillip Marcum, A. Bradley Gabbard and Paul R. Hess, and each of them, as his true and

lawful attorneys-in-fact and agents, each with full power of substitution and re-substitution for him and in his name, place and stead, in any and all capacities, sign any and all amendments to this report, and the file the same, with exhibitions thereto and other documents in connection therein with the Securities and Exchange Commission hereby ratifying and confirming all that said attorneys-in-fact and agents, or his substitute or substitutes, may do or cause to be done by virtue hereof. Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated: SIGNATURE TITLE DATE --------- ----- ---- /s/ W. Phillip Marcum Chairman of the Board, President, March 21, 2005 ------------------------ Chief Executive Officer and Director W. Phillip Marcum (Principal executive officer) /s/ A. Bradley Gabbard Executive Vice President, Chief Financial March 21, 2005 ------------------------ Officer, Treasurer, Secretary and Director A. Bradley Gabbard (Principal financial officer) /s/ Gary J. Zuiderveen Controller, Principal Accounting March 21, 2005 ------------------------ Officer and Secretary Gary J. Zuiderveen (Principal accounting officer) /s/ Basil M. Briggs Director March 21, 2005 ------------------------ Basil M. Briggs /s/ Anthony D. Pell Director March 21, 2005 ------------------------ Anthony D. Pell /s/ Kevin P. Collins Director March 21, 2005 ------------------------ Kevin P. Collins 75 INDEX TO FINANCIAL STATEMENTS PAGE ---- CONSOLIDATED FINANCIAL STATEMENTS OF METRETEK TECHNOLOGIES, INC. AND SUBSIDIARIES Report of Independent Registered Public Accounting Firm F-2 Report of Independent Registered Public Accounting Firm F-3 Consolidated Balance Sheets as of December 31, 2004 and 2003 F-4 Consolidated Statements of Operations for the Years Ended December 31, 2004, 2003 and 2002 F-6 Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2004, 2003 and 2002 F-7 Consolidated Statements of Cash Flows for the Years Ended December 31, 2004, 2003 and 2002 F-8 Notes to Consolidated Financial Statements F-9 F-1 REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM To the Board of Directors and Stockholders of Metretek Technologies, Inc.: We have audited the accompanying consolidated balance sheet of Metretek Technologies, Inc. and subsidiaries (the "Company") as of December 31, 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. Our audit also included the financial statement schedule listed in the index at Item 15. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audit. We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Metretek Technologies, Inc. and subsidiaries at December 31, 2004, and the results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein. /s/ Hein & Associates LLP HEIN & ASSOCIATES LLP Denver, Colorado March 8, 2005 F-2 REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM Board of Directors and Stockholders Metretek Technologies, Inc. We have audited the accompanying consolidated balance sheet of Metretek Technologies, Inc. and subsidiaries (the "Company") as of December 31, 2003, and the related consolidated statements of operations, stockholders' equity, and cash flows for the two years ended December 31, 2003. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits. We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, such consolidated financial statements present fairly, in all material respects, the financial

position of Metretek Technologies, Inc. and subsidiaries at December 31, 2003, and the results of their operations and their cash flows for each of the two years ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein. As disclosed in Note 3 to the consolidated financial statements, the Company discontinued the MCM operations in December 2004. The results of MCM prior to the disposition are included in loss on discontinued operations in the accompanying consolidated financial statement for the two years ended December 31, 2003. Also, as disclosed in Note 1 to the consolidated financial statements, the Company adopted EITF 03-6, "Participating Securities and the Two-Class Method Under FASB Statement No. 128". /s/ Deloitte & Touche LLP Denver, Colorado March 25, 2004 (March 11, 2005 as to the effects of the discontinued operations described in Note 3 and the adoption of EITF 03-6 described in Note 1) F-3 METRETEK TECHNOLOGIES, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS DECEMBER 31, ------------------------- 2004 2003 ----------- ----------- ASSETS CURRENT ASSETS: Cash and cash equivalents $ 2,951,489 $ 2,101,675 Trade receivables, net of allowance for doubtful accounts of $740,742 and $200,706, respectively 8,702,437 6,613,153 Other receivables 25,850 59,864 Inventories 3,190,653 3,984,223 Prepaid expenses and other current assets 524,508 489,253 ----------- ----------- Total current assets 15,394,937 13,248,168 ----------- ----------- PROPERTY, PLANT AND EQUIPMENT: Equipment 5,052,664 3,810,632 Vehicles 61,041 66,590 Furniture and fixtures 543,127 588,869 Land, building and improvements 796,182 754,167 ----------- ----------- Total property, plant and equipment, at cost 6,453,014 5,220,258 Less accumulated depreciation and amortization 3,715,884 3,814,908 ----------- ----------- Property, plant and equipment, net 2,737,130 1,405,350 ----------- ----------- OTHER ASSETS: Goodwill (Notes 1 and 5) 8,840,148 7,617,196 Patents and capitalized software development, net of accumulated amortization of $1,135,843 and $1,033,109, respectively 233,390 288,657 Investment in unconsolidated affiliate 2,077,301 691,100 Note receivable (Note 3) 780,000 Other assets 148,010 76,070 ----------- ----------- Total other assets 12,078,849 8,673,023 ----------- ----------- TOTAL $30,210,916 $23,326,541 =========== =========== See accompanying notes to consolidated financial statements. F-4 METRETEK TECHNOLOGIES, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS DECEMBER 31, -------------------------- 2004 2003 ------------ ------------ LIABILITIES AND STOCKHOLDERS' EQUITY CURRENT LIABILITIES: Accounts payable $ 3,206,094 $ 1,978,226 Accrued and other liabilities 5,002,536 4,530,149 Notes payable (Note 6) 1,171,988 750,753 Redeemable preferred stock - Series B (Note 4) 893,957 Capital lease obligations (Note 7) 3,477 25,411 ------------ ------------ Total current liabilities 10,278,052 7,284,539 ------------ ------------ LONG-TERM NOTES PAYABLE (NOTE 6) 6,075,065 5,226,950 ------------ ------------ NON-CURRENT CAPITAL LEASE OBLIGATIONS (NOTE 7) 7,094 16,483 ------------ ------------ LIABILITIES OF DISCONTINUED OPERATIONS (NOTE 3) 843,649 ------------ ------------ COMMITMENTS AND CONTINGENCIES (NOTE 8) MINORITY INTEREST IN SUBSIDIARIES (NOTE 10) 89,792 207,280 ------------ ------------ REDEEMABLE CONVERTIBLE PREFERRED STOCK - SERIES B, $.01 PAR VALUE; 1,000,000 SHARES AUTHORIZED; 7,000 SHARES ISSUED AND OUTSTANDING AT DECEMBER 31, 2003; REDEMPTION VALUE $1,000 PER SHARE (NOTE 4) 9,422,132 ------------ ------------ STOCKHOLDERS' EQUITY (NOTE 10): Preferred stock - undesignated, $.01 par value; 2,000,000 shares authorized; none issued and outstanding Preferred stock - Series C, $.01 par value; 500,000 shares authorized; none issued and outstanding Common stock, $.01 par value; 25,000,000 shares authorized; 12,186,741 and 6,043,469 shares issued and outstanding, respectively 121,867 60,435 Additional paid-in-capital 71,413,120 55,107,132 Deferred compensation (132,000) Accumulated deficit (58,485,723) (53,998,410) ------------ ------------ Total stockholders' equity 12,917,264 1,169,157 ------------ ------------ TOTAL $ 30,210,916 $ 23,326,541 ============ ============ See accompanying notes to consolidated financial statements. F-5 METRETEK TECHNOLOGIES, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS YEAR ENDED DECEMBER 31, ------------------------------------- 2004 2003 2002 ----------- ----------- ----------- REVENUES: Sales and services $34,700,954 $36,332,145 $26,401,794 Other 475,969 141,591 51,137 ----------- ----------- ----------- Total revenues 35,176,923 36,473,736 26,452,931 ----------- ----------- ----------- COSTS AND EXPENSES: Cost of sales and services 23,897,325 25,686,448 17,938,158 General and administrative 6,834,960 6,105,010 5,709,894 Selling, marketing and service 2,112,203 1,600,684 1,555,150 Depreciation and amortization 578,516 514,640 576,422 Research and development 667,293 626,760 551,518 Interest, finance charges and other 480,110 285,437 205,234 Provision for litigation costs, net (Note 8) -- -- 1,763,723 Nonrecurring charges (Note 3) -- -- 182,496 ----------- ----------- -----------

Total costs and expenses 34,570,407 34,818,979 28,482,595 ----------- ----------- ----------- Income (loss) from continuing operations before minority interest, income taxes, and equity income 606,516 1,654,757 (2,029,664) Minority interest (Note 10) (238,389) (207,280) -- Income taxes (Note 9) (47,590) (56,980) (45,509) Equity in income of unconsolidated affiliate 1,254,509 468,790 211,265 ----------- ----------- ----------- INCOME (LOSS) FROM CONTINUING OPERATIONS 1,575,046 1,859,287 (1,863,908) ----------- ----------- ----------- DISCONTINUED OPERATIONS OF MCM (NOTE 3) Loss on disposal of MCM (3,355,301) -- -- Loss from operations of MCM (1,463,285) (980,302) (1,518,409) ----------- ----------- ----------- LOSS ON DISCONTINUED OPERATIONS (4,818,586) (980,302) (1,518,409) ----------- ----------- ----------- NET INCOME (LOSS) $(3,243,540) $ 878,985 $(3,382,317) =========== =========== =========== PER SHARE AMOUNTS (NOTE 1): INCOME (LOSS) FROM CONTINUING OPERATIONS: Basic $ 0.03 $ 0.11 $ (0.45) =========== =========== =========== Diluted $ 0.03 $ 0.11 $ (0.45) =========== =========== =========== NET INCOME (LOSS): Basic $ (0.47) $ (0.06) $ (0.70) =========== =========== =========== Diluted $ (0.45) $ (0.06) $ (0.70) =========== =========== =========== WEIGHTED AVERAGE COMMON SHARES OUTSTANDING: Basic 9,531,199 6,043,469 6,077,388 =========== =========== =========== Diluted 10,035,730 6,051,580 6,077,388 =========== =========== =========== See accompanying notes to consolidated financial statements. F-6 METRETEK TECHNOLOGIES, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002 ACCUMULATED COMMON STOCK ADDITIONAL OTHER ---------------------- PAID-IN DEFERRED COMPREHENSIVE ACCUMULATED SHARES VALUE CAPITAL COMPENSATION INCOME (LOSS) DEFICIT TOTAL ----------- -------- ----------- ------------ ------------ ------------ ----------- BALANCE, JANUARY 1, 2002 6,077,764 $ 60,778 $55,116,789 $(65,935) $(49,753,163) $ 5,358,469 Comprehensive loss: Foreign currency translation adjustments 65,935 65,935 Net loss (3,382,317) (3,382,317) ----------- Total comprehensive loss (3,316,382) Repurchases of common stock (34,295) (343) (24,657) (25,000) Preferred stock distribution (851,724) (851,724) ----------- -------- ----------- --------- --------- ------------ ----------- BALANCE, DECEMBER 31, 2002 6,043,469 60,435 55,092,132 (53,987,204) 1,165,363 Net income 878,985 878,985 Minority interest stock compensation 15,000 15,000 Preferred stock distribution (890,191) (890,191) ----------- -------- ----------- --------- --------- ------------ ----------- BALANCE, DECEMBER 31, 2003 6,043,469 60,435 55,107,132 (53,998,410) 1,169,157 Net loss (3,243,540) (3,243,540) Private placement, net 3,510,548 35,105 9,793,586 9,828,691 Conversion of preferredstock 1,329,173 13,292 4,413,996 4,427,288 Stock issued in acquisition of PowerSecure minority Interest 950,000 9,500 1,492,925 1,502,425 Stock option exercises 263,551 2,635 408,381 411,016 Stock awards 90,000 900 197,100 $(198,000) Amortization of deferred compensation 66,000 66,000 Preferred stock distribution (1,243,773) (1,243,773) ----------- -------- ----------- --------- --------- ------------ ----------- BALANCE, DECEMBER 31, 2004 12,186,741 $121,867 $71,413,120 $(132,000) $ $(58,485,723) $12,917,264 =========== ======== =========== ========= ========= ============ =========== See accompanying notes to consolidated financial statements. F-7 METRETEK TECHNOLOGIES, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, --------------------------------------- 2004 2003 2002 ----------- ----------- ----------- CASH FLOWS FROM OPERATING ACTIVITIES: Net income (loss) $(3,243,540) $ 878,985 $(3,382,317) Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: Loss on disposal of MCM operations 3,355,301 Loss from discontinued operations of MCM 1,463,285 980,302 1,518,409 Depreciation and amortization 578,516 514,640 576,422 Provision for litigation costs 1,763,723 Minority interest in subsidiary 238,389 222,280 Loss on disposal of property, plant and equipment 262 13,327 16,352 Equity in income of unconsolidated affiliate (1,254,509) (468,790) (211,265) Distributions from unconsolidated affiliate 807,732 332,137 101,251 Stock compensation 66,000 Changes in operating assets and liabilities, net of acquisitions: Trade receivables, net (2,834,777) (2,403,211) 770,477 Inventories (1,235,077) (775,449) (73,477) Other current assets (1,241) 14,195 (757) Other noncurrent assets (71,940) (18,069) (278) Accounts payable 1,227,868 381,356 140,656 Accrued and other liabilities 476,609 1,661,378 313,450 ----------- ----------- ----------- Net cash provided by (used in) continuing operations (427,122) 1,333,081 1,532,646 Net cash used by discontinued operations of MCM (1,441,705) (804,083) (1,436,414) ----------- ----------- ----------- Net cash provided by (used in) operating activities (1,868,827) 528,998 96,232 ----------- ----------- ----------- CASH FLOWS FROM INVESTING ACTIVITIES: Investment in unconsolidated affiliate (955,784) Capitalized software purchases or development (47,467) (2,000) (11,841) Purchases of property, plant and equipment (2,229,640) (294,067) (534,426) Minority interest acquired (80,979) Proceeds from

