Sachleben Mark
Form 4
February 21, 2018

FORM 4

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

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

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
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(Print or Type Responses)

1. Name and Address of Reporting Person *
Sachleben Mark

(Last) (First) (Middle)

C/O NEW RELIC, INC., 188 SPEAR STREET, STE. 1200

(Street)

SAN FRANCISCO, CA 94105

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
NEW RELIC, INC. [NEWR]

3. Date of Earliest Transaction (Month/Day/Year)
02/21/2018

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

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

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

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	02/21/2018		S		2,536 (1)	D	$ 70.74	393,163	I	By Trust (2)
Common Stock								77,000	I	By Trust (3)
Common Stock								77,000	I	By Trust (4)

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

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SEC 1474 (9-02)

number.

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
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Sachleben Mark C/O NEW RELIC, INC. 188 SPEAR STREET, STE. 1200 SAN FRANCISCO, CA 94105			Chief Financial Officer	

Signatures

Mark Sachleben, by /s/ Ron A. Metzger, Attorney-in-Fact	02/21/2018
**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) Shares sold pursuant to a 10b5-1 plan.

(2) Share are beneficially owned directly by Mark J. Sachleben & Lynda F. Sullivan, Trustees of the Sachleben Sullivan Living Trust dated August 22, 2012, of which the Reporting Person is a Trustee.

(3) Shares are beneficially owned directly by The Audrey Megan Sachleben Delaware Legacy Trust, of which the Reporting Person is a Trustee.

(4) Shares are beneficially owned directly by The Eric Henry Sachleben Delaware Legacy Trust, of which the Reporting Person is a Trustee.

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. ducts are recorded in the consolidated balance sheets in "Deferred income." Unearned revenues as of June 30, 2003 were $10.4 million compared to $17.6 million as of December 31, 2002. Reserves for pending and incurred but not reported claims, included in "Accrued expenses and other liabilities," were $0.4 and $0.7 million as of June 30, 2003 and December 31, 2002, respectively. Deferred Acquisition Costs on Enhancement

