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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

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

For the quarterly period ended June 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 July 31, 2003, 57,798,577 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 disclosed, Metris Companies Inc. (the "Company") has determined that it will restate its financial results for 1998 through 2002 and for the first three quarters of 2003. This determination was made in connection with the Company's analysis of its method of valuing "Retained interests in loans securitized."

This Amendment No. 1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2003, initially filed with the Securities and Exchange Commission ("SEC") on August 14, 2003 (the "Original 10-Q"), is being filed to reflect restatements of the following financial statements:(a) consolidated balance sheets as of December 31, 2002 and June 30, 2003; (b) consolidated statements of income for the three and six-months ended June 30, 2003 and 2002 and (c) consolidated statements of cash flows for the three and six-months ended

June 30, 2003 and 2002. Included in these restatements, in addition to changes made as a result of the Company's revised accounting policies and procedures related to valuing its retained interests, are corrections to conform with accounting principles generally accepted in the United States of America ("GAAP") related to securitization transaction costs, credit card solicitation costs, interest rate caps and debt waiver revenue associated with credit card receivables sold to the Metris Master Trust, as well as the transfer of allowance for loan losses that was incorrectly classified as a valuation reserve in "Retained interests in loans securitized" as of December 31, 2001. In addition, we have restated certain other prior period amounts to conform with the current period's presentation. For a more detailed description of the restatements, see Note 2 to the accompanying unaudited consolidated financial statements and "Restatements" in Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this Quarterly Report on Form 10-Q/A.

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

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

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

METRIS COMPANIES INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(Dollars in thousands)

	JUNE 30, 2003 AS RESTATED (UNAUDITED)
ASSETS:	
Cash and due from banks	$ 86,518
Federal funds sold	33,700
Short-term investments	266,373
Cash and cash equivalents	386,591

Liquidity reserve deposit	80,590
Credit card loans	632,913
Less: Allowance for loan losses	109,162
Net credit card loans	523,751
Retained interests in loans securitized	852,215
Property and equipment, net	51,510
Purchased portfolio premium, net	51,584
Other receivables due from credit card securitizations, net	92,611
Other assets	207,397
TOTAL ASSETS	$ 2,246,249
LIABILITIES:	
Deposits	$ 641,934
Debt	383,237
Accounts payable	49,996
Deferred income	106,134
Accrued expenses and other liabilities	115,274
TOTAL LIABILITIES	1,296,575
STOCKHOLDERS' EQUITY:	
Convertible preferred stock - Series C, par value $.01 per share; 10,000,000 shares authorized, 1,208,695 and 1,156,086 shares issued and outstanding, respectively	450,239
Common stock, par value $.01 per share; 300,000,000 shares authorized, 64,853,877 and 64,223,231 shares issued, respectively	648
Paid-in capital	230,241
Unearned compensation	(292)
Treasury stock - 7,055,300 shares	(58,308)
Retained earnings	327,146
TOTAL STOCKHOLDERS' EQUITY	949,674
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,246,249

See accompanying Notes to Consolidated Financial Statements.

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

	THREE MONTHS ENDED JUNE 30, AS RESTATED	
	2003	2002

INTEREST INCOME:			
Credit card loans	$ 29,713	$ 66,324	$
Federal funds sold	164	110	
Other	1,555	2,358	
Total interest income	31,432	68,792	
Deposit interest expense	9,597	18,334	
Other interest expense	9,119	8,621	
Total interest expense	18,716	26,955	
NET INTEREST INCOME	12,716	41,837	
Provision for loan losses	30,033	90,601	
NET INTEREST EXPENSE AFTER PROVISION FOR LOAN LOSSES	(17,317)	(48,764)	
OTHER OPERATING INCOME:			
Securitization income (expense)	17,707	42,746	
Servicing income on securitized / sold receivables	45,335	47,528	
Credit card fees, interchange and other credit card income	23,460	40,538	
Enhancement services revenue	39,690	36,744	
	126,192	167,556	
OTHER OPERATING EXPENSE:			
Credit card account and other product solicitation and marketing expenses	32,032	45,624	
Employee compensation	45,721	54,365	
Data processing services and communications	17,034	20,795	
Credit protection claims expense	7,646	13,632	
Occupancy and equipment	8,924	12,291	
Purchased portfolio premium amortization	6,499	7,743	
MasterCard/Visa assessment and fees	2,231	3,583	
Credit card fraud losses	1,069	2,953	
Asset impairments, lease write-offs and severance	6,011	9,523	
Other	19,307	28,445	
	146,474	198,954	
LOSS BEFORE INCOME TAXES	(37,599)	(80,162)	
Income tax benefit	(12,851)	(30,040)	
NET (LOSS) INCOME	(24,748)	(50,122)	
Convertible preferred stock dividends	9,908	9,394	
NET LOSS APPLICABLE TO COMMON STOCKHOLDERS	$ (34,656)	$ (59,516)	$
LOSS PER SHARE:			
Basic	$ (0.60)	$ (0.97)	$
Diluted	$ (0.60)	$ (0.97)	$

SHARES USED TO COMPUTE LOSS PER SHARE:		
Basic	57,462	61,503
Diluted	57,462	61,503
DIVIDENDS DECLARED PER COMMON SHARE	--	$ 0.01

See accompanying Notes to Consolidated Financial Statements.

