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METRIS COMPANIES INC  
Form 10-K  
March 28, 2001

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
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FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2000 001-12351  
Commission file number

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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, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, \$.01 Par Value

Securities registered pursuant to section 12(g) of the Act: None

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 and (2) has been subject to such filing requirements for the past 90 days. Yes X No  
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

As of March 21, 2001, 62,494,640 shares of the Registrant's Common Stock were outstanding and the aggregate market value of common stock held by non-affiliates of the Registrant on that date was approximately \$1,287,389,584 based upon the closing price on the New York Stock Exchange on March 21, 2001.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the Annual Report to Shareholders for the year ended December 31, 2000, are incorporated by reference in Parts II and IV.

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Certain portions of the Proxy Statement for the Annual Meeting of Shareholders of Metris Companies Inc. to be held on May 9, 2001, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2000, are incorporated by reference in Part III.

### TABLE OF CONTENTS

#### PART I

	Page
Item 1. Business.....	2
Item 2. Properties.....	28
Item 3. Legal Proceedings.....	29
Item 4. Submission of Matters to a Vote of Security Holders.....	29

#### PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.....	29
Item 6. Selected Financial Data.....	29
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	29
Item 7A. Quantitative and Qualitative Disclosures About Market Risk.....	30
Item 8. Financial Statements and Supplementary Data.....	31
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	71

#### PART III

Item 10. Directors and Executive Officers of the Registrant.....	71
Item 11. Executive Compensation.....	71
Item 12. Security Ownership of Certain Beneficial Owners and Management.....	71
Item 13. Certain Relationships and Related Transactions.....	71

#### PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.....	72
Signatures.....	73
Exhibit Index.....	75

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## PART I

### Item 1. Business

Metris Companies Inc. ("MCI") and its subsidiaries which may be referred to as "we," "us," "our," and the "Company," is an information-based direct marketer and provider of consumer lending products and enhancement services, primarily to moderate-income consumers. Our consumer lending products are primarily unsecured and secured credit cards issued by our subsidiary, Direct Merchants Credit Card Bank, National Association ("Direct Merchants Bank"). Our customers and prospects include individuals for whom credit bureau information is available ("external prospects") and persons identified through other third-party sources including customer lists and databases. We market our enhancement services, including debt waiver programs, membership clubs, extended service plans, and third-party insurance, to our credit card customers, customers of third parties and the broad market.

MCI was incorporated in Delaware on August 20, 1996, and completed an initial public offering in October 1996. Our principal subsidiaries are Direct Merchants Bank, Metris Direct, Inc and Metris Receivables, Inc. During the third quarter of 1998, Fingerhut Companies, Inc., which held approximately 83% of our common stock, distributed its remaining interest in us to their shareholders in a tax-free spin off.

#### Business Segments

We measure performance and operate in two business segments:

- \* Consumer Lending Products, which are primarily unsecured and secured credit cards issued by Direct Merchants Bank; and
- \* Enhancement Services, which include debt waiver programs, membership clubs, extended service plans and third-party insurance offered to our credit card customers, customers of third parties and the broad market.

We receive income from our consumer lending products through:

- \* interest charges and other finance charges assessed on outstanding credit card loans;
- \* credit card fees (including, for example, annual membership, cash advances, overlimit fees, and past due fees); and
- \* interchange fees.

The primary expenses of this business are:

- \* the costs of funding the loans;
- \* provisions for loan losses and operating expenses including employee compensation, account solicitation and marketing expenses; and
- \* data processing and servicing expenses.

2

Profitability is affected by:

- \* response and approval rates to solicitation efforts;

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- \* loan growth;
- \* interest spreads on loans;
- \* credit card usage;
- \* credit quality (delinquencies and charge-offs);
- \* card cancellations; and
- \* fraud losses.

In addition to sales to third parties, the enhancement services business derives benefits from our consumer lending products business because we cross-sell these services to our credit cardholders. Nonetheless, our two business segments are different with respect to the factors that affect profitability, including how income is generated and how expenses are incurred. These differences require us to manage our operations separately.

We receive revenue from our enhancement services through fees for those services.

Expenses include costs of:

- \* solicitation;
- \* underwriting and claims servicing expenses;
- \* fees paid to third parties; and
- \* other operating expenses.

The primary factors that affect profitability for this business are:

- \* response rates to solicitation efforts;
- \* returns or cancel rates;
- \* renewal rates; and
- \* claims rates.

Our consumer lending business primarily targets moderate-income consumers whom we believe have historically been overlooked by other credit card companies. We target and evaluate prospective customers in this market by using our proprietary scoring techniques, together with information from credit bureaus and other customer lists and databases, to determine a potential customer's creditworthiness. We also use sophisticated modeling techniques to evaluate the expected risk, responsiveness, and profitability of each prospective customer and to offer and price the products and services we believe to be appropriate for each customer. (See more detailed discussion following under "Business Lines.")

3

### Strategy

The principal components of our strategy are the following:

Identify and solicit additional external prospects for credit cards. We intend to continue adding moderate-income consumers through the use of our own

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internally developed risk models. We have developed our own proprietary credit risk modeling system. By incorporating individual credit information from the major credit bureaus into this proprietary modeling system and eliminating those individuals contained in the Fingerhut suppression and bad debt file, we expect to generate additional customer relationships from external prospects.

Use risk-based pricing. We determine the specific pricing for an individual's credit card offer through the prospective customer's risk profile and expected responsiveness prior to solicitation, a practice known as "risk-based pricing." We believe the use of risk-based pricing allows us to maximize the profitability of a customer relationship.

Pursue acquisitions of credit card portfolios and other businesses. We expect to continue to pursue acquisitions of credit card portfolios and/or other businesses whose customers fit our product and target market profile or which otherwise strategically fit with our business.

Increase the number of third-party customers using our products and services. We will seek to access additional customers for our products and services by establishing relationships with third parties. Our strategy is to continue to use our proprietary risk, response and profitability models to solicit strategic partners' customers for credit cards, and to focus our cross-selling activities in order to increase the volume of enhancement services products purchased by these customers.