Services Products We defer qualifying acquisition costs associated with our enhancement services products. These costs, which relate directly to membership solicitations (direct response advertising costs), principally include postage, printing, mailing, telemarketing costs, and commissions paid to third parties. The total amount of enhancement services deferred costs as of June 30, 2003 and December 31, 2002 were $46.9 million and $73.2 million, respectively. If deferred acquisition costs were to exceed forecasted future cash flows, we would make an appropriate adjustment for impairment. The most significant assumption used by the Company in determining the realizability of these deferred costs is future revenues from our enhancement services products. A significant reduction in revenues could have a material impact on the values of these balances. 46 Debt Waiver Products Qualifying membership acquisition costs are deferred and charged to expense as debt waiver product fees are recognized. We amortize these costs using an accelerated methodology, which approximates our historical cancellation experience for debt waiver products. Amortization of debt waiver acquisition costs was $1.3 million and $2.7 million for the three- and six-month periods ended June 30, 2003. All other debt waiver acquisition costs are expensed as incurred. Deferred debt waiver acquisition costs were $2.3 million and $2.6 million as of June 30, 2003 and December 31, 2002, respectively, and were classified as "Other assets" on the consolidated balance sheets. Membership Program Products Qualifying membership acquisition costs are deferred and charged to expense as membership fees are recognized. We amortize all deferred costs on a straight-line basis for all annually billed products, and on an accelerated method for all monthly billed products, which approximates our historical cancellation experience for membership program products. Amortization of membership deferred costs was $13.3 million and $11.9 million for the three months ended June 30, 2003 and 2002, respectively. Amortization of membership deferred costs was $33.9 million and $19.7 million for the six months ended June 30, 2003 and 2002, respectively. All other membership acquisition costs are expensed as incurred. Deferred membership acquisition costs were $42.8 million and $66.9 million as of June 30, 2003 and December 31, 2002, respectively, and were classified as "Other assets" on the consolidated balance sheets. Warranty Products Qualifying warranty acquisition costs are deferred and charged to expense as warranty product fees are recognized. Those direct acquisition costs that cannot be associated with a successful contract, are charged to expense as incurred. A successful effort conversion percentage is applied to these incremental direct acquisition costs, which approximates our historical successful effort rate percentage in selling warranty products. We amortize these deferred costs using an accelerated amortization methodology, which approximates our historical cancellation experience following the expiration of the manufacturer's contractual cancellation period for the warranty products. Amortization of warranty acquisition costs were $0.8 million and $3.0 million for the three months ended June 30, 2003 and 2002, respectively. Amortization of warranty acquisition costs were $2.8 million and $6.1 million for the six months ended June 30, 2003 and 2002, respectively. All other warranty acquisition costs are expensed as incurred. Deferred warranty acquisition costs amount to $1.4 million and $3.0 million as of June 30, 2003 and December 31, 2002, respectively, and were classified as "Other assets" on the consolidated balance sheets. 47 LIQUIDITY, FUNDING AND CAPITAL RESOURCES One of our primary financial goals is to maintain an adequate level of liquidity through active management of assets and liabilities. Liquidity management is a dynamic process, affected by changes in the characteristics of our assets and liabilities and short- and long-term interest rates. We use a variety of financing sources to manage liquidity, funding, and interest rate risks. Table 5 summarizes our funding and liquidity as of June 30, 2003 and December 31, 2002: TABLE 8: LIQUIDITY, FUNDING AND CAPITAL RESOURCES JUNE 30, 2003 DECEMBER 31, 2002 ------------- ----------------- DMCCB OTHER CONSOLIDATED DMCCB OTHER CONSOLIDATED --------------- -------------- ------------------ -------------- -------------- ----------- Cash and due from banks $ 85,412 $ 1,106 $ 86,518 $ 58,399 $ 4,414 $ 62,813 Federal funds sold 33,700 -- 33,700 88,000 -- 88,000 Short-term investments 209,157 57,216 266,373 322,039 107,380 429,419 --------------- -------------- ------------------ -------------- -------------- ----------- Total cash and cash equivalents $ 328,269 $ 58,322 $ 386,591 $ 468,438 $ 111,794 $ 580,232 =============== =============== ================== =============== =============== =========== JUNE 30, 2003 DECEMBER 31, 2002 ------------- ----------------- UNUSED UNUSED ON-BALANCE SHEET FUNDING OUTSTANDING CAPACITY OUTSTANDING CAPACITY ---------------- ----------------- --------------- ------------ Revolving credit line - July 2003 $ -- $ -- $ -- $ 162,696 Term loan - June 2003 -- N/A 100,000 N/A 10% senior notes - November 2004 100,000 N/A 100,000 N/A 10.125% senior notes - July 2006 147,270 N/A 146,824 N/A Term loan - June 2004 125,000 N/A -- -- Other 10,967 N/A 10,825 N/A Deposits - various maturities through February 2007 641,934 N/A 892,754 N/A ---------------- ----------------- --------------- ------------ Subtotal $ 1,025,171 $ -- $ 1,250,403 $ 162,696 OFF-BALANCE SHEET FUNDING Master