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

	NUMBER OF SHARES PREFERRED	NUMBER OF SHARES COMMON	PREFERRED STOCK	COMMON STOCK
BALANCE AT DECEMBER 31, 2001 AS PREVIOUSLY REPORTED	1,058	63,419	$ 393,970	$ 642
Cumulative restatements to prior periods, see Note 2	--	--	--	--
BALANCE AT DECEMBER 31, 2001, AS RESTATED	1,058	63,419	$ 393,970	$ 642
Net income (as restated)	--	--	--	--
Cash dividends	--	--	--	--
Common stock repurchased	--	(2,720)	--	--
Preferred dividends in kind	48	--	17,928	--
Issuance of common stock under employee benefit plans	--	161	--	2
Deferred compensation obligations	--	76	--	1
Amortization of restricted stock	--	--	--	--
BALANCE AT JUNE 30, 2002, AS RESTATED	1,106	60,936	$ 411,898	$ 645
BALANCE AT DECEMBER 31, 2002 AS PREVIOUSLY REPORTED	1,156	57,168	$ 430,642	$ 642
Cumulative restatements to prior periods, see Note 2	--	--	--	--
BALANCE AT DECEMBER 31, 2002, AS RESTATED	1,156	57,168	$ 430,642	$ 642
Net loss (as restated)	--	--	--	--
Preferred dividends in kind	53	--	19,597	--
Issuance of common stock under employee benefit plans	--	352	--	3
Deferred compensation obligations	--	303	--	3
Restricted stock forfeitures	--	(24)	--	--
Amortization of restricted stock	--	--	--	--
BALANCE AT JUNE 30, 2003,				

AS RESTATED	1,209	57,799	$ 450,239	$ 648

	TREASURY STOCK	RETAINED EARNINGS	TOTAL STOCKHOLDERS' EQUITY
BALANCE AT DECEMBER 31, 2001 AS PREVIOUSLY REPORTED	$ (13,014)	$ 532,924	$ 1,141,955
Cumulative restatements to prior periods, see Note 2	--	(36,619)	(36,619)
BALANCE AT DECEMBER 31, 2001, AS RESTATED	$ (13,014)	$ 496,305	$ 1,105,336
Net income (as restated)	--	(5,842)	(5,842)
Cash dividends	--	(1,892)	(1,892)
Common stock repurchased	(32,951)	--	(32,951)
Preferred dividends in kind	--	(17,928)	--
Issuance of common stock under employee benefit plans	--	--	2,257
Deferred compensation obligations	--	--	--
Amortization of restricted stock	--	--	911
BALANCE AT JUNE 30, 2002, AS RESTATED	$ (45,965)	$ 470,643	$ 1,067,819
BALANCE AT DECEMBER 31, 2002 AS PREVIOUSLY REPORTED	$ (58,308)	$ 458,673	$ 1,059,025
Cumulative restatements to prior periods, see Note 2	--	(4,352)	(4,352)
BALANCE AT DECEMBER 31, 2002, AS RESTATED	$ (58,308)	$ 454,321	$ 1,054,673
Net loss (as restated)	--	(107,578)	(107,578)
Preferred dividends in kind	--	(19,597)	--
Issuance of common stock under employee benefit plans	--	--	2,370
Deferred compensation obligations	--	--	--
Restricted stock forfeitures	--	--	(2)
Amortization of restricted stock	--	--	211
BALANCE AT JUNE 30, 2003, AS RESTATED	$ (58,308)	$ 327,146	$ 949,674

See accompanying Notes to Consolidated Financial Statements.

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METRIS COMPANIES INC. AND SUBSIDIARIES

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

	SIX MONTHS ENDED JUNE 30, 2003 AS RESTATED	SIX MONTHS ENDED JUNE 30, 2002 AS RESTATED
OPERATING ACTIVITIES:		
Net loss	$ (107,578)	$ (5,842)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation, amortization, and accretion	(81,545)	(92,351)
Provision for loan losses	74,819	152,477
(Gain) loss from credit card securitization	123,982	20,695
Asset impairments, lease write-offs, and severance	22,788	9,523
Market loss on derivative financial instruments	8,161	12,248
Changes in operating assets and liabilities, net:		
Liquidity Reserve deposit	(80,590)	--
Fair value of retained interests in loans securitized	103,897	183,201
Spread accounts receivable	(201,314)	29,491
Other receivables due from credit card securitizations, net	17,860	27,888
Accounts payable and accrued expenses	4,473	43,459
Deferred income	(37,014)	(21,008)
Other	(67,123)	1,759
Net cash provided by (used in) operating activities	(219,184)	361,540
INVESTING ACTIVITIES:		
Proceeds from transfers of portfolios to the Metris Master Trust	315,065	1,486,993
Net cash from loan originations and principal collections on loans receivable	(84,739)	(370,193)
Disposal of property and equipment	19,252	--
Additions to property and equipment	(727)	(3,538)
Net cash provided by investing activities	248,851	1,113,262
FINANCING ACTIVITIES:		
Proceeds from issuance of debt	125,348	153
Repayment of debt	(100,206)	(292,000)
Net decrease in deposits	(250,820)	(736,147)
Cash dividends paid	--	(1,892)
Proceeds from issuance of common stock	2,370	2,257
Repurchase of common stock	--	(32,951)
Net cash used in financing activities	(223,308)	(1,060,580)
Net increase (decrease) in cash and cash equivalents	(193,641)	414,222
Cash and cash equivalents at beginning of period	580,232	381,639
Cash and cash equivalents at end of period	$ 386,591	$ 795,861
SUPPLEMENTAL DISCLOSURES AND CASH FLOW INFORMATION:		
Cash paid (received) during the period for:		
Interest	$ 36,280	$ 61,345
Income taxes	(31,846)	(16,488)