Sell multiple products and services to each customer. We intend to use interactions with our customers to sell additional products, thereby leveraging our account acquisition costs and infrastructure. Currently, we focus our efforts on selling enhancement services to our credit card customers and customers of third parties.

Diversify product offerings to our customers. We intend to segment markets to expand the success of our existing consumer lending products and enhancement services. To do so, we plan to analyze the data in our proprietary database and the databases of others to determine the needs of our target markets, then develop, test and effectively market these new products to our target markets.

### Spin Off

During the third quarter of 1998, Fingerhut, which held 83% of our common stock, distributed its remaining interest in us to their shareholders.

On November 13, 1998, we entered into agreements with affiliates of the Thomas H. Lee Company to invest \$300 million in the Company. We obtained an agreement from Fingerhut to waive its right to terminate the agreements if a change of control occurred as a result of the conversion.

### Business Lines

We operate through two businesses: consumer lending products and enhancement services.

#### Consumer Lending Products

Products. Our consumer lending products are primarily unsecured and secured credit cards, including the Direct Merchants Bank MasterCard(R) and Visa(R). We offer co-branded credit cards and may also offer other consumer lending products either directly or through alliances with other companies. At December 31, 2000,

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we had approximately 4.5 million credit card accounts with approximately \$9.3 billion in managed credit card loans. According to the Nilson Report, at December 31, 2000, we were the 9th largest MasterCard issuer in the United States based on the number of cards issued, and the 11th largest bankcard issuer based on managed credit card loan balances.

Prospects. Our primary sources of prospects to solicit for credit card offers are obtained from credit bureau queries and individuals in third-party customer lists and databases. Currently, our most significant source is the leads obtained from credit bureau inquiries. A significant third-party customer source in the past has been a database maintained by Fingerhut, a wholly owned subsidiary of Federated Department Stores, Inc. Fingerhut is a database marketing firm that sells a broad range of products and services via catalogs, telemarketing, television, the Internet and other media. We have an agreement that grants exclusive access to use Fingerhut's database to market our financial service products through October 31, 2001. At December 31, 2000, Fingerhut customers represented approximately 30% of our accounts and managed loans. However, the Fingerhut database currently generates less than 5% of new customers booked.

Credit Scoring. We use internally and externally developed proprietary models to enhance our evaluation of prospects. These models help segment these prospects into narrower ranges within each risk score provided by Fair, Isaac and Co ("FICO"), allowing us to better evaluate individual credit risk and to tailor our risk-based pricing accordingly. We also use this segmentation along with the Fingerhut bad debt and suppression file to exclude certain individuals from our marketing solicitations.

We generate external prospects from lists obtained from the major credit bureaus based on criteria established by us as well as from other third-party sources. We use proprietary models and additional analysis in conjunction with the files obtained from the credit bureaus to further segment prospects based upon their likelihood of delinquency.

We believe our methods are effective in further segmenting and evaluating risk within risk score bands. We have and continue to use the results of our analysis of prospects to adjust the proprietary models to determine the pricing for various segments and to exclude certain segments from subsequent direct marketing efforts. While we believe that the proprietary models and additional analysis are valuable tools in analyzing relative risks, it is not possible to accurately predict which consumers will default or the overall level of defaults.

We have used the Fingerhut database to identify potential customers. We have effectively applied our experience gained from Fingerhut customers in developing our proprietary models and additional analysis to develop credit scores for our proprietary prospect database. This allows us to better evaluate credit risk and to tailor our risk-based pricing accordingly.

We believe that both the proprietary models and our internal credit score give us a competitive advantage in evaluating the credit risk of moderate-income consumers. Therefore, we have been willing to solicit certain consumers who have lower FICO scores if they also have an appropriate internal score. After every marketing campaign, we monitor the performance of the proprietary models and continually re-evaluate the effectiveness of these models in segmenting credit risk, resulting in further refinements to our selection criteria for prospects. Over time, we believe that we will capture additional credit information on the behavioral characteristics of prospects which will allow us to further increase the effectiveness of our proprietary models.

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Solicitation. Prospects for solicitation include both external prospects and customers of third parties. Prospects are contacted on a nationwide basis primarily through pre-screened direct mail and telephone solicitations. We receive responses to our solicitations, perform fraud screening, verify name and address changes, and obtain any information which may be missing from the application. Applications are sent to third-party data entry providers, which key the application information and process the applications based on the criteria provided by us. We then make the credit decisions and approve, deny or begin the exception processing. We process exceptions for, among other things, derogatory credit bureau information and fraud warnings. Exception applications are processed manually by credit analysts based on policies approved by our credit committee.

Pricing. Through risk-based pricing, we price credit card offers based upon a prospect's risk profile prior to solicitation or upon receipt of an application. We evaluate a prospect to determine credit needs, credit risk, and existing credit availability and then develop a customized offer that includes the most appropriate product, brand, pricing and credit line. We currently offer over 100 different pricing structures on our credit card products. After credit card accounts are opened, we periodically monitor customers' internal and external credit performance and recalculate delinquency, profitability, attrition and bankruptcy predictors. As customers evolve through the credit life cycle and are regularly rescored, the lending relationship may evolve to include more or less restrictive pricing and product configurations. We reward our rate rewards customers with consistently lower interest rates for every six months of consecutive on-time payment, and we offer interest rate reduction in an attempt to reduce customer attrition.

6

Age of Portfolio. The following table sets forth, as of December 31, 2000, the number of accounts and the amount of outstanding loans based on the age of the managed accounts. (Accounts in acquired portfolios are presented based on when the account was originated with the previous issuer.)

