METRIS COMPANIES INC
Form 10-Q
March 02, 2004

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

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 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	41-1849591
(State of Incorporation)	(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)

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

Yes X No _____

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

Yes X No _____

As of January 31, 2004, 57,917,318 shares of the registrant's common stock, par value $.01 per share, were outstanding.

METRIS COMPANIES INC.

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EXPLANATORY NOTE

As previously announced, Metris Companies Inc. (the "Company") delayed the filing of this report pending the resolution of an issue related to the valuation of the Company's "Retained interests in loans securitized." As a result of its analysis of this issue, the Company has determined that it will restate its financial results for 1998 through 2002 and for the first three quarters of 2003.

This report reflects restatements of the following financial statements which have previously been reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2002, its Quarterly Reports on Form 10-Q for the quarters ended March 31, 2003 and June 30, 2003, and its Current Report on Form 8-K filed on October 23, 2003 containing financial results for the three-months ended September 30, 2003:(a) consolidated balance sheets as of December 31, 2001, December 31, 2002, March 31, 2003, June 30, 2003, and September 30, 2003, (b) consolidated statements of income for the three-months ended March 31, 2003 and 2002, the three- and six-months ended June 30, 2003 and 2002, the three- and nine-months ended September 30, 2003 and 2002, and the years ended December 31, 2002, 2001 and 2000; and (c) consolidated statements of cash flows for the three-months ended March 31, 2003 and 2002, the six-months ended June 30, 2003 and 2002, the nine- months ended September 30, 2002 and the years ended December 31, 2002, 2001 and 2000. 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, were corrections to conform with 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.

At the earliest possible time, Metris Companies Inc. will file 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 quarters ended March 31, 2003 and June 30, 2003 containing restated financial statements for the relevant periods. As a result of these restatements, the Company's financial statements and related financial information contained in the Company's previously filed Annual Report on Form 10-K for the year ended December 31, 2002 and Quarterly Reports on Form 10-Q for the quarters ended March 31, 2003 and June 30, 2003, and the independent auditors' report included in such Annual Report on Form 10-K, should no longer be relied upon.

Independent Accountants' Review Report

To the Board of Directors and Stockholders of
Metris Companies Inc.:

We have reviewed the accompanying consolidated balance sheets of Metris Companies Inc., (the "Company") and subsidiaries as of September 30, 2003 and December 31, 2002, the related consolidated statements of income for the three-month and nine-month periods ended September 30, 2003 and 2002, and the related consolidated statements of changes in stockholders' equity and cash flows for the nine-month periods ended September 30, 2003 and 2002. These consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2, the Company has restated its consolidated financial statements.

KPMG LLP

Minneapolis, Minnesota
March 2, 2004

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS
METRIS COMPANIES INC. AND SUBSIDIARIES
Consolidated Balance Sheets (unaudited)
(Dollars in thousands)

	SEPTEMBER 30, 2003 AS RESTATED	DECEMBER 31, 2002 AS RESTATED
ASSETS:		
Cash and due from banks	$ 35,927	$ 62,813
Federal funds sold	--	88,000

Short-term investments	122,485	429,419
Cash and cash equivalents	158,412	580,232
Liquidity reserve deposit	83,875	--
Credit card loans	110,922	846,417
Less: Allowance for loan losses	42,402	90,315
Net credit card loans	68,520	756,102
Retained interests in loans securitized	857,186	808,026
Property and equipment, net	39,039	83,831
Purchased portfolio premium, net	21,459	64,579
Other receivables due from credit card securitizations, net	85,490	110,471
Other assets	97,042	187,151
TOTAL ASSETS	$ 1,411,023	$ 2,590,392
LIABILITIES:		
Deposits	$ 6,298	$ 892,754
Debt	351,511	357,649
Accounts payable	62,079	53,589
Deferred income	22,865	143,148
Accrued expenses and other liabilities	93,287	88,579
TOTAL LIABILITIES	536,040	1,535,719
STOCKHOLDERS' EQUITY:		
Convertible preferred stock - Series C, par value $.01 per share; 10,000,000 shares authorized, 1,235,891 and 1,156,086 shares issued and outstanding, respectively	460,370	430,642
Common stock, par value $.01 per share; 300,000,000 shares authorized, 64,911,718 and 64,223,231 shares issued and outstanding, respectively	649	642
Paid-in capital	230,393	227,376
Unearned compensation	(158)	--
Treasury stock - 7,055,300 shares	(58,308)	(58,308)
Retained earnings	242,037	454,321
TOTAL STOCKHOLDERS' EQUITY	874,983	1,054,673
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,411,023	$ 2,590,392