Trust: Term asset backed securitizations - various maturities through January 2009 7,010,000 -- 7,610,000 -- Conduits - maturing March 2004 850,000 -- 1,177,957 422,043 Metris facility - March 2003 -- -- 48,900 26,100 ---------------- ----------------- --------------- ------------ Subtotal 7,860,000 -- 8,836,857 448,143 ---------------- ----------------- --------------- ------------ Total $ 8,885,171 $ -- $ 10,087,260 $ 610,839 ================ ================= ================ ============ 48 Our contractual cash obligations during the next twelve months as of June 30, 2003 are as follows: Long-term debt $ 126,167 Operating leases 13,019 Deposits 182,705 ---------------- Total $ 321,891 ================ In addition to the contractual cash obligations, open-to-buy on credit card accounts as of June 30, 2003 was $10.1 billion. As of June 30, 2003, $2.0 billion of off-balance sheet funding in the Master Trust is scheduled to amortize over the next twelve months. We base the amortization amounts on estimated amortization periods, which are subject to change based on the Master Trust performance. The following table shows the annualized yields, defaults, costs and excess spreads for the Master Trust on a cash basis: THREE MONTHS ENDED JUNE 30, (In thousands) 2003 2002 ---- ---- Gross yield (1) $ 608,762 26.86% $ 616,011 25.98% Annual principal defaults 477,392 21.06% 373,257 15.74% --------------- ----- --------------- ----- Net portfolio yield 131,370 5.80% 242,754 10.24% Annual interest expense and servicing fees 83,575 3.86% 100,048 4.33% --------------- ----- --------------- ----- Net excess spread $ 47,795 1.94% $ 142,706 5.91% =============== ===== =============== ===== SIX MONTHS ENDED JUNE 30, (In thousands) 2003 2002 ---- ---- Gross yield (1) $ 1,266,543 27.29% $ 1,202,691 26.27% Annual principal defaults 985,592 21.23% 687,636 15.02% --------------- ----- --------------- ----- Net portfolio yield 280,951 6.06% 515,055 11.25% Annual interest expense and servicing fees 171,744 3.90% 206,350 4.54% --------------- ---- -------------- ----- Net excess spread $ 109,207 2.16% $ 308,705 6.71% =============== ==== ============== ===== (1) Includes cash flows from finance charges, late, overlimit and cash advance fees, bad debt recoveries, interchange income and debt waiver fees, less finance charge and fee charge-offs. The Master Trust and the associated off-balance sheet debt provide for early amortization if certain events occur. These events are described in the applicable series supplement of each securitization transaction. The significant events are (i) three-month average excess spreads below levels between 0.0% and 1.0%, (ii) negative transferor's interest within the Master Trust or (iii) failure to obtain funding during an accumulation period for a maturing term asset-backed securitization. In addition, there are various triggers within our securitization agreements that, if broken, would restrict the release of cash to us from the Master Trust. This restricted cash provides additional security to the investors in the Master Trust. We reflect cash restricted from release in the Master Trust as "Other receivables due from credit card securitizations, net" in the consolidated balance sheet. The restricted cash is discounted to reflect the present value of the future cash release. The triggers are primarily related to the performance of the Master Trust, in particular the average of net excess spread over a one to three-month period. The cash restricted from release is limited to the amount of excess spread generated in the Master Trust on a cash basis. During periods of lower excess spreads, the required amount of cash to be restricted in the Master Trust may not be achieved. During those periods, all excess cash normally released to Metris Receivables, Inc. ("MRI") will be restricted from release. Once the maximum required amount of cash is restricted from release or excess spreads improve, cash can again be released to us. Based on the performance of our Master Trust, the amount of cash required to be restricted was $463 million at June 30, 2003 and $304 million at December 31, 2002. As of June 30, 2003, $177.1 million has been restricted from release in the Master Trust due to performance, $21.4 million has been restricted from release in the Master Trust due to corporate 49 debt ratings at the inception of the securitization transactions and $15.9 million has been restricted from release in the Master Trust for maturity reserves. As of December 31, 2002, $29.1 million had been restricted from release in the Master Trust due to performance and $21.4 million had been restricted from release in the Master Trust due to corporate debt ratings at the inception of the securitization transactions. The $148.0 million increase in this restricted cash is a result of approximately $109.2 million of net excess cash generated by the Master Trust being restricted within the Master Trust and approximately $38.8 million that was funded as additional enhancements. We expect all cash basis excess spread to be restricted from release to us until at least 2004. On March 17, 2003 we obtained a $425 million extension through March 2004 of an $850 million conduit which was scheduled to mature in June of 2003. We also secured a $425 million conduit through March 2004, which replaced conduits and warehouse