sale of property, plant and equipment 5,700 800 1,500 ----------- ----------- ----------- Net cash used in investing activities (3,308,170) (295,267) (544,767) ----------- ----------- ----------- CASH FLOWS FROM FINANCING ACTIVITIES: Net proceeds from private placement 9,828,691 Proceeds from stock option exercises 411,016 Net borrowings on line of credit 75,863 1,074,390 445,258 Proceeds from equipment and project loans 1,212,570 30,169 238,863 Proceeds from investment loan 960,784 Principal payments on long-term notes payable (979,867) (71,049) Distributions to minority interests (55,701) Repurchase of common stock (25,000) Payments on preferred stock redemptions (5,344,660) Payments on capital lease obligations (81,885) (50,409) (21,819) ----------- ----------- ----------- Net cash provided by financing activities 6,026,811 983,101 637,302 ----------- ----------- ----------- NET INCREASE IN CASH AND CASH EQUIVALENTS 849,814 1,216,832 188,767 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 2,101,675 884,843 696,076 ----------- ----------- ----------- CASH AND CASH EQUIVALENTS AT END OF YEAR $ 2,951,489 $ 2,101,675 $ 884,843 =========== =========== =========== See accompanying notes to consolidated financial statements. F-8 METRETEK TECHNOLOGIES, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES ORGANIZATION - The accompanying consolidated financial statements include the accounts of Metretek Technologies, Inc. ("Metretek Technologies") and its subsidiaries, primarily Southern Flow Companies, Inc. ("Southern Flow"), PowerSecure, Inc. ("PowerSecure"), Metretek, Incorporated ("Metretek Florida") (and its majority-owned subsidiary, Metretek Contract Manufacturing Company, Inc. ("MCM")), and Marcum Gas Transmission, Inc. ("MGT") (and its majority-owned subsidiary, Conquest Acquisition Company LLC ("CAC LLC")), collectively referred to as the "Company." Metretek Technologies was incorporated on April 5, 1991. The focus of the Company's business operations is currently in the following areas: 1) Southern Flow provides natural gas measurement services; 2) PowerSecure designs and installs distributed generation equipment and related services; and 3) Metretek Florida is engaged in automated energy data management. See Note 11 for more information concerning the Company's reportable segments. PRINCIPLES OF CONSOLIDATION - The consolidated financial statements include the accounts of Metretek Technologies and its subsidiaries after elimination of intercompany accounts and transactions. The Company uses the equity method to account for its investment in unconsolidated affiliate. STATEMENT OF CASH FLOWS - The Company considers all highly liquid investments with a maturity of three months or less from the date of purchase to be cash equivalents. 2004 2003 2002 ---------- -------- ---------- Supplemental disclosures of cash flow information: Cash paid during the year for: Interest $ 404,030 $202,668 $ 147,956 State income taxes 12,958 56,980 45,509 Supplemental schedule of non-cash investing and financing activities: Capital lease obligations incurred for the purchase of equipment 526,395 98,424 -- Acquisition of minority interest in PowerSecure through issuance of stock 1,202,249 -- -- Issuance of restricted stock compensation 198,000 -- -- Note receivable in payment for sale of discontinued MCM operations 780,000 -- -- Conversion of preferred stock 4,427,288 -- -- Cancellation of disputed note payable to vendor for non-performance -- -- 2,471,426 F-9 USE OF ESTIMATES - The preparation of the Company's consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates 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. Actual results could differ from those estimates. Significant estimates include percentage-of-completion estimates, allowance for doubtful accounts receivable, inventory valuation reserves, and deferred tax valuation allowance. REVENUE RECOGNITION - Equipment and supply sales are recognized when delivered, and natural gas measurement revenues are recognized as services are provided. The Company utilizes the percentage-of-completion method of method of revenue recognition for PowerSecure's contracts. Under the percentage-of-completion method of accounting, PowerSecure recognizes project revenues (and associated project costs) based on estimates of the value added for each portion of the projects completed. Revenues and gross profit are adjusted prospectively for revisions in estimated total contract costs and contract values. Estimated losses, if any, are recorded when identified. Amounts billed to customers in excess of revenues recognized to date are classified as current liabilities. The Company recognizes revenues on PowerSecure's shared savings distributed generation projects as the customer realizes energy savings their site. ACCOUNTS RECEIVABLE - The Company performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral. The Company continuously monitors collections and payments from its customers and regularly adjusts credit limits of customers based upon payment history and a

customer's current credit worthiness, as judged by the Company. The Company maintains a provision for estimated credit losses. The December 31, 2004 balance of the allowance for doubtful accounts includes $587,000 provided for losses on receivables from the discontinued operations of the Company's MCM business (see Note 3). INVENTORIES - Inventories are stated at the lower of cost (determined primarily on a first-in, first-out basis) or market. Inventories at December 31, 2004 and 2003 are summarized as follows: 2004 2003 ----------- ---------- Raw materials and supplies $ 3,013,759 $2,222,461 Work in process 471,270 1,085,315 Finished goods and merchandise 1,253,894 964,246 Valuation reserve (1,548,270) (287,799) ----------- ---------- Total $ 3,190,653 $3,984,223 =========== ========== The raw materials and supplies inventory at December 31, 2004, includes $1,567,000 of inventory from the discontinued operations of the Company's MCM business (see Note 3), of which $1,199,000 has been reserved for losses expected upon disposal of that inventory. In November 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("FAS") No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4". FAS No. 151 amends the guidance in Chapter 4, "Inventory Pricing," of Accounting Research Bulletin No. 43, "Restatement and Revision of Accounting Research Bulletins," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. FAS No. 151 also clarifies the circumstances under which fixed overhead costs associated with operating facilities involved in inventory processing should be capitalized. The provisions of FAS No. 151 are effective for F-10 fiscal years beginning after June 15, 2005, which the Company will be required to adopt for fiscal 2006. The Company is currently evaluating the impact, if any, that FAS No. 151 will have on its consolidated financial position or results of operations. PROPERTY, PLANT AND EQUIPMENT - Property, plant and equipment are stated at cost and are generally depreciated using the straight-line method over their estimated useful lives, which depending on asset class ranges from 2 to 30 years. Property, plant and equipment includes items under capital lease with a net book value of $10,813 and $66,406 at December 31, 2004 and 2003, respectively. INVESTMENT IN UNCONSOLIDATED AFFILIATE -The Company, through MGT, holds a minority interest in Marcum Midstream 1995-2 Business Trust ("MM 1995-2") which it acquired in early 1996. During the first quarter of 2004, the Company acquired additional equity interests in MM 1995-2 at a purchase price of $956,000, with an effective date of the acquisition of January 1, 2004. As a result of this additional investment, the Company currently owns an approximate 26% economic interest in MM 1995-2. MM 1995-2 owns and operates four water disposal well facilities in northeastern Colorado. To facilitate the acquisition of the additional equity interests, MGT formed CAC LLC, a majority-owned subsidiary. Financing of the acquired equity interests was provided by a $961,000 term loan from a commercial bank to CAC LLC. The loan is collateralized by CAC LLC's and MGT's collective interests in MM 1995-2, and the Company has provided a guaranty of $625,000 of the term loan. The term loan provides for 60 monthly payments of principal and interest (at a rate of 5.08%) in the amount of approximately $18,500 per month. Cash distributions from MM 1995-2 to CAC LLC are being used to fund the monthly payments on the term loan. The Company utilizes the equity method to account for its investment in MM 1995-2. The minority shareholder's interest in CAC LLC at December 31, 2004, is included in minority interest in the accompanying consolidated financial statements. Summarized financial information for MM 1995-2 at December 31, 2004 and 2003 and for the three years ended December 31, 2004 are as follows: DECEMBER 31, ---------------------- 2004 2003 ---------- ---------- Total current assets $1,766,687 $1,510,302 Property, plant and equipment, net 5,158,373 4,681,899 Total other assets 16,537 23,801 ---------- ---------- Total assets $6,941,597 $6,216,002 ========== ========== Total current liabilities $ 812,796 $ 795,599 Long-term note payable 419,559 1,020,561 Total shareholders' equity 5,709,242 4,399,842 ---------- ---------- Total liabilities and shareholders' equity $6,941,597 $6,216,002 ========== ========== YEAR ENDED DECEMBER 31, ---------------------------------- 2004 2003 2002 ---------- ---------- ---------- Total revenues $7,208,648 $5,311,822 $3,333,195 Total costs and expenses 3,299,248 2,480,899 2,153,918 ---------- ---------- ---------- Net income $3,909,400 $2,830,923 $1,179,277 ========== ========== ========== F-11 GOODWILL AND OTHER INTANGIBLE ASSETS - Effective January 1, 2002, the Company adopted the provisions of FAS No. 141, "Business Combinations" and FAS No. 142 "Goodwill and Other Intangible Assets." FAS No. 141 eliminated the pooling-of-interests method of accounting for business combinations and further clarifies the criteria to recognize intangible assets separately from goodwill. FAS No. 142 states that goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed for impairment annually (or more frequently if impairment indicators arise). Separable intangible assets that do not have an indefinite life continue to be amortized over their estimated useful lives. Effective June 30, 2002, the Company completed the initial testing of the impairment of goodwill required by

FAS No. 142. The Company also tests for goodwill impairment annually on October 1. As a result of these tests, the Company has concluded that there has been no impairment of goodwill as of each of the respective testing dates. The Company capitalizes software development costs integral to its products once technological feasibility of the products and software has been determined. Software development costs are being amortized over five years, using the straight-line method. Unamortized software development costs at December 31, 2004 and 2003 are $233,390 and $288,657, respectively. Patents and license agreements are amortized using the straight-line method over the lesser of their estimated economic lives or their legal term of existence, generally 10 to 17 years. Patent and license agreement costs have been fully amortized at December 31, 2004 and 2003. ACCRUED AND OTHER LIABILITIES - Accrued and other liabilities at December 31, 2004 and 2003 are summarized as follows: 2004 2003 ---------- ---------- Payroll, employee benefits and related liabilities $1,441,216 $1,159,067 Deferred revenue 408,097 436,063 Sales, property and other taxes payable 229,366 80,282 Insurance premiums and reserves 416,786 326,961 Accrued project costs 829,615 1,008,159 Advance billings on projects in progress 1,601,773 951,020 Warranty reserve 67,229 97,494 Accrued litigation costs -- 420,017 Other 8,454 51,086 ---------- ---------- Total $5,002,536 $4,530,149 ========== ========== INCOME (LOSS) PER SHARE - Basic income (loss) per share is computed using the weighted average number of shares outstanding. Diluted income (loss) per share reflects the potential dilutions that would occur if stock options were exercised using the average market price for the Company's stock for the period. The Emerging Issues Task Force ("EITF") issued EITF Issue No. 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings per Share" ("EITF 03-6"). The Company adopted EITF 03-6 as of April 1, 2004, and has retroactively adjusted prior periods pursuant to its provisions. EITF 03-6 provides guidance for the computation of earnings per share using the two-class method for enterprises with participating securities or multiple classes of common stock as required by Statement of Financial Accounting Standards No. 128. The two-class method allocates undistributed earnings to each class of common stock and participating securities for the purpose of computing basic earnings per share. The Company's Series B Redeemable Preferred Stock was a participating security under the provisions of EITF 03-6 for periods prior to its redemption on December 9, 2004. No undistributed earnings are allocable to the Company's Series B Redeemable F-12 Preferred Stock for the year ended December 31, 2004 since such shares have been redeemed effective December 9, 2004. The following table sets forth the calculation of basic and diluted earnings per share: YEAR ENDED DECEMBER 31, ------------------------------------ 2004 2003 2002 ----------- ---------- ----------- Income (loss) from continuing operations $ 1,575,046 $1,859,287 $(1,863,908) Less preferred stock deemed distribution (1) (1,243,773) (890,191) (851,724) ----------- ---------- ----------- Income (loss) from continuing operations to be allocated 331,273 969,096 (2,715,632) Less allocation of undistributed earnings to participating preferred stock -- (327,302) -- ----------- ---------- ----------- Income (loss) from continuing operations attributable to common shareholders 331,273 641,794 (2,715,632) Loss from discontinued operations (4,818,586) (980,302) (1,518,409) ----------- ---------- ----------- Net loss attributable to common shareholders $(4,487,313) $ (338,508) $(4,234,041) =========== ========== =========== Basic weighted-average common shares outstanding in period 9,531,199 6,043,469 6,077,388 Add dilutive effects of stock options (2) 504,531 8,111 -- ----------- ---------- ----------- Diluted weighted-average common shares outstanding in period (4) 10,035,730 6,051,580 6,077,388 =========== ========== =========== Basic earnings (loss) per common share: Income (loss) from continuing operations $ 0.03 $ 0.11 $ (0.45) Loss from discontinued operations (0.50) (0.16) (0.25) ----------- ---------- ----------- Basic earnings per common share (3) $ (0.47) $ (0.06) $ (0.70) =========== ========== =========== Diluted earnings (loss) per common share: Income (loss) from continuing operations $ 0.03 $ 0.11 $ (0.45) Loss from discontinued operations (0.48) (0.16) (0.25) ----------- ---------- ----------- Diluted earnings per common share (3) $ (0.45) $ (0.06) $ (0.70) =========== ========== =========== (1) The preferred stock deemed distribution for the year ended December 31, 2004 includes a non-cash charge (expense) of $593,000, which represents the estimated fair market value of inducement conveyed to the converting Preferred Stockholders in connection with the Private Placement discussed further in Note 2. (2) The assumed conversion of stock options, convertible preferred stock and warrants has been excluded from weighted average shares outstanding for the year ended December 31, 2002 because the effect would be anti-dilutive. (3) Basic and diluted earnings per share for the year ended December 31, 2003 differ from the amounts originally presented in the Company's Annual Report on Form 10-K dated December 31, 2003 for the effects of the allocation of earnings to participating preferred stock as required by the provisions of EITF 03-6. F-13 DEFERRED COMPENSATION - During the third quarter 2004, the Company awarded, subject to restrictions, 90,000 shares of common stock to certain executives of the Company. The stock