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

	THREE-MONTHS ENDED SEPTEMBER 30,		NINE-MONTH SEPTEM
	2003 AS RESTATED	2002 AS RESTATED	2003 AS RESTATED
INTEREST INCOME:			
Credit card loans	$ 23,250	$ 27,433	$ 82,870
Federal funds sold	264	145	787
Other	1,142	3,838	4,592
Total interest income	24,656	31,416	88,249
Deposit interest expense	7,882	14,453	28,387
Other interest expense	14,414	8,799	31,966
Total interest expense	22,296	23,252	60,353
NET INTEREST INCOME	2,360	8,164	27,896
Provision for loan losses	33,019	26,340	107,838
NET INTEREST EXPENSE AFTER PROVISION FOR LOAN LOSSES	(30,659)	(18,176)	(79,942)
OTHER OPERATING INCOME:			
Securitization income	93,779	148,313	73,516
Servicing income on securitized / sold receivables	43,849	51,948	136,997
Credit card fees, interchange and other credit card income	17,934	19,749	67,713
Enhancement services revenue	16,549	42,957	99,748
Loss on sale of credit card loans	(117,183)	--	(117,183)
Gain on sale of membership club and warranty business	80,391	--	80,391
	135,319	262,967	341,182
OTHER OPERATING EXPENSE:			
Credit card account and other product solicitation and marketing expenses	19,325	47,625	85,045
Employee compensation	41,997	51,875	141,099
Data processing services and communications	16,770	20,054	52,982
Credit protection claims expense	6,585	11,452	26,537
Occupancy and equipment	8,716	11,665	27,253
Purchased portfolio premium amortization	8,107	7,232	21,102
MasterCard/Visa assessment and fees	2,444	3,377	7,090
Credit card fraud losses	988	1,981	2,997
Asset impairments, lease write-offs and severance	29,926	--	52,764
Loss on sale of deposits	32,963	--	32,963
Other	28,965	19,279	68,624
	196,836	174,540	518,456
(LOSS) INCOME BEFORE INCOME TAXES	(92,176)	70,251	(257,216)
Income tax (benefit) expense	(17,198)	25,201	(74,660)
NET (LOSS) INCOME	(74,978)	45,050	(182,556)
Convertible preferred stock dividends	10,131	9,605	29,728

NET (LOSS) INCOME APPLICABLE TO COMMON STOCKHOLDERS	$ (85,109)	$ 35,445	$ (212,284)
(LOSS) INCOME PER SHARE:			
Basic	$ (1.48)	$ 0.50	$ (3.70)
Diluted	$ (1.48)	$ 0.50	$ (3.70)
SHARES USED TO COMPUTE LOSS PER SHARE:			
Basic	57,546	89,574	57,426
Diluted	57,546	89,579	57,426
DIVIDENDS DECLARED PER COMMON SHARE	--	$ 0.01	--

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

	NUMBER OF SHARES PREFERRED	COMMON	PREFERRED STOCK	CO S
BALANCE AT DECEMBER 31, 2001, AS PREVIOUSLY REPORTED	1,058	63,419	$ 393,970	$
Cumulative restatements to prior periods, see Note 2	--	--	--	
BALANCE AT DECEMBER 31, 2001, AS RESTATED	1,058	63,419	$ 393,970	$
Net income (as restated)	--	--	--	
Cash dividends	--	--	--	
Common stock repurchased	--	(5,747)	--	
Preferred dividends in kind	73	--	27,196	
Issuance of common stock under employee benefit plans	--	326	--	
Issuance of restricted stock under employee benefit plans	--	76	--	
Amortization of restricted stock	--	--	--	
BALANCE AT SEPTEMBER 30, 2002, AS RESTATED	1,131	58,074	$ 421,166	$
BALANCE AT DECEMBER 31, 2002, AS PREVIOUSLY REPORTED	1,156	57,168	$ 430,642	$
Cumulative restatements to prior periods, see Note 2	--	--	--	
BALANCE AT DECEMBER 31, 2002, AS RESTATED	1,156	57,168	$ 430,642	$
Net loss (as restated)	--	--	--	
Preferred dividends in kind	80	--	29,728	
Issuance of common stock under employee benefit plans	--	426	--	
Issuance of restricted stock under employee benefit plans	--	303	--	
Restricted stock forfeitures	--	(41)	--	

Amortization of restricted stock	--	--	--	
BALANCE AT SEPTEMBER 30, 2003, AS RESTATED	1,236	57,856	$ 460,370	$

	UNEARNED COMPENSATION	TREASURY STOCK	RETAINED EARNINGS
BALANCE AT DECEMBER 31, 2001, AS PREVIOUSLY REPORTED	$ (4,980)	$ (13,014)	$ 532,924
Cumulative restatements to prior periods, see Note 2	--	--	(36,619)
BALANCE AT DECEMBER 31, 2001, AS RESTATED	$ (4,980)	$ (13,014)	$ 496,305
Net income (as restated)	--	--	39,208
Cash dividends	--	--	(2,805)
Common stock repurchased	--	(43,717)	--
Preferred dividends in kind	--	--	(27,196)
Issuance of common stock under employee benefit plans	--	--	--
Issuance of restricted stock under employee benefit plans	(968)	--	--
Amortization of restricted stock	1,359	--	--
BALANCE AT SEPTEMBER 30, 2002, AS RESTATED	$ (4,589)	$ (56,731)	$ 505,512
BALANCE AT DECEMBER 31, 2002, AS PREVIOUSLY REPORTED	$ --	$ (58,308)	$ 458,673
Cumulative restatements to prior periods, see Note 2	--	--	(4,352)
BALANCE AT DECEMBER 31, 2002, AS RESTATED	$ --	$ (58,308)	$ 454,321
Net loss (as restated)	--	--	(182,556)
Preferred dividends in kind	--	--	(29,728)
Issuance of common stock under employee benefit plans	--	--	--
Issuance of restricted stock under employee benefit plans	(549)	--	--
Restricted stock forfeitures	76	--	--
Amortization of restricted stock	315	--	--
BALANCE AT SEPTEMBER 30, 2003, AS RESTATED	$ (158)	$ (58,308)	$ 242,037

See accompanying Notes to Unaudited Consolidated Financial Statements.