facilities that matured during March through May 2003. Furthermore, these conduits provided for the financing of a term asset-backed securitization that matured in July 2003. The continued availability of funding under these facilities is subject to various conditions, including a minimum three-month average excess spread of 1% and a commitment, no later than September 30, 2003, for funding of a $610 million term asset backed securitization that matures in January and February 2004. On June 26, 2003, we paid approximately $4.3 million of prepaid interest and related fees to reduce the interest rate on one of these financing facilities. On March 31, 2003, Thomas H. Lee Equity Fund IV, L.P. ("THL Fund IV") committed to provide a term loan to the Company in an aggregate amount of $125 million as a backup financing facility, secured by assets of the Company. On June 27, 2003 the term loan commitment was terminated and replaced with a $125 million senior secured loan funded by a consortium of lenders. With the termination of the THL Fund IV commitment, we wrote off $5.1 million of capitalized commitment fees. The $125 million term loan was issued pursuant to an Amended and Restated Senior Secured Credit Agreement dated as of June 18, 2003 (the "Credit Agreement"). The loan matures June 27, 2004 and carries a fixed interest rate of 12% plus a monthly performance interest payment, which is indexed to the monthly excess spread in the Master Trust. The funds were used to pay off a $100 million term loan that matured in June of 2003. The terms of the Credit Agreement, under which the loan was issued, require mandatory prepayment of a portion of the principal if the Company receives funds due to the sale of certain Company assets. We were therefore required to make a $22.5 million principal repayment from the proceeds of the sale of our membership and warranty business. We are bound by certain covenants under the Credit Agreement as filed July 11, 2003 on Form 8-K. As of June 30, 2003, we were in compliance with all covenants under the Credit Agreement. In addition, under the agreement, Direct Merchants Bank dividends paid to MCI are limited to Bank earnings not to exceed $20 million per quarter. The Internal Revenue Service ("IRS") has recently 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 the year ended June 30, 2003, the Company has deferred approximately $213.9 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, state tax and related interest. The Company believes its treatment of the 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 any additional tax to be paid or settlement to be reached over the next twelve months. However, both the timing and amount of the final resolution of this matter is uncertain. In July of 2003, the OCC requested and Direct Merchants Bank agreed to eliminate federally insured deposits at the Bank, or the risk thereof to the FDIC, by September 30, 2003. The Bank estimates that it will have approximately $565 million of insured deposits at September 30, 2003. The Bank also estimates it will have approximately $375 million of unencumbered cash and 50 approximately $500 million of available gross receivables at September 30, 2003 to meet this obligation. We have received preliminary proposals from financing sources, and we are working with our financial advisors on a variety of options to achieve this goal. These options may include additional conduit financing or the sale of credit card receivables to third parties. During the next twelve months we have contractual cash obligations of $322 million and off-balance sheet funding scheduled to amortize of $2.0 billion, which includes funding for a $610 million term asset-backed securitization maturing in January and February 2004. In addition, we require funding for approximately $565 million of deposits to be paid-off or defeased by September 30, 2003. We have historically utilized a variety of funding vehicles, as well as ongoing cash generated from operations, to finance credit card receivables, maturing debt obligations and general operating needs. During the next twelve months we intend to reduce outstanding credit card receivables in the Master Trust through lower credit card account acquisitions, attrition in the portfolio and third party sales as necessary. This reduction in the size of the portfolio will significantly reduce our need for additional bank conduits or the issuance of new asset-backed securities. We believe that we will be able to obtain the requisite funding that will provide us with adequate liquidity to meet anticipated cash needs, although no assurance can be given to that effect. CAPITAL ADEQUACY In the normal course of business, Direct Merchants Bank enters into agreements, or is subject to regulatory requirements, that result in cash, debt and dividend or other capital restrictions. The Federal Reserve Act imposes various legal limitations on the extent to which banks can finance or otherwise supply funds to their affiliates. In particular, Direct Merchants Bank is subject to certain restrictions on any extensions of credit to or other covered transactions, such as certain purchases of assets, with MCI and its affiliates. Such restrictions limit Direct Merchants Bank's ability to lend to MCI and its affiliates. Additionally, Direct Merchants Bank is limited in its ability to declare dividends