Age Since Origination -----	Number of Accounts -----	Percentage of Accounts -----	Loans Outstanding ----- (Dollars in thousands)	Percentage of Loans Outstanding -----
0-6 Months .....	754,748	16.9%	\$ 626,709	6.8%
7-12 Months .....	700,055	15.7%	843,396	9.1%
13-18 Months .....	456,801	10.2%	819,667	8.8%
19-24 Months .....	252,058	5.6%	521,530	5.6%
25-36 Months .....	596,358	13.4%	1,672,647	18.0%
37+ Months .....	1,703,962	38.2%	4,789,159	51.7%
	-----	-----	-----	-----
Total .....	4,463,982	100.0%	\$9,273,108	100.0%
	=====	=====	=====	=====

Geographic Distribution. We solicit credit card customers on a national basis and, therefore, maintain a geographically diversified portfolio. The following table shows the distribution of accounts and amount of outstanding loans by state, as of December 31, 2000.

Percentage

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State	Number of Accounts	Percentage of Accounts	Loans Outstanding	of Loans Outstanding
-----	-----	-----	-----	-----
			(Dollars in thousands)	
California .....	607,333	13.6%	\$1,170,856	12.6%
Texas .....	382,037	8.6%	789,888	8.5%
New York .....	373,952	8.4%	755,207	8.1%
Florida .....	325,352	7.3%	690,960	7.5%
Ohio .....	170,282	3.8%	375,759	4.1%
Illinois .....	180,612	4.0%	371,976	4.0%
Pennsylvania .....	142,140	3.2%	303,338	3.3%
Michigan .....	120,718	2.7%	257,569	2.8%
New Jersey .....	131,746	3.0%	254,643	2.7%
Georgia .....	116,016	2.6%	250,599	2.7%
Virginia .....	114,050	2.6%	245,829	2.7%
North Carolina .....	109,858	2.5%	231,943	2.5%
All others (1) .....	1,689,886	37.7%	3,574,541	38.5%
-----	-----	-----	-----	-----
Total .....	4,463,982	100.0%	\$9,273,108	100.0%
	=====	=====	=====	=====

(1) No other state accounts for more than 2.5% of loans outstanding.

Credit Lines. Once we approve an account we use automated screening and credit scoring techniques to establish an initial credit line based on the individual's risk profile. Excluding the portfolios that were purchased from other issuers, our credit lines are below the industry average, due to our risk assessment methods and the higher average risk inherent in our target market. We may elect, at any time and without prior notice to a cardholder, to prevent or restrict further credit card use by the cardholder, usually as a result of poor payment performance or our concern over the creditworthiness of

7

the cardholder. We manage credit lines based on the results of the behavioral scoring analysis, and in accordance with our internally established criteria. These analysis models automatically and regularly assign credit line increases and decreases to individual customers, as well as determine the systematic collection steps to be taken at the various stages of delinquency. We use these models to manage the authorization of each transaction, as well as the collections strategies used for non-delinquent accounts with balances above their assigned credit lines.

The following tables set forth information with respect to credit limit and account balance ranges of our managed loan portfolio, as of December 31, 2000.

Credit Limit Range	Number of Accounts	Percentage of Accounts	Loans Outstanding	Percentage of Loans Outstanding
-----	-----	-----	-----	-----
			(Dollars in thousands)	
\$1,000 or Less .....	742,667	16.6%	\$ 386,865	4.2%
\$1,001-\$2,000 .....	614,746	13.8%	673,919	7.2%
\$2,001-\$3,500 .....	804,028	18.0%	1,323,157	14.3%
\$3,501-\$5,000 .....	731,754	16.4%	1,698,768	18.3%
\$5,001-\$10,000 .....	1,405,708	31.5%	4,636,867	50.0%
Over \$10,000 .....	165,079	3.7%	553,532	6.0%



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Total .....	4,463,982	100.0%	\$9,273,108	100.0%
	=====	=====	=====	=====

Account Balance Range -----	Number of Accounts -----	Percentage of Accounts -----	Loans Outstanding ----- (Dollars in thousands)	Percentage of Loans Outstanding -----
Credit Balance .....	60,809	1.4%	\$ (6,345)	(0.1%)
No Balance .....	854,604	19.2%	--	--
\$1,000 or Less .....	1,232,581	27.6%	571,426	6.2%
\$1,001-\$2,000 .....	631,019	14.1%	978,220	10.5%
\$2,001-\$3,500 .....	673,321	15.1%	1,890,114	20.4%
\$3,501-\$5,000 .....	460,109	10.3%	1,996,404	21.5%
\$5,001-\$10,000 .....	536,680	12.0%	3,612,067	39.0%
Over \$10,000 .....	14,859	0.3%	231,222	2.5%
	-----	-----	-----	-----
Total .....	4,463,982	100.0%	\$ 9,273,108	100.0%
	=====	=====	=====	=====

Servicing, Billing and Payment. We have established a relationship with First Data Resources, Inc. for cardholder processing services. FDR is a subsidiary of First Data Corporation, a provider of information processing and related services including cardholder processing (services for financial institutions which issue credit cards to cardholders), and merchant processing (services for financial institutions which make arrangements with merchants for the acceptance of credit cards as methods of payment). FDR provides the following services for us:

- \* data processing;

8

- \* credit card reissuance;
- \* monthly statements; and
- \* interbank settlement.

Our processing services agreement with FDR expires in 2006. We handle the following functions internally:

- \* applications processing; and
- \* back office support for mail inquiries and fraud management.

In addition, we handle most in-bound customer service telephone calls for our customer base.

We generally assess periodic finance charges on an account if the cardholder has not paid the balance in full from the previous billing cycle. We base these finance charges on the average daily balance outstanding on the account during the monthly billing cycle. FDR, our servicer, applies payments in the following order:

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- \* first to any billed and unpaid fees;
- \* next to billed and unpaid finance charges; and
- \* then to billed and unpaid transactions in the order determined by us.

If we are not paid in full prior to the due date, which is 25 days after the statement cycle date, we impose finance charges on all purchases from the date of the transaction to the statement cycle date. We also impose finance charges on each cash advance from the day we make the advance until the cardholder pays the advance in full. We apply finance charges to the average daily balance. For most cardholders, if they pay the entire balance on the account by the due date, we do not impose a finance charge on purchases.

