

METRIS COMPANIES INC  
Form 10-Q/A  
April 12, 2004

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

-----  
FORM 10-Q/A

(Mark One)

Quarterly Report amendment pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended

March 31, 2003

or

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-12351

METRIS COMPANIES INC.

(Exact name of Registrant as specified in its charter)

Delaware  
(State of Incorporation)

41-1849591  
(I.R.S. Employer Identification No.)

10900 Wayzata Boulevard, Minnetonka, Minnesota 55305-1534  
(Address of principal executive offices)

(952) 525-5020

(Registrant's telephone number, including area code)

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

Yes  No

As of April 30, 2003, 57,754,091 shares of the Registrant's common stock, par value \$.01 per share, were outstanding.

METRIS COMPANIES INC.

FORM 10-Q

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EXPLANATORY NOTE

As previously disclosed, Metris Companies Inc. (the "Company") restated its financial results for 1998 through 2002 and for the first three quarters of 2003. This restatement was made in connection with the Company's analysis of its method of valuing "Retained interests in loans securitized."

This Amendment No. 1 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2003, initially filed with the Securities and Exchange Commission ("SEC") on May 15, 2003 (the "Original 10-Q"), is being filed to reflect restatements of the following financial statements: (a) consolidated balance sheets as of December 31, 2002, and March 31, 2003; (b) consolidated statements of income for the three-months ended March 31, 2003 and 2002; and (c) consolidated statements of cash flows for the three-months ended March 31, 2003 and 2002. Included in these restatements, in addition to changes made as a result of the Company's revised accounting policies and procedures related to valuing its retained interests, are corrections to conform with

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accounting principles generally accepted in the United States of America ("GAAP") related to securitization transaction costs, credit card solicitation costs, interest rate caps and debt waiver revenue associated with credit card receivables sold to the Metris Master Trust, as well as the transfer of allowance for loan losses that was incorrectly classified as a valuation reserve in "Retained interests in loans securitized" as of December 31, 2001. In addition, we have restated certain other prior period amounts to conform with the current period's presentation. For a more detailed description of the restatements, see Note 2 to the accompanying unaudited consolidated financial statements and "Restatements" in Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this Quarterly Report on Form 10-Q/A.

This Amendment No. 1 amends and restates Items 1, 2, and 4 of Part I and Item 6 of Part II of the Original 10-Q. No other information in the Original 10-Q is amended. The foregoing items have been amended to reflect the restatements and have not been updated to reflect other events occurring after the filing of the Original 10-Q or to modify or update those disclosures affected by subsequent events. Such matters have been or will be addressed in the amended Quarterly Report on Form 10-Q/A for the quarter ended June 30, 2003, filed concurrently herewith, the Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, filed on March 2, 2004, the current report on Form 8-K filed on March 15, 2004, and any reports filed with the SEC subsequent to the date of this filing.

We are concurrently filing an amended Annual Report on Form 10-K/A for the year ended December 31, 2002, and amended Quarterly Reports on Form 10-Q/A for the quarter ended June 30, 2003 and for the quarter ended September 30, 2003, containing restated financial statements for the relevant periods. We did not amend our Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for periods affected by the restatements that ended prior to December 31, 2002, and therefore, the financial statements, auditors' reports and related financial information for the affected periods contained in such reports should no longer be relied upon.

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### PART I. FINANCIAL INFORMATION

#### ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

##### METRIS COMPANIES INC. AND SUBSIDIARIES

Consolidated Balance Sheets  
(Dollars in thousands)

	MARCH 31, 2003	
	AS RESTATED (UNAUDITED)	DEC AS
	-----	-----
<b>ASSETS:</b>		
Cash and due from banks	\$ 90,770	\$
Federal funds sold	102,300	
Short-term investments	342,934	
	-----	-----
Cash and cash equivalents	536,004	
	-----	-----
Liquidity reserve deposit	69,221	

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Credit card loans	686,285	
Less: Allowance for loan losses	125,357	
	-----	----
Net credit card loans	560,928	
	-----	----
Retained interest in loans securitized	805,633	
Property and equipment, net	75,205	
Purchased portfolio premium, net	58,083	
Other receivables due from credit card securitizations, net	114,347	
Other assets	203,761	
	-----	----
TOTAL ASSETS	\$ 2,423,182	\$ 2,423,182
	=====	=====
LIABILITIES:		
Deposits	\$ 801,498	\$ 801,498
Debt	358,276	358,276
Accounts payable	50,480	50,480
Deferred income	123,570	123,570
Accrued expenses and other liabilities	116,631	116,631
	-----	----
TOTAL LIABILITIES	1,450,455	1,450,455
	-----	----
STOCKHOLDERS' EQUITY:		
Convertible preferred stock - Series C, par value \$.01 per share; 10,000,000 shares authorized, 1,182,098 and 1,156,086 shares issued and outstanding, respectively	440,331	440,331
Common stock, par value \$.01 per share; 300,000,000 shares authorized, 64,759,515 and 64,223,231 shares issued, respectively	648	648
Paid-in capital	228,702	228,702
Unearned compensation	(448)	(448)
Treasury stock - 7,055,300 shares	(58,308)	(58,308)
Retained earnings	361,802	361,802
	-----	----
TOTAL STOCKHOLDERS' EQUITY	972,727	972,727
	-----	----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,423,182	\$ 2,423,182
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

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METRIS COMPANIES INC. AND SUBSIDIARIES  
 Consolidated Statements of Income  
 (In thousands, except earnings per-share data) (Unaudited)

THREE MONTHS ENDED MARCH 31,	
2003	2002
----	----
AS RESTATED	AS RESTATED
-----	-----

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INTEREST INCOME:		
Credit card loans	\$ 29,907	\$ 88,52
Federal funds sold	359	11
Other	1,895	1,20
	-----	-----
Total interest income	32,161	89,84
	-----	-----
Deposit interest expense	10,908	23,65
Other interest expense	8,433	8,51
	-----	-----
Total interest expense	19,341	32,16
	-----	-----
NET INTEREST INCOME	12,820	57,67
Provision for loan losses	44,786	61,87
	-----	-----
NET INTEREST EXPENSE AFTER PROVISION FOR LOAN LOSSES	(31,966)	(4,19)
	-----	-----
OTHER OPERATING INCOME:		
Securitization (expense) income	(37,970)	102,44
Servicing income on securitized / sold receivables	47,813	45,03
Credit card fees, interchange and other credit card income	26,319	75,65
Enhancement services revenues	43,509	34,27
	-----	-----
	79,671	257,41
	-----	-----
OTHER OPERATING EXPENSE:		
Credit card account and other product solicitation and marketing expenses	33,688	47,25
Employee compensation	53,381	56,54
Data processing services and communications	19,178	22,30
Credit protection claims expense	12,306	9,17
Occupancy and equipment	9,613	12,79
Purchased portfolio premium amortization	6,496	8,45
MasterCard/Visa assessment and fees	2,415	3,83
Credit card fraud losses	940	2,22
Asset impairments, lease write-offs and severance	16,777	--
Other	20,352	18,49
	-----	-----
	175,146	181,09
	-----	-----
(LOSS) INCOME BEFORE INCOME TAXES	(127,441)	72,13
Income tax (benefit) expense	(44,611)	27,85
	-----	-----
NET (LOSS) INCOME	(82,830)	44,28
Convertible preferred stock dividends	9,689	9,18
	-----	-----
NET (LOSS) INCOME APPLICABLE TO COMMON STOCKHOLDERS	\$ (92,519)	\$ 35,09
	=====	=====
(LOSS) EARNINGS PER SHARE:		
Basic	(1.62)	0.4
Diluted	(1.62)	0.4
SHARES USED TO COMPUTE (LOSS) EARNINGS PER SHARE:		
Basic	57,257	96,03
Diluted	57,257	96,97
DIVIDENDS DECLARED PER COMMON SHARE		
	--	\$ 0.0

See accompanying Notes to Consolidated Financial Statements.