to MCI in accordance with the national bank dividend provisions. Direct Merchants Bank is subject to certain capital adequacy guidelines adopted by the OCC. At June 30, 2003 and December 31, 2002, Direct Merchants Bank's Tier 1 risk-based capital ratio, risk-based total capital ratio and Tier 1 leverage ratio exceeded the minimum required capital levels, as illustrated in the following table. Additionally, the Bank must maintain minimum capital in the aggregate amount of (i) liquid assets deposited pursuant to the Liquidity Reserve Deposit Agreement discussed below; (ii) the capital required as a result of the 200% risk-weight applied to on-book subprime credit card receivables; and (iii) the minimum capital required under Federal law for a "well capitalized" institution for all remaining assets owned by the Bank. Under these more stringent guidelines, Direct Merchants Bank's total capital ratio as of June 30, 2003 was 17.2% and Direct Merchants Bank was considered a "well-capitalized" depository institution under regulations of the OCC (including FFIEC subprime guidelines). Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Direct Merchants Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Direct Merchants Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Quantitative measures established by regulation to ensure capital adequacy require Direct Merchants Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 leverage capital (as defined) to average assets (as defined). Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material adverse effect on our financial statements. Additional information about Direct Merchants Bank's actual capital amounts and ratios are presented in the following table: 51 TO BE ADEQUATELY TO BE WELL ACTUAL CAPITALIZED CAPITALIZED ------ ----------- ----------- AS OF JUNE 30, 2003 AMOUNT RATIO AMOUNT RATIO AMOUNT RATIO ------ ----- ------ ----- ------ ----- Total Capital $ 259,364 39.4% $ 52,614 8.0% $ 65,768 10.0% (to risk-weighted assets) Tier 1 Capital 249,917 38.0% 26,307 4.0% 39,461 6.0% (to risk-weighted assets) Tier 1 Capital 249,917 21.8% 45,841 4.0% 57,301 5.0% (to average assets) TO BE ADEQUATELY TO BE WELL ACTUAL CAPITALIZED CAPITALIZED ------ ----------- ----------- AS OF DECEMBER 31, 2002 AMOUNT RATIO AMOUNT RATIO AMOUNT RATIO ------ ----- ------ ----- ------ ----- Total Capital $ 402,721 30.8% $104,516 8.0% $130,645 10.0% (to risk-weighted assets) Tier 1 Capital 385,480 29.5% 52,258 4.0% 78,387 6.0% (to risk-weighted assets) Tier 1 Capital 385,480 24.7% 62,381 4.0% 77,977 5.0% (to average assets) REGULATORY MATTERS On March 18, 2003, we entered into an operating agreement with the OCC designed to ensure that Direct Merchants Bank continues to operate in a safe and sound manner. The operating agreement requires, among other things, the following: - The Bank must reduce its on-balance-sheet credit card receivables to no more than $550 million by December 31, 2003 and to zero by December 31, 2004. During the time the Bank is reducing these receivables, the mix of subprime receivables may not exceed 60% of all credit card receivables. As of June 30, 2003, 56.2% of the Bank's credit card receivables were subprime. The Bank will continue to sell credit card receivables on a daily basis to MCI under the purchase agreement currently in effect between MCI and the Bank. - The Bank must maintain minimum capital in the aggregate amount of (i)liquid assets deposited pursuant to the Liquidity Reserve Deposit Agreement discussed below; (ii) the capital required as a result of the 200% risk-weight applied to on-book subprime credit card receivables; and (iii) the minimum capital required under Federal law for a "well capitalized" institution for all remaining assets owned by the Bank. - The Bank must meet certain liquidity requirements, including maintaining, on a daily basis, liquid assets of not less than 100% of the deposits and other liabilities coming due within the next 30 days, maintaining marketable assets in an amount equal to or in excess of the Bank's insured deposits, maintaining cash and cash equivalents 52 in excess of 46% of outstanding CDs, and entering into the Liquidity Reserve Deposit Agreement discussed below to support the Bank's credit card receivables funding needs. - The Bank is working with the OCC to develop a written strategic plan establishing objectives for the Bank's overall risk profile, earning performance, growth, balance sheet mix, off-balance sheet activities, liability structure, capital adequacy, product line development and marketing segments. The terms of the operating agreement required Direct Merchants Bank and MCI to enter into a Capital Assurance and Liquidity Maintenance Agreement ("CALMA") which also was executed on March 18, 2003. The effect of the CALMA is to potentially require MCI to make such capital infusions or provide Direct Merchants Bank with financial assistance so as to permit Direct Merchants Bank to meet its liquidity requirements. As required by the operating agreement, Direct Merchants Bank, a third-party depository bank and the OCC executed a Liquidity Reserve Deposit Agreement ("LRDA"). If the OCC were to conclude that the Bank failed to implement any provision of the agreement, the OCC could pursue various enforcement options. Upon signing these agreements Direct Merchants Bank declared and paid a $155 