METRIS COMPANIES INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
(Dollars in thousands) (Unaudited)

	NINE-MONTHS ENDED SEPTEMBER 30, 2003	NIN SEP AS
OPERATING ACTIVITIES:		
Net (loss) income	$ (182,556)	$
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation, amortization, and accretion	(121,497)	
Provision for loan losses	107,838	
(Gain) loss from credit card securitization	161,588	
Gain on sale of membership club and warranty business	(80,391)	
Asset impairments, lease write-offs, and severance	52,764	
Loss on sale of deposits	32,963	
Market loss on derivative financial instruments	1,558	
Changes in operating assets and liabilities, net:		
Liquidity Reserve deposit	(83,875)	
Fair value of retained interests in loans securitized	97,156	
Spread accounts receivable	(189,330)	
Other receivables due from credit card securitizations, net	24,981	
Accounts payable and accrued expenses	4,450	
Deferred income	(37,568)	
Other	(50,810)	
Net cash (used in) provided by operating activities	(262,729)	
INVESTING ACTIVITIES:		
Proceeds from transfers of portfolios to the Metris Master Trust	666,480	
Net cash from loan originations and principal collections on loans receivable	(466,289)	
Proceeds from sales of credit card portfolios to third parties	494,784	
Proceeds from sale of club and warranty business	45,000	
Disposal of property and equipment	25,151	
Additions to property and equipment	(538)	
Net cash provided by investing activities	764,588	
FINANCING ACTIVITIES:		
Proceeds from issuance of debt	125,606	
Repayment of debt	(132,417)	
Sale of deposits	(559,282)	
Net decrease in deposits	(327,174)	
Premium paid and transaction costs on sale of deposits	(32,963)	
Cash dividends paid	--	
Proceeds from issuance of common stock	2,551	
Repurchase of common stock	--	
Net cash used in financing activities	(923,679)	
Net (decrease) increase in cash and cash equivalents	(421,820)	
Cash and cash equivalents at beginning of period	580,232	
Cash and cash equivalents at end of period	$ 158,412	$

SUPPLEMENTAL DISCLOSURES AND CASH FLOW INFORMATION:			
Cash paid (received) during the period for:			
Interest	$	59,395	$
Income taxes		(78,131)	
Tax benefit from employee stock option exercises		1	

See accompanying Notes to Unaudited Consolidated Financial Statements.

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."

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 for the fiscal year ended December 31, 2002. Certain amounts in such Annual Report on Form 10-K will be restated (See Note 2). 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/ability to finance future receivables activity and overall economic conditions. The actual losses in our loan portfolio and the fair value of our

"Retained interests in loans securitized" as of September 30, 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.

COMPREHENSIVE INCOME

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

SEGMENT REPORTING

In the third quarter of 2003, we sold our membership club and warranty business. After the sale of this business, the Company conducts all operations through a single segment, and as such, management no longer separately evaluates the results of the former enhancement services segment in deciding how to allocate resources or in evaluating performance.

NOTE 2 - RESTATEMENTS

The consolidated statements of income as presented for the three and nine-month periods ended September 30, 2003 and 2002 and the consolidated balance sheets as of September 30, 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 conduits 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, 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. All periods presented have been restated to reflect this correction. This restatement impacts "Retained interests in loans securitized," "Other assets" and "Securitization income."

- The Company's policy for recognizing debt waiver revenue on receivables sold to the Metris Master Trust was not in accordance GAAP. Historically, the Company 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 income," "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 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."

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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."

- 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."

- In prior periods, we classified the liquidity reserve deposit 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.

- In the third quarter of 2003, we sold our membership club and warranty business. Revenue related to this business for current and prior periods is classified as "Enhancement services revenue." Claims expense related to the sold 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 the 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 each of the years ended December 31, 1998 through 2002 amounted to a reduction (addition) to deferred income taxes of $15.1 million, $40.3 million, $23.8 million, $1.0 million, and ($16.5 million), respectively. Such reclasses did not result in any adjustment to net income.

See Notes 3,4,6,7,8,9 and 14, 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.

	SEPTEMBER 30, 2003		
	AS PREVIOUSLY REPORTED	AS RESTATED	
BALANCE SHEETS:			
ASSETS:			
Short-term investments	$ 206,360	$ 122,485	$
Liquidity reserve deposit	--	83,875	
Retained interests in loans securitized	1,533,013	--	
Less: Valuation allowance	902,606	--	
Net retained interests in loans securitized	630,407	857,186	
Other receivables due from credit card securitizations, net	322,528	85,490	
Other assets	113,327	97,042	
LIABILITIES:			
Accounts payable	$ 67,132	$ 62,079	$
Deferred income	35,500	22,865	
Accrued expenses and other liabilities	76,229	93,287	
STOCKHOLDERS' EQUITY			
Retained earnings	$ 267,951	$ 242,037	$

	MARCH 31, 2003		
	AS PREVIOUSLY REPORTED	AS RESTATED	
BALANCE SHEETS:			
ASSETS:			
Short-term investments	$ 412,155	$ 342,934	$
Liquidity reserve deposit	--	69,221	
Retained interests in loans securitized	1,670,171	--	
Less: Valuation allowance	931,052	--	
Net retained interests in loans securitized	739,119	805,633	
Other receivables due from credit card securitizations, net	276,134	114,347	
Other assets	168,843	203,761	
LIABILITIES:			
Deferred income	$ 138,207	$ 123,570	$
Accrued expenses and other liabilities	100,125	116,631	
STOCKHOLDERS' EQUITY			
Retained earnings	$ 424,025	$ 361,802	$