We assess an annual fee on some credit card accounts. We may waive the annual fee, or a portion thereof, in connection with the solicitation of new accounts depending on the credit terms offered, which we determined based on the prospect's risk profile prior to solicitation, or when we determine a waiver to be appropriate considering the account's overall profitability. In addition to the annual fee, we charge accounts other fees, including:

- \* a late fee with respect to any unpaid monthly balance if we do not receive the required minimum monthly payment by the due date;
- \* a cash advance fee for each cash advance;
- \* a fee with respect to each check submitted by a cardholder in payment of an account, which the cardholder's bank does not honor;
- \* an overlimit charge if, at any time during the billing cycle, the total amount owed exceeds the cardholder's credit line by at least \$30; and
- \* card processing or application fees for some card offers.

9

Each cardholder is subject to an agreement governing the terms and conditions of their account. Pursuant to the agreement, we reserve the right to change or terminate certain terms, conditions, services and features of the account (including periodic finance charges, late fees, returned check charges and any other charges or the minimum payment), subject to the conditions set forth in the account agreement.

FDR sends monthly billing statements to cardholders on our behalf. When we establish an account, we assign a billing cycle to it. Currently, there are 20 billing cycles in each month. Each of these cycles has a separate monthly billing date based on the business day of the calendar month on which the cycle begins. Each month we send a statement to all accounts with an outstanding balance greater than \$1. All cardholders with open accounts must make a minimum monthly payment, generally of the greater of: \$15, 2.5% of the outstanding balance, the finance charge or the balance of the account if the balance is less than \$15. If we do not receive the minimum payment by the due date we consider the account delinquent.

Most merchant transactions by cardholders are authorized online. The remaining transactions generally are low dollar amounts, typically below \$50. All authorizations are handled through FDR's adaptive control and fraud

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detection systems.

Delinquency, Collections and Charge-offs. We consider an account delinquent if we do not receive a payment due within 25 days from the closing date of the statement. We manage the collections work internally. We determine the collection actions to take by using the adaptive control system, which continually monitors all delinquent accounts. We close accounts that become 60 days contractually delinquent, but do not necessarily charge them off. We charge off and take accounts as a loss either:

- \* within 60 days after formal notification of bankruptcy;
- \* at the end of the month during which unsecured accounts become contractually 180 days past due; or
- \* at the end of the month during which secured accounts become contractually 120 days past due.

We immediately reserve for and charge off accounts that we identify as fraud losses no later than 90 days after the last activity. We refer charged-off accounts to our recovery unit for coordination of collection efforts to recover the amounts owed. When appropriate, we place accounts with external collection agencies or attorneys. Periodically, we sell a portion of our charged-off portfolio to third parties.

### Asset Securitizations

Securitization involves packaging and selling both current and future receivable balances of pools of credit card accounts, while retaining the servicing of such receivables. Our securitizations are treated as sales under generally accepted accounting principles. As a result, the securitized receivables are removed from our balance sheet and treated as managed loans.

We primarily securitize receivables by selling the receivables either to our proprietary trust, the Metris Master Trust, or to bank-sponsored single-seller and multi-seller conduits.

10

The Metris Master Trust. The Metris Master Trust was formed in May 1995 pursuant to a pooling and servicing agreement, which was amended on July 30, 1998. Metris Receivables, Inc., one of our subsidiaries, transfers receivables in designated accounts to the trust in exchange for proceeds and an interest in the trust. Metris Receivables, Inc. may then exchange portions of this interest for one or more series of securities which it may then sell publicly or privately to third-party investors. The securities each represent undivided interests in all of the receivables in the trust, and may be split into separate classes which have different terms. The different classes of an individual series are structured to obtain specific credit ratings. As of December 31, 2000, 13 series of securities have been issued by the trust. We currently retain the most subordinated class of securities in each series and sell all the other classes.

Generally, each series involves an initial reinvestment period, referred to as the revolving period, in which principal payments on receivables allocated to such series are returned to Metris Receivables, Inc. and reinvested in new receivables arising in the accounts. After the revolving period ends, principal payments allocated to the series are then used to repay the investors. This period is referred to as the amortization period. Currently, the trust has no series in a controlled amortization period. The scheduled amortization period is set in the agreements governing each series. However, all series set forth

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certain events by which amortization can be accelerated, referred to as early amortization. Usually, this would occur if the portfolio collections less charge-offs for bad debt, financing costs and operational costs drop below a minimum amount. Because new receivables in designated accounts cannot be funded while a series is in amortization, early amortization would accelerate our funding requirements for new receivables in the accounts. We currently do not have any series that are in early amortization.

Each month, each series is allocated its share of finance charge collections which are used to pay investors interest on their securities, to reimburse them for their share of losses due to charge-offs and to pay their share of servicing fees. Amounts remaining may be deposited in cash accounts of the trust as additional protection for future losses. Once each of these obligations is fully met, any remaining finance charge collections, if any, are returned to us.

Bank-Sponsored Conduit Programs. We maintain flexibility in our current securitization program by negotiating with bank-sponsored conduits. These conduits purchase an interest in receivables arising in designated accounts. These transactions also feature a revolving period in which principal payments on receivables allocated to the conduits are returned to us and reinvested in new receivables. These agreements also have early amortization triggers. Finance charge collections are used to pay certain obligations, including servicing fees, interest on the principal amount of the conduits investment in the applicable receivables, and recouping charge-offs. After such allocation, remaining finance charge collections, if any, are returned to us.

Additional information regarding asset securitizations is set forth under the caption "Liquidity, Funding and Capital Resources" on pages 38 to 40 of the 2000 Annual Report and is incorporated herein by reference in Item 7 of this report.