million dividend to us. An additional dividend of $15.8 million was declared and paid during the second quarter of 2003. In July of 2003, the OCC requested and Direct Merchants Bank agreed to eliminate federally insured deposits at the Bank, or the risk thereof to the FDIC, by September 30, 2003. The Bank estimates that it will have approximately $565 million of insured deposits at September 30, 2003. The Bank also estimates it will have approximately $375 million of unencumbered cash and approximately $500 million of available gross receivables at September 30, 2003 to meet this obligation. We have received preliminary proposals from financing sources, and we are working with our financial advisors on a variety of options to achieve this goal. These options may include additional conduit financing or the sale of credit card receivables to third parties. If we do not eliminate federally insured deposits, or the risk thereof, by September 30, 2003, the OCC could pursue various enforcement options. On August 5, 2003, we received notification from the Securities and Exchange Commission that we are the subject of a formal, nonpublic investigation. We believe that this investigation relates primarily to the Company's treatment of loan loss allowances in 2001 and subsequent years, the Company's 2001 credit line increase program and other related matters. The SEC specifically advised us that this is a fact-finding inquiry and that it has not reached any conclusions related to this matter. We are responding fully to the SEC in its investigation. FORWARD-LOOKING STATEMENTS This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to the "safe harbor" created by those sections. Forward-looking statements include, without limitation: expressions of the "belief," "anticipation," "intent," or "expectations" of management; statements and information as to our strategies and objectives; return on equity; changes in our managed loan portfolio; net interest margins; funding costs; liquidity; cash flow; operating costs and marketing expenses; delinquencies and charge-offs and industry comparisons or projections; statements as to industry trends or future results of operations of the Company and its subsidiaries; and other statements that are not historical fact. Forward-looking statements may be identified by the use of terminology such as "may," "will," "believes," "does not believe," "no reason to believe," "expects," "plans," "intends," "estimates," "anticipated," or "anticipates" and similar expressions, as they relate to the Company or our management. Forward-looking statements are based on certain assumptions by management and are subject to risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. 53 These risks and uncertainties include, but are not limited to, our high liquidity requirement; our higher delinquency rate, credit loss rates and charge-off rates of our "Credit card loans;" the higher charge-off and bankruptcy rates of the Company's target market of moderate-income consumers; the success and impact of our existing or modified strategic initiatives; the effect of the restatement of the Company's financial statements discussed herein, risks associated with Direct Merchants Bank's ability to comply with its agreement with regulators regarding the safety and soundness of its operations; interest rate risks; risks associated with acquired portfolios; dependence on the securitization markets and other funding sources to fund our business, including the refinancing of existing indebtedness; the effects of the previously announced SEC investigation, government policy and regulation, whether of general applicability or specific to us, including restrictions and/or limitations relating to our minimum capital requirements, reserving methodologies, dividend policies and payments, growth, and/or underwriting criteria; reduced funding availability and increased funding costs; privacy laws that could result in lower revenue generated from fewer marketing campaigns and/or penalties for non-compliance; and general economic conditions that can have a negative impact on the performance of loans and marketing of credit protection and other enhancement services. These and other risks and uncertainties are discussed herein and in the Original 10-Q in "Legal Proceedings" (page 48 of the Original 10-Q), "Management's Discussion and Analysis of Financial Condition and Results of Operations" (pages 32-56 hereof) and "Quantitative and Qualitative Disclosures About Market Risk" (pages 46-47 of the Original 10-Q). Although we have attempted to list comprehensively the major risks and uncertainties, other factors may in the future prove to be important in causing actual results to differ materially from those contained in any forward-looking statement. Readers are cautioned not to place undue reliance on any forward-looking statement, which speaks only as of the date thereof. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise. SELECTED OPERATING DATA - MANAGED BASIS In addition to analyzing the Company's performance on an owned basis, we analyze the Company's financial performance on a managed loan portfolio basis. On a managed basis, the balance sheets and income statements include other investors' interests in securitized loans that are not assets of the Company, thereby reversing the effects of sale accounting under

SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." We believe this information is meaningful to the reader of the financial statements. We service the receivables that have been securitized and sold and own the right to the cash flows from those receivables sold in excess of amounts owed to security holders. The following information is not in conformity with accounting principles generally accepted in the United States of America, however, we believe the information is relevant to understanding the overall financial condition and results of operations of the Company. 54 TABLE 9: MANAGED LOAN PORTFOLIO (Dollars in thousands) JUNE 30, % OF DECEMBER 31, % OF JUNE 30, % OF 2003 TOTAL 2002 TOTAL 2002 TOTAL ----------- ---- ----- ---- ----- PERIOD-END BALANCES: Credit card loans $ 632,913 $ 846,417 $ 1,317,238 Receivables held in the Metris Master Trust 9,483,652 10,573,769 10,477,057 ----------------- ------------------ ----------------- Managed $ 10,116,565 $ 11,420,186 $ 11,794,295 ================== =================== ================= Loans contractually delinquent: Credit card loans 48,266 7.6% 7,876 0.9% 148,903 11.3% Receivables held in the Metris Master Trust 1,084,241 11.4% 1,252,073 11.8% 1,047,236 10.0% ----------------- ------------------ ----------------- Managed $ 1,132,507 11.2% $ 1,259,949 11.0% $ 1,196,139 10.1% ================== =================== ================= THREE MONTHS ENDED SIX MONTHS ENDED JUNE 30, JUNE 30, -------- -------- 2003 2002 2003 2002 ---- ---- ---- ---- AVERAGE BALANCES: Credit card loans $ 690,903 $ 1,737,626 $ 721,121 $ 2,115,683 Receivables held in the Metris Master Trust 9,771,210 10,163,087 10,086,551 9,856,534 ---------------- ---------------- ---------------- ----------------- Managed $ 10,462,113 $ 11,900,713 $ 10,807,672 $ 11,972,217 ================= ================= ================ ================= NET CHARGE-OFFS: Credit card loans $ 43,702 25.4% $ 85,099 19.6% $ 51,991 14.6% $ 168,777 16.1% Receivables held in the Metris Master Trust 454,914 18.7% 356,688 14.1% 942,431 18.8% 657,687 13.5% ---------------- ---------------- ---------------- ----------------- Managed $ 498,616 19.1% $ 441,787 14.9% $ 994,422 18.6% $ 826,464 13.9% ================= ================= ================ ================= The increase in the managed delinquency rates as of June 30, 2003 over December 31, 2002 and June 30, 2002 reflects various factors, including declining receivable balances, a deterioration in the economy and the impact of our 2001 credit line increase program. The credit line increase program added pressure to our customers due to increased average outstanding balances, which require higher monthly payments. This, along with a deteriorating economy, has made our collections efforts more difficult, resulting in higher delinquencies. Total managed loans decreased $1.3 billion to $10.1 billion as of June 30, 2003, compared to $11.4 billion as of December 31, 2002. This was primarily due to a reduction in credit lines, tighter underwriting standards implemented in 2002 and lower new accounts. The amount of credit card receivables in debt forbearance programs was $856.0 million or 8.5% of total managed loans as of June 30, 2003, compared with $860.1 million or 7.5% of managed loans as of December 31, 2002. All delinquent receivables in debt forbearance programs are included in Table 6. Managed net charge-offs increased $56.8 million and $168.0 million for the three- and six-month periods ended June 30, 2003 compared to the same periods in 2002 primarily due to the impact of the 2001 credit line increase program and deterioration in the economy. We charge-off bankrupt accounts 60 days following formal notification. Charge-offs due to bankruptcies were $181.2 million, representing 34.5% of total managed gross charge-offs for the three months ended June 30, 2003 and $133.2 million, representing 25.3% of total managed gross charge-offs for the three months ended June 30, 2002. Charge-offs due to bankruptcies were $367.2 million, representing 35.1% of total managed gross charge-offs for the six months ended June 30, 2003 and $285.8 million, representing 32.8% of total managed gross charge-offs for the six months ended June 30, 2002. In addition to those bankrupt accounts that were charged-off, we received formal notification of $89.7 million and $103.3 million of managed bankrupt accounts as of June 30, 2003 and 2002, respectively. 55 Net Interest Income TABLE 10: ANALYSIS OF AVERAGE BALANCES, INTEREST AND AVERAGE YIELDS AND RATES THREE MONTHS ENDED SIX MONTHS ENDED JUNE 30, JUNE 30, 2003 2002 2003 2002 ---- ---- ---- ---- (Dollars in thousands) Average interest-earning assets: Owned $ 1,192,956 $ 2,243,490 $ 1,300,214 $ 2,519,213 Receivables held in the Metris Master Trust 9,771,210 10,163,201 10,086,551 9,856,591 ---------------- ---------------- ----------------- ---------------- Managed $ 10,964,166 $ 12,406,691 $ 11,386,765 $ 12,375,804 ================= ================= ================= ================= Net interest income: Owned $ 12,717 $ 41,838 $ 25,537 $ 99,516 Receivables held in the Metris Master Trust 378,324 387,036 786,751 767,631 ---------------- ---------------- ---------------- ----------------- Managed $ 391,041 $ 428,874 $ 812,288 $ 867,147 ================= ================= ================= ================== Net interest margin (1): Owned 4.3% 7.5% 4.0% 8.0% Retained interests and investors' interests in loans securitized 15.5% 15.3% 15.7% 15.7% Managed 14.3% 13.9% 14.4% 14.1% (1) We compute net interest margin by dividing annualized net interest income by average total interest-earning assets. Managed net