	DECEMBER 31,2001	
	AS PREVIOUSLY REPORTED	AS RESTATED
BALANCE SHEETS:		
ASSETS:		
Allowance for credit card loan losses	$ (410,159)	$ (460,159)
Retained interests in loans securitized	1,339,178	--
Less: Valuation allowance	537,499	--
Net retained interests in loans securitized	801,679	859,559
Other receivables due from credit card securitizations, net	114,456	33,386
Other assets	268,155	278,634

LIABILITIES:		
Deferred income	$ 215,031	$ 188,735
Accrued expenses and other liabilities	82,313	82,517
STOCKHOLDERS' EQUITY		
Retained earnings	$ 532,924	$ 496,305

	THREE-MONTHS ENDED SEPTEMBER 30,2003		
	AS PREVIOUSLY REPORTED	AS RESTATED	PRE RE
STATEMENTS OF INCOME:			
Other operating income:			
Securitization income	$ --	$ 93,779	$
Servicing income on securitized/sold receivables	--	43,849	
Net securitization and credit card servicing (expense) income	(101,936)	--	
Credit card fees, interchange and other credit card income	15,925	17,934	
Credit protection revenue	42,614	--	
Enhancement services revenue	15,835	16,549	
Loss on sale of credit card loans	--	(117,183)	
Other operating expenses:			
Credit card account and other product solicitation and marketing expenses	19,574	19,325	
Credit protection claims expense	6,944	6,585	
Asset impairments, lease write-offs and severance	30,839	29,976	
Other	28,604	28,965	
(Loss) Income Before Income Taxes	(175,776)	(92,176)	
Income tax (benefit) expense	(55,444)	(17,198)	
Net (loss) income	(120,332)	(74,978)	
(Loss) earnings per share	(2.27)	(1.48)	
Diluted (loss) earnings per share	(2.27)	(1.48)	

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	NINE-MONTHS ENDED SEPTEMBER 30,2003	
	AS PREVIOUSLY REPORTED	AS RESTATED

STATEMENTS OF INCOME:		
Provision for loan losses	$ 107,838	$ 107,838
Net interest expense after provision for loan losses	(79,942)	(79,942)
Other operating income:		
Securitization income	--	73,516
Servicing income on securitized/sold receivables	--	136,997
Net securitization and credit card servicing(expense)income	(14,430)	--
Credit card fees, interchange and other Credit card income	57,828	66,850
Credit protection revenue	139,738	--
Enhancement services revenue	97,349	99,748
Loss on sale of credit card loans	--	(117,183)
Other operating expenses:		
Credit card account and other product solicitation and marketing expenses	83,766	85,045
Credit protection claims expense	27,734	26,537
Asset impairments, lease write-offs and severance	53,627	52,764
Other	67,428	68,624
(Loss) Income Before Income Taxes	(237,106)	(257,216)
Income tax (benefit) expense	(76,112)	(74,660)
Net (loss) income	(160,994)	(182,556)
(Loss) earnings per share	(3.32)	(3.70)
Diluted (loss) earnings per share	(3.32)	(3.70)

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	THREE-MONTHS ENDED MARCH 31, 2003	
STATEMENTS OF INCOME:	AS PREVIOUSLY REPORTED	AS RESTATED
Provision for loan losses	$ 44,786	$ 44,786
Net interest expense after provision for loan losses	(31,966)	(31,966)
Other operating income:		
Securitization (expense) income	--	(37,970)
Servicing income on securitized/sold receivables	--	47,813
Net securitization and credit card servicing income	56,396	--
Credit card fees, interchange and other Credit card income	21,757	26,319
Enhancement services revenue	93,684	43,509
Other operating expenses:		
Credit card account and other product solicitation and marketing expenses	36,054	33,688
Enhancement services claims expense	13,022	--
Credit protection claims expense	--	12,306

Other	19,639	20,351
(Loss) Income Before Income Taxes	(37,644)	(127,441)
Income tax (benefit) expense	(12,686)	(44,611)
Net (loss) income	(24,958)	(82,830)
(Loss) earnings per share	(0.61)	(0.94)
Diluted (loss) earnings per share	(0.61)	(0.94)

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STATEMENTS OF INCOME:	THREE-MONTHS ENDED JUNE 30, 2003 AS PREVIOUSLY REPORTED	AS RESTATED	A PREVI REPO
Other operating income:			
Securitization income	$ --	$ 17,707	$
Servicing income on securitized/sold receivables	--	45,335	
Net securitization and credit card servicing income	31,110	--	
Credit card fees, interchange and other credit card income	20,146	23,460	
Enhancement services revenue	84,954	39,690	
Other operating expenses:			
Credit card account and other product solicitation and marketing expenses	28,138	32,032	
Enhancement services claims expense	8,087	--	
Credit protection claims expenses	--	7,646	
Other	18,866	19,308	
Loss Before Income Taxes	(23,686)	(37,599)	(
Income tax benefit	(7,982)	(12,851)	(
Net loss	(15,704)	(24,748)	(
Loss per share	(0.44)	(0.60)	
Diluted loss per share	(0.44)	(0.60)	