11

### Enhancement Services

We sell or offer enhancement services, including:

- \* debt waiver protection for unemployment, disability and death;
- \* membership programs such as purchase protection, card registration and other club memberships;
- \* extended service plans through a third-party retailer;
- \* third-party insurance, directly to our credit card customers and customers of third parties; and
- \* customized targeted mailing lists for use by unaffiliated companies in their own financial services product solicitation efforts that do not directly compete with ours.

We currently market the following programs:

Account Protection Plus<sup>SM</sup>. Account Protection Plus is a program we have developed that protects customers from interest charges on our credit cards in the event that they become disabled or unemployed. The customer's account is "frozen" for six months, with no payments due or interest accruing during this time. In the event of death, the amount due, up to the credit limit, is waived and the account is closed. Because this is an internally administered program, we are responsible for all of the program's associated costs. We also offer Account Benefit Plan<sup>SM</sup> which forgives the customer's balance due in the event of

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death but offers no protection in the event of disability or unemployment.

Credit Life. Credit Life is a program that we have developed to provide the cardholder various coverage options. Depending on which coverage has been selected, the program will make the minimum payment on the cardholders credit card balance in the event of disability or unemployment for a period of six months, pay off the entire balance in the event of death, and provide a death benefit in the event of accidental death. A third-party insurance company underwrites the policy and then reinsures those policies with ICOM Limited, our captive insurance subsidiary. We market this insurance program to our credit card customers only.

PurchaseShield(R). PurchaseShield is a membership program that offers various levels of purchase protection to its members. Eligible purchases made on members' credit cards are protected with the following benefits:

- \* warranty extension;
- \* sale price protection; and
- \* product return guarantee.

In addition, PurchaseShield offers its members a household repair rebate that can be used on certain existing in-home electro-mechanical item repairs. Because we administer the program ourselves, we receive all revenues and are responsible for all of the program's associated costs. We currently offer PurchaseShield to our credit card customers, credit card customers of third parties and the broad market.

12

Card Registration. Card registration is a membership service that protects members from fraudulent charges if their credit cards are lost or stolen and provides emergency cash and airline tickets, change of address notification and lost or stolen card notification, valuable property and document registration, a messaging service and car rental discounts. We currently offer card registration service under the names Fraud Alert Services<sup>SM</sup> and SafeKeeper<sup>SM</sup> to our credit card customers, customers of third parties and the broad market. We are responsible for all of its associated costs and revenues.

DirectAlert<sup>SM</sup>. DirectAlert helps members monitor and review their credit report. Members of DirectAlert receive the following benefits:

- \* access to their credit report in an easy to read format;
- \* quarterly updates detailing any changes in their credit report and the names of anyone who has requested or received a copy of their credit report;
- \* toll-free access to credit experts who are ready to answer questions and assist with any disputes; and
- \* retirement information verification which can help members examine their financial future by giving them an idea of what they will receive from social security after they retire.

We currently offer DirectAlert to our credit card customers, credit card customers of third parties and the broad market.

TripSaver<sup>SM</sup>. TripSaver offers discounted travel services through the Metris travel agency. Members of TripSaver receive benefits of airline, hotel and car

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rental discounts, lowest price guarantee, 5% cash back on services booked through the Metris travel agency and other travel related discounts. We currently offer TripSaver to our credit card customers, credit card customers of third parties and the broad market.

Other Membership Clubs. We have cooperative marketing arrangements with several third parties to market the third party's memberships in clubs that do not compete with our services or clubs. Additionally, we have other arrangements with third parties, which we assumed from acquired credit card portfolios, that provide us with revenue from ongoing membership fees billed to our acquired credit cardholders.

Extended Service Plans. We administer extended service plans sold by retailers. Extended service plans provide warranty coverage beyond the manufacturer's warranty. In general, the extended service plans that we administer provide customers with the right to have their covered purchases repaired, replaced, or in certain circumstances, the purchase price of the product refunded, within certain limits that we determine. Within the warranty industry, extended service plans are available for a wide variety of products, including consumer electronics and appliances, furniture, jewelry, automotives, and household mechanical systems such as heating, plumbing and electrical systems. We currently administer extended service plans for consumer electronics, appliances, furniture and jewelry purchased from third-party retailers.

ServiceEdge(R). ServiceEdge is our extended service plan administered by the Company for consumer electronics and all other electro-mechanical

13

items. ServiceEdge customers have the right to have their purchases repaired or replaced in the event of electrical or mechanical failure or defects in materials and workmanship for coverable events after the manufacturer's warranty expires.

Quality Furniture CareSM is our extended service plan program for furniture. The services provided to Quality Furniture Care customers include stain cleaning, structural defect or damage repair, or replacement if the merchandise cannot be repaired.

Quality Jewelry CareSM is our extended service plan for jewelry. The services provided to Quality Jewelry Care customers include repair, soldering, ring sizing, prong re-tipping and cleaning. We contract with third-party jewelers to perform the services to our customers.

Most of the extended service plans that we administer continue for two years from the date of the product purchase (three to five years in limited cases). The customer pays the retail company a one-time fee for this coverage based on the price of the product, the term of coverage and the loss risk of the product. Customers may also be offered the opportunity to renew their coverage in one-year extensions, presently up to six years from the date of purchase, upon payment of an additional fee for each renewal. We are responsible for claims risk and claims processing for all extended service plans sold.

Home ServiceEdgeSM. Home ServiceEdge covers repairs for a number of major appliances in the home. The plan will assist the customer in locating and arranging for service and, in the event the appliance cannot be fixed, will pay a fixed dollar amount towards the replacement of the appliance. We currently offer Home ServiceEdge to our credit card customers and customers of third-party issuers.

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Accidental Death Insurance. We reinsure the risk associated with underwriting accidental death insurance. Under an arrangement with a third-party insurance provider, this carrier sells accidental death policies to our customers for a fee. Our captive insurance company, ICOM Limited, then reinsures these policies from the third-party insurance provider. When these policies are reinsured by us, we assume all risk of loss and incur all administrative expenses related to servicing these policyholders.