interest income decreased $37.8 million and $54.9 million for the three- and six-month periods ended June 30, 2003, compared to the same periods in 2002. Net interest income consists primarily of interest earned on our credit card loans less interest expense on borrowing to fund the loans. The decrease is primarily due to a $1.4 billion and $989.0 million decrease in managed average interest-earning assets, for the three- and six-month periods ended June 30, 2003, compared to the same periods in 2003. ITEM 4 CONTROLS AND PROCEDURES Under the supervision and with the participation of the Company's management, including the Chairman and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), we evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-14(c) or 15d-14(c) under the Exchange Act). Based on that evaluation, the Company's management, including the CEO and CFO, have concluded that our disclosure controls and procedures, as of June 30, 2003, were not effective in ensuring that information required to be disclosed in the reports we file under the Securities Exchange Act of 1934, as amended ("Exchange Act") are recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. On November 17, 2003, our external auditors, KPMG LLP, issued a material weakness report noting a material weakness in our policies and procedures for estimating the fair value of our "Retained interests in loans securitized" and associated revenue recognition. During the past several months we have taken steps to revise our valuation model and related policies, procedures and assumptions to address the issues in the material weakness report. During the period, the Company also identified and changed its accounting policies to conform with accounting principles generally accepted in the United States of America associated with the accounting for securitization transaction costs, credit card solicitation costs, and debt waiver revenue associated with receivables sold to the Metris Master Trust (See Note 2 of the unaudited consolidated financial statements on page 9 for further discussion). 56 The Company, as of February 24, 2004, has re-evaluated the effectiveness of the design of the Company's disclosure controls and procedures (as defined in Rule 13a-14(c) or 15d-14(c) under the Exchange Act). Based on that evaluation, the Company's management, including the CEO and CFO, has concluded that the design of our disclosure controls and procedures is effective in ensuring that information required to be disclosed in the reports we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. The Company has not yet evaluated (tested) the operating effectiveness of such controls. PART II. OTHER INFORMATION ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K (a) Exhibits: 10.1 Amended and Restated Senior Secured Credit Agreement, dated as of June 18, 2003, among Metris Companies Inc., the Lenders from time to time parties thereto, Goldman Sachs Credit Partners L.P. as Administrative Agent, and Deutsche Bank Trust Companies America as Collateral Agent (Incorporated by reference to Exhibit 10 to MCI's Current Report on Form 8-K dated July 11, 2003 (File No. [1-12351])). 10.2 First Amendment to the Amended and Restated Senior Secured Credit Agreement and to credit Agreement Reserve Securities Account Control Agreement, dated as of July 29, 2003 among Metris Companies Inc., the Lenders from time to time parties to the Senior Secured Credit Agreement, Goldman Sachs Credit Partners L.P. as Administrative Agent, and Deutsche Bank Trust Companies America As Collateral Agent. (Previously filed as an exhibit to the Original 10-Q, which was filed with the Securities and Exchange Commission on July 15, 2003). 10.3 Asset Purchase Agreement Dated July 29, 2003 by and among Metris Companies Inc., Metris Direct, Inc., Metris Direct Services, Inc., Metris Travel Services Inc., Metris Club Services, Inc., Metris Warranty Services, Inc., and Metris Warranty Services of Florida, Inc., CPP Holdings Limited and CPP US Operations Group, LLC. (Previously filed as an exhibit to the Original 10-Q, which was filed with the Securities and Exchange Commission on July 15, 2003). 10.4 Transition Services Agreement dated July 29, 2003 by and among CPP Holdings Limited and CPP US Operations Group, LLC and Metris Companies Inc. and MES Insurance Agency, LLC. (Previously filed as an exhibit to the Original 10-Q, which was filed with the Securities and Exchange Commission on July 15, 2003). 10.5 Employee Leasing Agreement dated July 29, 2003, by and between CPP Holdings Limited and CPP US Operations Group, LLC and Metris Companies Inc. (Previously filed as an exhibit to the Original 10-Q, which was filed with the Securities and Exchange Commission on July 15, 2003). 11. Computation of Earnings Per Share 31.1 Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a). 31.2 Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a). 32.1 Certification of Principal Executive Officer Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code. 32.2 Certification of Principal Financial Officer Pursuant to Section 1350 of Chapter 63 of Title 18 of the

United States Code. 57 (b) Reports on Form 8-K: On April 16, 2003, we filed a Current Report on Form 8-K to report the submission of unaudited financial statements in a press release dated April 16, 2003. SIGNATURES Pursuant to the requirements 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. METRIS COMPANIES INC. (Registrant) Date: April 9, 2004 By: /s/John A. Witham ------------- John A. Witham Executive Vice President and Chief Financial Officer (Principal Financial Officer and Authorized Officer of Registrant) 59