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METRIS COMPANIES INC. AND SUBSIDIARIES  
 Consolidated Statements of Changes in Stockholders' Equity  
 (In thousands) (Unaudited)

	NUMBER OF SHARES PREFERRED COMMON	PREFERRED STOCK	COMMON STOCK	PAID-IN CAPITAL	UNEARNED COMPENSATION	
BALANCE AT DECEMBER 31, 2001 AS PREVIOUSLY REPORTED	1,058	63,419	\$393,970	\$642	\$232,413	\$ (4,980)
Cumulative restatements to prior periods, see Note 2	--	--	--	--	--	--
	-----	-----	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 2001 AS RESTATED	1,058	63,419	\$393,970	\$642	\$232,413	\$ (4,980)
Net income (as restated)	--	--	--	--	--	--
Cash dividends	--	--	--	--	--	--
Common stock repurchased	--	(1,292)	--	--	--	--
Preferred dividends in kind	23	--	8,864	--	--	--
Issuance of common stock under employee benefit plans	--	116	--	1	1,822	--
Amortization of restricted stock	--	--	--	--	--	404
	-----	-----	-----	-----	-----	-----
BALANCE AT MARCH 31, 2002 AS RESTATED	1,081	62,243	\$402,834	\$643	\$234,235	\$ (4,576)
	=====	=====	=====	=====	=====	=====
BALANCE AT DECEMBER 31, 2002 AS PREVIOUSLY REPORTED	1,156	57,168	\$430,642	\$642	\$227,376	\$ --
Cumulative restatements to prior periods, see Note 2	--	--	--	--	--	--
BALANCE AT DECEMBER 31, 2002 AS RESTATED	1,156	57,168	\$430,642	\$642	\$227,376	\$ --
Net loss (as restated)	--	--	--	--	--	--
Preferred dividends in kind	26	--	9,689	--	--	--
Issuance of common stock under employee benefit plans	--	536	--	3	792	--
Deferred compensation obligations	--	--	--	3	546	(549)
Restricted stock forfeitures	--	--	--	--	(12)	12
Amortization of restricted stock	--	--	--	--	--	89
	-----	-----	-----	-----	-----	-----
BALANCE AT MARCH 31, 2003 AS RESTATED	1,182	57,704	\$440,331	\$648	\$228,702	\$ (448)
	=====	=====	=====	=====	=====	=====

See accompanying Notes to Consolidated Financial Statements.

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METRIS COMPANIES INC. AND SUBSIDIARIES  
 Consolidated Statements of Cash Flows  
 (Dollars in thousands) (Unaudited)

	THREE MONTHS ENDED MARCH 31,	
	2003	2002
	AS RESTATED	AS RESTATED
	-----	-----
<b>OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (82,830)	\$ 44,280
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation, amortization and accretion	(36,420)	(43,787)
Provision for loan losses	44,786	61,876
Loss from credit card securitization	66,209	39,087
Asset impairments, lease write-offs, and severance	16,777	--
Market loss on derivative financial instruments	3,710	9,272
Changes in operating assets and liabilities, net:		
Liquidity Reserve deposit	(69,221)	--
Fair value of retained interests in loans securitized	83,608	48,868
Spread accounts receivable	(164,549)	(30,224)
Other receivables due from credit card securitizations, net	(3,876)	9,439
Accounts payable and accrued expenses	12,325	(4,128)
Deferred income	(19,578)	(8,413)
Other	(42,793)	50,338
	-----	-----
Net cash provided by (used in) operating activities	(191,852)	176,608
	-----	-----
<b>INVESTING ACTIVITIES:</b>		
Proceeds from transfers of portfolios to the Metris Master Trust	205,560	619,554
Net cash from loan originations and principal collections on loans receivable	32,399	(228,410)
Additions to property and equipment	(501)	(3,645)
	-----	-----
Net cash provided by investing activities	237,458	387,499
	-----	-----
<b>FINANCING ACTIVITIES:</b>		
Proceeds from issuance of debt	627	26
Repayment of debt	--	(292,000)
Net decrease in deposits	(91,256)	(332,122)
Cash dividends paid	--	(938)
Proceeds from issuance of common stock	795	1,823
Repurchase of common stock	--	(17,582)
	-----	-----
Net cash used in financing activities	(89,834)	(640,793)
	-----	-----
Net decrease in cash and cash equivalents	(44,228)	(76,686)
Cash and cash equivalents at beginning of period	580,232	381,639
	-----	-----
Cash and cash equivalents at end of period	\$ 536,004	\$ 304,953
	=====	=====
<b>SUPPLEMENTAL DISCLOSURES AND CASH FLOW INFORMATION:</b>		
Cash paid (received) during the period for:		

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Interest	\$ 19,959	\$ 34,261
Income taxes	(32,042)	(17,948)

See accompanying Notes to Consolidated Financial Statements.

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METRIS COMPANIES INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
(Dollars in thousands, except as noted) (Unaudited)

### NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Metris Companies Inc. ("MCI") and its subsidiaries. MCI's principal subsidiaries are Direct Merchants Credit Card Bank, National Association ("Direct Merchants Bank" or the "Bank"), Metris Direct, Inc. and Metris Receivables, Inc. MCI and its subsidiaries, as applicable, may be referred to as "we," "us," "our" or the "Company." We are an information-based direct marketer of consumer lending products and enhancement services.

All dollar amounts are presented as pre-tax amounts unless otherwise noted. We have eliminated all significant intercompany balances and transactions in consolidation.

### INTERIM FINANCIAL STATEMENTS

We have prepared the unaudited interim consolidated financial statements and related unaudited financial information in the footnotes in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial statements. These interim financial statements reflect all adjustments consisting of normal recurring accruals, which, in the opinion of management, are necessary to present fairly our consolidated financial position and the results of our operations and our cash flows for the interim periods. You should read these consolidated financial statements in conjunction with the financial statements and the notes thereto contained in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2002, filed concurrently with this Quarterly Report on Form 10-Q/A. The nature of our business is such that the results of any interim period may not be indicative of the results to be expected for the entire year.

### PERVASIVENESS OF ESTIMATES

We have prepared the consolidated financial statements in accordance with GAAP, which require us to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. The most significant and subjective of these estimates is our determination of the adequacy of the allowance for loan losses and our determination of the fair value of "Retained interests in loans securitized." The significant factors susceptible to future change that have an impact on these estimates include default rates, net interest spreads, payment rates, liquidity and the ability to finance future receivables activity and overall economic conditions. As a result, the actual losses in our loan portfolio and the fair value of our retained interests as of March 31, 2003 and December 31, 2002, could materially differ from these estimates. The accompanying unaudited consolidated financial statements do not include an adjustment to the fair value of retained interests that might result from the inability to finance future receivables.



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### COMPREHENSIVE INCOME

SFAS No. 130 "Reporting Comprehensive Income," does not apply to our current financial results and therefore, net income equals comprehensive income.

### NOTE 2 - RESTATEMENTS

The consolidated statements of income and cash flows as presented for the three-month periods ended March 31, 2003 and 2002, and the consolidated balance sheets as of March 31, 2003 and December 31, 2002, have been restated to reflect the following:

- The valuation model and related collateral assumptions used to estimate the fair value of the Company's "Retained interests in loans securitized" did not properly reflect the structure of the Metris Master Trust and related series supplements. All periods presented have been restated to reflect the changes in the valuation model and the related collateral

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assumptions. These restatements impact "Retained interests in loans securitized," "Other receivables due from credit card securitizations, net" and "Securitization income."

- The Company's policy for recognizing transaction costs related to the securitization of receivables through the Metris Master Trust or a conduit was not in accordance with GAAP. Historically, these costs had been capitalized and amortized over the estimated life of the new debt securities. These costs are now allocated and recognized over the initial and reinvestment periods of the respective debt securities or Metris Master Trust financing unless the transaction results in a loss, in which case the costs are expensed as incurred. All periods presented have been restated to reflect the revised policy. This restatement impacts "Other assets" and "Securitization income."
- The Company's policy for recognizing expenses related to credit card solicitation costs was not in accordance with GAAP. Historically, the Company had capitalized and expensed these costs over the estimated period over which the new credit card accounts were established, approximately three months. These costs are now expensed as incurred. All periods presented have been restated to reflect the revised policy. This restatement impacts "Other assets" and "Credit card account and other product solicitation and marketing expenses."
- The Company corrected its accounting for interest rate caps purchased in May of 2002 and forward to comply with SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. These costs had been deferred and amortized over the estimated life of the new debt securities. These instruments are now recorded at fair value. Periods from May 2002 forward have been restated to reflect this correction. This restatement impacts "Retained interests in loans securitized," "Other assets" and "Securitization income."
- The Company historically recognized revenue in the month following completion of the cancellation period, generally one month. Cash flows related to debt waiver are now included in the valuation of the interest-only strip receivable. All periods presented have been restated to reflect the revised policy. This restatement impacts "Retained interests in loans securitized," "Deferred revenue," "Enhancement services revenue," and "Securitization income."

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- At December 31, 2001 we had \$50 million of "Allowance for loan losses" classified as valuation reserve in our "Retained interests in loans securitized." The valuation reserve was subsequently transferred to "Allowance for loan losses" through "Provision for loan losses" during the first quarter of 2002. We have restated the December 31, 2001 balance sheet and 2001 income statement and March 31, 2002 income statement to reflect this transfer occurring during the fourth quarter of 2001. This restatement impacts "Allowance for loan losses," "Retained interests in loans securitized," "Provision for loan losses" and "Securitization income."

The cumulative impact of the above restatements as of December 31, 2001 is a \$36.6 million decrease in retained earnings and consists of the following adjustments:

Retained interests in loans securitized	\$	4.6
Allowance for loan losses		(50.0)
Transaction costs		6.6
Pre-paid costs		(17.9)
Income tax		20.1
		-----
	\$	(36.6)
		=====

In addition, we have restated certain prior-period amounts to conform with the current period's presentation.