See accompanying Notes to 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." We are an information-based direct marketer of consumer lending products and enhancement services.

All dollar amounts are presented as pre-tax amounts unless otherwise noted. We have eliminated all significant intercompany balances and transactions in consolidation. In the second quarter of 2003, certain subsidiaries were designated as guarantors which had previously been classified as non-guarantors. The supplemental consolidating financial statements have been reclassified for all periods presented.

INTERIM FINANCIAL STATEMENTS

We have prepared the unaudited interim consolidated financial statements and related unaudited financial information in the footnotes in accordance with accounting principles generally accepted in the United States of America ("GAAP")and the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial statements. These interim financial statements reflect all adjustments consisting of normal recurring accruals which, in the opinion of management, are necessary to present fairly our consolidated financial position and the results of our operations and our cash flows for the interim periods. You should read these consolidated financial statements in conjunction with the financial statements and the notes thereto contained in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2002, filed concurrently with this Quarterly Report on Form 10-Q/A. All dollar amounts are presented as pre-tax amounts unless otherwise noted. We have eliminated all significant intercompany balances and transactions in consolidation. 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, payment rates, net interest spreads, liquidity and the ability to finance future receivables activity, and overall economic conditions. As a result, the actual losses in our loan portfolio and the fair value of our retained interests as of June 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.

NOTE 2 - RESTATEMENTS

The consolidated statements of income and cash flows as presented for the three and six-month periods ended June 30, 2003 and 2002 and the consolidated balance sheets as of June 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 a conduit was not in accordance with GAAP. Historically, these costs had been capitalized and amortized over the estimated life of the new debt securities. These costs are now allocated and recognized over the initial and reinvestment periods of the respective debt securities or Metris Master Trust financing unless the transaction results in a loss, in which case the costs are expensed as incurred. All periods presented have been restated to reflect the revised policy. This restatement impacts "Other assets" and "Securitization income."

- The Company's policy for recognizing expenses related to credit card solicitation costs was not in accordance with GAAP. Historically, the Company had capitalized and expensed these costs over the estimated period over which the new credit card accounts were established, approximately three months. These costs are now expensed as incurred. All periods presented have been restated to reflect the revised policy. This restatement impacts "Other assets" and "Credit card account and other product solicitation and marketing expenses."

- The Company corrected its accounting for interest rate caps purchased in May of 2002 and forward to comply with SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. These costs had been deferred and amortized over the estimated life of the new debt securities. These instruments are now recorded at fair value. Periods from May 2002 forward have been restated to reflect this correction. This restatement impacts "Retained interests in loans securitized," "Other assets" and "Securitization income."

- The Company historically recognized revenue in the month following completion of the cancellation period, generally one month. Cash flows related to debt waiver are now included in the valuation of the interest-only strip receivable. All periods presented have been restated to reflect the revised policy. This restatement impacts "Retained interests in loans securitized," "Deferred revenue," "Enhancement services revenue," and "Securitization income."

- 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 June 30, 2002 income statement to reflect this transfer occurring during the fourth quarter of 2001. This restatement impacts "Allowance for loan losses," "Retained interests in loans securitized," "Provision for loan losses" and "Securitization income."

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

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

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

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

- In prior periods we classified spread accounts receivable in "Other receivables due from credit card securitizations, net." For all periods presented, we have reclassified our spread accounts receivable from "Other receivables due from credit card securitizations, net" to "Retained interests in loans securitized."

- In prior periods, we classified servicing income in "Net securitization and credit card servicing income." For all periods presented, we have reclassified these amounts to "Servicing income."

- In prior periods, income from our debt waiver product sold to customers of Direct Merchants Bank with receivables held by Direct Merchants Bank was included in "Enhancement services revenue." For all periods presented we have reclassified this income to "Credit card fees, interchange and other credit card income."

- We classified the liquidity reserve deposit established in March 2003 and other restricted cash deposits maintained at Direct Merchants Bank as "Short-term investments." We have reclassified these items to "Liquidity reserve deposit" for all periods presented.