STATEMENTS OF INCOME:	SIX-MONTHS ENDED JUNE 30, 2003 AS PREVIOUSLY REPORTED	AS RESTATED	S AS PREVIOUS REPORTE
Provision for loan losses	$ 74,819	$ 74,819	$ 202,
Net interest expense after provision for			

loan losses	(49,282)	(49,282)	(102,
Other operating income:			
Securitization (expense) income	--	(20,263)	
Servicing income on securitized/sold receivables	--	93,148	
Net securitization and credit card servicing income	87,506	--	228,
Credit card fees, interchange and other credit card income	41,903	49,779	93,
Enhancement services revenue	178,638	83,199	190,
Other operating expenses:			
Credit card account and other product solicitation and marketing expenses	64,192	65,720	96,
Enhancement services claims expense	21,109	--	27,
Credit protection claims expense	--	19,952	
Other	38,505	39,659	42,
(Loss) Income Before Income Taxes	(61,330)	(165,040)	26,
Income tax (benefit) expense	(20,668)	(57,462)	10,
Net (loss) income	(40,662)	(107,578)	15,
Loss per share	(1.05)	(2.22)	(0
Diluted loss per share	(1.05)	(2.22)	(0

	DECEMBER 31, 2002	
STATEMENTS OF INCOME:	AS PREVIOUSLY REPORTED	AS RESTATED
Provision for loan losses	$ 573,478	$ 219,805
Net interest expense after provision for loan losses	(149,635)	(93,919)
Other operating income:		
Securitization income	--	325,038
Servicing income on securitized/sold receivables	--	195,214
Net securitization and credit card servicing income	271,348	--
Credit card fees, interchange and other credit card income	202,664	161,653
Enhancement services revenue	392,827	153,516
Other operating expenses:		
Credit card account and other product solicitation and marketing expenses	190,259	173,269
Enhancement services claims expenses	51,542	--
Credit protection claims expense	--	44,550
Other	93,221	100,215

(Loss) income before income taxes	(49,781)	283
Income tax (benefit) expense	(15,930)	1,867
Net (loss)	(33,851)	(1,584)
Loss per share	(1.20)	(0.66)
Diluted loss per share	(1.20)	(0.66)

	DECEMBER 31, 2001		DEC
STATEMENTS OF INCOME:	AS PREVIOUSLY REPORTED	AS RESTATED	AS PREVIOUS REPORTE
Finance charge income	$ --	$ 499,813	$ -
Credit card loans and retained interests in loans securitized	681,503	--	490,92
Federal funds and other interest income	--	15,488	-
Federal funds sold	3,115	--	9,13
Other	12,372	--	4,71
Net interest income	530,710	286,125	371,77
Provision for loan losses	549,145	501,212	388,23
Other operating income:			
Net securitization and credit card servicing income	517,399	--	444,25
Securitization income	--	606,823	-
Servicing income on securitized/sold receivables	--	159,074	-
Credit card fees, interchange and other credit card income	296,926	322,466	223,33
Enhancement services revenue	340,132	141,922	266,20
Other operating expenses:			
Credit card account and other product solicitation and marketing expenses	174,883	115,341	144,48
Credit protection claims expense	--	30,457	-
Enhancement services claims expense	35,628	--	26,43
Other	84,519	162,358	80,30
Income before income taxes	421,868	287,919	322,91
Income tax expense	161,577	113,660	124,32
Net income	245,792	160,029	195,15
Earnings per share	2.52	1.64	2.1
Diluted earnings per share	2.47	1.61	2.1

STATEMENTS OF CASH FLOWS:	THREE-MONTHS ENDED MARCH 31, 2003 AS PREVIOUSLY REPORTED	AS RESTATED
Net (loss) income	$ (24,958)	$ (82,830)
Depreciation, amortization and accretion	39,254	(27,726)
Provision for loan losses	44,786	44,786
Retained interests valuation income	(56,920)	--
Loss from credit card securitizations	--	60,714
Changes in fair value of retained interests in loans securitized	--	83,608
Market loss on derivative financial instruments	--	2,286
Changes in operating assets and liabilities, net:		
Liquidity reserve deposit	--	(69,221)
Other receivables due from credit card securitizations, net	(99,401)	(3,876)
Accounts payable and accrued expenses	12,336	12,325
Deferred income	(21,060)	(19,578)
Spread accounts receivable	--	(99,604)
Other	(15,964)	(50,063)
Net cash (used in) provided by operating activities	(105,132)	(132,402)
Net use of cash from sales and repayments of securitized loans	(723,527)	--
Net loans collected	738,427	--
Net cash from loan originations and principal collections on loans receivable	--	(27,051)
Net cash provided by investing activities	219,959	178,008

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STATEMENTS OF CASH FLOWS:	SIX-MONTHS ENDED JUNE 30, 2003 AS PREVIOUSLY REPORTED	AS RESTATED
Net (loss) income	$ (40,662)	$ (107,578)
Depreciation, amortization and accretion	67,518	(86,968)
Provision for loan losses	74,819	74,819
Retained interests valuation (income) expense	(131,893)	--
Loss (gain) from credit card securitizations	--	117,775
Changes in fair value of retained interests in loans securitized	--	103,898

Market loss on derivative financial instruments	--	5,086
Changes in operating assets and liabilities, net:		
Liquidity reserve deposit	--	(80,590)
Other receivables due from credit card securitizations, net	(104,500)	17,860
Accounts payable and accrued expenses	(2,111)	(20,930)
Deferred income	(39,460)	(37,014)
Spread accounts receivable	--	(141,321)
Other	(29,477)	(89,033)
Net cash (used in) provided by operating activities	(182,978)	(179,348)
Net use of cash from sales and repayments of securitized loans	(773,955)	--
Net loans collected	733,600	--
Net cash from loan originations and principal collections on loans receivable	--	(124,575)
Net cash provided by investing activities	293,235	209,015