- In prior periods, we classified interest income, provision for loan losses, and related credit card loan fees generated from retained interests in loans securitized on the income statement as "Interest income-credit card loans and retained interests in loans securitized," "Provision for loan losses" and "Credit card fees, interchange and other credit card income." For all periods presented, these amounts are now included in the estimation of the fair value of the interest-only strip receivable and "Securitization income."
  - In prior periods we classified spread accounts receivable in "Other receivables due from credit card securitizations, net." For all periods presented, we have reclassified our spread accounts receivable from "Other receivables due from credit card securitizations, net" to "Retained interests in loans securitized."
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- In prior periods, we classified servicing income in "Net securitization and credit card servicing income." For all periods presented, we have reclassified these amounts to "Servicing income."
  - In prior periods, income from our debt waiver product sold to customers of Direct Merchants Bank with receivables held by Direct Merchants Bank was included in "Enhancement services revenue." For all periods presented we have reclassified this income to "Credit card fees, interchange and other credit card income."
  - We classified the liquidity reserve deposit established in March 2003 and other restricted cash deposits maintained at Direct Merchants Bank as "Short-term investments." We have reclassified these items to "Liquidity reserve deposit" for all periods presented.
  - Revenue related to our membership club and warranty business for current and prior periods is classified as "Enhancement services revenue." Claims expense related to this business has been reclassified

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as "Other" expenses for all periods presented.

- In addition to the tax effects of the pre-tax restatement amounts, the restated presentation also reflects revised probable amounts of future taxable and deductible temporary differences, resulting in a reclassification of certain deferred income taxes to current income taxes.

See Notes 3,4,6,7,8,9, 10, 11 and 12, all of which are impacted by these changes.

The following tables present certain captions of the consolidated financial statements, for all periods presented, which were affected by the restatements.

	MARCH 31, 2003		AS PREVIOUSLY REPORTED
	AS PREVIOUSLY REPORTED	AS RESTATED	
<b>BALANCE SHEETS:</b>			
<b>ASSETS:</b>			
Short-term investments	\$ 412,155	\$ 342,934	\$ 429,000
Liquidity reserve deposit	--	69,221	--
Retained interests in loans securitized	1,670,171	--	1,736,000
Less: Valuation allowance	931,052	--	986,000
Retained interests in loans securitized	739,119	805,633	750,000
Other receivables due from credit card securitizations, net	276,134	114,347	184,000
Other assets	168,843	203,761	174,000
<b>LIABILITIES:</b>			
Deferred income	\$ 138,207	\$ 123,570	\$ 159,000
Accrued expenses and other liabilities	100,125	116,631	72,000
<b>STOCKHOLDERS' EQUITY</b>			
Retained earnings	\$ 424,026	\$ 361,802	\$ 458,000

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	THREE-MONTHS ENDED MARCH 31, 2003		AS PREVIOUSLY REPORTED
	AS PREVIOUSLY REPORTED	AS RESTATED	
<b>STATEMENTS OF INCOME:</b>			
Provision for loan losses	\$ 44,786	\$ 44,786	\$ 111,870
Net interest expense after provision for loan losses	(31,966)	(31,966)	(54,190)
<b>Other operating income:</b>			
Securitization (expense) income	--	(37,970)	--

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Servicing income on securitized / sold receivables	--	47,813	--
Net securitization and credit card servicing income	56,396	--	157,411
Credit card fees, interchange and other credit card income	21,757	26,319	61,000
Enhancement services revenue	93,684	43,509	94,990
Other operating expenses:			
Credit card account and other product solicitation and marketing expenses	36,054	33,688	40,550
Enhancement services claims expense	13,022	--	11,200
Credit protection claims expense	--	12,306	--
Other	19,639	20,352	16,460
(Loss) Income Before Income Taxes	(37,644)	(127,441)	84,830
Income tax (benefit) expense	(12,686)	(44,611)	32,490
Net (loss) income	(24,958)	(82,830)	52,340
(Loss) earnings per share	(0.61)	(1.62)	0.50
Diluted (loss) earnings per share	(0.61)	(1.62)	0.50

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	THREE-MONTHS ENDED MARCH 31, 2003		THREE-MONTHS ENDED MARCH 31, 2002
	AS PREVIOUSLY REPORTED	AS RESTATE	AS PREVIOUSLY REPORTED
STATEMENTS OF CASH FLOWS:			
Net (loss) income	\$ (24,958)	\$ (82,830)	\$ 52,340
Depreciation, amortization and accretion	39,254	(36,420)	27,240
Provision for loan losses	44,786	44,786	111,876
Retained interests valuation income	(56,920)	--	(7,557)
Loss from credit card securitizations	--	66,209	--
Changes in fair value of retained interests in loans securitized	--	83,608	--
Market loss on derivative financial instruments	--	3,710	--
Changes in operating assets and liabilities, net:			
Liquidity reserve deposit	--	(69,221)	--
Other receivables due from credit card securitizations, net	(99,401)	(3,876)	(18,825)
Accounts payable and accrued expenses	12,336	12,325	(5,384)
Deferred income	(21,060)	(19,578)	(10,503)
Spread accounts receivable	--	(164,549)	--
Other	(15,946)	(42,793)	59,528
Net cash (used in) provided by operating activities	(105,132)	(191,852)	208,715
Net use of cash from sales and repayments of securitized loans	(723,527)	--	(292,037)
Net loans collected	38,427	--	33,017
Net cash from loan originations and principal collections on loans receivable	--	32,399	--
Net cash provided by investing activities	219,959	237,458	356,889
Net increase (decrease) in cash and cash equivalents	24,993	(44,228)	(75,189)
Cash and cash equivalents at end of period	605,225	536,004	412,897

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The following is a summary of the Company's revised accounting policies related to retained interests:

Upon securitization, the Company removes the applicable credit card loans from the balance sheet and recognizes the "Retained interests in loans securitized" at their allocated carrying value in accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125" ("SFAS No. 140"). Credit card receivables are sold to the Metris Master Trust at the inception of a securitization series. We also sell credit card receivables to the Metris Master Trust on a daily basis to replenish receivable balances that have decreased due to payments and charge-offs. The difference between the allocated carrying value and the proceeds from the assets sold is recorded as a gain or loss on sale and is included in "Securitization (expense) income." At the same time, the Company recognizes the "Retained interests in loans securitized."

The "Retained interests in loans securitized" are financial assets measured at fair value consistent with trading securities in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and includes the contractual retained interests, an interest-only strip receivable, excess transferor's interests and spread accounts receivable. The contractual retained interests consist of non-interest bearing securities held by the Company. The interest-only strip receivable represents the present value of the excess of the estimated future interest and fee collections expected to be generated by the

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securitized loans over the period the securitized loans are projected to be outstanding above the interest paid on investor certificates, credit losses, contractual servicing fees, and other expenses. The excess transferor's interests represent principal receivables held in the Metris Master Trust above the contractual retained interests. Spread accounts receivable represents restricted cash reserve accounts held by the Metris Master Trust that can be used to fund payments due to securitization investors and credit enhancers if cash flows are insufficient. Cash held in spread accounts is released to us if certain conditions are met or a securitization series terminates with amounts remaining in the spread accounts. The fair value of the "Retained interests in loans securitized" is determined through estimated cash flows discounted at rates that reflect the level of subordination, the projected repayment term, and risk of the securitized loans.

At least quarterly, the Company reviews its "Retained interests in loans securitized" for changes in fair value and recognizes those changes as "Securitization (expense) income." The changes in fair value reflect the Company's revisions in the expected timing and amount of future cash flows. The significant factors that affect the timing and amount of future cash flows relate to the collateral assumptions, which include payment rate, default rate, gross yield and discount rate.

The Company recognizes future cash flows associated with its retained interests using the effective yield method in accordance with EITF 99-20 "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets." Accordingly, "Securitization (expense) income" includes discount accretion associated with the contractual retained interests, the excess transferor's interests, the interest-only strip receivable, spread accounts receivable as well as the difference in the actual excess spread received as compared to the

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estimated amount recorded related to the interest-only strip. Since the Company's retained interests are trading securities, the impairment provisions of EITF 99-20 are not applicable.

Up-front transaction costs related to securitizations are allocated and recognized over the initial and reinvestment periods unless the transaction results in a loss, in which case, the costs are expensed as incurred and recorded as "Securitization (expense) income."

The Company services the receivables held by the Metris Master Trust, and receives servicing fees based upon the principal receivables outstanding. "Servicing income" is recognized when earned. We consider these fees to be adequate compensation and as a result no servicing asset or liability is recorded.

"Other receivables due from credit card securitizations, net" primarily represents cash accumulated in the Metris Master Trust during a month, which is released to Metris Receivables, Inc. the following month.