Cash Benefit. Cash Benefit pays a set amount per month in the event of disability or unemployment and has a death benefit. A third-party insurance company markets, fulfills and underwrites the policies. We currently market Cash Benefit to our credit card customers only.

Tailored List Development. We currently work with several companies to develop targeted mailing lists. We earn revenue for each name that is solicited by these companies from our customer databases. We also earn revenue from the sale of advertising space included in our monthly billing statements.

14

### Competition

As a marketer of consumer lending products, we compete with numerous providers of financial services, many of which have greater resources than we do. In particular, our credit card business competes with national, regional and local bankcard issuers as well as other general purpose credit and debit card issuers. In general, customers are attracted to credit card issuers largely on the basis of price, credit limit and other product features; as a result, customer loyalty is often limited. There are numerous competitors in the enhancement services market, including insurance companies, financial services institutions and other membership-based or consumer-enhancement service providers, many of which are larger, better capitalized and more experienced than we are. However, we believe that our strategy of focusing on the moderate-income sector and our proprietary prospect database, proprietary models and internal credit scores allow us to compete effectively in the market for moderate-income cardholders to market financial services products.

### Regulation

#### The Company and Direct Merchants Bank

Direct Merchants Bank is a limited purpose credit card bank chartered as a national banking association. It is a member of the Federal Reserve System. Its deposits are insured by the Bank Insurance Fund which is administered by the Federal Deposit Insurance Corporation and it is subject to comprehensive regulation and periodic examination by the Office of the Comptroller of the Currency, its primary regulator. It is also subject to regulation by the FDIC, as a back-up regulator. Direct Merchants Bank is not a "bank" as defined under the Bank Holding Company Act of 1956, as amended, because it:

- \* engages only in credit card operations;
- \* does not accept demand deposits or deposits that the depositor may withdraw by check or similar means for payment to third parties or others;
- \* does not accept any savings or time deposits of less than \$100,000, except for deposits pledged as collateral for extensions of credit;
- \* maintains only one office that accepts deposits; and

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- \* does not engage in the business of making commercial loans.

As a result, we are not a bank holding company under the BHCA. If Direct Merchants Bank failed to meet the credit card bank criteria described above, Direct Merchants Bank's status as an insured bank would make us subject to the provisions of the BHCA. We believe that becoming a bank holding company would limit our ability to pursue future opportunities.

15

### Exportation of Interest Rates and Fees

Under current judicial interpretations of federal law, national banks such as Direct Merchants Bank may charge interest at the rate allowed by the laws of the state where the bank is located and may "export" those interest rates on loans to borrowers in other states, without regard to the laws of such other states.

The Supreme Court of the United States has held that national banks may also impose late payment fees, overlimit fees, annual fees, cash advance fees and membership fees allowed by the laws of the state where the national bank is located on borrowers in other states, without regard to the laws of such other states. The Supreme Court based its opinion largely on its deference to a regulation adopted by the OCC that has been interpreted to permit national banks to export interest rates. As a result, national banks such as Direct Merchants Bank may export such fees.

### Dividends and Transfers of Funds

There are various federal law limitations on the extent to which Direct Merchants Bank can finance or otherwise supply funds to the Company and its affiliates through dividends, loans or otherwise. These limitations include:

- \* minimum regulatory capital requirements;
- \* restrictions concerning the payment of dividends out of net profits or surplus; and
- \* Sections 23A and 23B of the Federal Reserve Act governing transactions between a bank and its affiliates.

In general, Federal law prohibits a national bank such as Direct Merchants Bank from making dividend distributions on common stock if the dividend would exceed currently available undistributed profits. In addition, Direct Merchants Bank must get OCC prior approval for a dividend, if such distribution would exceed current year net income combined with retained earnings from the prior two years. Direct Merchants Bank cannot make a dividend if the distribution would cause the bank to fail to meet applicable capital adequacy standards. Finally, although not a regulatory restriction, the terms of certain debt agreements prohibit the payment of dividends in certain circumstances.

### Capital Adequacy

The Federal Deposit Insurance Corporation Improvement Act of 1991 requires the banking agencies to prescribe certain non-capital standards for safety and soundness relating generally to operations and management, asset quality and executive compensation. FDICIA also provides that regulatory action may be taken against a bank that does not meet such standards.

The OCC has adopted regulations that define the five capital categories (well-capitalized, adequately-capitalized, undercapitalized, significantly-undercapitalized and critically-undercapitalized) identified by



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FDICIA, using the total risk-based capital, Tier 1 risk-based capital and leveraged capital ratios as the relevant capital measures. Such regulations establish various degrees of corrective action to be taken when an institution is considered undercapitalized. Under the regulations, a "well-capitalized" institution must have a Tier 1 capital ratio of at least 6%, a total capital ratio of at least

16

10% and a leverage ratio of at least 5% and not be subject to a capital directive order. An "adequately-capitalized" institution must have a Tier 1 capital ratio of at least 4%, a total capital ratio of at least 8% and a leverage ratio of at least 4% (3% in some cases). Under these guidelines, Direct Merchants Bank is considered well-capitalized.

The OCC's risk-based capital standards explicitly consider a bank's exposure to declines in the economic value of its capital due to changes in interest rates when evaluating a bank's capital adequacy. Interest rate risk is the exposure of a bank's current and future earnings and equity capital arising from adverse movements in interest rates. The evaluation will be made as a part of the institution's regular safety and soundness examination.

The FDICIA requires the FDIC to implement a system of risk-based premiums for deposit insurance pursuant to which the premiums paid by a depository institution will be based on the probability that the FDIC will incur a loss in respect of such institution. The FDIC has adopted a system that imposes insurance premiums based upon a matrix that takes into account a bank's capital level and supervisory rating. Direct Merchants Bank pays the lowest rate on deposit insurance premiums for its capital level and supervisory rating.