- Revenue related to our membership club and warranty business for current and prior periods is classified as "Enhancement services revenue." Claims expense related to this business has been reclassified as "Other" expenses for all periods presented.

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

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

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

	JUNE 30,2003		
	AS PREVIOUSLY REPORTED	AS RESTATED	
BALANCE SHEETS:			
ASSETS:			
Short-term investments	$ 346,963	$ 266,373	$
Liquidity reserve deposit	--	80,590	
Retained interests in loans securitized	1,623,652	--	
Less: Valuation allowance	858,605	--	
Net retained interests in loans securitized	765,047	852,215	
Other receivables due from credit card securitizations, net	281,233	92,611	
Other assets	167,783	207,397	
LIABILITIES:			
Deferred income	$ 119,807	$ 106,134	$
Accrued expenses and other liabilities	92,173	115,274	
STOCKHOLDERS' EQUITY			
Retained earnings	$ 398,414	$ 327,146	$

THREE-MONTHS ENDED

	JUNE 30,2003 AS PREVIOUSLY REPORTED	JUNE 30,2003 AS RESTATED
STATEMENTS OF INCOME:		
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	19,307
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)

	SIX-MONTHS ENDED JUNE 30,2003		SIX-MONTHS END JUNE 30,2002	
	AS PREVIOUSLY REPORTED	AS RESTATED	AS PREVIOUSLY REPORTED	AS
STATEMENTS OF INCOME:				
Provision for loan losses	$ 74,819	$ 74,819	$ 202,477	$
Net interest expense after provision for loan losses	(49,283)	(49,283)	(102,960)	
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	--	228,642	
Credit card fees, interchange and other credit card income	41,903	49,779	93,759	
Enhancement services revenue	178,638	83,199	190,645	
Other operating expenses:				
Credit card account and other product solicitation and marketing expenses	64,192	65,720	96,745	

Enhancement services claims expense	21,109	--	27,124
Credit protection claims expense	--	19,952	--
Other	38,505	39,659	42,622
(Loss) Income Before Income Taxes	(61,330)	(165,040)	26,174
Income tax (benefit) expense	(20,668)	(57,462)	10,208
Net (loss) income	(40,662)	(107,578)	15,966
Loss per share	(1.05)	(2.22)	(0.04)
Diluted loss per share	(1.05)	(2.22)	(0.04)

	SIX-MONTHS ENDED JUNE 30,2003	
	AS PREVIOUSLY REPORTED	AS RESTATED
STATEMENTS OF CASH FLOWS:		
Net (loss) income	$ (40,662)	$ (107,578)
Depreciation, amortization and accretion	67,518	(81,545)
Provision for loan losses	74,819	74,819
Retained interests valuation (income) Expense	(131,893)	--
Loss (gain) from credit card securitizations	--	123,982
Changes in fair value of retained interests in loans securitized	--	103,897
Market loss on derivative financial instruments	--	8,161
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)	4,473
Deferred income	(39,460)	(37,014)
Spread accounts receivable	--	(201,314)
Other	(29,477)	(67,123)
Net cash (used in) provided by operating activities	(182,978)	(219,184)
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	--	(84,739)
Net cash provided by investing activities	293,235	248,851
Net increase (decrease) in cash and cash equivalents	(113,051)	(193,641)
Cash and cash equivalents at end of period	467,181	386,591

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

Upon securitization, the Company removes the applicable credit card loans from the balance sheet and recognizes the "Retained interests in loans securitized" at their allocated carrying value in accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities-a replacement of FASB Statement No. 125"

("SFAS No. 140"). Credit card receivables are sold to the Metris Master Trust at the inception of a securitization series. We also sell credit card receivables to the Metris Master Trust 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 (LOSS) PER SHARE

The earnings per share calculation for the three- and six-month periods ended June 30, 2003 and 2002 excludes the assumed conversion of the convertible preferred stock and the outstanding stock options, as they are anti-dilutive.

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NOTE 4 - STOCK-BASED COMPENSATION PLANS

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

	THREE MONTHS ENDED JUNE 30,		SIX MO J
	2003	2002	2003
Net loss, as restated	$ (24,748)	$ (50,122)	$ (107,57
Deduct: Annual stock-based employee compensation expense (benefit)determined based on the fair value for all awards, net of related tax effects	3,003	8,631	(4,89
Pro forma net (loss) income	$ (21,745)	$ (41,491)	$ (102,68
Loss per share:			
Basic-as restated	(0.60)	(0.97)	(2.2
Basic-pro forma	(0.66)	(1.11)	(2.1
Diluted-as restated	(0.60)	(0.97)	(2.2

Diluted-pro forma	(0.66)	(1.11)	(2.1
Weighted-average assumptions in option valuation:			
Risk-free interest rates	1.5%	3.7%	1.
Dividend yields	--	1.6%	-
Stock volatility factor	124.2%	92.9%	110.
Expected life of options (in years)	2.7	6.0	4.

The above pro forma amounts may not be representative of the effects on reported net income for future periods.