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### NOTE 3 - EARNINGS (LOSS) PER SHARE

The following table presents the computation of basic and diluted weighted-average shares used in the per-share calculations:

	THREE MONTHS ENDED MARCH 31,	
	2003 ----	2002 ----
Net income (loss), as restated	\$ (82,830)	\$ 44,280
Convertible preferred stock dividends	9,689	9,188
	-----	-----
Net income (loss) applicable to common stockholders	\$ (92,519)	\$ 35,092
	=====	=====
Weighted-average common shares outstanding	57,257	62,188
Adjustments for dilutive securities:		
Assumed conversion of convertible preferred stock (1)	--	33,844
	-----	-----
Basic common shares	57,257	96,032
Assumed exercise of outstanding stock options (1)	--	941
	-----	-----
Diluted common shares	57,257	96,973
	=====	=====

(1) The earnings per share calculation for the period ended March 31, 2003 excludes the assumed conversion of the convertible preferred stock and the outstanding stock options, as they are anti-dilutive.

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### NOTE 4 - STOCK-BASED COMPENSATION PLANS

We recognize compensation cost for stock-based employee compensation

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plans based on the difference, if any, between the quoted market price of the stock on the date of grant and the amount an employee must pay to acquire the stock. No expense was reflected in net income related to stock options as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. We recorded \$0.1 million of amortization of deferred compensation obligation, net of related tax benefit, in net income related to restricted stock granted in the first quarter of 2003.

Pro forma information regarding net income and earnings per share has been determined as if we accounted for our employee stock options under the fair value method. The fair value of the options was estimated at the grant date using a Black-Scholes option pricing model. The fair value of the options is amortized to expense over the options' vesting periods. Under the fair value method, our net earnings and earnings per share would have been recorded at the pro forma amounts indicated below:

	THREE MONTHS ENDED MARCH 31, 2003 ----	2002 ----
Net (loss) income, as restated	\$ (82,830)	\$ 44,280
Deduct: Annual stock-based employee compensation expense (benefit) determined based on the fair value for all awards, net of related tax effects	(7,897)	4,373
	-----	-----
Pro forma net (loss) income	(74,933)	39,907
	=====	=====
Earnings (loss) per share:		
Basic-as reported	(1.62)	0.46
	=====	=====
Basic-pro forma	(1.48)	(0.42)
	=====	=====
Diluted-as reported	(1.62)	0.46
	=====	=====
Diluted-pro forma	(1.48)	(0.41)
	=====	=====
Weighted-average assumptions in option valuation:		
Risk-free interest rates	1.5%	3.7%
Dividend yields	--	1.6%
Stock volatility factor	107.0%	92.9%
Expected life of options (in years)	4.3	6.0

The above pro forma amounts may not be representative of the effects on restated net (loss) earnings for future periods.

### NOTE 5 - ACCOUNTING CHANGES

In January 2003, FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation-Transition and Disclosure," which amends SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. SFAS No. 148 requirements are effective for fiscal years ending after December 15, 2002. The adoption of SFAS No. 148 did not have a material impact on our financial statements.

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In January 2003, FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" in an effort to expand upon and strengthen existing accounting guidance that addresses when a company should include in its financial statements the assets, liabilities and

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activities of another entity. FASB Interpretation No. 46 requires a variable interest entity to be consolidated by a company, if that company is subject to a majority of the risk of loss from the variable interest entity activities or entitled to receive a majority of the entity's residual returns or both. Interpretation No. 46 also requires disclosures about variable interest entities that the company is not required to consolidate, but in which it has a significant variable interest. The consolidation requirements of Interpretation No. 46 apply immediately to variable interest entities created after January 31, 2003, and apply to existing variable interest entities in the first fiscal year or interim period beginning after June 15, 2003. Interpretation No. 46 provides a specific exemption for entities qualifying as Qualified Special Purpose Entities as described in SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125." All of our non-consolidated entities are Qualified Special Purpose Entities under the definition in SFAS No. 140. We do not expect the adoption of Interpretation No. 46 to have a material impact on our financial statements.

In April 2003, FASB issued SFAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 is effective for contracts entered into or modified after September 30, 2003. In addition, certain provisions relating to forward purchases or sales of when-issued securities or other securities that do not yet exist, should be applied to existing contracts as well as new contracts entered into after September 30, 2003. We do not expect the adoption of SFAS No. 149 to have a material impact on our financial statements.

NOTE 6 - LIQUIDITY RESERVE DEPOSIT

Direct Merchants Bank has established restricted deposits with third-party depository banks for the purpose of supporting Direct Merchants Bank's funding needs and to satisfy banking regulators' requirements under the Operating Agreement, dated March 18, 2003, among Direct Merchants Bank, MCI and the Office of the Comptroller of the Currency. These deposits are invested in short term liquid investments. As of March 31, 2003, the balance of these deposits was \$69.2 million and is classified on the balance sheets as "Liquidity reserve deposit."

NOTE 7 - ALLOWANCE FOR LOAN LOSSES

The activity in the allowance for loan losses is as follows:

	THREE MONTHS ENDED MARCH 31,	
	----- 2003 ----	2002 ----
Balance at beginning of period	\$ 90,315	\$ 460,159



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Allowance related to assets transferred to the Metris Master Trust	(1,455)	(21,443)
Provision for loan losses	44,786	61,876
Principal receivables charged-off	(8,681)	(88,891)
Recoveries	392	5,213
	-----	-----
Net principal receivables charged off	(8,289)	(83,678)
	-----	-----
Balance at end of period	\$ 125,357	\$ 416,914
	=====	=====

Credit card loans greater than 30 days contractually past due for the periods ended March 31, 2003 and March 31, 2002 were \$56.4 million and \$226.3 million, respectively.

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NOTE 8 - RETAINED INTERESTS IN LOANS SECURITIZED

Our credit card receivables are primarily funded through asset securitizations. As part of the asset securitizations, credit card receivables are transferred to the Metris Master Trust, a non-consolidated, qualifying special purpose entity that issues asset backed securities representing undivided interests in receivables held in the Metris Master Trust and the right to receive future collections of principal, interest and fees related to those receivables. The senior classes of these securities are sold to third party investors. We retain subordinated interests in the securitized receivables, including contractual retained interests, an interest-only strip receivable, excess transferor's interests maintained above the contractual retained interests, and spread accounts receivable. The components of these retained interests are recorded at their fair value.

The following table shows the fair value of the components of the "Retained interests in loans securitized" as of March 31, 2003 and December 31, 2002.

	MARCH 31, 2003 ----	DECEMBER 31, 2002 ----
Contractual retained interests	\$627,997	\$685,197
Excess transferor's interests	52,247	57,447
Interest-only strip receivable	1,531	13,882
Spread accounts receivable	123,858	51,500
	-----	-----
Retained interests in loans securitized	\$805,633	\$808,026
	=====	=====

The following table illustrates the significant assumptions used for estimating the fair value of retained interests as of March 31, 2003 and December 31, 2002.

MARCH 31, 2003	DECEMBER 31, 2002
-------------------	----------------------

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	----	----
Monthly payment rate	6.7%	6.7%
Gross yield (1)	26.0%	26.0%
Annual interest expense and servicing fees	4.0%	4.0%
Annual gross principal default rate	22.7%	21.7%
Discount rate:		
Contractual retained interests	16.0%	16.0%
Excess transferor's interests	16.0%	16.0%
Interest-only strip receivable	30.0%	30.0%
Spread accounts receivable	15.0%	16.0%

(1) Includes expected cash flows from finance charges, late and overlimit fees, debt waiver premiums and bad debt recoveries, net of finance charge and fee charge-offs. Gross yield for purposes of estimating fair value does not include interchange income, or cash advance fees.

(2) Beginning on March 31, 2003 the discount rate on spread account balances has been reduced by interest income expected to be earned.

At March 31, 2003, the sensitivity of the current fair value of the retained interests to immediate 10% and 20% adverse changes are as follows (in millions):

	ADVERSE IMPACT ON FAIR VALUE	
	-----	-----
	10% ADVERSE CHANGE	20% ADVERSE CHANGE
	-----	-----
Annual discount rate	\$ 22.6	\$ 44.3
Monthly payment rate	193.6	434.3
Gross yield	176.6	358.8
Annual interest expense and servicing fees	31.4	63.9
Annual gross principal default rate	145.5	287.4

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As the sensitivity indicates, the value of the Company's retained interests on its balance sheet, as well as reported earnings, could differ significantly if different assumptions or conditions prevail.

NOTE 9 - SECURITIZATION INCOME

The following summarizes "Securitization (expense) income" for the three month periods ended March 31, 2003 and 2002.