Under FDICIA, only "well-capitalized" and "adequately-capitalized" banks may accept brokered deposits. "Adequately-capitalized" banks, however, must first obtain a waiver from the FDIC before accepting brokered deposits and such deposits may not pay rates that significantly exceed the rates paid on deposits of similar size and maturity accepted from the bank's normal market area or the national rate on deposits of comparable maturity, as determined by the FDIC, for deposits from outside the bank's normal market area. Direct Merchants Bank may accept deposits as part of its funding and began issuing certificates of deposit in the first quarter of 1999. These CDs are issued through third-party registered deposit brokers and to the public in increments of \$100,000 or more.

### Lending Activities

Direct Merchants Bank's activities as a credit card lender are also subject to regulation under various federal consumer protection laws including the Truth-in-Lending Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Community Reinvestment Act and the Soldiers' and Sailors' Civil Relief Act. Regulators are authorized to impose penalties for violations of these statutes and, in certain cases, to order Direct Merchants Bank to pay restitution to injured cardholders. Cardholders may also bring actions for certain alleged violations of such regulations. Federal and state bankruptcy and debtor relief laws also affect Direct Merchants Bank's ability to collect outstanding balances owed by cardholders who seek relief under these statutes.

The OCC's CRA regulations subject limited purpose banks, including Direct Merchants Bank, to a "community development" test for evaluating required CRA compliance. The community development performance of a limited purpose bank is evaluated pursuant to various criteria involving community development lending, qualified investments and community development services.

### Legislation

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Congress has passed a financial services law that will require many of our business groups to disclose our practices for collection and sharing of non-public customer information. The regulations associated with this law could require us to limit or substantially modify our enhancement services and

17

credit card marketing activities and practices with third-party companies in ways that could adversely affect us if these changes result in limits on sharing information. Furthermore, there is similar or related legislation currently pending or under consideration at the federal and state level.

From time to time legislation has been proposed in Congress to limit interest rates and fees that could be charged on credit card accounts or otherwise restrict practices of credit card issuers. If this or similar legislation is proposed and adopted, our ability to collect on account balances or maintain previous levels of finance charges and other fees could be adversely affected.

Additionally, the U.S. Senate and House of Representatives have passed legislation that would amend the federal bankruptcy laws. This legislation, which is expected to be signed into law, is generally considered to be favorable to the credit card industry. However, any changes to state debtor relief and collection laws could adversely affect us if such changes result in, among other things, accounts being charged off as uncollectible and additional administrative expenses. Congress may in the future consider other legislation that would materially affect the credit card and related enhancement services industries.

### Consumer and Debtor Protection Laws

Various federal and state consumer protection laws limit our ability to offer and extend credit. In addition, the U.S. Congress and the States may decide to regulate further the credit card industry by enacting laws or amendments to existing laws to reduce finance charges or other fees or charges applicable to credit card and other consumer revolving loan accounts. These laws may adversely affect our ability to collect on account balances or maintain established levels of periodic rate finance charges and other fees and charges with respect to the accounts. Similarly, Congress and the States may decide to further regulate our enhancement services.

### Investment in the Company and Direct Merchants Bank

Certain acquisitions of capital stock may be subject to regulatory approval or notice under federal law. Investors are responsible for insuring that they do not directly or indirectly acquire shares of our capital stock in excess of the amount that can be acquired without regulatory approval.

### Interstate Taxation

Several states have passed legislation which attempts to tax the income from interstate financial activities, including credit cards, derived from accounts held by local state residents. We believe that this legislation will not materially affect us. Our belief is based upon current interpretations of the enforceability of legislation, prior court decisions and the volume of business in states that have passed legislation.

### Licensing Requirements

Several state and local government regulators require our subsidiaries to

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be licensed in order to offer our enhancement service insurance and warranty products in these states. We are in the process of obtaining licenses for these products in the remainder of states. Our captive insurance subsidiary, ICOM Limited, is licensed in Bermuda under The Insurance Act of 1978 as a Class 2 Insurer. We are restricted from writing any long-term policies or pursuing any unrelated business in excess of certain limits under Bermuda law.

18

### Fair Credit Reporting Act

The Fair Credit Reporting Act regulates "consumer reporting agencies." Under the FCRA, an entity risks becoming a consumer reporting agency if it furnishes "consumer reports" to third parties. A consumer report is a communication of information which bears on a consumer's creditworthiness, credit capacity, credit standing or certain other characteristics and which is collected or used or expected to be used to determine the consumer's eligibility for credit, insurance, employment or certain other purposes. The FCRA explicitly excludes from the definition of consumer report a report containing information solely as to transactions or experiences between the consumer and the entity making the report. An entity may share consumer reports with any of its affiliates so long as that entity provides consumers with an appropriate disclosure and an opportunity to opt out of such "affiliate sharing."

Our objective is to conduct our operations in a manner that would fall outside the definition of consumer reporting agency under the FCRA. If we were to become a consumer reporting agency, however, we would be subject to a number of complex and burdensome regulatory requirements and restrictions. Such restrictions could have a significant adverse economic impact on us.

### Employees

As of December 31, 2000, we had approximately 4,200 employees, located in Arizona, Florida, Illinois, Maryland, Minnesota and Oklahoma. None of our employees are represented by a collective bargaining agreement. We consider our relations with our employees to be good.

### Trademarks, Trade Names and Service Marks

Metris Companies Inc. and its subsidiaries have registered and continue to register, when appropriate, various trademarks, tradenames and service marks used in connection with its business and for private label marketing of certain of its products. We consider these trademarks and service marks to be readily identifiable with, and valuable to, our business.

19

### Executive Officers of the Registrant

The following table sets forth certain information concerning the persons who currently serve as our executive officers. Each executive officer serves at the discretion of our Board of Directors.