awards vest in one-third increments over a three-year period. The Company recorded deferred compensation expense in the amount of $198,000 for the fair market value of the stock on the date of the award. The deferred compensation is amortized over the remaining vesting period. The Company amortized $66,000 of the deferred compensation expense during the year ended December 31, 2004. STOCK BASED COMPENSATION - The Company utilizes the intrinsic value method to account for employee stock options as well as stock options issued to independent members of the board of directors. The Company utilizes the fair value method to account for stock based compensation to non-employees. In December 2002, the FASB issued FAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure". FAS No. 148 amends FAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods for voluntary transition to FAS 123's fair value method of accounting for stock-based employee compensation ("the fair value method"). FAS No. 148 also requires disclosure of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income (loss) and earnings (loss) per share in annual and interim financials statements. At December 31, 2004, the Company has three stock-based employee and director compensation plans, which are described more fully in Note 9. The Company accounts for these plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations. Accordingly, no compensation cost has been recognized for stock option grants to employees and directors, as all options granted under those plans had an exercise price equal to or in excess of the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net loss and loss per share if the Company had applied the fair value recognition provisions of FAS No. 123 for the years ended December 31, 2004, 2003 and 2002: YEAR ENDED DECEMBER 31, ----------------------------------- 2004 2003 2002 ----------- --------- ----------- Net loss applicable to common shareholders - as reported $(4,487,313) $(338,508) $(4,234,041) Deduct: Total stock-based employee compensation expense determined under fair value based method (193,047) (76,437) (34,837) ----------- --------- ----------- Net loss applicable to common shareholders - pro forma $(4,680,360) $(414,945) $(4,268,878) =========== ========= =========== Income (loss) per basic common share: As reported $ (0.47) $ (0.06) $ (0.70) =========== ========= =========== Pro forma $ (0.49) $ (0.07) $ (0.70) =========== ========= =========== Income (loss) per diluted common share: As reported $ (0.45) $ (0.06) $ (0.70) =========== ========= =========== Pro forma $ (0.47) $ (0.07) $ (0.70) =========== ========= =========== The fair values of stock options were calculated using the Black-Scholes stock option valuation model with the following weighted average assumptions for grants in 2004, 2003 and 2002: stock price volatility of 58%, 107% and 105%, respectively; risk-free interest rate of 3.53% in 2004 and 3.5% in F-14 2003 and 2002; dividend rate of $0.00 per year; and an expected life of 4 years for options granted to employees and 10 years for options granted to directors. In December 2004, the FASB issued its final standard on accounting for employee stock options, FAS No. 123 (Revised 2004), "Share-Based Payment" ("FAS No. 123(R)"). FAS No. 123(R) replaces FAS No. 123, "Accounting for Stock-Based Compensation" ("FAS No. 123"), and supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". FAS No. 123(R) requires companies to measure compensation costs for all share-based payments, including grants of employee stock options, based on the fair value of the awards on the grant date and to recognize such expense over the period during which an employee is required to provide services in exchange for the award. The pro forma disclosures previously permitted under FAS No. 123 will no longer be an alternative to financial statement recognition. FAS No. 123(R) is effective for all awards granted, modified, repurchased or cancelled after, and to unvested portions of previously issued and outstanding awards vesting after, interim or annual periods beginning after June 15, 2005, which for the Company will be the third quarter of fiscal 2005. The Company is currently evaluating the effect of adopting FAS No. 123(R) on its financial position and results of operations, and the Company has not yet determined whether the adoption of FAS No. 123(R) will result in expenses in amounts that are similar to the current pro forma disclosures under FAS No. 123. RESEARCH AND DEVELOPMENTS COSTS - Research and development costs relating principally to the design and development of products (exclusive of costs capitalized under FAS 86) are expensed as incurred. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES - In June 1998, the FASB issued FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which was amended in June 2000 by FAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities". FAS No. 133, as amended, establishes methods of accounting for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities including hedging foreign currency expenses. The Company adopted FAS No. 133 on January 1, 2001. In April 2003, the FASB issued FAS No. 149, "Amendment of

Statement 133 on Derivative Instruments and Hedging Activities". FAS No. 149 amends and clarifies the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." FAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. Because the Company does not utilize derivative financial instruments, the adoption of FAS No. 133 and FAS No. 149 had no affect on the consolidated financial position, results of operations or cash flows of the Company. IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS - The Company evaluates its long-lived assets whenever significant events or changes in circumstances occur that indicate that the carrying amount of an asset may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted future net cash flows from the operations to which the assets relate, based on management's best estimates using appropriate assumptions and projections at the time, to the carrying amount of the assets. If the carrying value is determined not to be recoverable from future operating cash flows, the asset is deemed impaired and an impairment loss is recognized equal to the amount by which the carrying amount exceeds the estimated fair value of the asset EXIT OR DISPOSAL ACTIVITIES - In July 2002, the FASB issued FAS No. 146, "Accounting for Costs Associated With Exit or Disposal Activities", which provides guidance for financial accounting and reporting of costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including F-15 Certain Costs Incurred in a Restructuring)". FAS No. 146 requires the recognition of a liability for a cost associated with an exit or disposal activity when the liability is incurred, as opposed to when the entity commits to an exit plan under EITF No. 94-3. FAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company adopted FAS 146 on January 1, 2003. The adoption of FAS 146 had no effect on the consolidated financial position, results of operations or cash flows of the Company. GUARANTEES AND INDEBTEDNESS OF OTHERS - In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees and Indebtedness of Others". FIN 45 elaborates on the disclosures to be made by the guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires that a guarantor recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of this interpretation became applicable on a prospective basis to guarantees issued or modified after December 31, 2002; while the provisions of the disclosure requirements became effective for financial statements of interim or annual reports ending after December 15, 2002. The Company adopted the disclosure provisions of FIN 45 during the fourth quarter of fiscal 2002 and the recognition provisions of FIN 45 during the first quarter 2003. The Company currently has no guarantees of indebtedness of others and the adoption of FIN 45 had no effect on the consolidated financial position, results of operations or cash flows of the Company. CONSOLIDATION OF VARIABLE INTEREST ENTITIES - In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities". In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after March 15, 2004. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company currently does not have any variable interest entities and the adoption of FIN 46 had no effect on the consolidated financial position, results of operations or cash flows of the Company. FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF BOTH LIABILITIES AND EQUITY - In May 2003, the FASB issued FAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". FAS No. 150 requires that certain financial instruments, which under previous guidance were accounted for as equity, must now be accounted for as liabilities. The financial instruments affected include mandatory redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets and certain obligations that can be settled with shares of stock. FAS No. 150 is effective for all financial instruments

entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of FAS No. 150 had no effect on the consolidated financial position, results of operations or cash flows of the Company. FOREIGN CURRENCY TRANSLATION - Metretek Europe operated in Europe primarily using local functional currency. Accordingly, the assets and liabilities of Metretek Europe were translated into U.S. dollars F-16 for consolidated balance sheet accounts at the rate of exchange in effect at year end, while sales and expenses were translated into U.S. dollars for consolidated statements of operations accounts at the average exchange rates in effect during the year. The net effect of translation adjustments is shown in the accompanying financial statements as a component of comprehensive income. During 2002, the Company terminated the separate business activities of Metretek Europe and combined its operations with Metretek Florida and the remaining balance of the foreign currency translation adjustment in the amount of ($65,935) at December 31, 2001 was eliminated. COMPREHENSIVE INCOME (LOSS) - The Company's comprehensive income (loss) consists solely of foreign currency translation adjustments attributable to the accounts of Metretek Europe and is presented in the Consolidated Statement of Stockholders' Equity. RECLASSIFICATIONS - During the third quarter of 2004, the Board of Directors of the Company approved a plan to discontinue the business of MCM and sell all of its manufacturing assets (See Note 3). The operations of the discontinued MCM disposal group have been reclassified to discontinued operations for all periods presented in the accompanying consolidated statements of operations. In addition, the Company has reclassified its equity in income of unconsolidated affiliate from other revenues to a separate line in the consolidated statements of operations for all periods presented. Finally, certain other 2003 and 2002 amounts have been reclassified to conform to current year presentation. Such reclassifications had no effect on net income or loss. 2. PRIVATE PLACEMENT AND CONVERSION OF SERIES B PREFERRED STOCK In May 2004, the Company completed a private placement to institutional and accredited investors of 3,510,548 shares of its common stock and warrants to purchase 702,109 shares of its common stock (the "Private Placement"), raising gross proceeds of $10,883,000. The price paid in the Private Placement was $3.10 per unit, each unit consisting of one share of common stock and a warrant to purchase 0.2 shares of common stock. Roth Capital Partners, LLC acted as placement agent in the Private Placement. The Company received net cash proceeds of $9,829,000 from the Private Placement, after deducting transaction expenses including the placement agent's fee. The net proceeds from the Private Placement have been used by the Company principally to meet its mandatory redemption obligations related to its Series B Preferred Stock, par value $.01 per share ("Series B Preferred Stock"), which matured on December 9, 2004 (the "Mandatory Redemption Date"), and for other business commitments and initiatives. The warrants issued in the Private Placement have an exercise price of $3.41 per share of common stock and expire in May 2009. The warrants are callable by the Company commencing one year after issuance if the trading price of the common stock is at least two times the warrant exercise price for 30 consecutive trading days and certain other conditions are satisfied. In addition to the warrants issued to the investors, the Company issued warrants to purchase up to 351,055 shares of common stock to the placement agent, which warrants are on the same basic terms as the warrants issued to the investors. The Company filed a registration statement with the Securities and Exchange Commission (the "SEC"), covering resales of shares of common stock issued in the Private Placement or upon the exercise of the warrants. In addition, as a condition precedent to the closing of the Private Placement, certain holders of the Company's outstanding shares of Series B Preferred Stock converted a total of 2,500 shares of Series B Preferred Stock, including accrued and unpaid dividends thereon. The purpose of this conversion was F-17 to reduce the Company's potential preferred stock mandatory redemption liability at the Mandatory Redemption Date from approximately $10.3 million to approximately $6.6 million, a reduction of $3.7 million. Upon conversion, the converting Preferred Stockholders received 1,209,133 shares of common stock (inclusive of 55,871 additional shares of common stock ("Additional Shares") intended to compensate the converting Preferred Stockholders for dividends that they would otherwise receive on the converted preferred shares between the Private Placement closing date and the Mandatory Redemption Date) and new warrants to purchase 1,209,133 shares of common stock. The new warrants may be exercised at a strike price of $3.0571 per share of common stock and expire on June 9, 2005. The strike price of the new warrants is the same price as the conversion price of the Series B Preferred Stock. The Company included both the Additional Shares and the shares of common stock issuable upon exercise of the new warrants in the registration statement filed with the SEC in connection with the Private Placement. As a result of the Preferred Stock conversion described in the immediately preceding paragraph, the Company recorded a second quarter of 2004 non-cash charge (expense) in the amount of $543,000 as an additional preferred stock deemed dividend. This charge represents the approximate fair

market value of inducement conveyed to the converting Preferred Stockholders. The inducement amount relates principally to the estimated fair market values of the new warrants and the Additional Shares. See also Note 1 - "Income (Loss) per Share." During the third quarter of 2004, additional holders of the Company's outstanding shares of Series B Preferred Stock converted a total of 250 shares of Series B Preferred Stock, including accrued and unpaid dividends. The conversion terms were identical to those terms offered to holders who converted their shares of Series B Preferred stock in connection with the Private Placement. Upon conversion, the converting Preferred Stockholders received 120,040 shares of common stock and new warrants to purchase 120,040 shares of common stock at a strike price of $3.0571 per share of common stock. These new warrants also expire on June 9, 2005. The Company recorded a third quarter 2004 non-cash charge in the amount of $25,000 as an additional preferred stock deemed dividend, representing the fair market value of inducement conveyed to the converting Preferred Stockholders. 3. DISCONTINUED OPERATIONS OF MCM AND NONRECURRING CHARGES During the third quarter of 2004, the Board of Directors of the Company approved a plan to discontinue the business of MCM and sell all of its manufacturing assets. The Company made its determination to exit the contract manufacturing business as the result of recent unacceptable losses in that business that have adversely affected the consolidated financial results of the Company, as well as industry and market factors and recent projections of operations that are not favorable to the Company in the foreseeable future. The discontinuance of the contract manufacturing operations will allow Metretek Florida to focus on its telemetry and automated meter reading business lines, including the operations related to its new InvisiConnect technology. On December 30, 2004, the Company sold the contract manufacturing assets and business of the MCM disposal group to InstruTech Florida, LLC ("InstruTech Florida"), a newly formed wholly-owned subsidiary of InstruTech, Inc., a Colorado-based contract manufacturer of printed circuit boards and other instrumentation products. InstruTech Florida issued a promissory note in the amount of $780,000 to the Company for the assets and business acquired. The note is payable only out of 50% of the net cash flow of InstruTech Florida and accrues interest at the rate of 4.75%. If at least 30% of the note is not repaid prior to December 31, 2007, the Company and InstruTech have agreed to negotiate in good faith whether to extend the term of the note or whether to declare a default and cause InstruTech to return the purchased equipment to the Company. In addition, InstruTech Florida issued an option to the F-18 Company that would allow Metretek Florida to acquire up to 19% of InstruTech Florida for a period of three years, or until the promissory note has been repaid in full. In connection with the sale to InstruTech Florida, the Company has agreed to provide up to $150,000 in the form of a bridge loan to InstruTech Florida for a period of six months ending June 30, 2005. Repayment of any amounts advanced under terms of the bridge loan are to be repaid in amounts equal to 75% of monthly positive cash flow from operations of InstruTech Florida. Through February 28, 2005, the Company has advanced $50,000 under terms of the bridge loan. In addition, Metretek Florida has offered use of Metretek Florida's facilities through June 30, 2005. InstruTech Florida has agreed to purchase Metretek Florida's remaining contract manufacturing inventory on an "as needed" basis at fair value. For a period of six months (subject to extension), Metretek Florida has agreed to utilize InstruTech Florida as its exclusive contract manufacturer. The sale agreement may be terminated at any time prior to March 31, 2005, under certain conditions, upon the following: i) by mutual agreement of the Company and InstruTech Florida; ii) by InstruTech Florida if it determines customer purchase orders and commitments are below a commercially viable level; or iii) by the Company if it determines that InstruTech Florida has no reasonable chance to be commercially successful or generate positive cash flow within the succeeding 6 to 12 month period. The Company recorded a loss in the amount of $3,355,000 on the disposal of MCM, including a loss of $2,835,000 on the disposal of the MCM assets. The remaining assets and liabilities of the MCM disposal group at December 31, 2004, are as follows: Assets: Accounts receivable, net $416,370 Inventory, net 368,265 -------- $784,635 ======== Liabilities: Capital lease terminations $580,446 Operating lease obligations 97,738 Employee severance obligations 165,465 -------- $843,649 ======== The remaining assets of the MCM disposal group will be liquidated through collections on receivables and through subsequent sales of inventory to third parties, including InstruTech Florida. Revenues of the MCM disposal group for the years ended December 31, 2004, 2003 and 2002 were $3,976,000, $2,369,000 and $639,000, respectively. Operations of the MCM disposal group had previously been included in the Company's Metretek Florida operating segment. Nonrecurring charges for the year ended December 31, 2002 includes the costs related to the June 2002 changes in management at Metretek Florida, principally termination benefits paid or payable to former Metretek Florida management personnel. The balance of unpaid termination benefits was $0 at both December 31, 2004 and 2003. 4. SERIES B PREFERRED STOCK On February 4, 2000, the Company completed a $14,000,000 private