	NINE-MONTHS ENDED SEPTEMBER 30, 2002	
STATEMENTS OF CASH FLOWS:	AS PREVIOUSLY REPORTED	A REST
Net income	$ 14,639	$
Depreciation, amortization and accretion	78,775	(1
Provision for loan losses	445,378	1
Retained interests valuation (income) expense	(89,300)	
Change in fair value of retained interests in loans securitized	--	2
Market loss on derivative financial instruments	16,835	
Spread accounts receivable	--	
Loss (gain) from credit card securitizations	--	(1
Changes in operating assets and liabilities, net:		
Other receivables due from credit card securitizations, net	39,822	
Accounts payable and accrued expenses	(12,756)	(
Deferred income	(36,491)	(
Other	23,876	
Net cash provided by operating activities	480,778	2
Proceeds from transfers of portfolios to the Metris Master Trust	--	2,0
Net proceeds from sales and repayments of securitized loans	163,155	
Net loans originated and collected	1,258,673	
Net cash from loan originations and principal collections on loans receivable	--	(4
Net cash provided by investing activities	1,416,221	1,6

STATEMENTS OF CASH FLOWS:	DECEMBER 31, 2002 AS PREVIOUSLY REPORTED	DECEMBER 31, 2002 AS RESTATED
Net loss	$ (33,851)	$ (1,584)
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities		
Depreciation, amortization and accretion	130,013	(175,314)
(Gain) loss from credit card securitizations	--	(63,246)
Retained interests valuation income	(118,953)	--
Market loss on derivative financial instruments	--	22,562
Changes in operating assets and liabilities, net:		
Fair value of retained interests in loans securitized	--	334,540
Spread accounts receivable	--	(107,220)
Other receivables due from credit card securitizations, net	(23,680)	(77,085)
Accounts payable and accrued expenses	(43,476)	(27,163)
Deferred income	(55,764)	--
Other	43,871	47,314
Net cash (used in) provided by operating activities	499,374	459,390
Net use of cash from sales and repayments of securitized loans	(1,145,947)	--
Net loans collected	211,458	--
Net cash from loan originations and principal collections on loans receivable	--	(961,940)
Net cash provided by investing activities	1,162,727	1,135,276

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STATEMENTS OF CASH FLOWS:	DECEMBER 31, 2001 AS PREVIOUSLY REPORTED	DECEMBER 31, 2001 AS RESTATED
Net income	$ 245,792	$ 160,029
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities		
Cumulative effect of accounting changes	14,499	--
Depreciation, amortization and accretion	106,703	(114,967)
Provision for loan losses	549,145	501,211
(Gain) loss from credit card securitizations	--	83,484
Retained interests valuation income	(131,992)	--
Tax benefit of options, net with common stock	--	(8,988)
Asset impairments, lease write-offs, and severance	--	14,499
Mark to market on interest rate caps	--	(10,128)
Changes in operating assets and liabilities, net:		
Fair value of retained interests in loans securitized	--	(38,903)

Spread accounts receivable	--	6,570
Other receivables due from credit card securitizations, net	(5,583)	(32,498)
Accounts payable and accrued expenses	6,446	8,603
Deferred income	(20,476)	(23,306)
Other	45,878	49,344
Net cash provided by operating activities	810,412	594,950
Net use of cash from sales and repayments of securitized loans	1,272,438	--
Net loans collected	(2,617,045)	--
Net cash from loan originations and principal collections on loans receivable	--	(1,475,129)
Additions to property and equipment	(5,706)	(5,708)
Net cash provided by investing activities	(1,087,907)	(881,433)
Proceeds from issuance of common stock	17,260	26,248
Net cash used in financing activities	244,141	253,129

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	DECEMBER 31, 2000	
STATEMENTS OF CASH FLOWS:	AS PREVIOUSLY REPORTED	AS RESTATED
Net income	$ 195,153	$ 185,902
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities		
Depreciation, amortization and accretion	76,256	(203,244)
Provision for loan losses	388,234	--
Retained interests valuation income	(104,710)	--
(Gain) loss from credit card securitizations	--	77,222
Changes in operating assets and liabilities, net:		
Fair value of retained interests in loans securitized	--	61,639
Spread accounts receivable	--	6,570
Other receivables due from credit card securitizations, net	55,240	(19,879)
Accounts payable and accrued expenses	45,877	37,623
Deferred income	60,403	61,367
Other	(53,058)	(104,495)
Net cash provided by operating activities	666,833	494,380
Net proceeds from sales and repayments and repayment of securitized loans	551,911	--
Net loans originated	(1,976,341)	--
Net cash from loan originations and principal collections on loans receivable	--	(1,251,977)
Net cash provided by investing activities	(1,705,034)	(1,532,581)

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In addition, the restatements will have the following impact on the previously reported annual information for the year ended December 31:

	NET (LOSS) INCOME		BASIC (LOSS) EARNINGS PER SHARE		DIL
	AS PREVIOUSLY REPORTED	AS RESTATED	AS PREVIOUSLY REPORTED	AS RESTATED	A PREVI REPO
2002	(33,851)	(1,584)	(1.20)	(0.66)	(1.
2001	245,792	160,029	2.52	1.64	2.
2000	195,152	185,902	2.19	2.08	2.
1999	64,555	109,555	(1.07)	1.50	(1.
1998	57,348	66,691	0.97	1.14	0.