	THREE-MONTHS ENDED	
	MARCH 31,	
	-----	-----
	2003	2002
	----	----
Loss on new securitization of receivables to the Metris Master Trust	\$ (19,955)	\$ (25,070)
(Loss) gain on replenishment of receivables to		

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the Metris Master Trust	(46,254)	(14,017)
Discount accretion	75,674	71,027
Change in fair value	(83,608)	(48,868)
Interest-only revenue	58,436	135,082
Transaction and other costs	(22,263)	(15,708)
	-----	-----
Securitization (expense) income	\$ (37,970)	\$ 102,446
	=====	=====

NOTE 10 - INCOME TAXES

The components of the (benefit) provision for income taxes consisted of the following:

	THREE-MONTHS ENDED	
	MARCH, 31	
	2003	2002
	----	----
Current:		
Federal	\$ (1,991)	\$ (26,428)
State	424	464
	-----	-----
	(1,567)	(25,964)
	-----	-----
Deferred:		
Federal	(41,843)	52,081
State	(1,201)	1,734
	-----	-----
	(43,044)	53,815
	-----	-----
Income tax (benefit) expense	\$ (44,611)	\$ 27,851
	=====	=====

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A reconciliation of our effective income tax rate compared to the statutory federal income tax rate is as follows:

	THREE-MONTHS ENDED	
	MARCH 31,	
	2003	2002
	----	----
Statutory federal income tax rate	35.0%	35.0%
State income taxes, net of federal benefit	0.4	2.0
Other, net	(0.4)	1.6
	----	----
Effective income tax rate	35.0%	38.6%
	=====	=====

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Our deferred tax assets and liabilities are as follows:

	MARCH 31, 2003 ----	DECEMBER 31, 2002 ----
Deferred income tax assets resulting from future deductible and taxable temporary differences:		
Allowance for loan losses and retained interests fair value adjustments	\$196,909	\$172,299
Deferred revenues	49,914	59,042
Other	67,581	68,143
	-----	-----
Total deferred tax assets	314,404	299,484
Deferred income tax liabilities resulting from future taxable and deductible temporary differences:		
Accrued interest on credit card loans	198,505	207,984
Deferred marketing costs	24,217	35,689
Other	27,813	34,986
	-----	-----
Total deferred tax liabilities	250,535	278,659
Net deferred tax assets	\$ 63,869 =====	\$ 20,825 =====

In addition to the tax effects of the pre-tax restatement amounts, the restated presentation also reflects revised probable amounts of future taxable and deductible temporary differences, resulting in a reclassification of certain deferred income taxes to current income taxes. The effects of the reclass for the year ended December 31, 2002 and three-months ended March 31, 2003 amounted to an addition to deferred income taxes of \$16.5 million. Such reclasses did not result in any adjustment to net income.

The Internal Revenue Service ("IRS") has completed its examination of the Company's tax returns through December 31, 1998. The IRS has proposed adjustments to increase the Company's federal income tax by \$42.9 million, plus interest of more than \$15 million, pertaining to the Company's treatment of certain credit card fees as original issue discount ("OID"). Although these fees are primarily reported as income when billed for financial reporting purposes, we believe the fees constitute OID and must be deferred and amortized over the life of the underlying credit card loans for tax purposes. Cumulatively through March 31, 2003, the Company has deferred approximately \$207.8 million in federal income tax under the OID rules. Any assessment similar to what has been proposed by the IRS may ultimately require the Company to pay the federal tax plus state taxes and related interest.

The Company believes its treatment of these fees is appropriate and continues to work with the IRS to resolve the proposed adjustments. The Company's position on the treatment of credit card fees is consistent with that of many other U.S. credit card issuers. We do not expect final settlement or additional tax to be paid over the next twelve months. However, both the timing and amount of the final resolution of this matter are uncertain.

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We operate in two principal areas: consumer lending products and enhancement services. Our consumer lending products are primarily unsecured and secured credit cards, including the Direct Merchants Bank MasterCard(R) and Visa(R). Our credit cardholders include customers obtained from third-party lists and other customers for whom general credit bureau information is available.

We market our enhancement services, including: (1) debt waiver protection for unemployment, disability, death and family leave; (2) membership programs such as card registration, purchase protection and other club memberships; and (3) third-party insurance, directly to our credit card customers and customers of third parties. We currently administer extended service plans issued through a third party retailer. These plans are no longer being sold, and contracts expire by first quarter, 2005. We continue to sell extended service plans for homeowners through third party distribution partnerships as well as directly to consumers.

We have presented the segment information reported below on a managed basis. We use this basis to review segment performance and to make operating decisions. In doing so, the income statement and balance sheet are adjusted to reverse the effects of securitizations. Presentation on a managed basis is not in conformity with accounting principles generally accepted in the United States of America. The adjustments columns in the segment table include adjustments to present the information on an owned basis as reported in the financial statements of this quarterly report.

We do not allocate the expenses, assets and liabilities attributable to corporate functions to the operating segments, such as employee compensation, data processing services and communications, third-party servicing expenses, and other expenses including occupancy, depreciation and amortization, professional fees, and other general and administrative expenses. We include these expenses in the reconciliation of the income before income taxes for the reported segments to the consolidated total. We do not allocate capital expenditures for leasehold improvements, capitalized software and furniture and equipment to operating segments. There were no material operating assets located outside of the United States for the periods presented.

Our enhancement services operating segment pays a fee to our consumer lending products segment for successful marketing efforts to cardholders at a rate similar to those paid to our other third parties. Our enhancement services segment reports interest income and our consumer lending products segment reports interest expense at our weighted-average borrowing rate for the excess cash flow generated by the enhancement services segment and used by the consumer lending products segment to fund the growth of cardholder balances.

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	THREE MONTHS ENDED MARCH 31, 2003 ----			
	CONSUMER LENDING PRODUCTS -----	ENHANCEMENT SERVICES -----	SECURITIZATION ADJUSTMENTS (a) -----	OTHER ADJUSTMENT -----
Interest				
income	\$ 485,259	\$ 29	\$ (453,098)	\$
Interest expense	64,011	--	(44,641)	

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Net interest income	421,248	29	(408,457)	
Other operating income	88,142	93,684	(102,155)	
Total revenue	509,390	93,713	(510,612)	
Income before income taxes	(51,262) (c)	51,316 (c)	--	(127,
Total assets	\$ 9,942,909	\$ 60,068	\$ (8,318,889)	\$ 739,

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THREE MONTHS ENDED MARCH 31,  
2002

	CONSUMER LENDING PRODUCTS	ENHANCEMENT SERVICES	SECURITIZATION ADJUSTMENTS (a)	OTHER ADJUSTMENTS (b)	CONSOLIDATED
Interest income	\$ 526,678	\$ 2,328	\$ (436,834)	\$ (2,328)	\$ 89,844
Interest expense	88,405	--	(53,912)	(2,328)	32,165
Net interest income	438,273	2,328	(382,922)	--	57,679
Other operating income	129,971	94,996	32,451	--	257,418
Total revenue	568,244	97,324	(350,471)	--	315,097
Income before income taxes	126,701 (c)	65,833 (c)	--	(120,403)	72,131
Total assets	\$11,133,489	\$ 110,471	\$ (8,231,616)	\$ 544,980 (d)	\$ 3,557,324

(a) This column reflects adjustments to the Company's internal financial statements, which are prepared on a managed basis, to eliminate investors' interests in securitized loans.

(b) The other adjustments column includes: intercompany eliminations and amounts not allocated to segments.

(c) Income before income taxes includes intercompany commissions paid by the enhancement services segment to the consumer lending products segment for successful marketing efforts to cardholders of \$3.0 million for the three months ended March 31, 2003 and \$3.3 million for the three months ended March 31, 2002.

(d) Total assets include the assets attributable to corporate functions not allocated to operating segments and the removal of investors' interests in securitized loans to present total assets on an owned basis.

NOTE 12 - SUBSEQUENT EVENT

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On May 1, 2003, we sold our Arizona facility for cash proceeds of \$19.3 million, which approximated its carrying value.

### NOTE 13 - SUPPLEMENTAL CONSOLIDATING FINANCIAL STATEMENTS

We have various indirect subsidiaries which do not guarantee Company debt. We have prepared condensed consolidating financial statements of the Company, the Guarantor subsidiaries and the non-guarantor subsidiaries for purposes of complying with SEC reporting requirements. Separate financial statements of the guaranteeing subsidiaries and non-guaranteeing subsidiaries are not presented because we have determined that the subsidiaries financial information would not be material to investors.