placement (the "Units Private Placement") of 7,000 units ("Units"), with each Unit consisting of 200 shares of common stock, 1 share of Series B Preferred Stock and warrants ("Unit Warrants") to purchase 100 shares of common stock. F-19 In the Units Private Placement, the Company issued 1,400,000 shares of common stock, 7,000 shares of Series B Preferred Stock and Unit Warrants to purchase 700,000 shares of common stock. The Series B Preferred Stock was subject to a mandatory redemption date of December 9, 2004. The Unit Warrants expired unexercised on December 9, 2004. The proceeds from the sale of the Units were allocated to common stock, the Unit Warrants, and the Series B Preferred Stock based on the relative fair value of each on the date of issuance. This allocation process resulted in certain Series B Preferred Stock being initially recorded at a discount of $141 per share from its $1,000 per share liquidation value. The amortization of the discount, along with the preferred stock dividend at a rate of 8%, was recorded as a distribution over the term of the Series B Preferred Stock. In connection with the Private Placement (see Note 2), a total of 2,750 shares of the Series B Preferred Stock were converted to common stock during 2004. The remaining 4,250 shares of Series B Preferred Stock were redeemable on December 9, 2004 at a liquidation preference of $1,000 per share plus accrued and unpaid dividends at an annual rate of 8%. The total redemption obligation of the 4,250 Series B Preferred Stock shares at December 9, 2004 was $6,239,000. Through December 31, 2004, the Company had fully retired 3,641 of the preferred stock shares at a total redemption value of $5,345,000. The remaining 609 preferred stock shares with a redemption value of $894,000 are expected to be retired during the first quarter of 2005 as the holders of the remaining preferred shares present such shares to the Company for redemption. 5. ACQUISITION OF MINORITY INTEREST IN POWERSECURE Effective January 1, 2003, PowerSecure authorized the issuance of shares totaling up to 15% of its outstanding common stock to its employees, including 7% to the President and Chief Executive Officer of PowerSecure, as equity incentive compensation. At December 31, 2003, shares representing 13.88% of the outstanding shares of PowerSecure had been issued to PowerSecure employees. The Company recognized compensation expense in the amount of $15,000 during the first quarter of 2003 upon the issuance of shares of PowerSecure to its employee shareholders based on the estimated fair value of the shares on the date of issuance, net of amounts owed by PowerSecure to the Company. The minority interest in the income of PowerSecure for the year ended December 31, 2003, was $207,280, and is included as a separate line-item in the consolidated statements of operations. During the third quarter of 2004, the Company entered into agreements to exchange 950,000 shares of the Company's common stock for the 13.88% minority interest in PowerSecure. Upon approval by certain shareholders of the Company and the receipt of a fairness opinion, the exchanges occurred on November 22, 2004, at which time PowerSecure became a wholly-owned subsidiary of the Company. Accounting for the acquisition of the minority interest was based upon the fair value of the stock of the Company issued in the acquisition. As a result of the transaction, the Company's obligation to the PowerSecure's minority shareholders in the amount of $300,000 was eliminated, 950,000 shares of the Company's common stock was issued, and goodwill in the amount of $1,202,000 was recorded on the books of PowerSecure representing the excess of the fair value of the shares issued in the acquisition over the historical book basis of the minority interest acquired. F-20 6. DEBT The balance of notes payable at December 31, 2004 and 2003 consists of the following: 2004 2003 ----------- ---------- Lines of credit $ 2,621,281 $2,545,418 Term loans: Settlement note payable 2,437,500 3,000,000 Equipment and project loans 1,138,203 197,983 Investment loan 824,171 Mortgage loan 225,898 234,302 ----------- ---------- Total notes payable 7,247,053 5,977,703 ----------- ---------- Less current maturities: Settlement note payable (750,000) (562,500) Equipment and project loans (225,027) (179,849) Investment loan (187,769) Mortgage loan (9,192) (8,404) ----------- ---------- Current maturities of notes payable (1,171,988) (750,753) ----------- ---------- Long-term maturities of notes payable $ 6,075,065 $5,226,950 =========== ========== LINES OF CREDIT - The lines of credit consist of a $3,260,000 credit facility ("Credit Facility") with Wells Fargo Business Credit, Inc. ("Wells Fargo") that matures in September 2006. The Credit Facility restricts the Company's ability to sell or finance its subsidiaries, without Wells Fargo's consent. The Credit Facility, which constitutes the Company's primary credit agreement, is used primarily to fund the operations and growth of its subsidiaries, especially PowerSecure. The Credit Facility consists of separate credit agreements between Wells Fargo and each of Southern Flow, Metretek Florida and PowerSecure, as borrowers. At December 31, 2004, the Company had an aggregate borrowing base of $3,260,000 under the Credit Facility, of which $2,621,000 had been borrowed, leaving $639,000 available to borrow. The Credit Facility contains minimum interest charges and unused credit line and termination fees. The obligations of each of the borrowers have been guaranteed by Metretek Technologies and each of the other borrowers. These guarantees have been collateralized by guaranty agreements and security agreements entered into by the guarantors. The security agreements grant to

Wells Fargo a first priority security interest in virtually all of the assets of each of the guarantors. The Credit Facility is further collateralized by a first priority security interest in virtually all of the assets of each borrower. Each credit agreement contains standard affirmative and negative covenants by the borrower, including financial covenants and other standard covenants related to operations, including limitations on future indebtedness and the payment of dividends the sale of assets and other corporate transactions, without Wells Fargo's consent. The Credit Facility between Wells Fargo and Southern Flow was amended in the first quarter 2004 to provide for new financial covenants applicable to certain financial results of Southern Flow during fiscal 2004. The Credit Facility between Wells Fargo and Metretek Florida was amended during both the third and fourth quarters of 2004 to establish less restrictive financial covenants for the remainder of fiscal 2004 and to establish financial covenants for 2005 reflecting Metretek Florida's projected F-21 financial results and condition resulting from its operations without the discontinued contract manufacturing business. TERM LOANS - In connection with the settlement of the class action litigation more fully described in Note 8, the Company issued a term note payable in the amount of $3.0 million (the "Settlement Note"). The Settlement Note bears interest at the rate of prime plus three percent (7.25% at December 31, 2004) is payable in 16 quarterly installments, each of $187,500 principal plus accrued interest. The Settlement Note is guaranteed by all of the Company's subsidiaries. The Company commenced payments on the Settlement Note on June 30, 2004. At December 31, 2004 and 2003, the principal balance due on the Settlement Note was $2,437,500 and $3,000,000, respectively. During the first quarter of 2004, the Company acquired additional equity interests in MGT's unconsolidated affiliate, which acquisition was financed through a $961,000 term loan from a commercial bank to CAC LLC (the "Investment Loan"). The Investment Loan is collateralized by CAC LLC's and MGT's collective interests in MM 1995-2, and the Company has provided a guaranty of $625,000 of the loan. The Investment Loan provides for 60 monthly payments of principal and interest (at a rate of 5.08%). Cash distributions from MM 1995-2 to CAC LLC have been used to fund the monthly payments on the Investment Loan. At December 31, 2004, the principal balance due on the Investment Loan was $824,171. During 2004, PowerSecure completed two shared-savings distributed generation projects. Caterpillar Financial Services Corporation provided $1,213,000 to finance these projects (the "PowerSecure Project Loans"). The PowerSecure Project Loans are collateralized by the equipment purchased from Caterpillar as well as the revenues generated by the projects. The PowerSecure Project Loans provide for 60 monthly payments of principal and interest (at an annual rate of 6.75%) in the aggregate amount of approximately $24,000 per month. Monthly payments on the PowerSecure Project Loans are funded through payments from customers utilizing the distributed generation equipment on their sites. At December 31, 2004, the principal balance due on the PowerSecure Project Loans was $1,120,069. During 2003, PowerSecure financed the acquisition of certain construction equipment with proceeds of a loan from Caterpillar Financial Services Corporation (the "PowerSecure Equipment Loan"). The PowerSecure Equipment Loan is collateralized by the equipment purchased from Caterpillar. Amounts borrowed under the PowerSecure Equipment Loan bear interest at 3.2%. The term of the PowerSecure Equipment Loan is 48 months and monthly principal and interest payments in the amount of $671 commenced May 1, 2003. At December 31, 2004 and 2003, the principal balance due on the PowerSecure Equipment Loan was $18,134 and $25,470, respectively. In November 2002, the Southern Flow Credit Facility was amended to provide advances to Southern Flow to purchase equipment. Proceeds of loan were used to purchase production equipment for use by Metretek Florida (the "Metretek Equipment Loan"). Monthly principal payments in the amount of $6,635 plus interest commenced March 1, 2003. The outstanding balance on the Metretek Equipment Loan in the amount of $99,528 was repaid December 1, 2004. The principal balance due on the Metretek Equipment Loan at December 31, 2003 was $172,513. In December 2001, Southern Flow entered into a $250,000 loan agreement (the "Mortgage Loan") with a mortgage lender, which was modified in April 2003. The Mortgage Loan is collateralized by land and a building owned by Southern Flow in Dallas, Texas; it bears interest at 9%; and it requires monthly principal and interest installment payments in the amount of $2,429. All principal and accrued but unpaid interest under the Mortgage Loan becomes due and payable on November 1, 2007. At F-22 December 31, 2004 and 2003, the principal balance due on the Mortgage Loan was $ 225,898 and $234,302, respectively. 7. CAPITAL LEASE OBLIGATIONS Capital lease obligations at December 31, 2004 consist of an equipment lease at Metretek Technologies payable in monthly installments, including interest, at 11.13%. Capital lease obligations at December 31, 2003 consists of two manufacturing equipment leases at Metretek Florida payable in monthly installments, including interest, at 12%. The Metretek Florida capital lease obligations have been reclassified to liabilities of discontinued operations in the accompanying consolidated balance sheet at December 31, 2004. The scheduled annual

payments on the Metretek Technologies capital lease obligation are as follows: YEAR ENDING DECEMBER 31: ----------------------- 2005 $ 4,480 2006 4,480 2007 3,360 ------- Total minimum lease payments 12,320 Less: Interest included in the lease payments 1,749 ------- Present value of minimum lease payments $10,571 ======= 8. COMMITMENTS AND CONTINGENCIES CLASS ACTION AND RELATED LITIGATION - 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 the Company, Marcum Midstream 1997-1 Business Trust (the "1997 Trust"), Marcum Midstream-Farstad, LLC ("MMF"), MGT, Marcum Capital Resources, Inc. ("MCR"), W. Phillip Marcum, Richard M. Wanger and Daniel J. Packard (the foregoing, collectively, the "Metretek Defendants"), Farstad Gas & Oil, LLC ("Farstad LLC") and Farstad Oil, Inc. ("Farstad Inc." and, collectively with Farstad LLC, the "Farstad Entities"), and Jeff Farstad ("Farstad" and, collectively with the Farstad Entities, the "Farstad Defendants"). The 1997 Trust was an energy program of which MGT was 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 a result of contractual, market and operational difficulties, the 1997 Trust ceased operations in 1998. The Class Action alleged that the Metretek Defendants and the Farstad 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. On March 27, 2003, the Company, 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 the Company and the other Metretek Defendants in the Class Action. On March 2, 2004, the Company and the Class Action Plaintiff filed a revised Stipulation F-23 of Settlement, which revises certain terms of the settlement (as revised, the "Heins Settlement"). The Company recorded a loss in the amount of $3,505,000 in the fourth quarter of 2002 in connection with the Heins Settlement which is reflected as a component of the "Provision for litigation costs, net" in the accompanying consolidated statement of operations for the year ended December 31, 2002. The Heins Settlement was granted final approval by the Denver Court on June 11, 2004 and became effective on July 26, 2004. The Heins Settlement creates a settlement fund (the "Heins Settlement Fund") for the benefit of the Class. In settlement of the Interpleader Action discussed below, $2,375,000 in proceeds of the Company's directors' and officers' insurance policy (the "Policy") was used in the Heins Settlement. Pursuant to the Heins Settlement, the Company has paid $375,000, and has issued a note payable to the Heins Settlement Fund in the amount of $3.0 million (the "Heins Settlement Note"), and commenced payments thereunder on June 30, 2004. The Heins Settlement Note bears 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 is guaranteed by the 1997 Trust and all of the Company's subsidiaries. The Company is vigorously pursuing cross-claims and third party claims ("Other Party Claims"), including claims against the Farstad Defendants and against attorneys, consultants and a brokerage firm (the "Other Parties") involved in the transactions underlying the claims in the Class Action, seeking recovery of damages and contribution, among other things, from the Other Parties. Some of the Other Parties have asserted counterclaims against the Company, which the Company is aggressively defending and believes are without merit. Out of any net recovery from the resolution of any of these claims, which is calculated by deducting the Company's litigation expenses and any counterclaims against the Company that result in a recovery by Other Parties related to the Other Parties' liability to the Class (but is calculated without deducting any other counterclaims successfully asserted against the Company by the Other Parties), 50% would be allocated to offset the Company's obligations under the Heins Settlement Note, and the remaining 50% would be allocated to the Heins Settlement Fund as additional settlement funds. The Company cannot provide any assurance that it will be successful on any of these Other Party Claims or the Other Party counterclaims or, even if successful, on the amount, if any, or the timing of any recovery from any of these claims. SCIENT NOTE LITIGATION - During 1999 and 2000, the Company retained Scient Corporation ("Scient"), an "eBusiness" consultant, to design and install an eBusiness program that would enable the Company to provide the Company's energy management services to commercial customers via an Internet project, which was called "PowerSpring" (the "PowerSpring Project"). In September 2000, as Scient's engagement was being terminated, the Company issued a non-negotiable promissory note to Scient for approximately $2.8 million (the "Scient Note") for the outstanding balance of services invoiced by Scient in connection with the PowerSpring Project. The Scient Note provided for payments by the Company in quarterly installments that were suspended in June 2001, after the