NOTE 5 - ACCOUNTING CHANGES

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

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. The Interpretation also requires disclosures about variable interest entities that the company is not required to consolidate, but in which it has a significant variable interest. The consolidation requirements of Interpretation No. 46 apply immediately to variable interest entities created after January 31, 2003, and apply to existing variable interest entities in the first fiscal year or interim period beginning after June 15, 2003. Interpretation No. 46 provides a specific exemption for entities qualifying as Qualified Special Purpose Entities as described in SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities-a replacement of FASB Statement No. 125." All of our non-consolidated entities are Qualified Special Purpose Entities under the definition in SFAS No. 140. We do not expect the adoption of 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 June 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 June 30, 2003. We do not expect the adoption of SFAS No. 149 to 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 does not have a material impact on our financial statements at this time.

NOTE 6 - LIQUIDITY RESERVE DEPOSIT

Direct Merchants Bank has established restricted deposits with third-party depository banks for the purpose of supporting Direct Merchants Bank's funding needs and to satisfy banking regulators' requirements under the Operating Agreement, dated March 18, 2003, among Direct Merchants Bank, MCI and the Office of the Comptroller of the Currency. These deposits are invested in short term liquid investments. As of June 30, 2003, the balance of these deposits was $80.6 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 JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2003	2002	2003	2002
Balance at beginning of period	$ 125,357	$ 416,914	$ 90,315	$ 460,15
Allowance related to assets transferred to the Metris Trust	(2,526)	(147,137)	(3,981)	(168,58
Provision for loan losses	30,033	90,601	74,819	152,47
Principal receivables charged-off	(44,789)	(91,595)	(53,470)	(180,48
Recoveries	1,087	6,496	1,479	11,70
Net principal receivables charged off	(43,702)	(85,099)	(51,991)	(168,77
Balance at end of period	$ 109,162	$ 275,279	$ 109,162	$ 275,27

Credit card loans greater than 30 days contractually past due for the periods ended June 30, 2003, December 31, 2002 and June 30, 2002 were $48.3 million, $7.9 and $148.9 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 June 30, 2003 and December 31, 2002.

	JUNE 30, 2003	DEC
Contractual retained interests	$ 620,943	$
Excess transferor's interests	54,850	
Interest-only strip receivable	766	
Spread accounts receivable	175,656	
Retained interests in loans securitized	$ 852,215	$

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

	JUNE 30, 2003
Monthly payment rate	6.7%
Gross yield (1)	25.6%
Annual interest expense and servicing fees	3.8%
Annual gross principal default rate	22.6%
Discount rate:	
Contractual retained interests	16.0%
Excess transferor's interests	16.0%
Interest-only strip receivable	30.0%
Spread accounts receivable (2)	15.0%

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

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

At June 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	
	10% ADVERSE CHANGE	20
Annual discount rate	$ 22.2	
Monthly payment rate	184.0	
Gross yield	166.7	
Annual interest expense and servicing fees	28.1	
Annual gross principal default rate	139.5	

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

NOTE 9 - SECURITIZATION INCOME

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

	THREE-MONTHS ENDED JUNE 30,		SIX-
	2003	2002	2003
Loss on new securitization of receivables to the Metris Master Trust	$ (12,244)	$ (45,509)	$ (32,19
(Loss) gain on replenishment of receivables to the Metris Master Trust	(45,529)	63,900	(91,78
Discount accretion	78,812	73,698	154,48
Change in fair value	(20,289)	(134,333)	(103,89
Interest-only revenue	32,243	96,926	90,67
Transaction and other costs	(15,286)	(11,936)	(37,54
Securitization (expense) income	$ 17,707	$ 42,746	$ (20,26

NOTE 10 - INCOME TAX BENEFIT

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

THREE-MONTHS ENDED JUNE 30,		SIX
2003	2002	2003

Current:			
Federal	$ (34,699)	$ 34,373	$ (36,
State	(483)	1,191	
	(35,182)	35,564	(36,
Deferred:			
Federal	21,731	(63,165)	(20,
State	600	(2,439)	(
	22,331	(65,604)	(20,
Income tax benefit	$ (12,851)	$ (30,040)	$ (57,

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

	THREE-MONTHS ENDED JUNE 30,		SIX-MONTHS E JUNE 30
	2003	2002	2003
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	(0.2)	1.0	0.3
Other, net	(0.6)	1.5	(0.5)
Effective income tax rate	34.2%	37.5%	34.8%

Our deferred tax assets and liabilities are as follows:

	JUNE 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	$183,846	$17
Deferred revenues	44,626	5
Other	72,795	6
Total deferred tax assets	301,267	29
Deferred income tax liabilities resulting from future taxable and deductible temporary differences:		
Accrued interest on credit card loans	207,130	20
Deferred marketing costs	24,864	3
Other	27,735	3
Total deferred tax liabilities	259,729	27

Net deferred tax assets	$ 41,538	$ 2

In addition to the tax effects of the pre-tax restatement amounts, the restated presentation also reflects revised probable amounts of future taxable and deductible temporary differences, resulting in a reclassification of certain deferred income taxes to current income taxes. The effects of the reclass for the year ended December 31, 2002 and six-months ended June 30, 2003 amounted to an addition to deferred income taxes of $16.5 million. Such reclasses did not result in any adjustment to net income.