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METRIS COMPANIES INC.  
 SUPPLEMENTAL CONSOLIDATING BALANCE SHEETS  
 MARCH 31, 2003 (AS RESTATED)  
 (DOLLARS IN THOUSANDS)  
 UNAUDITED (AS RESTATED)

	METRIS COMPANIES INC. ----	GUARANTOR SUBSIDIARIES -----	NON-GUARANTOR SUBSIDIARIES -----	ELIMIN -----
<b>ASSETS:</b>				
Cash and cash equivalents	\$ (1,538)	\$ 2,726	\$ 534,816	\$
Liquidity reserve deposit	--	--	69,221	
Net credit card loans	4,770	--	556,158	
Retained interest in loans securitized	22,937	--	782,696	
Property and equipment, net	--	54,806	20,399	
Purchased portfolio premium, net	117	--	57,966	
Other receivables due from credit card securitizations, net	8	--	114,339	
Other assets	30,603	63,199	148,228	(
Investment in subsidiaries	1,383,549	1,328,320	--	(2,7
	-----	-----	-----	-----
<b>TOTAL ASSETS</b>	<b>\$ 1,440,446</b>	<b>\$ 1,449,051</b>	<b>\$ 2,283,823</b>	<b>\$ (2,7</b>
	=====	=====	=====	=====
<b>LIABILITIES:</b>				
Deposits	\$ (1,000)	\$ --	\$ 802,498	\$
Debt	391,957	9,319	--	(
Accounts payable	73	17,377	37,890	
Deferred income	--	12,337	113,485	
Accrued expenses and other liabilities	76,689	26,469	1,630	
	-----	-----	-----	-----
<b>TOTAL LIABILITIES</b>	<b>467,719</b>	<b>65,502</b>	<b>955,503</b>	<b>(</b>
	-----	-----	-----	-----
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>972,727</b>	<b>1,383,549</b>	<b>1,328,320</b>	<b>(2,7</b>
	-----	-----	-----	-----
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 1,440,446</b>	<b>\$ 1,449,051</b>	<b>\$ 2,283,823</b>	<b>\$ (2,7</b>
	=====	=====	=====	=====

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METRIS COMPANIES INC.  
 SUPPLEMENTAL CONSOLIDATING BALANCE SHEETS  
 DECEMBER 31, 2002 (AS RESTATED)  
 (DOLLARS IN THOUSANDS)  
 UNAUDITED

	METRIS COMPANIES INC. ----	GUARANTOR SUBSIDIARIES -----	NON-GUARANTOR SUBSIDIARIES -----	ELIM -----
<b>ASSETS:</b>				
Cash and cash equivalents	\$ (3,795)	\$ 8,109	\$ 575,918	\$
Net credit card loans	3,813	--	752,289	
Retained interests in loans securitized	--	--	808,026	
Property and equipment, net	--	63,395	20,436	
Purchased portfolio premium, net	128	--	64,451	
Other receivables due from credit card securitizations, net	13	--	110,458	
Other assets	10,160	44,252	180,591	
Investment in subsidiaries	1,594,352	1,549,307	--	(3)
<b>TOTAL ASSETS</b>	<b>\$ 1,604,671</b> =====	<b>\$ 1,665,063</b> =====	<b>\$ 2,512,169</b> =====	<b>\$ (3)</b> =====
<b>LIABILITIES:</b>				
Deposits	\$ (1,000)	\$ --	\$ 893,754	\$
Debt	391,228	9,421	--	
Accounts payable	71	20,683	38,949	
Deferred income	--	16,681	129,978	
Accrued expenses and other liabilities	159,699	23,926	(99,819)	
<b>TOTAL LIABILITIES</b>	<b>549,998</b> -----	<b>70,711</b> -----	<b>962,862</b> -----	<b>(3)</b> -----
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>1,054,673</b> -----	<b>1,594,352</b> -----	<b>1,549,307</b> -----	<b>(3)</b> -----
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 1,604,671</b> =====	<b>\$ 1,665,063</b> =====	<b>\$ 2,512,169</b> =====	<b>\$ (3)</b> =====

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METRIS COMPANIES INC.  
 SUPPLEMENTAL CONSOLIDATING STATEMENTS OF INCOME  
 THREE MONTHS ENDED MARCH 31, 2003 (AS RESTATED)  
 (DOLLARS IN THOUSANDS)  
 UNAUDITED (AS RESTATED)

	METRIS COMPANIES INC. ----	GUARANTOR SUBSIDIARIES -----	NON-GUARANTOR SUBSIDIARIES -----	ELIMINATION -----
NET INTEREST INCOME (EXPENSE)	\$ (8,706)	\$ (818)	\$ 22,344	\$ --
Provision for loan losses	846	--	43,776	164



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NET INTEREST EXPENSE AFTER PROVISION FOR LOAN LOSSES	(9,552)	(818)	(21,432)	(164,332)
OTHER OPERATING INCOME:				
Securitization income and servicing income	(10,011)	--	20,533	(679)
Credit card fees, interchange and other credit card income	55	12,543	26,451	(12,730)
Income from discontinued operations	--	8,998	(8,998)	--
Enhancement services revenues	--	181	47,081	(3,753)
Intercompany allocations	75	65,606	9,991	(75,672)
	(9,881)	87,328	95,058	(92,834)
OTHER OPERATING EXPENSE:				
Credit card account and other product solicitation and marketing expenses	--	12,222	33,754	(12,288)
Employee compensation	--	51,211	2,170	--
Data processing services and communications	(1)	(21,987)	44,651	(3,485)
Credit protection claims expense	--	109	12,197	--
Occupancy and equipment	--	--	9,613	--
Purchased portfolio premium amortization	11	--	7,697	(1,212)
MasterCard/Visa assessment and fees	--	--	2,415	--
Credit card fraud losses	1	--	939	--
Asset impairments, lease write-offs and severance	--	--	16,777	--
Other	84	39,098	(18,830)	--
Intercompany allocations	11	25,626	50,035	(75,672)
	106	106,279	161,418	(92,657)
LOSS BEFORE INCOME TAX BENEFIT AND EQUITY IN LOSS OF SUBSIDIARIES	(19,539)	(19,769)	(87,792)	(341,332)
Income tax benefit	(1,439)	(8,120)	(34,935)	(117,587)
Equity in loss of subsidiaries	(64,730)	(52,857)	--	117,587
NET LOSS	\$ (82,830)	\$ (64,506)	\$ (52,857)	\$ 117,363

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METRIS COMPANIES INC.  
SUPPLEMENTAL CONSOLIDATING STATEMENTS OF INCOME  
THREE MONTHS ENDED MARCH 31, 2002 (AS RESTATED)  
(DOLLARS IN THOUSANDS)  
UNAUDITED (AS RESTATED)

	METRIS COMPANIES INC.	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELIMINATI
Net Interest (Expense) Income	\$ (5,482)	\$ (1,395)	\$ 64,556	\$
Provision for loan losses	65	--	61,811	

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Net Interest Expense After Provision for Loan Losses	(5,547)	(1,395)	2,745	
Other Operating Income:				
Securitization income and servicing income	35	--	147,450	
Credit card fees, interchange and other credit card income	264	7,923	73,906	(6,4
Income from discontinued operations	--	15,889	(15,889)	
Enhancement services revenues	--	275	33,999	
Intercompany allocations	30	53,073	9,661	(62,7
	329	77,160	249,127	(69,1
OTHER OPERATING EXPENSE:				
Credit card account and other product solicitation and marketing expenses	--	2,660	44,593	
Employee compensation	404	49,168	6,976	
Data processing services and communications	23	(19,562)	45,211	(3,3
Credit protection claims expense	--	56	9,123	
Occupancy and equipment	--	--	12,797	
Purchased portfolio premium amortization	--	--	9,362	(9
MasterCard/Visa assessment and fees	--	--	3,834	
Credit card fraud losses	(8)	--	2,236	
Other	44	26,309	(5,903)	(1,9
Intercompany allocations	(509)	18,078	45,195	(62,7
	(46)	76,709	173,424	(68,9
(LOSS) INCOME BEFORE INCOME TAXES AND EQUITY IN (LOSS) INCOME OF SUBSIDIARIES	(5,172)	(944)	78,448	(2
Income taxes	(1,989)	(1,430)	31,270	
Equity in income of subsidiaries	47,463	47,178	--	(94,6
NET INCOME	\$ 44,280	\$ 47,664	\$ 47,178	\$ (94,8

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METRIS COMPANIES INC.  
SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS  
THREE MONTHS ENDED MARCH 31, 2003 (AS RESTATED)  
(DOLLARS IN THOUSANDS)  
UNAUDITED (AS RESTATED)

	METRIS COMPANIES INC.	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELIMINAT
	----	-----	-----	-----
OPERATING ACTIVITIES:				
Net cash (used in) provided by operating activities	\$ (107,278)	\$ (78,724)	\$ (123,213)	\$ 117,
INVESTING ACTIVITIES:				

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Proceeds from transfers of portfolios to Metris Master Trust	--	--	205,560	
Net cash from loan originations and principal collections on loans receivable	(34,727)	--	67,126	
Additions to property and equipment	--	1,534	(2,035)	
Investment in subsidiaries	142,738	218,206	70,846	(431,)
	-----	-----	-----	-----
Net cash provided by investing activities	108,011	219,740	341,497	(431,)
	-----	-----	-----	-----
FINANCING ACTIVITIES:				
Net increase (decrease) in debt	729	(102)	--	
Net decrease in deposits	--	--	(91,256)	
Proceeds from issuance of common stock	795	--	--	
Capital contributions	--	(146,297)	(168,130)	314,
	-----	-----	-----	-----
Net cash (used in) provided by financing activities	1,524	(146,399)	(259,386)	314,
	-----	-----	-----	-----
Net (decrease) increase in cash and cash equivalents	2,257	(5,383)	(41,102)	
Cash and cash equivalents at beginning of period	(3,795)	8,109	575,918	
	-----	-----	-----	-----
Cash and cash equivalents at end of period	\$ (1,538)	\$ 2,726	\$ 534,816	\$
	=====	=====	=====	=====