Company discovered fraudulent activity by Scient and uncovered other matters of dispute in connection with Scient's services and billings. In May 2002, Scient's engagement manager in charge of the PowerSpring Project pleaded guilty to federal wire fraud and mail fraud charges stemming primarily from his activities during Scient's engagement by the Company. In March 2003, the Company and Scient jointly filed a Stipulation and Order of Settlement (the "Scient Settlement"), which fully and finally resolved all claims and disputes with Scient. Under the terms of the Scient Settlement, in exchange for the Company's payment of $50,000 to Scient, Scient agreed to release the Company from any further payment obligations under the Scient Note and the Company agreed to dismiss all of its claims against Scient. The Scient Settlement became final in April 2003. As a result of the Scient Settlement, the Company recorded a gain in the amount of approximately F-24 $1,741,000 in the fourth quarter of 2002 resulting from the cancellation of the Scient Note offset by the $50,000 cash payment due to Scient and the write-off of the recorded amount of fraudulent equipment and software purchases the Company had retained as an offset to the amount due under the Scient Note. The gain is reflected as a component of the "Provision for litigation costs, net" in the accompanying consolidated statement of operations for the year ended December 31, 2002. From time to time, the Company is involved in other disputes and legal actions arising in the ordinary course of business. The Company intends to vigorously defend all claims against the Company. Other than as set forth above, no litigation is currently pending or overtly threatened against the Company, the adverse outcome of which, indirectly or in aggregate, the Company believes would have a material adverse impact on the Company's business, financial conditions or results of operations. OPERATING LEASES - The Company leases business facilities and vehicles under operating lease agreements which specify minimum rentals. Substantially all leases have renewal provisions. Rental expense for the years ended December 31, 2004, 2003 and 2002 totaled $1,048,892, $1,327,828 and $1,292,958, respectively. Future minimum rental payments under noncancelable operating leases having an initial or remaining term of more than one year are as follows: YEAR ENDING DECEMBER 31: ----------------------- 2005 $ 554,000 2006 448,000 2007 401,000 2008 260,000 2009 167,000 ---------- Total $1,830,000 ========== EMPLOYEE BENEFIT PLAN - The Company has adopted a defined contribution savings and investment plan (the "401(k) Plan") under Section 401(k) of the Internal Revenue Code. All employees age 21 or older with at least one year of service are eligible to participate in the 401(k) Plan. The 401(k) Plan provides for discretionary contributions by employees of up to 15% of their eligible compensation. The Company may make discretionary matching contributions up to 50% of participant contributions, subject to a maximum of 6% of each participant's eligible compensation. The Company's 401(k) Plan expense for the years ended December 31, 2004, 2003 and 2002 was $216,114, $188,336 and $176,973, respectively. EMPLOYMENT AGREEMENTS - The Company has employment agreements with its executive officers and with other key employees which provide for base salary, incentive compensation, "change-in-control" provisions, non-competition provisions, severance arrangements, and other normal employment terms and conditions. 9. INCOME TAXES Income tax expense included in the consolidated statements of operations represents state income taxes in various state jurisdictions in which the Company has taxable activities. No federal income tax expense or benefit has been recognized during the years ended December 31, 2004, 2003 and 2002 because of net operating losses incurred and because a valuation allowance has been provided for 100% of the net deferred tax assets at December 31, 2004 and 2003. F-25 The components of the Company's deferred tax assets and liabilities at December 31, 2004 and 2003 are shown below: 2004 2003 ------------ ------------ Deferred tax assets: Net operating loss carryforwards $ 17,150,000 $ 16,420,000 Tax credit carryforwards 45,000 45,000 Allowance for bad debts 252,000 68,000 Lease termination costs 231,000 ------------ ------------ Total deferred tax assets 17,678,000 16,533,000 ------------ ------------ Deferred tax liabilities: Excess of income tax depreciation and amortization over financial statement amounts 1,427,000 1,066,000 Other 135,000 117,000 ------------ ------------ Total deferred tax liabilities 1,562,000 1,183,000 ------------ ------------ Net deferred tax asset 16,116,000 15,350,000 Valuation allowance (16,116,000) (15,350,000) ------------ ------------ Total $ 0 $ 0 ============ ============ At December 31, 2004, the Company had unused net operating losses to carry forward against future years' taxable income of approximately $50,442,000 expiring in various amounts from 2006 to 2017. At December 31, 2004, the Company had unused investment tax credits, general business tax credits, and research and development tax credit carryforwards expiring in various amounts from 2006 to 2008. As a result of an acquisition in 1991, the Company acquired a remaining net operating loss carryforwards for tax purposes of approximately $800,000 ($33,000, net of current limitation). Such carryforwards expire in 2005. As a result of the change in ownership upon acquisition, utilization of these net operating loss carryforwards is limited to approximately $33,000 annually. If the benefits related to the net

operating loss carryforwards that were not recognized at the acquisition date are recognized in a subsequent period, they will first reduce to zero any goodwill related to the acquisition, then reduce to zero all other noncurrent intangible assets, and then reduce income tax expense. Utilization of the Company's net operating loss carryforwards may be further limited as a result of the Private Placement in discussed in Note 2. 10. CAPITAL STOCK MINORITY INTEREST - The Company, through MGT, owns a 73.75% interest in CAC LLC. CAC LLC was formed in January 2004 to acquire additional interests in the Company's unconsolidated affiliate, MM 1995-2. The minority shareholder's interest in the income of CAC LLC at for the year ended December 31, 2004 was $145,071 and is included in minority interest in the accompanying consolidated financial statements. Distributions to CAC LLC's minority interest shareholder during the year ended December 31, 2004 were $55,701. Effective January 1, 2003, PowerSecure authorized the issuance of shares totaling up to 15% of its outstanding common stock to its employees, including 7% to the President and Chief Executive Officer of PowerSecure, as equity incentive compensation. At December 31, 2003, shares representing 13.88% of the outstanding shares of PowerSecure had been issued to PowerSecure employees. The Company acquired the minority interest shares held by the PowerSecure employees in November 2004 (see Note 5). The minority interest in the income of PowerSecure for the period from January 1, 2004 to F-26 November 22, 2004 was $92,896. The minority interest in the income of PowerSecure for the year ended December 31, 2003, was $207,280. These amounts are included in minority interest in the accompanying consolidated financial statements. There were no distributions to PowerSecure's minority interest shareholders during the years ended December 31, 2004 or 2003. STOCK OPTIONS - The Company has granted stock options to employees, directors, advisors and consultants under three stock plans. Under the Company's 1991 Stock Option Plan, as amended (the "1991 Stock Plan"), the Company granted incentive stock options and non-qualified stock options to purchase common stock to officers, employees and consultants. Options granted under the 1991 Stock Plan contained exercise prices not less than the fair market value of the Company's common stock on the date of grant and had a term of ten years, the vesting of which was determined on the date of the grant, but generally contain a 2-4 year vesting period. Under the Company's Directors' Stock Plan as amended ("Directors' Stock Plan"), the Company granted non-qualified stock options to purchase common stock to non-employee directors of the Company at an exercise price not less than the fair market value of the Company's common stock on the date of grant. Options granted under the Director's Stock Plan generally had a term of ten years and vested on the date of grant. Certain options granted to officers and non-employee directors under the 1991 Stock Plan and the Directors Stock Plan contain limited rights for receipt of cash for appreciation in stock value in the event of certain changes in control. In March 1998, the Board of Directors of the Company adopted the Metretek Technologies, Inc. 1998 Stock Incentive Plan (the "1998 Stock Plan"), which was approved by the Company's stockholders at the Annual Meeting of Stockholders held on June 12, 1998. The 1998 Stock Plan authorizes the Board of Directors to grant incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, performance awards and other stock-based awards to officers, directors, employees, consultants and advisors of the Company and its subsidiaries for shares of the Company's common stock. The 1998 Stock Plan replaced the Company's 1991 Stock Plan and Directors' Stock Plan (the "Prior Plans"), and no new awards have been made under the Prior Plans since the 1998 Stock Plan was adopted, although options outstanding under the Company's Prior Plans remain in effect under these terms. On February 3, 2000, the stockholders of the Company adopted a proposal by the Board of Directors to increase the number of shares available under the 1998 Stock Plan from 250,000 to 750,000 shares of common stock. On June 11, 2001, the stockholders of the Company adopted a proposal by the Board of Directors to increase the number of shares available under the 1998 Stock Plan to a total of 1,750,000 shares of common stock of the Company. On June 14, 2004, the stockholders of the Company adopted a proposal by the Board of Directors to increase the number of shares available under the 1998 Stock Plan to a total of 2,750,000 shares of common stock of the Company. F-27 The following table summarizes the Company's stock option activity since January 1, 2002: 1998 STOCK DIRECTORS STOCK 1991 STOCK INCENTIVE PLAN OPTION PLAN OPTION PLAN -------------------- ----------------- ----------------- WEIGHTED WEIGHTED WEIGHTED NUMBER AVERAGE NUMBER AVERAGE NUMBER AVERAGE OF OPTION OF OPTION OF OPTION SHARES PRICE SHARES PRICE SHARES PRICE ---------- -------- ------- -------- ------- -------- Outstanding at January 1, 2002 1,404,016 $2.10 65,000 $2.00 212,345 $2.00 Granted 120,500 1.44 Expired (27,500) 2.00 (44,311) 2.00 Forfeited (5,835) 4.79 (625) 2.00 ---------- ------- ------- Outstanding at December 31, 2002 1,518,681 2.03 37,500 2.00 167,409 2.00 Granted 271,500 1.54 Expired (131,165) 1.97 (7,500) 2.00 (44,000) 2.00 ---------- ------- ------- Outstanding at December 31, 2003 1,659,016 1.96 30,000 2.00 123,409 2.00 Granted 389,500

3.11 Exercised (240,332) 1.52 (7,500) 2.00 (15,719) 2.00 Expired (11,334) 6.53 (7,500) 2.00 (2,188) 2.00 Forfeited (21,000) 2.26 ---------- ------- ------- Outstanding at December 31, 2004 1,775,850 $2.24 15,000 $2.00 105,502 $2.00 ========== ======= ======= Exercisable at December 31: 2004 1,432,434 $2.09 15,000 $2.00 105,502 $2.00 ========== ======= ======= 2003 1,529,183 $1.99 30,000 $2.00 123,409 $2.00 ========== ======= ======= 2002 1,158,639 $2.20 37,500 $2.00 167,409 $2.00 ========== ======= ======= The weighted average grant date fair values of options granted during the years ended December 31, 2004, 2003 and 2002 were $1.03, $0.42 and $0.29 per share, respectively. During the year ended December 31, 2004, incentive stock options to purchase 382,000 shares of common stock were granted to employees and non-qualified stock options to purchase 7,500 shares of common stock were granted to non-employee directors of the Company. During the year ended December 31, 2003, incentive stock options to purchase 264,000 shares of common stock were granted to employees and non-qualified stock options to purchase 7,500 shares of common stock were granted to non-employee directors of the Company. During the year ended December 31, 2002, incentive stock options to purchase 113,000 shares of common stock were granted to employees and non-qualified stock options to purchase 7,500 shares of common stock were granted to non-employee directors of the Company. The following table summarizes information about all of the Company's stock options outstanding at December 31, 2004: F-28 RANGE OF WEIGHTED AVERAGE WEIGHTED AVERAGE EXERCISE PRICES NUMBER OF SHARES EXERCISE PRICE REMAINING LIFE (YEARS) --------------- ---------------- --------------- --------------------- $0.46 to $1.49 10,000 $0.47 7.95 $1.50 to $1.74 1,173,500 1.50 5.90 $1.75 to $2.99 180,000 2.06 3.55 $3.00 to $4.49 382,000 3.11 9.56 $4.50 to $17.38 150,852 5.90 4.49 --------------- --------- ----- ---- $0.46 - $17.38 1,896,352 $2.22 6.31 =============== ========= ===== ==== STOCKHOLDER RIGHTS PLAN - On December 12, 1991, the Board of Directors of the Company adopted a Stockholder Rights Plan, which was amended and restated on October 25, 2001 in order to extend, renew and modify its terms (as amended and restated the "Rights Plan"), to protect stockholder interests against takeover strategies that may not provide maximum shareholder value. Pursuant to the Rights Plan, a dividend of one preferred stock purchase right ("Right") was issued with respect to each share of common stock outstanding on December 9, 1991, and attaches to each share of common stock issued there after by the Company. No separate certificates representing the Rights have been issued. Each Right entitles the holder to purchase one one-hundredth of a share of Series C. Preferred Stock of the Company at an exercise price of $15.00 per share under certain circumstances. This portion of a preferred share provides the holder with approximately the same dividend, voting and liquidation rights as one share of common stock. If any person or group (referred to as an "Acquiring Person") becomes the beneficial owner of, or announces a tender offer that would result in the Acquiring Person becoming the beneficial owner of, 15% or more of the Company's common stock (subject to certain exceptions), then each Right, other than Rights held by the Acquiring Person which become void, will become exercisable for common stock of the Company, or of the Acquiring Person in the case where the Acquiring Person acquires the Company, having a then current market value of twice the exercise price of the Right. At the option of the Board of Directors, the Rights may be redeemed for $0.01 per Right or exchanged for shares of Company common stock at the exchange rate of one share per Right, in each cases subject to adjustment. Until a Right is exercised, the holder thereof, as such has no rights as a stockholder of the Company. The Rights will expire on November 30, 2011, unless such date is extended prior thereto by the Board of Directors. 11. SEGMENT AND RELATED INFORMATION In accordance with FAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," the Company defines operating segments as components of an enterprise for which discrete financial information is available and is reviewed regularly by the chief operating decision-maker, or decision-making group, to evaluate performance and make operating decisions. The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. The Company's reportable business segments include: natural gas measurement services; distributed generation; automated energy data management; and Internet-based energy information and services. The operations of the Company's natural gas measurement services segment are conducted by Southern Flow. Southern Flow's services include on-site field services, chart processing and analysis, laboratory analysis, and data management and reporting. These services are provided principally to customers involved in natural gas production, gathering, transportation and processing. F-29 The operations of the Company's distributed generation segment are conducted by PowerSecure. PowerSecure commenced operations in September 2000. The primary elements of PowerSecure's distributed generation products and services include project design and engineering, negotiation with utilities to establish tariff structures and power interconnects, generator acquisition and