A summary of the Company's revised accounting policies related to retained interests is as follows:

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 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 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 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 annual 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.

NOTE 3 - EARNINGS PER SHARE

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

	THREE MONTHS ENDED SEPTEMBER 30,		
	2003	2002	2003

Net (Loss) income	$ (74,978)	$ 45,050	$ (182
Preferred dividends - Series C	10,131	9,605	29
Net (loss) income applicable to common stockholders	$ (85,109)	$ 35,445	$ (212
Weighted-average common shares outstanding	57,546	58,311	57
Adjustments for dilutive securities:			
Assumed conversion of convertible preferred stock (1)	--	31,263	
Basic common shares	57,546	89,574	57
Assumed exercise of outstanding stock options (1)	--	5	
Diluted common shares	57,546	89,579	57

The convertible preferred stock is participating. The loss per share calculation for the three- and nine-month periods ended September 30, 2003 and 2002 excludes the assumed conversion of the convertible preferred stock and the outstanding stock options, as they are anti-dilutive.

NOTE 4 - STOCK-BASED COMPENSATION PLANS

We recognize compensation cost for stock-based employee compensation 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 $0.2 million of amortization of deferred compensation obligation, net of related tax benefit, in "Employee compensation" related to restricted stock granted in 2003.

Pro forma information regarding "Net (loss) income" and "Loss 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 (loss) earnings and (loss) earnings per share would have been recorded at the pro forma amounts indicated below:

	THREE-MONTHS ENDED SEPTEMBER 30,		
	2003	2002	
Net (loss) income, as restated	$ (74,978)	$ 45,050	$
Add: Stock-based employee compensation expense included in restated net (loss) income, net of related tax effects	69	285	

Deduct: Annual stock-based employee compensation (benefit) expense determined based on the fair value for all awards, net of related tax effects	(9,217)	6,149	--
Pro forma net (loss) income	$ (65,692)	$ 39,186	$
Loss per share (as restated):			
Basic, as restated	$ (1.48)	$ 0.50	$
Basic-pro forma	$ (1.32)	$ 0.44	$
Diluted, as restated	$ (1.48)	$ 0.50	$
Diluted-pro forma	$ (1.32)	$ 0.44	$
Weighted-average assumptions in option valuation:			
Risk-free interest rates	1.8%	3.7%	
Dividend yields	--	1.6%	
Stock volatility factor	128.4%	92.9%	
Expected life of options (in years)	2.7	6.0	

The above pro forma amounts may not be representative of the effects on restated net (loss) earnings for future periods. During the three-months ended September 30, 2003, no equity-based compensation was granted.

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.

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 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 a 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 ending after December 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. In December 2003, FASB issued a revision of FIN 46 to clarify some of the provisions of the original Interpretation, and to exempt certain entities from its requirements. The revision did not change the exemption in the original Interpretation for Qualified Special Purpose Entities.

We do not expect the adoption of this Interpretation 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. The adoption of SFAS No. 149 did not have a material impact on our financial statements.

In May 2003, FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards for classification and measurement of certain instruments with characteristics of both liabilities and equity. It requires that financial instruments within its scope be classified as a liability (or asset in some circumstances). Many of those instruments were classified as equity under previous accounting guidance. The statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not 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, which was modified on December 11, 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 September 30, 2003, the balance of these deposits was $83.9 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 SEPTEMBER 30,		NINE- SEP
	2003	2002	2003
Balance at beginning of period	$ 109,162	$ 275,279	$ 90,315
Allowance related to assets transferred to the Metris Master Trust	(32,784)	(95,614)	(36,765)
Provision for loan losses	33,019	26,340	107,838
Principal receivables charged-off (1)	(68,454)	(91,509)	(121,924)

Recoveries	1,459	6,472	2,938
Net principal receivables charged-off	(66,995)	(85,037)	(118,986)
Balance at end of period	$ 42,402	$ 120,968	$ 42,402

(1) Included in principal receivables charged-off for all periods presented is the effect of sales of "Credit card loans" to third parties.

"Credit card loans" greater than 30 days contractually past due as of September 30, 2003, December 31, 2002, and September 30, 2002, were $16.7 million, $7.9 million and $47.3 million, respectively.

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 September 30, 2003 and December 31, 2002.

	SEPTEMBER 30, 2003	DECEMBER 31, 2002
Contractual retained interests	$ 584,585	$ 685,197
Excess transferor's interests	56,049	57,447
Interest-only strip receivable	4,867	13,882
Spread accounts receivable	211,685	51,500
Retained interests in loans securitized	$ 857,186	$ 808,026

The following table illustrates the significant assumptions used for estimating the fair value of retained interests as of September 30, 2003 and December 31, 2002.

	SEPTEMBER 30,	DECEMBER

	2003	2002
Monthly payment rate	6.7%	6.7%
Gross yield (1)	25.3%	26.0%
Annual interest expense and servicing fees	3.9%	4.0%
Annual gross principal default rate	21.3%	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	15.3%	16.0%

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

At September 30, 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	$ 22.5	$ 44.2
Monthly payment rate	149.3	342.9
Gross yield	127.7	266.5
Annual interest expense and servicing fees	22.5	50.1
Annual gross principal default rate	101.5	206.0

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.

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NOTE 9 - SECURITIZATION INCOME

The following summarizes "Securitization (expense) income" for the three- and nine-month periods ended September 30, 2003 and 2002.