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METRIS COMPANIES INC.  
SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS  
THREE MONTHS ENDED MARCH 31, 2002 (AS RESTATED)  
(DOLLARS IN THOUSANDS)  
UNAUDITED (AS RESTATED)

	METRIS COMPANIES INC.	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELIMINAT
	----	-----	-----	-----
OPERATING ACTIVITIES:				
Net cash provided by operating activities	\$ 124,353	\$ 28,317	\$ 118,780	\$ (94,
	-----	-----	-----	-----
INVESTING ACTIVITIES:				
Proceeds from transfers of portfolios to the Metris Master Trust	--	--	619,554	
Net cash from loan originations and principal collections on loans receivable	(7,873)	--	(220,537)	
Additions to property and equipment	--	(3,328)	(317)	
Investment in subsidiaries	(112,527)	(42,492)	24,361	130,
	-----	-----	-----	-----
Net cash (used in) provided by investing activities	(120,400)	(45,820)	423,061	130,
	-----	-----	-----	-----
FINANCING ACTIVITIES:				
Increase (decrease) in debt	222	(196)	(292,000)	

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Decrease in deposits	--	--	(332,122)	
Cash dividends paid	(938)	--	--	
Proceeds from issuance of common stock	1,823	--	--	
Repurchase of common stock	(17,582)	--	--	
Capital contributions	--	18,064	17,752	(35,
	-----	-----	-----	-----
Net cash used in financing activities	(16,475)	17,868	(606,370)	(35,
	-----	-----	-----	-----
Net (decrease) increase in cash and cash equivalents	(12,522)	365	(64,529)	
Cash and cash equivalents at beginning of period	17,614	1,505	362,520	
	-----	-----	-----	-----
Cash and cash equivalents at end of period	\$ 5,092	\$ 1,870	\$ 297,991	\$
	=====	=====	=====	=====

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ITEM 2.

METRIS COMPANIES INC. AND SUBSIDIARIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis provides information management believes to be relevant to understanding the financial condition and results of operations of Metris Companies Inc. ("MCI") and its subsidiaries. MCI's principal subsidiaries are Direct Merchants Credit Card Bank, National Association ("Direct Merchants Bank" or the "Bank"), Metris Direct, Inc. and Metris Receivables, Inc. MCI and its subsidiaries, as applicable, may be referred to as "we," "us," "our" or the "Company." You should read this discussion along with the following documents for a full understanding of our financial condition and results of operations: Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2002, filed concurrently with this Quarterly Report on Form 10-Q/A; and our Proxy Statement for the 2003 Annual Meeting of Stockholders. In addition, you should read this discussion along with our condensed consolidated financial statements and related notes thereto for the period ended March 31, 2003.

RESTATEMENTS

The consolidated statements of income as presented for the three-month periods ended March 31, 2003 and 2002 and the consolidated balance sheets as of March 31, 2003 and December 31, 2002 have been restated to reflect the following:

- The valuation model and related collateral assumptions used to estimate the fair value of the Company's "Retained interests in loans securitized" did not properly reflect the structure of the Metris Master Trust and related series supplements. All periods presented have been restated to reflect the changes in the valuation model and the related collateral assumptions. These restatements impact "Retained interests in loans securitized," "Other receivables due from credit card securitizations, net" and "Securitization income."
- The Company's policy for recognizing transaction costs related to the securitization of receivables through the Metris Master Trust or a conduit was not in accordance with GAAP. Historically, these

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costs had been capitalized and amortized over the estimated life of the new debt securities. These costs are now allocated and recognized over the initial and reinvestment periods of the respective debt securities or Metris Master Trust financing unless the transaction results in a loss, in which case the costs are expensed as incurred. All periods presented have been restated to reflect the revised policy. These restatements impact "Other assets" and "Securitization income."

- The Company's policy for recognizing expenses related to credit card solicitation costs was not in accordance with GAAP. Historically, the Company had capitalized and expensed these costs over the estimated period over which the new credit card accounts were established, approximately three months. These costs are now expensed as incurred. All periods presented have been restated to reflect the revised policy. This restatement impacts "Other assets" and "Credit card account and other product solicitation and marketing expenses."
- The Company corrected its accounting for interest rate caps purchased in May of 2002 and forward to comply with SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, on January 1, 2001. These costs had been deferred and amortized over the estimated life of the new debt securities. These instruments are now recorded at fair value. Periods from May 2002 forward have been restated to reflect this correction. This restatement impacts "Retained interests in loans securitized," "Other assets" and "Securitization income."

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- The Company historically recognized revenue in the month following completion of the cancellation period, generally one month. Cash flows related to debt waiver are now included in the valuation of the interest-only strip receivable. All periods presented have been restated to reflect the revised policy. This restatement impacts "Retained interests in loans securitized," "Deferred revenue," "Enhancement services revenue," and "Securitization income."
- At December 31, 2001 we had \$50 million of "Allowance for loan losses" classified as valuation reserve in our "Retained interests in loans securitized." The valuation reserve was subsequently transferred to "Allowance for loan losses" through "Provision for loans losses" during the first quarter of 2002. We have restated the December 31, 2001 balance sheet and 2001 income statement and March 31, 2002 income statement to reflect this transfer occurring during the fourth quarter of 2001. This restatement impacts "Allowance for loan losses," "Retained interests in loans securitized," "Provision for loan losses" and "Securitization income."

In addition, we have restated certain prior-period amounts to conform with the current period's presentation.

- In prior periods, we classified interest income, provision for loan losses, and related credit card loan fees generated from retained interests in loans securitized on the income statement as "Interest income-credit card loans" and "Retained interests in loans securitized," "Provision for loan losses" and "Credit card fees, interchange and other credit card income." For all periods presented, these amounts are now included in the estimation of the

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fair value of the interest-only strip receivable and "Securitization income."

- In prior periods we classified spread accounts receivable in "Other receivables due from credit card securitizations, net." For all periods presented, we have reclassified our spread accounts receivable from "Other receivables due from credit card securitizations, net" to "Retained interests in loans securitized."
- In prior periods, we classified servicing income in "Net securitization and credit card servicing income." For all periods presented, we have reclassified these amounts to "Servicing income."
- In prior periods, income from our debt waiver product sold to customers of Direct Merchants Bank with receivables held by Direct Merchants Bank was included in "Enhancement services revenue." For all periods presented we have reclassified this income to "Credit card fees, interchange, and other credit card income."
- We classified the liquidity reserve deposit established in March 2003 and other restricted cash deposits maintained at Direct Merchants Bank as "Short-term investments." We have reclassified these items to "Liquidity reserve deposit" for all periods presented.
- Revenue related to our membership club and warranty business for current and prior periods is classified as "Enhancement services revenue." Claims expense related to this business has been reclassified as "Other" expenses for all periods presented.
- In addition to the tax effects of the pre-tax restatement amounts, the restated presentation also reflects revised probable amounts of future taxable and deductible temporary differences, resulting in a reclassification of certain deferred income taxes to current income taxes.

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### RESULTS OF OPERATIONS

Net loss for the three months ended March 31, 2003 was \$82.8 million, down from net income of \$44.3 million for the first quarter of 2002. Diluted loss per share for the three months ended March 31, 2003 was \$(1.62) compared to diluted earnings per share of \$0.46 for the first quarter of 2002. The decrease in net income is primarily due to a decrease in net interest income and other operating income, partially offset by a decrease in the provision for loan losses and other operating expense.

Net interest income decreased from \$57.7 million for the three months ended March 31, 2002 to \$12.8 million for the three months ended March 31, 2003. The decrease is primarily due to a decrease in average interest-earning assets of \$1.4 billion and a 460 basis point reduction in net interest margin. The decrease in average interest-earning assets is primarily due to the transfer of \$1.9 billion of receivables to the Metris Master Trust (the "Master Trust") since March 31, 2002. The decrease in margin is primarily due to a \$1.7 billion reduction in average credit card loans, which has resulted in short-term, lower yielding investments increasing to 47% of average interest-earning assets, versus 11% in the first quarter of 2002.

The provision for loan losses was \$44.8 million in the first quarter of

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2003 compared to \$61.9 million in the first quarter of 2002. The decrease is primarily due to significantly lower credit card receivables. Lower credit card loan balances, decreased net principal charge-offs, and recent delinquency trends were all factors considered by management in determining the necessary balance in the allowance for loan losses.