installation, process control and switchgear design and installation, and ongoing project monitoring and servicing. PowerSecure markets its distributed generation products and services directly to large end-users of electricity and through outsourcing partnerships with utilities. Through December 31, 2004, the 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. 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 circuit board contract manufacturing operations. During the third quarter of 2004, the Board of Directors of the Company approved a plan to discontinue the business of MCM and sell all of its manufacturing assets. See Note 3. The accounting policies of the reportable segments are the same as those described in Note 1 of the Notes to Consolidated Financial Statements. The Company evaluates the performance of its operating segments based on operating income (loss) before income taxes, nonrecurring items and interest income and expense. Intersegment sales are not significant. Summarized financial information concerning the Company's reportable segments is shown in the following table. The "Other" column includes corporate related items, revenues and expenses from managing MM 1995-2, results of insignificant operations and, as it relates to segment profit or loss, income and expense (including nonrecurring charges) not allocated to reportable segments. The table information excludes the revenues, depreciation, and losses of the discontinued MCM operations for all periods presented. F-30 SUMMARIZED SEGMENT FINANCIAL INFORMATION (all amounts reported in thousands) 2004 2003 2002 ------- ------- ------- REVENUES: Southern Flow $12,759 $11,805 $12,288 PowerSecure 18,630 17,122 8,228 Metretek Florida 3,312 7,405 5,886 Other 476 142 51 ------- ------- ------- Total $35,177 $36,474 $26,453 ======= ======= ======= SEGMENT PROFIT (LOSS): Southern Flow $ 1,940 $ 1,619 $ 1,954 PowerSecure 1,342 1,574 (388) Metretek Florida (247) 709 474 Other (2,428) (2,247) (4,070) ------- ------- ------- Total $ 607 $ 1,655 $(2,030) ======= ======= ======= CAPITAL EXPENDITURES: Southern Flow $ 163 $ 103 $ 122 PowerSecure 1,967 124 41 Metretek Florida 144 65 372 3 4 11 Other -- -- -- ------- ------- ------- Total $ 2,277 $ 296 $ 546 ======= ======= ======= DEPRECIATION AND AMORTIZATION: Southern Flow $ 127 $ 129 $ 135 PowerSecure 130 66 47 Metretek Florida 289 298 371 Other 33 22 23 ------- ------- ------- Total $ 579 $ 515 $ 576 ======= ======= ======= TOTAL ASSETS: Southern Flow $ 9,589 $ 9,339 $ 9,285 PowerSecure 12,836 5,701 2,318 Metretek Florida 5,262 7,098 6,842 Other 2,524 1,189 754 ------- ------- ------- Total $30,211 $23,327 $19,199 ======= ======= ======= The following table presents revenues by geographic area based on the location of the use of the product or service: 2004 2003 2002 ----------- ----------- ----------- United States $34,362,625 $35,335,902 $25,591,131 Canada 388,068 627,564 418,173 Europe 338,301 376,090 156,482 South America 60,262 44,980 120,741 Asia 10,865 88,900 Other 16,802 89,200 77,504 ----------- ----------- ----------- Total $35,176,923 $36,473,736 $26,452,931 =========== =========== =========== F-31 12. UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL DATA Summarized quarterly consolidated financial information (unaudited) for the years ended December 31, 2004 and 2003 is as follows (in thousands, except per share amounts): QUARTER --------------------------------- 2004 FIRST SECOND THIRD FOURTH ---- ------ ------ ------- ------ Total revenues $8,415 $8,372 $ 9,181 $9,208 Operating income (loss) 58 174 (33) 407 Minority interest (74) (67) (60) (37) Income taxes (12) (12) (12) (12) Equity income 368 253 270 364 Income from continuing operations 340 348 165 722 Loss on discontinued operations (335) (305) (3,870) (309) Net income (loss) $ 5 $ 43 $(3,705) $ 413 Net income (loss) per common share attributable to common shareholders, basic and diluted (1): Continuing operations $ 0.01 $(0.04) $ 0.00 $ 0.05 Discontinued operations (0.05) (0.03) (0.35) (0.03) ------ ------ ------- ------ Income (loss) per common share $(0.04) $(0.07) $ (0.35) $ 0.02 ====== ====== ======= ====== QUARTER ---------------------------------- 2003 FIRST SECOND THIRD FOURTH ---- ------ ------- ------- ------ Total revenues $6,724 $10,418 $11,723 $7,609 Operating income (loss) (304) 606 679 674 Minority interest (11) (51) (59) (86) Income taxes (21) (12) (12) (12) Equity income 135 112 81 140 Income (loss) from continuing operations (201) 655 689 716 Income (loss) on discontinued operations (443) 110 (332) (315) Net income (loss) $ (644) $ 765 $ 357 $ 401 Net income (loss) per

common share attributable to common shareholders, basic and diluted (1): Continuing operations $(0.07) $ 0.05 $ 0.05 $ 0.05 Discontinued operations (0.07) 0.02 (0.05) (0.05) ------ ------- ------- ------ Income (loss) per common share $(0.14) $ 0.07 $ 0.00 $ 0.00 ====== ======= ======= ====== (1) Per share amounts for all quarters presented include the effects of preferred stock deemed distributions. Per share amounts for all quarters except for the fourth quarter 2004 include the effects of allocation of earnings, if applicable, to participating preferred stock as required by the provisions of EITF 03-06. The preferred stock deemed distribution for the second and third quarters of 2004 includes charges of $593,000 in the aggregate which represents the estimated fair market value of inducement conveyed to preferred stockholders who converted their shares to common stock in connection with the Company's private placement in the second quarter of 2004. * * * * * F-32 SCHEDULE II METRETEK TECHNOLOGIES, INC. VALUATION AND QUALIFYING ACCOUNTS YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002 (IN THOUSANDS) ADDITIONS: BALANCE AT CHARGED TO BALANCE AT BEGINNING OPERATING DEDUCTIONS: END OF DESCRIPTION OF PERIOD EXPENSES WRITE-OFFS (1) PERIOD ----------- ---------- ---------- ------------- ---------- Allowance for doubtful accounts: Year ended December 31, 2004 ... $201 $ 892 $(352)(1) $ 741 Year ended December 31, 2003 ... 281 54 (134)(1) 201 Year ended December 31, 2002 ... 170 177 (66)(1) 281 Inventory reserve: Year ended December 31, 2004 ... $288 $1,614 $(354)(2) $1,548 Year ended December 31, 2003 ... 395 152 (259)(2) 288 Year ended December 31, 2002 ... 413 144 (162)(2) 395 ---------- (1) Represents amounts written off as uncollectible, less recoveries. (2) Represents amounts written off against reserve, less recoveries. MARCUM MIDSTREAM 1995-2 BUSINESS TRUST AND SUBSIDIARY TABLE OF CONTENTS -- PAGE REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM G - 2 CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2004 AND 2003 G - 3 CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002 G - 4 CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002 G - 5 CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002 G - 6 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS G - 7 G - 1 REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM Board of Trustees Marcum Midstream 1995-2 Business Trust Denver, CO We have audited the accompanying consolidated balance sheets of Marcum Midstream 1995-2 Business Trust and subsidiary (the "Trust") as of December 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three year period ended December 31, 2004. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Marcum Midstream 1995-2 Business Trust and subsidiary as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles in the United States of America. /s/ Hein & Associates LLP HEIN & ASSOCIATES LLP Denver, Colorado February 4, 2005 G - 2 MARCUM MIDSTREAM 1995-2 BUSINESS TRUST AND SUBSIDIARY CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2004 AND 2003 -- ASSETS 2004 2003 CURRENT ASSETS: Cash and cash equivalents $ 617,815 $ 603,267 Trade receivables (net of allowance for doubtful accounts $9,777 and $0, respectively) 1,148,872 907,035 ---------- ---------- Total current assets 1,766,687 1,510,302 ---------- ---------- PROPERTY, PLANT AND EQUIPMENT, AT COST: Wells and storage tanks 5,141,545 4,682,575 Equipment 2,077,762 1,636,247 Land and improvements 1,149,060 1,118,568 ---------- ---------- Total 8,368,367 7,437,390 Less accumulated depletion and depreciation 3,209,994 2,755,491 ---------- ---------- Property, plant and equipment, net 5,158,373 4,681,899 ---------- ---------- OTHER ASSETS: Deferred loan charges (net of accumulated amortization of $16,788 and $10,857, respectively) 4,037 9,968 Intangible assets (net of accumulated amortization of $7,500 and $6,167, respectively) 12,500 13,833 ---------- ---------- Total other assets

16,537 23,801 ---------- ---------- TOTAL $6,941,597 $6,216,002 ========== ========== LIABILITIES AND SHAREHOLDERS' EQUITY CURRENT LIABILITIES: Accounts payable $ 105,373 $ 103,132 Administration fee 4,708 14,125 Management fee 80,371 81,417 Operator fee 6,444 19,333 Note payable (Note 3) 601,002 568,628 Accrued expenses 14,898 8,964 ---------- ---------- Total current liabilities 812,796 795,599 ---------- ---------- LONG-TERM NOTE PAYABLE (Note 3) 419,559 1,020,561 COMMITMENTS AND CONTINGENCIES (Note 4) SHAREHOLDERS' EQUITY 5,709,242 4,399,842 ---------- ---------- TOTAL $6,941,597 $6,216,002 ========== ========== See notes to consolidated financial statements. G - 3 MARCUM MIDSTREAM 1995-2 BUSINESS TRUST AND SUBSIDIARY CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002 -- 2004 2003 2002 REVENUE: Disposal fees and mineral product sales $7,202,537 $5,285,104 $3,331,199 Interest and other 6,111 26,718 1,996 ---------- ---------- ---------- Total revenue 7,208,648 5,311,822 3,333,195 ---------- ---------- ---------- COSTS AND EXPENSES: Cost of operations 1,899,622 1,587,581 1,322,168 Depreciation and amortization 455,836 386,921 286,598 Deferred payment (Note 7) 300,000 General and administrative costs 354,590 45,409 3,000 Administration fee 56,500 56,500 56,500 Management fee 360,127 214,255 83,248 Operator fee 77,332 77,332 58,582 Interest and finance charges 95,241 112,901 43,822 ---------- ---------- ---------- Total costs and expenses 3,299,248 2,480,899 2,153,918 ---------- ---------- ---------- NET INCOME $3,909,400 $2,830,923 $1,179,277 ========== ========== ========== See notes to consolidated financial statements. G - 4 MARCUM MIDSTREAM 1995-2 BUSINESS TRUST AND SUBSIDIARY CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002 -- PERFORMANCE PREFERRED SHAREHOLDERS SHAREHOLDERS TOTAL BALANCE, JANUARY 1, 2002 $ 1,392,040 $ 1,622,602 $ 3,014,642 Cash distributions paid or payable (637,500) (337,500) (975,000) Deferred distributions (Note 6) 300,000 300,000 Net income 732,937 446,340 1,179,277 ----------- ----------- ----------- BALANCE, DECEMBER 31, 2002 1,787,477 1,731,442 3,518,919 Cash distributions paid or payable (825,000) (825,000) (1,650,000) Payment of deferred distributions (Note 6) (300,000) (300,000) Net income 1,608,923 1,222,000 2,830,923 ----------- ----------- ----------- BALANCE, DECEMBER 31, 2003 2,271,400 2,128,442 4,399,842 Cash distributions paid (1,050,000) (1,550,000) (2,600,000) Net income 1,933,497 1,975,903 3,909,400 Conversion of 100 performance shares into 113 preferred shares (3,154,897) 3,154,897 ----------- ----------- ----------- BALANCE, DECEMBER 31, 2004 $ $ 5,709,242 $ 5,709,242 =========== =========== =========== See notes to consolidated financial statements. G - 5 MARCUM MIDSTREAM 1995-2 BUSINESS TRUST AND SUBSIDIARY CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002 -- 2004 2003 2002 CASH FLOWS FROM OPERATING ACTIVITIES: Net income $ 3,909,400 $ 2,830,923 $ 1,179,277 Adjustments to reconcile net income to net cash provided by operating activities: Depreciation and amortization 455,836 386,921 286,598 Changes in other assets and liabilities: Trade receivables, net (241,837) (159,380) (338,678) Accounts payable 2,241 (19,578) 75,776 Administration fee (9,417) -- -- Management fee (1,046) 47,441 20,724 Operator fee (12,889) -- 6,250 Accrued expenses 5,934 2,387 3,658 Prepaid expenses and other 5,931 8,391 (17,296) ----------- ----------- ----------- Net cash provided by operating activities 4,114,153 3,097,105 1,216,309 ----------- ----------- ----------- CASH FLOWS FROM INVESTING ACTIVITIES: Proceeds from sale of assets -- 2,650 -- Asset acquisitions and renovations (589,047) -- (2,650,218) Other capital expenditures (341,930) (219,847) (28,895) ----------- ----------- ----------- Net cash used in investing activities (930,977) (217,197) (2,679,113) ----------- ----------- ----------- CASH FLOWS FROM FINANCING ACTIVITIES: Proceeds from note payable -- -- 2,300,000 Payments on note payable (568,628) (537,997) (172,814) Distributions to preferred shareholders (1,550,000) (825,000) (337,500) Distributions paid or payable to performance shareholders (1,050,000) (825,000) (637,500) Deferred performance shareholder distributions -- (300,000) 300,000 ----------- ----------- ----------- Net cash provided by (used in) financing activities (3,168,628) (2,487,997) 1,452,186 ----------- ----------- ----------- NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 14,548 391,911 (10,618) CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 603,267 211,356 221,974 ----------- ----------- ----------- CASH AND CASH EQUIVALENTS AT END OF YEAR $ 617,815 $ 603,267 $ 211,356 =========== =========== =========== See notes to consolidated financial statements. G - 6 MARCUM MIDSTREAM 1995-2 BUSINESS TRUST AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND

2002 -- 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES ORGANIZATION - The accompanying consolidated financial statements includes the accounts of Marcum Midstream 1995-2 Business Trust and its wholly-owned subsidiary, Marcum Midstream 1995-2 EC Holding, LLC ("MM95-2 EC Holding"), collectively referred to as the "Trust". The Trust commenced operations on February 8, 1996. The Trust owns and operates four oil field production water disposal facilities located in northeastern Colorado. MM95-2 EC Holding was formed by the Trust in July 2002 for the purpose of acquiring additional operating assets. Marcum Gas Transmission, Inc. ("MGT"), a wholly-owned subsidiary of Metretek Technologies, Inc., is the managing trustee of the Trust, and Conquest Oil Company ("Conquest") operates certain Trust assets under an operating agreement with the Trust. Collectively, MGT and Conquest or their affiliates own 135.78, or 60.08%, of the 226 outstanding preferred shares of the Trust at December 31, 2004. In November 2004, all of the performance shares outstanding, including those held by MGT and Conquest or their affiliates, were converted to preferred shares of the Trust at an exchange ratio of 1.13 preferred share for each performance share. At December 31, 2004, there are no longer any performance shares outstanding. PRINCIPLES OF CONSOLIDATION - The consolidated financial statements include the accounts of the Trust and its subsidiary. All intercompany accounts and transactions have been eliminated in consolidation. REVENUE RECOGNITION - Revenues from disposal fees are recognized upon delivery and acceptance of water to be disposed. Revenues from mineral product sales are recognized upon delivery to the customer. INCOME TAXES - For federal and state income tax purposes, the Trust is treated as a partnership and is not subject to federal or state income taxes. Accordingly, no provision for federal income taxes is included in the financial statements of the Trust and the tax effects of its activities accrue to the shareholders. The Trust's tax returns, the qualification of the Trust as a partnership for federal income tax purposes, and the amount of taxable income or loss are subject to examination by federal and state taxing authorities. If such examinations result in changes to the Trust's taxable income, the tax liability of the shareholders could change accordingly. STATEMENTS OF CASH FLOWS - The Trust considers all investments with an original maturity of three months or less at time of purchase to be cash equivalents. Supplemental statement of cash flow information is as follows: 2004 2003 2002 Cash paid for interest $ 73,880 $ 104,510 $ 41,356 Non-cash transaction -- Conversion of performance shares to preferred shares of the Trust $ 3,154,897 $ - $ - G - 7 RECEIVABLES AND CREDIT POLICIES - Trade receivables consist of uncollateralized customer obligations due under normal trade terms requiring payment within 30 days of the invoice date. The Trust reviews trade receivables periodically and reduces the carrying amount by a valuation allowance that reflects management's best estimate of the amount that may not be collectible. PROPERTY, PLANT AND EQUIPMENT - Property, plant and equipment is stated at cost. The majority of the Trust operating assets are depreciated based upon a units-of-production method while equipment and land improvements are depreciated on the straight-line basis over estimated useful lives ranging from 5 to 15 years. Estimated asset retirement obligations are not material. OTHER INTANGIBLES - Other intangible assets are being amortized on the straight-line basis over 15 years. USE OF ESTIMATES - The preparation of the Trust's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual results could differ from those estimates. MAJOR CUSTOMERS - Revenues from mineral product sales are currently generated from purchases by one customer, however management believes other customers would purchase such products at substantially the same volumes and at prevailing market prices in the event the current customer discontinued purchasing from the Trust. In addition, two other customers have historically generated the majority of the Trust's disposal fee revenues. 2. ASSET ACQUISITIONS In the fourth quarter of 2004, the Trust acquired additional operating assets and operations. The assets and operations acquired have been included in the consolidated financial statements of the Trust since the date of acquisition. The aggregate purchase price for the acquired assets was $500,000, and was financed from cash generated by operations of the Trust. The following table summarizes the estimated fair values of the assets acquired at the date of acquisition. Intangibles $ 395,600 Equipment 104,400 --------- $ 500,000 ========= Subsequent to the acquisition and through December 31, 2004, the Trust incurred $89,000 in renovation costs to enhance the operating efficiency of the assets in anticipation of future growth in customer demand. In the fourth quarter of 2002, the Trust, through MM95-2 EC Holding, acquired additional operating assets and operations. The assets and operations acquired have been included in the consolidated financial statements of the Trust since the date of acquisition. The aggregate purchase price for the assets acquired was $2,510,000, including direct costs of the acquisition. Of the total acquisition cost incurred, $2,300,000 represented

cash paid to the seller, which was financed through a term loan with a commercial lender (see Note 3). The assets acquired included equipment and intangibles. The Trust did not directly assume any liabilities of the seller in the acquisition. In addition, other assets of the seller including cash, accounts receivable earned by the G - 8 seller prior to the acquisition, trademarks, and certain miscellaneous equipment items were excluded from the acquisition. The following table summarizes the estimated fair values of the assets acquired at the date of acquisition. Intangibles and storage tanks $1,656,000 Equipment 338,000 Land and improvements 506,000 Non-compete agreement 10,000 --------- $2,510,000 ========== Subsequent to the acquisition and through December 31, 2003, the Trust incurred $231,000 in renovation costs to enhance the operating efficiency of the assets acquired in anticipation of future growth in customer demand. 3. NOTE PAYABLE In connection with the Trust's acquisition of operating assets in the third quarter of 2002, the Trust, through MM95-2 EC Holding, entered into a Term Loan Agreement (the "Loan Agreement") with Wells Fargo Bank West, National Association (the "Lender") for a $2,300,000 note payable. The proceeds of the note were used to acquire the operating assets from the seller (see Note 2). The Loan Agreement provides for monthly principal and interest payments on the note to the Lender in the amount of $53,542 through the maturity date, August 22, 2006. Interest accrues on the unpaid balance of the note at a fixed annual rate of 5.55% per year. The Loan Agreement contains various financial and other affirmative and negative covenants and the note is collateralized by a first priority interest in virtually all of the assets acquired. Fees incurred in connection with obtaining the Loan Agreement in the amount of $20,825 have been deferred and are being amortized using the interest-method over the term of the Loan Agreement. The obligations contained in the Loan Agreement have been guaranteed by the Trust. At December 31, 2004, scheduled principal payments on the note payable over the remaining term of the note are as follows: Years Ended December 31, ----------- 2005 $ 601,002 2006 419,559 ---------- $1,020,561 ========== The Trust also has a revolving line of credit with the Lender under which the Trust may borrow up to $100,000 to fund working capital requirements. Borrowings on the line of credit bear interest at the Lender's prime rate (5.25% at December 31, 2004) and all borrowings plus accrued but unpaid interest on the line of credit are due May 11, 2005. There are no compensating balance arrangements and borrowings under the line of credit are unsecured. The Trust has not borrowed any amounts on the line of credit through December 31, 2004. G - 9 4. COMMITMENTS AND CONTINGENCIES In December 2002, after the Trust completed its acquisition of certain operating assets in the third quarter of 2002 (see Note 2), the Trust discovered certain contamination of the soils under the site. Shortly thereafter, the Trust filed a complaint against the seller in Colorado State District Court, for enforcement of seller indemnifications in the asset purchase agreement. The Trust engaged an environmental engineering firm to evaluate the extent of the contamination, and that firm concluded that approximately 1% of the property area had been contaminated. The environmental firm developed, and with their assistance the Trust commenced, a remediation plan that the firm advised should bring the assets back into compliance with applicable environmental requirements. The seller entered into a Stipulation to Hold Case in Abeyance wherein the Trust will not move forward in the lawsuit provided that the seller funds all of the expenses of the remediation plan, plus the Trust's legal fees and costs. The seller posted a letter of credit with his bank in favor of the Trust in the amount of the expected remediation costs. In August of 2004, under the direction of the environmental engineering firm the remediation plan was revised to facilitate what was believed to be a more timely and final solution. This plan was completed and the Trust accepted from the seller full reimbursement for the work in an amount equal to approximately $108,000. The seller, having reimbursed the Trust for 100% of all remediation costs caused the Trust to lift the Stipulation to Hold Case in Abeyance and withdraw the lawsuit filed by the Trust. Over a future period covering approximately two years the Trust, at its expense, will continue a soil vapor extraction process implemented by the environmental engineering firm overseeing the remediation. Trust management believes the contamination can be successfully abated over the additional time with no material adverse effects to the financial position or results of operations of the Trust. However, the nature of environmental contamination matters is inherently uncertain, and Trust management cannot provide any guarantee or assurance that all environmental contamination has been identified, that the continuing remediation efforts will be successful. Additional contamination, either currently undetected or undetectable or arising in the future, could later be discovered. 5. TRUST GENERAL AND ADMINISTRATIVE COSTS During the year ended December 31, 2004, the shareholders of the Trust approved an Amended and Restated Declaration of Trust. The Amended and Restated Declaration of Trust authorized certain changes to fees relating to operations of the Trust. During the year ended December 31, 2004, in accordance with the Declaration of Trust and the Amended and Restated Declaration of Trust, the Trust incurred $202,000 of Active Trustee and Trust Officer

consulting and retainer fees and compensation, and personal debt guarantee fees paid to MGT, Conquest, or their affiliates. Also during the year ended December 31, 2004, the Trust reimbursed Conquest $63,107 for acquisition costs that were incurred by Conquest prior to the Trust's fourth quarter 2004 acquisition of operating assets described in Note 2. 6. CASH DISTRIBUTIONS AND PROFIT ALLOCATIONS Cash distributions and profit and loss allocations are determined by terms set forth in the Declaration of Trust, as amended and restated during the year ended December 31, 2004. Generally, the Trust currently distributes all cash provided by operating activities less amounts paid for acquisitions and capital expenditures, and debt service requirements. G - 10 Upon the approval of and in accordance with the Amended and Restated Declaration of Trust in 2004, all of the performance shares outstanding, including those held by MGT and Conquest or their affiliates, were converted to preferred shares of the Trust at an exchange ratio of 1.13 preferred share for each performance share. At December 31, 2004, there are no longer any performance shares outstanding. All profits and cash distributions are now allocated to preferred shareholders in amounts equal to their percentage ownership of the preferred shares of the Trust. Prior to the approval of the Amended and Restated Declaration of Trust in 2004, all cash available for distribution subsequent to December 27, 1999 had been allocated 50% to the preferred shareholders and 50% to the performance shareholders. Profits realized and losses incurred by the Trust were allocated among the preferred and performance shareholders, first, to the performance shareholders to the extent of any cash distributed or distributable to such shareholders, and second, to preferred shareholders. During the year ended December 31, 2002, the Trust temporarily deferred $300,000 of the cash distributions allocated to the performance shareholders in order to allow the Trust to expedite capital improvements and to maintain sufficient cash reserves for debt service payments. The deferred distributions payable to the performance shareholders at December 31, 2002 were subsequently paid to the performance shareholders of the Trust in January 2003. 7. OTHER RELATED PARTY TRANSACTIONS Pursuant to the Amended and Restated Declaration of Trust, MGT, as managing trustee, is entitled to compensation for services rendered to the Trust. The compensation includes an annual Trust administration fee equal to 1% of the total subscriptions of preferred shareholders and an annual Trust management fee of 5% of Trust revenues, paid quarterly in arrears. The Trust management fee is reduced to 4% for any quarter that Trust revenues during the prior four consecutive calendar quarters do not exceed $3 million. Conquest, as operator, is reimbursed for all direct operating expenses incurred, which costs are included in cost of operations in the accompanying statements of income, and is paid an annual operator fee of $75,000, adjusted upward or downward annually based on changes in the consumer price index. Accounts payable at December 31, 2004 includes a liability in the amount of $30,000 payable to Conquest for unreimbursed direct operating expenses. In December 1999, Conquest and MGT agreed to share equally all future fees received from the Trust. These fees include the administration fee, management fee, and operator fee. In September 2003, the Trust entered into a License Agreement (the "Agreement") with an entity wholly owned by the principals of the Operator. The Agreement runs "month-to-month" and provides the Trust with an alternative source to service the accounts of customers of the Trust. The Trust is obligated to pay a monthly fee of $5,000 for rights under the Agreement. During the year ended December 31, 2004, the Trust earned a net $2,759 under the Agreement, which is included in interest and other revenues in the consolidated statements of income. As part of the Trust's acquisition of assets and commencement of operations in 1996, a deferred payment totaling $900,000 was to be paid by the Trust to Conquest or their affiliates in $300,000 annual installments from future operations of the Trust, provided that certain performance levels were achieved. During the year ended December 31, 2002, the Trust paid the final $300,000 deferred payment installment due under the initial asset purchase agreement. There are no additional deferred payments to be made subsequent to December 31, 2002. * * * * * G - 11 METRETEK TECHNOLOGIES, INC. FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2004 EXHIBIT LIST Number Description ------ ----------- (3.1) Second Restated Certificate of Incorporation of Metretek Technologies, Inc. (Incorporated by reference to Exhibit 4.1 to Metretek's Registration Statement on Form S-3, Registration No. 333-96369.) (3.2) Amended and Restated By-Laws of Metretek Technologies, Inc. (Incorporated by reference to Exhibit 4.2 to Metretek's Registration Statement on Form S-8, Registration No. 333-62714.) (4.1) Specimen Common Stock Certificate. (Incorporated by reference to Exhibit 4.1 to Metretek's Registration Statement on Form S-18, Registration No. 33-44558.) (4.2) Amended and Restated Rights Agreement, dated as of November 30, 2001, between Metretek Technologies, Inc. and Computershare Investor Services, LLC. (Incorporated by reference to Exhibit 4.1 to Metretek's Registration Statement on Form 8-A/A, Amendment No. 5, filed November 30, 2001.) (4.3) Amendment No. 1, dated as of April 22, 2004, to Amended and Restated Rights Agreement between Metretek Technologies, Inc. and ComputerShare Investor