	THREE-MONTHS ENDED SEPTEMBER 30,	
	2003	2002
Loss on new securitization of receivables to the Metris Master Trust	$ (23,015)	$ --

(Loss) gain on replenishment of receivables to the Metris Master Trust	(20,798)	49,002
Discount accretion	85,549	84,149
Change in fair value	6,742	(85,136)
Interest-only revenue	74,851	114,048
Transaction and other costs	(29,550)	(13,750)
Securitization income	$ 93,779	$ 148,313

NOTE 10 - SALE OF MEMBERSHIP CLUB AND WARRANTY BUSINESS

On July 29, 2003, we sold our membership club and warranty business to CPP Group, a privately-owned leading provider of assistance products and services throughout Europe, for cash proceeds of $45 million. We recorded a gain on the sale of $80.4 million. Included in the gain was the recognition of $82.7 million of "Deferred income" and the write-off of $36.6 million of deferred costs, which are included in "Other assets." After the sale we have $11.0 million of "Deferred income", $7.0 million in deferred costs, and $14.2 million of "Accrued expenses and other liabilities" on our balance sheet related to certain obligations associated with the sold business, which will expire throughout 2004.

NOTE 11 - SALE OF CREDIT CARD LOANS

On September 16, 2003, we sold approximately 160,000 credit card accounts amounting to $590.9 million of "Credit card loans" to a third party for cash proceeds of $488.3 million. The sale included $144.4 million of receivables from Direct Merchants Bank and $446.5 million of receivables from Metris Receivables, Inc., which were removed from the Metris Master Trust pursuant to a random removal of account provision ("ROAP"). This was the first time we had exercised the ROAP. Under the terms of the pooling and servicing agreement, as amended, we are limited to one random removal of accounts per month from the Metris Master Trust. We recorded a loss on the sale of $72.1 million, including a write-off of purchased portfolio premium and other transaction costs. The sale was undertaken in order to provide funding for the sale of Direct Merchants Bank's certificates of deposit and to create additional liquidity in the Metris Master Trust.

NOTE 12 - SALE OF CERTIFICATES OF DEPOSIT

On September 30, 2003, we sold all of the brokered and retail jumbo certificates of deposit issued by Direct Merchants Bank. The face value of the "Deposits" sold was $559.3 million. We recorded a loss on that sale of $33.0 million. Upon completion of the sale, we were in full compliance with a request by the Office of the Comptroller of the Currency ("OCC") to eliminate the deposit risk to the Federal Deposit Insurance Corporation ("FDIC") by September 30, 2003.

NOTE 13 - SUBSEQUENT EVENTS

On November 13, 2003, we sold approximately 125,000 credit card accounts amounting to $494.3 million of "Credit card loans" to a third party for cash proceeds of $396.5 million. Prior to the sale these credit card receivables were held by the Metris Master Trust. During the third quarter of 2003, we recognized the expected loss on the sale of $71.3 million, which included a write-off of purchased portfolio premium and estimated transaction costs related to this sale. This sale was undertaken at the request of our conduit providers.

On November 19, 2003, we entered into a back up servicer agreement with a third party. The agreement is intended to ensure that the Metris Master Trust will be serviced by a third-party should Direct Merchants Bank be unable to provide such service. The terms of the agreement are consistent with the current servicing agreement between the Metris Master Trust and Direct Merchants Bank.

On December 11, 2003, we entered into a Modified Operating Agreement with the OCC, which replaced the original Operating Agreement dated March 18, 2003. The Modified Operating Agreement requires, among other things, the following:

- The Bank must maintain capital at the dollar level reported on the September 30, 2003, Call Report, unless otherwise approved by the OCC. The Bank may continue to pay dividends in accordance with applicable statutory and regulatory requirements, provided capital remains at the aforementioned level.

- The Bank shall maintain, at a minimum, liquid assets of not less than $35 million or 100% of the average highest daily funding requirement for managed receivables.

- The Bank is required to continue to comply with the terms of the Liquidity Reserve Deposit Agreement.

- The Bank and MCI are required to comply with the terms of the Capital Assurance and Liquidity Maintenance Agreement.

If the OCC were to conclude that the Bank failed to adhere to any provision of the Modified Operating Agreement, the OCC could pursue various enforcement options.

NOTE 14 - INCOME TAXES

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

	THREE-MONTHS ENDED SEPTEMBER 30		NINE-MONTHS ENDED SEPTEMBER 30	
	2003	2002	2003	20
Current:				
Federal	$ (41,623)	$ (40,232)	$ (94,179)	$ (3
State	797	(2,002)	148	
	(40,826)	(42,234)	(94,031)	(3
Deferred:				
Federal	23,059	65,213	18,813	5
State	569	2,222	558	
	23,628	67,435	19,371	5

(Benefit) provision for income taxes	$ (17,198)	$ 25,201	$ (74,660)	$ 2

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

	THREE-MONTHS ENDED SEPTEMBER 30		NINE-MO SEPTE
	2003	2002	2003
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	(0.9)	0.2	(0.2)
Valuation allowance	(14.5)	--	(5.2)
Other, net	(0.9)	0.7	(0.6)
Effective income tax rate	18.7%	35.9%	29.0%

Our deferred tax assets and liabilities are as follows:

	SEPTEMBER 30 2003	DECEM 20
Deferred income tax assets resulting from future deductible and taxable temporary differences:		
Allowance for loan losses and retained interests fair value adjustments	$ 161,936	$
Deferred revenues	12,031	
Othe		