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

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

NOTE 11 - SEGMENTS

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

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

On July 29, 2003, CPP Holdings Limited, a privately owned provider of assistance products and services throughout Europe, and CPP US Operations Group (collectively with CPP Holding Limited "CPP") purchased the membership and warranty products and operations of the Company's enhancement services segment. Further details are described in Footnote 8 "Subsequent Events." The Company will retain the credit protection and insurance business, and CPP will become the Company's preferred provider of membership and warranty products.

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

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

The enhancement services operating segment has paid fees to our consumer lending products segment for successful marketing efforts to cardholders at a rate similar to those paid to other third parties. The enhancement services segment reports interest income and our consumer lending

products segment reports interest expense at our weighted-average borrowing rate for the excess cash flow generated by the enhancement services segment and used by the consumer lending products segment to fund the growth of cardholder balances.

	THREE MONTHS ENDED JUNE 30, 2003			
	CONSUMER LENDING PRODUCTS	ENHANCEMENT SERVICES	SECURITIZATION ADJUSTMENTS (a)	OTH ADJUSTM
Interest income	$ 451,176	$ 34	$ (419,744)	$
Interest (expense) income	(60,198)	--	41,448	
Net interest income	390,978	34	(378,296)	
Other operating income	87,074	84,954	(45,836)	
Total revenue	478,052	84,988	(424,132)	
Income before income taxes	8,988 (c)	58,703 (c)	--	
Total assets	$ 9,467,542	$ 50,431	$ (7,860,000)	$

	THREE MONTHS ENDED JUNE 30, 2002			
	CONSUMER LENDING	ENHANCEMENT	SECURITIZATION	OTHER

	PRODUCTS	SERVICES	ADJUSTMENTS(a)	ADJUSTMENTS(b)
Interest income	$ 509,821	$ 58	$ (441,029)	$ (58)
Interest (expense) income	(80,946)	--	53,933	58
Net interest Income	428,875	58	(387,096)	--
Other operating income	118,731	95,649	(46,824)	--
Total revenue	547,606	95,707	(433,920)	--
Income before income taxes	(3,261)(c)	57,556(c)	--	(134,457)
Total assets	$ 10,947,147	$ 104,240	$ (8,936,263)	$ 1,007,791(d)

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SIX MONTHS ENDED JUNE 30, 2003

	CONSUMER LENDING PRODUCTS	ENHANCEMENT SERVICES	SECURITIZATION ADJUSTMENTS(a)	
Interest income	$ 936,435	$ 63	$ (872,842)	$
Interest (expense) income	(124,209)	--	86,089	
Net interest Income	812,226	63	(786,753)	
Other operating income	175,216	178,638	(147,991)	
Total revenue	987,442	178,701	(934,744)	
Income before Income taxes	(38,358) (c)	106,103 (c)	--	
Total assets	$ 9,467,542	$ 50,431	$ (7,860,000)	$

SIX MONTHS ENDED JUNE 30, 2002

	CONSUMER LENDING PRODUCTS	ENHANCEMENT SERVICES	SECURITIZATION ADJUSTMENTS(a)	OTHER ADJUSTMENTS(b)	CONS
Interest income	$ 1,036,499	$ 2,386	$ (877,863)	$ (2,386)	$
Interest (expense) Income	(169,351)	--	107,845	2,386	
Net interest Income	867,148	2,386	(770,018)	--	

Other operating income	248,702	190,645	(14,373)	--	
Total revenue	1,115,850	193,031	(784,391)	--	
Income before Income taxes	123,440 (c)	123,389 (c)	--	(254,860)	
Total assets	$ 10,947,147	$ 104,240	$ (8,936,263)	$ 1,007,791 (d)	$ 3

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

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

(c) Income before income taxes includes intercompany commissions paid by the enhancement services segment to the consumer lending products segment for successful marketing efforts to cardholders of $3.1 million for the three months ended June 30, 2003 and $3.0 million for the three months ended June 30, 2002, $6.1 million for the six months ended June 30, 2003 and $6.3 million for the six months ended June 30, 2002.

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

NOTE 12 - SUBSEQUENT EVENTS

On July 29, 2003, we announced the sale of the membership and warranty business of the Enhancement Services segment for proceeds of approximately $45.0 million. We will record a gain related to the sale in the third quarter of 2003.

In July of 2003, the Office of the Comptroller of the Currency ("OCC") requested and Direct Merchants Bank agreed to eliminate federally insured deposits at the Bank, or the risk thereof to the Federal Deposit Insurance Corporation ("FDIC"), by September 30, 2003. 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, however, there can be no assurance that we will be successful. These options may include additional conduit financing or the sale of credit card receivables to third parties.