Services, LLC. (Incorporated by reference to Exhibit 10.6 to Metretek's Current Report on Form 8-K filed May 6, 2004). (4.4) Registration Rights Agreement, dated as of December 9, 1999, by and among Metretek Technologies, Inc. and the Unit Purchasers. (Incorporated by reference to Exhibit 4.4 to Metretek's Current Report on Form 8-K filed December 22, 1999). (4.5) Form of Securities Purchase Agreement, dated as of April 29, 2004, by and among Metretek Technologies, Inc. and the purchasers a signatory thereto ("Investors"). (Incorporated by reference to Exhibit 10.1 to Metretek's Current Report on Form 8-K filed May 6, 2004). (4.6) Form of Registration Rights Agreement, dated as of April 29, 2004, by and among Metretek Technologies, Inc. and the Investors. (Incorporated by reference to Exhibit 10.2 to Metretek's Current Report on Form 8-K filed May 6, 2004). (4.7) Form of Warrant, dated May 3, 2004, to be issued by Metretek Technologies, Inc. to the Investors. (Incorporated by reference to Exhibit 10.3 to Metretek's Current Report on Form 8-K filed May 6, 2004). (4.8) Form of Warrant, dated May 3, 2004, to be issued by Metretek Technologies, Inc. to Roth Capital Management, LLC, as placement agent. (Incorporated by reference to Exhibit 10.4 to Metretek's Current Report on Form 8-K filed May 6, 2004). (4.9) Form of Warrant, dated May 3, 2004, to be issued by Metretek Technologies, Inc. to Preferred Stockholders. (Incorporated by reference to Exhibit 10.5 to Metretek's Current Report on Form 8-K filed May 6, 2004). (10.1) 1991 Stock Option Plan, as amended and restated December 5, 1996. (Incorporated by reference to Exhibit 10.2 to Metretek's Annual Report on Form 10-KSB for the year ended December 31, 1996.)* (10.2) Directors' Stock Option Plan, as amended and restated December 2, 1996. (Incorporated by reference to Exhibit 10.3 to Metretek's Annual Report on Form 10-KSB for the year ended December 31, 1996.)* (10.3) Amended and Restated Employment Agreement, dated as of November 1, 2004, by and between Metretek Technologies, Inc. and W. Phillip Marcum. (Incorporated by reference to Exhibit 10.1 to Metretek's Current Report on Form 8-K, filed November 3, 2004)* (10.4) Amended and Restated Employment Agreement, dated as of November 1, 2004, by and between Metretek Technologies, Inc. and A. Bradley Gabbard. (Incorporated by reference to Exhibit 10.2 to Metretek's Current Report on Form 8-K, filed November 3, 2004)* (10.5) Metretek Technologies, Inc. 1998 Stock Incentive Plan, amended and restated as of June 14, 2004. (Incorporated by reference to Exhibit 4.3 to Metretek's Registration Statement on Form S-8, Registration No. 333-116431.)* (10.6) Form of Incentive Stock Option Agreement under the Metretek Technologies, Inc. 1998 Stock Incentive Plan, as amended.. (Incorporated by reference to Exhibit 10.1 to Metretek's Current Report on Form 8-K, filed August 25, 2004)* (10.7) Form of Non-Qualified Stock Option Agreement under the Metretek Technologies, Inc. 1998 Stock Incentive Plan, as amended. (Incorporated by reference to Exhibit 10.2 to Metretek's Current Report on Form 8-K, filed August 25, 2004)* (10.8) Form of Restricted Stock Agreement under the Metretek Technologies, Inc. 1998 Stock Incentive Plan, as amended. (Incorporated by reference to Exhibit 10.3 to Metretek's Current Report on Form 8-K, filed August 25, 2004)* (10.9) Form of Indemnification Agreement between Metretek Technologies, Inc. and each of its directors. (Incorporated by reference to Exhibit 10.21 to Metretek's Annual Report on Form 10-KSB for the year ended December 31, 1999.) (10.10) Prototype - Basic Plan Document for the Metretek - Southern Flow Savings and Investment Plan. (Incorporated by reference to Exhibit 4.7 to Metretek's Registration Statement on Form S-8, Registration No. 333-42698.)* (10.11) Adoption Agreement for the Metretek - Southern Flow Savings and Investment Plan. (Incorporated by reference to Exhibit 4.8 to Metretek's Registration Statement on Form S-8, Registration No. 333-42698.)* (10.12) Credit and Security Agreement, dated as of September 24, 2001, by and between Wells Fargo Business Credit, Inc. and Southern Flow Companies, Inc. (Incorporated by reference to Exhibit 10.1 to Metretek's Current Report on Form 8-K filed October 5, 2001.) (10.13) Form of Guaranty, dated as of September 24, 2001, by each of Metretek Technologies, Inc., PowerSecure, Inc. and Metretek, Incorporated for the benefit of Wells Fargo Business Credit, Inc. (Incorporated by reference to Exhibit 10.2 to Metretek's Current Report on Form 8-K filed October 5, 2001.) (10.14) Form of Security Agreement, dated as of September 24, 2001, between Wells Fargo Business Credit, Inc. and each of Metretek Technologies, Inc., PowerSecure, Inc. and Metretek, Incorporated. (Incorporated by reference to Exhibit 10.3 to Metretek's Current Report on Form 8-K filed October 5, 2001.) (10.15) First Amendment to Credit and Security Agreement, dated as of November 19, 2002, between Southern Flow Companies, Inc. and Wells Fargo Business Credit, Inc. (Incorporated by reference to Exhibit 10.31 to Metretek's Annual Report on Form 10-KSB for the year ended December 31, 2002.) (10.16) Second Amendment to Credit and Security Agreement and Waiver of Defaults, dated as of March 26, 2003, between Southern Flow Companies, Inc. and Wells Fargo Business Credit, Inc. (Incorporated by reference to Exhibit 10.32 to Metretek's Annual Report on Form 10-KSB for the year ended December 31, 2002.) (10.17) Third Amendment to Credit and Security Agreement, dated as of April 4, 2003, between Southern Flow Companies, Inc. and Wells Fargo Business Credit, Inc.

(Incorporated by reference to Exhibit 10.1 to Metretek's Quarterly Report on Form 10-Q for the period ended March 31, 2003.) (10.18) Fourth Amendment to Credit and Security Agreement, dated as of September 24, 2003, between Southern Flow Companies, Inc. and Wells Fargo Business Credit, Inc. (Incorporated by reference to Exhibit 10.4 to Metretek's Current Report on Form 8-K filed October 3, 2003.) (10.19) Fifth Amendment to Credit and Security Agreement, dated as of March 29, 2004, between Southern Flow Companies, Inc. and Wells Fargo Business Credit, Inc. (Incorporated by reference to Exhibit 10.1 to Metretek's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2004.) (10.20) Sixth Amendment to Credit and Security Agreement and Waiver of Defaults, dated as of December 8, 2004, between Southern Flow Companies, Inc. and Wells Fargo Business Credit, Inc. (Incorporated by reference to Exhibit 10.2 to Metretek's Current Report on Form 8-K filed December 14, 2004.) (10.21) Credit and Security Agreement, dated as of September 6, 2002, by and between Wells Fargo Business Credit, Inc. and Metretek, Incorporated (Incorporated by reference to Exhibit 10.1 to Metretek's Current Report on Form 8-K filed September 12, 2002.) (10.22) Form of Guaranty, dated as of September 6, 2002, by each of Metretek Technologies, Inc., PowerSecure, Inc., Metretek Contract Manufacturing Company, Inc. and Southern Flow Companies, Inc., Incorporated for the benefit of Wells Fargo Business Credit, Inc. (Incorporated by reference to Exhibit 10.2 to Metretek's Current Report on Form 8-K filed September 12, 2002.) (10.23) Form of Security Agreement, dated as of September 6, 2001, between Wells Fargo Business Credit, Inc. and each of Metretek Technologies, Inc., PowerSecure, Inc., Metretek Contract Manufacturing Company, Inc. and Southern Flow Companies, Inc. (Incorporated by reference to Exhibit 10.3 to Metretek's Current Report on Form 8-K filed September 12, 2002.) (10.24) First Amendment to Credit and Security Agreement and Waiver of Defaults, dated as of March 26, 2003, between Metretek, Incorporated and Wells Fargo Business Credit, Inc. (Incorporated by reference to Exhibit 10.33 to Metretek's Annual Report on Form 10-KSB for the year ended December 31, 2002.) (10.25) Second Amendment to Credit and Security Agreement, dated as of September 24, 2003, between Metretek, Incorporated and Wells Fargo Business Credit, Inc. (Incorporated by reference to Exhibit 10.5 to Metretek's Current Report on Form 8-K filed October 3, 2003.) (10.26) Third Amendment to Credit and Security Agreement, dated as of November 13, 2003, between Metretek, Incorporated and Wells Fargo Business Credit, Inc. (Filed herewith.) (10.27) Fourth Amendment to Credit and Security Agreement and Waiver of Defaults, dated as of March 24, 2004, between Metretek, Incorporated and Wells Fargo Business Credit, Inc. (Filed herewith.) (10.28) Fifth Amendment to Credit and Security Agreement and Waiver of Defaults, dated as of June 3, 2004, between Metretek, Incorporated and Wells Fargo Business Credit, Inc. (Incorporated by reference to Exhibit 10.1 to Metretek's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2004.) (10.29) Sixth Amendment to Credit and Security Agreement and Waiver of Defaults, dated as of December 8, 2004, between Metretek, Incorporated and Wells Fargo Business Credit, Inc. (Incorporated by reference to Exhibit 10.1 to Metretek's Current Report on Form 8-K filed December 14, 2004.) (10.30) Credit and Security Agreement, dated as of September 24, 2003, by and between Wells Fargo Business Credit, Inc. and PowerSecure, Inc. (Incorporated by reference to Exhibit 10.1 to Metretek's Current Report on Form 8-K filed October 3, 2003.) (10.31) Form of Guaranty, dated as of September 24, 2003, by each of Metretek Technologies, Inc., Metretek, Incorporated, Metretek Contract Manufacturing Company, Inc. and Southern Flow Companies, Inc., Incorporated for the benefit of Wells Fargo Business Credit, Inc. (Incorporated by reference to Exhibit 10.2 to Metretek's Current Report on Form 8-K filed October 3, 2003.) (10.32) Form of Security Agreement, dated as of September 6, 2001, between Wells Fargo Business Credit, Inc. and each of Metretek Technologies, Inc., Metretek, Incorporated., Metretek Contract Manufacturing Company, Inc. and Southern Flow Companies, Inc. (Incorporated by reference to Exhibit 10.3 to Metretek's Current Report on Form 8-K filed October 3, 2003.) (10.33) First Amendment to Credit and Security Agreement, dated as of December 8, 2004, between PowerSecure, Inc. and Wells Fargo Business Credit, Inc. (Incorporated by reference to Exhibit 10.3 to to Metretek's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2004.) (10.34) Employment and Non-Competition Agreement, dated as of June 24, 2002, between Metretek, Incorporated and Thomas R. Kellogg. (Incorporated by reference to Exhibit 10.24 to Metretek's Annual Report on Form 10-KSB for the year ended December 31, 2002.)* (10.35) Employment and Non-Competition Agreement, dated as of January 1, 2003, between PowerSecure, Inc. and Sidney Hinton. (Incorporated by reference to Exhibit 10.25 to Metretek's Annual Report on Form 10-KSB for the year ended December 31, 2002.)* (10.36) Form of Stock Purchase Agreement, dated as of September 10, 2004, by and between Metretek Technologies, Inc. and the employee-shareholders of PowerSecure, Inc. (Incorporated by reference to Exhibit 10.1 to Metretek's Current Report on Form 8-K, filed September 13, 2004)* (10.37) Amended Stipulation of Settlement, filed March 3, 2004, among Douglas W. Heins on

behalf of himself and all others similarly situated, and Metretek Technologies, Inc., et. al. (Incorporated by reference to Exhibit 10.39 to Metretek's Annual Report on Form 10-K for the year ended December 31, 2003.) (10.38) Order Granting Final Approval of the Partial Settlement, dated June 11, 2004. (Incorporated by reference to Exhibit 99.1 to Metretek's Current Report on Form 8-K filed June 14, 2004.) (10.39) Summary Sheet of Compensation of Non-Employee Directors. (Filed herewith.) (14.1) Metretek Technologies, Inc. Code of Ethics for Principal Executive Officer and Senior Financial Officers. (Incorporated by reference to Exhibit 14.1 to Metretek's Annual Report on Form 10-K for the year ended December 31, 2003.) (14.2) Metretek Technologies, Inc. Code of Business Conduct and Ethics. (Incorporated by reference to Exhibit 14.2 to Metretek's Annual Report on Form 10-K for the year ended December 31, 2003.) (21.1) Subsidiaries of Metretek Technologies, Inc. (Filed herewith.) (23.1) Consent of Hein & Associates LLP (Filed herewith.) (23.2) Consent of Deloitte & Touche LLP (Filed herewith.) (31.1) Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith.) (31.2) Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith.) (32.1) Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 and Rule 13a-14(b) or 15d-14(b) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herewith.) (32.2) Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 and Rule 13a-14(b) or 15d-14(b) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herewith.) ---------- * Management contract or compensation plan or arrangement.