Other operating income decreased 69.0% to \$79.7 million for the three months ended March 31, 2003 from \$257.4 million for the same period in 2002. Securitization income, a component of other operating income, decreased to an expense of \$38.0 million for the first quarter of 2003 from income of \$102.4 million for the same period in 2002. The decrease was primarily due to a \$76.6 million reduction in interest only revenue as a result of an increased default rate on securitized receivables, a \$32.2 million increase in loss on replenishment of receivables for the Metris Master Trust, and \$34.7 million of additional change in market value losses booked in the first quarter of 2003. Credit card fees, interchange and other credit card income decreased to \$26.3 million for the three months ended March 31, 2003, compared to \$75.7 million for the same period in 2002. The decrease in credit card fees, interchange and other credit card income is primarily due to the reduction of our credit card portfolio. In addition, effective June 2002, we also amended the Master Trust core transaction documents, which resulted in interchange income earned on receivables held by the Master Trust being recorded as contribution to the excess spread earned.

Total other operating expenses for the three months ended March 31, 2003, decreased \$5.9 million over the comparable period in 2002. Credit card account and other product solicitation and marketing expenses decreased \$13.6 million for the three months ended March 31, 2003, largely due to fewer new credit card accounts partially offset by increased enhancement services marketing. Employee compensation decreased \$3.2 million for the three months ended March 31, 2003, due to decreased staffing needs. Data processing services and communications decreased \$3.1 million for the three months ended March 31, 2003, primarily due to a reduction in our credit card portfolio. These decreases were partially offset by credit protection claims expense increases of \$3.1 million for the three months ended March 31, 2003, primarily due to an increase in interest forgiven claims on our debt waiver products, approximately \$12.0 million of write-downs of excess property, equipment, and operating leases and a \$4.8 million charge for a workforce reduction were recorded in the first quarter of 2003.

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### Net Interest Income

Net interest income consists primarily of interest earned on our credit card loans, less interest expense on borrowings to fund loans. Table 1 provides an analysis of interest income and expense, net interest spread, net interest margin and average balance sheet data for the three month periods ended March 31, 2003 and 2002.

TABLE 1: ANALYSIS OF AVERAGE BALANCES, INTEREST AND AVERAGE YIELDS AND RATES  
(Dollars in thousands)

2003		THREE MONTHS ENDED MARCH 31,		
AVERAGE BALANCE	INTEREST	YIELD/ RATE	AVERAGE BALANCE	INT
-----	-----	----	-----	----

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ASSETS:

Interest-earning assets:

Federal funds sold	\$ 117,654	\$ 359	1.2%	\$ 28,431	\$
Short-term investments	480,628	1,722	1.4%	271,628	
Liquidity Reserve Deposit	58,707	173	1.2%	--	
Credit card loans	751,674	29,907	16.1%	2,502,417	
	-----	-----	-----	-----	-----
Total interest-earning assets	\$ 1,408,663	\$ 32,161	9.3%	\$ 2,802,476	\$
Other assets	1,411,030	--	--	1,518,227	
Allowances for loan losses	--	--	--	--	
	(106,909)	--	--	(407,868)	
	-----	-----	-----	-----	-----
Total assets	\$ 2,712,784	--	--	\$ 3,912,835	
	=====			=====	

LIABILITIES AND EQUITY:

Interest-bearing liabilities:

Deposits	\$ 839,491	\$ 10,908	5.3%	\$ 1,929,909	\$
Debt	389,640	8,433	8.8%	451,480	
	-----	-----	-----	-----	-----
Total interest-bearing liabilities	\$ 1,229,131	\$ 19,341	6.4%	\$ 2,381,389	\$
Other liabilities	467,612	--	--	399,416	
	-----	-----	-----	-----	-----
Total liabilities	1,696,743	--	--	2,780,805	
Stockholders' equity	1,016,041	--	--	1,132,031	
	-----	-----	-----	-----	-----
Total liabilities and equity	\$ 2,712,784	--	--	\$ 3,912,836	
	=====			=====	
Net interest income and interest margin (1)	--	\$ 12,820	3.7%	--	\$
Net interest rate spread (2)	--	--	2.9%	--	
Return on average assets	--	--	N/A	--	
Return on average total equity	--	--	N/A	--	

(1) We compute "net interest margin" by dividing annualized net interest income by average total interest-earning assets.

(2) The "net interest rate spread" is the annualized yield on average interest-earning assets minus the annualized funding rate on average interest-bearing liabilities.

Net interest income decreased from \$57.7 million for the three months ended March 31, 2002 to \$12.8 million for the three months ended March 31, 2003. The decrease is primarily due to a decrease in average interest-earning assets of \$1.4 billion and a 460 basis point reduction in net interest margin. The decrease in average interest-earning assets is primarily due to the transfer of \$1.9 billion of receivables to the Master Trust since March 31, 2002. The decrease in margin is primarily due to a \$1.7 billion reduction in average credit card loans, which has resulted in short-term, lower yielding investments increasing to 47% of average interest-earning assets, versus 11% in the first quarter of 2002.

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OTHER OPERATING INCOME

Other operating income of \$79.7 million for the quarter ended March 31, 2003 decreased by \$177.7 million as compared to the same period in 2002. Securitization expense of \$38.0 million was \$140.4 less than the securitization



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income of \$102.4 for the period ended March 31, 2002. Credit card fees, interchange, and other credit card income was \$49.3 million lower than the same period in 2002. These negative variances were partially offset by a \$9.2 million increase in Enhancement services revenue.

"Securitization (expense) income" was (\$38.0) million for the three-months ended March 31, 2003, compared to \$102.4 million for the same period in 2002. The following table details "Securitization (expense) income" for the three-month period ended March 31, 2003 and 2002.

TABLE 2: ANALYSIS OF SECURITIZATION (EXPENSE) INCOME  
(DOLLARS IN THOUSANDS)

	THREE-MONTHS ENDED MARCH 31,	
	2003	2002
	----	----
Loss on new securitization of receivables to the Metris Master Trust	\$ (19,955)	\$ (25,070)
Loss on replenishment of receivables to the Metris Master Trust	(46,254)	(14,017)
Discount accretion	75,674	71,027
Change in fair value	(83,608)	(48,868)
Interest-only revenue	58,436	135,082
Transaction and other costs	(22,263)	(15,708)
	-----	-----
Securitization income	\$ (37,970)	\$ 102,446
	=====	=====

The significant decrease in "Securitization income" in the first quarter of 2003 compared to 2002 reflects a \$76.6 million reduction in interest-only revenue due to a 522 basis point decrease in average excess spread in the Metris Master Trust during this period, partially offset by a \$858.8 million increase in average principal receivables held in the Metris Master Trust. In addition, net loss on securitization of receivables was \$27.1 million higher than the first quarter of 2002, and there was a \$34.7 million increase in fair value write-downs due primarily to changes in excess spreads, quarter over quarter.

"Credit card fees, interchange, and other credit card income" was \$26.3 million compared to \$75.7 million for the three-months ended March 31, 2003, and 2002, respectively. The decrease for the three-month period is primarily due to a decrease in average "Credit card loans" of \$1.7 billion for the three-month period. In addition, effective June 2002, we amended the Metris Master Trust core transaction documents, which resulted in interchange income earned on receivables held by the Metris Master Trust being recorded as contribution to the excess spread earned.

Enhancement services revenues increased by \$9.2 million for the three-months ended March 31, 2003, compared to the three-months ended March 31, 2002. This increase was primarily due to increased enrollments in existing membership products and enrollments from new membership products.

TABLE 3: ENHANCEMENT SERVICES REVENUES AND ACTIVE MEMBERSHIPS (In thousands)

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	Three Months Ended	
	March 31,	
	2003	2002
	-----	-----
Revenues		
Credit Protection Products	\$ 801	\$ 961
Membership Program Products	30,554	17,160
Warranty / Other	12,154	16,153
	-----	-----
Total	\$43,509	\$34,274
	=====	=====

Active Memberships

	March 31,	December 31,	March 31,
	2003	2002	2002
	----	----	----
Credit Protection Products	827	905	1,080
Membership Program Products	3,057	3,248	2,947
Warranty / Other	815	941	1,560
	-----	-----	-----
Total	4,699	5,094	5,587
	=====	=====	=====

OTHER OPERATING EXPENSE

Total other operating expenses for the three months ended March 31, 2003, decreased \$5.9 million over the comparable period in 2002. Credit card account and other product solicitation and marketing expenses decreased \$13.6 million for the three months ended March 31, 2003, largely due to fewer new credit card accounts partially offset by increased enhancement services marketing. Employee compensation decreased \$3.2 million for the three months ended March 31, 2003, due to decreased staffing needs. Data processing services and communications decreased \$3.1 million for the three months ended March 31, 2003, primarily due to a reduction in our credit card portfolio. These decreases were partially offset by credit protection claims expense increases of \$3.1 million for the three months ended March 31, 2003, primarily due to an increase in interest forgiven claims on our debt w