NOTE 13 - SUPPLEMENTAL CONSOLIDATING FINANCIAL STATEMENTS

We have various indirect subsidiaries that do not guarantee Company debt. We have prepared condensed consolidating financial statements of the Company, the Guarantor subsidiaries and the non-guarantor subsidiaries for purposes of complying with SEC reporting requirements. Separate financial statements of the guaranteeing subsidiaries and non-guaranteeing subsidiaries are not presented because we have determined that the subsidiaries' financial information would not be material to investors. In the second quarter of 2003, certain subsidiaries were designated as guarantors, which had previously been classified as non-guarantors. The supplemental consolidating financial statements have been reclassified for all periods presented.

METRIS COMPANIES INC.
SUPPLEMENTAL CONSOLIDATING BALANCE SHEETS
JUNE 30, 2003
(DOLLARS IN THOUSANDS)
UNAUDITED (AS RESTATED)

	METRIS COMPANIES INC.	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELI
ASSETS:				
Cash and cash equivalents	$ (49)	$ 1,234	$ 385,406	$
Retained interests in loans securitized	24,292	--	827,923	
Liquidity reserve deposit	--	--	80,590	
Net credit card loans	8,393	--	515,358	
Property and equipment, net	--	50,997	513	
Purchased portfolio premium, net	107	--	51,477	
Other receivables due from credit card securitizations, net	7	--	92,604	
Other assets	41,114	57,694	132,237	
Investment in subsidiaries	1,348,741	918,107	--	(
TOTAL ASSETS	$ 1,422,605	$ 1,028,032	$ 2,086,108	$(
LIABILITIES:				
Deposits	$ (1,000)	$ --	$ 642,934	$
Debt	417,023	9,214	--	
Accounts payable	97	22,026	32,230	
Deferred income	--	10,003	98,206	
Accrued expenses and other liabilities	56,811	(361,952)	394,631	
TOTAL LIABILITIES	472,931	(320,709)	1,168,001	
TOTAL STOCKHOLDERS' EQUITY	949,674	1,348,741	918,107	(
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,422,605	$ 1,028,032	$ 2,086,108	$(

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

METRIS COMPANIES	GUARANTOR	NON-GUARANTOR

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

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METRIS COMPANIES INC.
SUPPLEMENTAL CONSOLIDATING STATEMENTS OF INCOME
THREE MONTHS ENDED JUNE 30, 2003
(DOLLARS IN THOUSANDS)
UNAUDITED (AS RESTATED)

	METRIS COMPANIES INC.	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELIMINA
NET INTEREST INCOME (EXPENSE)	$ (8,682)	915	20,483	
Provision for loan losses	540	--	29,759	(
NET INTEREST INCOME (EXPENSE) AFTER PROVISION FOR LOAN LOSSES	(9,222)	915	(9,276)	
OTHER OPERATING INCOME:				
Securitization income	(443)		19,510	(1,
Servicing income on				

securitized / sold receivables	--	--	45,335	
Credit card fees, interchange and other credit card income	1,036	19,004	21,476	(18,
Enhancement services Revenues	--	7,100	34,856	(2,
Intercompany allocations	5,264	73,725	8,247	(87,
	5,857	99,829	129,424	(108,
OTHER OPERATING EXPENSE:				
Credit card account and other product solicitation and marketing expenses	--	18,209	32,733	(18,
Employee compensation	--	41,860	3,861	
Data processing services and communications	5	(19,717)	39,062	(2,
Credit protection claims expense	--	(97)	7,743	
Occupancy and equipment	--	--	8,924	
Purchased portfolio premium amortization	10	--	7,621	(1,
MasterCard/Visa assessment and fees	--	--	2,231	
Credit card fraud losses	10	--	1,059	
Asset impairments, lease write-offs and severance	--	--	6,011	
Other	5,258	25,342	(11,286)	
Intercompany allocations	24	27,420	59,792	(87,
	5,307	93,017	157,751	(109,
(LOSS) INCOME BEFORE INCOME TAXES AND EQUITY IN LOSS OF SUBSIDIARIES	(8,672)	7,727	(37,603)	
Income tax (benefit) Expense	(2,846)	936	(11,267)	
Equity in (loss) income of subsidiaries	(18,922)	(26,336)	--	45,
NET LOSS	$ (24,748)	$ (19,545)	$ (26,336)	$ 45,

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METRIS COMPANIES INC.
SUPPLEMENTAL CONSOLIDATING STATEMENTS OF INCOME
THREE MONTHS ENDED JUNE 30, 2002
(DOLLARS IN THOUSANDS)
UNAUDITED (AS RESTATED)

	METRIS COMPANIES INC.	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES
NET INTEREST (EXPENSE) INCOME	$ (3,018)	$ (60)	$ 44,915
Provision for loan losses	(798)	--	91,399

NET INTEREST EXPENSE AFTER PROVISION FOR LOAN LOSSES	(2,220)	(60)	(46,484
OTHER OPERATING INCOME:			
Securitization income	(1,777)	--	44,523
Servicing income on securitized / sold receivables	--	--	47,528
Credit card fees, interchange and other credit card income	189	5,796	39,253
Enhancement services revenues	--	2,663	34,081
Intercompany allocations	41	72,193	15,127
	(1,547)	80,652	180,512
OTHER OPERATING EXPENSE:			
Credit card account and other product solicitation and marketing expenses	--	13,974	31,704
Employee compensation	(1,505)	45,753	10,117
Data processing services and communications	13	(23,809)	43,018
Credit protection claims expense	--	--	13,632
Occupancy and equipment	--	--	12,291
Purchased portfolio premium amortization	--	--	8,568
MasterCard/Visa assessment and fees	--	--	3,583
Credit card fraud losses	135	--	2,818
Asset impairments, lease write-offs and severance	--	--	9,523
Other	(154)	48,690	(13,862)
Intercompany allocations	555	23,510	63,296
	(956)	108,118	184,688
(LOSS) BEFORE INCOME TAXES AND EQUITY IN LOSS OF SUBSIDIARIES	(2,811)	(27,526)	(50,660
Income tax (benefit) expense	(747)	(13,066)	(16,446
Equity in loss of subsidiaries	(48,058)	(34,214)	--
NET LOSS	$ (50,122)	$ (48,674)	$ (34,214

METRIS COMPANIES INC.
SUPPLEMENTAL CONSOLIDATING STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2003
(DOLLARS IN THOUSANDS)
UNAUDITED (AS RESTATED)

	METRIS COMPANIES INC.	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELIMIN
NET INTEREST INCOME (EXPENSE)	(17,388)	98	42,826	
Provision for loan losses	1,387	--	73,534	
NET INTEREST INCOME (EXPENSE) AFTER PROVISION FOR LOAN LOSSES	(18,775)	98	(30,708)	
OTHER OPERATING INCOME:				
Securitization income	(10,454)	--	(7,770)	(
Servicing income on securitized / sold receivables	--	--	93,148	
Credit card fees, interchange and other credit card income	1,091	31,547	47,926	(3
Enhancement services revenues	--	16,278	72,939	(
Intercompany allocations	5,340	139,332	18,237	(16
	(4,023)	187,157	224,480	(20
OTHER OPERATING EXPENSE:				
Credit card account and other product solicitation and marketing expenses	--	30,430	66,489	(3
Employee compensation	--	93,071	6,031	
Data processing services and communications	4	(41,704)	83,713	(
Credit protection claims expense	--	--	19,952	
Occupancy and equipment	--	--	18,537	
Purchased portfolio premium amortization	21	--	15,318	(
MasterCard/Visa assessment and fees	--	--	4,646	
Credit card fraud losses	11	--	1,998	
Asset impairments, lease write-offs and severance	--	--	22,788	
Other	5,342	64,454	(30,130)	
Intercompany allocations	35	53,047	109,827	(16
	5,413	199,298	319,169	(20
LOSS BEFORE INCOME TAXES AND EQUITY IN LOSS OF SUBSIDIARIES	(28,211)	(12,043)	(125,397)	
Income tax benefit	(4,285)	(7,184)	(46,202)	
Equity in loss of subsidiaries	(83,652)	(79,195)	--	16
NET LOSS	$(107,578)	$ (84,054)	$ (79,195)	$ 16

METRIS COMPANIES INC.
SUPPLEMENTAL CONSOLIDATING STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2002
(DOLLARS IN THOUSANDS)
UNAUDITED (AS RESTATED)

	METRIS COMPANIES INC.	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELIMIN
NET INTEREST (EXPENSE) INCOME	$ (8,498)	$ (1,456)	$ 109,470	$
Provision for loan losses	(732)	--	153,209	
NET INTEREST EXPENSE AFTER PROVISION FOR LOAN LOSSES	(7,766)	(1,456)	(43,739)	
OTHER OPERATING INCOME:				
Securitization income	(1,742)	--	146,934	
Servicing income on securitized / sold receivables	--	--	92,567	
Credit card fees, interchange and other credit card income	452	13,719	113,160	(
Enhancement services revenues	--	18,825	52,193	
Intercompany allocations	71	125,267	24,787	(1
	(1,219)	157,811	429,641	(1
OTHER OPERATING EXPENSE:				
Credit card account and other product solicitation and marketing expenses	--	16,634	76,297	
Employee compensation	(1,101)	94,921	17,093	
Data processing services and communications	36	(43,371)	88,230	
Credit protection claims expense	--	--	22,811	
Occupancy and equipment	--	--	25,088	
Purchased portfolio premium amortization	--	--	17,930	
MasterCard/Visa assessment and fees	--	--	7,417	
Credit card fraud losses	127	--	5,054	
Asset impairments, lease write-offs and severance	--	--	9,523	
Other	(110)	75,054	(19,821)	
Intercompany allocations	46	41,588	108,491	(1
	(1,002)	184,826	358,113	(1
(LOSS) INCOME BEFORE INCOME TAXES AND EQUITY IN (LOSS) INCOME OF SUBSIDIARIES	(7,983)	(28,471)	27,789	
Income tax (benefit) expense	(2,736)	(14,497)	14,825	
Equity in income of subsidiaries	(595)	12,964	--	(
NET INCOME	$ (5,842)	$ (1,010)	$ 12,964	$ (