Name	Age	Position
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Ronald N. Zebeck .....	46	Chairman and Chief Executive Officer
David D. Wesselink .....	58	Vice Chairman

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Douglas L. Scaliti .....	43	President and Chief Operating Officer, Enhanceme
Jean C. Benson .....	33	Executive Vice President, Finance, Corporate Con
Joseph A. Hoffman .....	43	Executive Vice President, Consumer Credit Card Marketing/Operations
Matthew S. Melius .....	35	Executive Vice President, Credit Risk Management
David R. Reak .....	42	Executive Vice President, Risk Management/Recove
Benson K. Woo .....	46	Chief Financial Officer
Ralph A. Than .....	40	Senior Vice President, Treasurer
Lorraine E. Waller .....	40	Senior Vice President, General Counsel and Secre

Ronald N. Zebeck has been our Chairman and Chief Executive Officer since May 2000 and previously served as President and Chief Executive Officer since our incorporation in August 1996. Mr. Zebeck has been President of Metris Direct, Inc. since March 1994 and has served as Chairman of the Board of Direct Merchants Bank since August 1995. Prior to joining us, Mr. Zebeck was Managing Director, GM Card Operations of General Motors Corporation from 1991 to 1993, Vice President, Marketing and Strategic Planning of Advanta Corporation (Colonial National Bank USA) from 1987 to 1991, Director of Strategic Planning of TSO Financial (later Advanta Corporation) from 1986 to 1987 and held various credit card and credit-related positions at Citibank affiliates from 1976 to 1986.

David D. Wesselink has been Vice Chairman since September 2000. Mr. Wesselink previously held the position of Executive Vice President, Chief Financial Officer from December 1998. Prior to joining us, Mr. Wesselink was Senior Vice President and Chief Financial Officer of Advanta Corporation from 1993 to 1998. Prior to Advanta Corporation, he held several positions at Household Finance Corp. and Household International, Inc. from 1971 to 1993, including Senior Vice President from 1986 to 1993 and Chief Financial Officer from 1982 to 1993.

Douglas L. Scaliti has been President and Chief Operating Officer, Enhancement Services since September 2000. Mr. Scaliti previously held the

20

positions of Executive Vice President, Enhancement Services from November 1998, and Senior Vice President, Enhancement Services from March 1998. Mr. Scaliti was appointed Senior Vice President, Marketing in December 1996 and served as Vice President, Marketing from August 1996 to November 1996. He held that same position at Metris Direct, Inc. since September 1994. Prior to joining us, he held several positions at Advanta Corporation in its marketing and operations area, including Senior Marketing Manager, Credit Cards from 1987 to 1994, Operations Consultant, Profit Improvement from 1985 to 1987 and Credit Operations Manager from 1982 to 1985. Mr. Scaliti also serves on the First Data Resources Market Area Advisory Group.

Jean C. Benson has been Executive Vice President, Finance, Corporate Controller since September 2000. Ms. Benson previously was Senior Vice President, Finance, Corporate Controller from May 1998 and has been Corporate Controller since August 1996. In addition, Ms. Benson held various finance positions at the Company since October 1994. Prior to that, she held various

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positions at Deloitte & Touche LLP (public accounting), specializing in the financial services industry from 1990 to 1994.

Joseph A. Hoffman has been Executive Vice President, Consumer Credit Card Marketing/Operations since October 1999. Mr. Hoffman previously served as Senior Vice President, Consumer Credit Marketing from April 1998. Prior to joining us, Mr. Hoffman was Vice President of Marketing at Advanta Corporation from June 1994 to April 1998, where he held a variety of positions including Directors of Brand Management and Affinity and Co-Brand Marketing. Before that, Mr. Hoffman was Vice President, Area Director, in Citibank's Card Product Group, which he joined in 1980. During his fourteen-year tenure with Citibank, Mr. Hoffman held a variety of Marketing and Operations positions with Citibank's Bankcard and Private Label businesses.

Matthew S. Melius has been Executive Vice President, Credit Risk Management since January 2001. Mr. Melius previously served as Executive Vice President, E-Commerce from January 2000, Senior Vice President, Portfolio Marketing from July 1998, Vice President, Portfolio Marketing from January 1997, and Director, Portfolio Marketing from September 1995. Prior to joining us, Mr. Melius was Director, Customer Retention of First National Bank of Omaha in the Credit Card division.

David R. Reak has been Executive Vice President, Risk Management/Recovery since October 1999. Mr. Reak previously served as Senior Vice President, Credit Risk from November 1998. Mr. Reak was appointed Vice President, Credit Risk in October 1996 and previously served as Senior Director, Credit Risk of Metris Direct, Inc. from December 1995 to October 1996. Prior to joining us, he had several positions at American Express Travel Related Services Company, including Senior Manager, Credit Risk Management Europe and Middle East from 1994 to December 1995, Senior Manager, Credit Risk Management U.S. Consulting Group from 1992 to 1994, and Project Manager, Credit Research and Analysis from 1990 to 1992.

Benson K. Woo has been Chief Financial Officer since September 2000. Mr. Woo previously held the position of Senior Vice President, Finance from October 1999. Prior to joining us, Mr. Woo was Vice President and Chief Financial Officer of York International Corporation from 1998 to 1999. Prior to York International Corporation, he was Vice President and Treasurer of Case Corporation from 1994 to 1998. Prior to that, he held several positions at General Motors Corporation from 1979 to 1994, including Finance Director, GM Credit Card Operations from 1992 to 1994.

21

Ralph A. Than has been Senior Vice President, Treasurer since May 2000. Prior to joining us, Mr. Than was Vice President, Treasurer of CNH Capital Corporation, the finance subsidiary of CNH Global N.V., the resulting merger between Case Corporation and New Holland N.V., from September 1998. Before that, Mr. Than was Group Controller of the Agricultural Systems Business Unit of Case Corporation from May 1997. Prior to Case, Mr. Than was involved with investment banking and merger and acquisitions from 1986 to 1989.

Lorraine E. Waller has been Senior Vice President, General Counsel and Secretary since September 2000. Ms. Waller previously served as Senior Vice President, Assistant General Counsel from November 1999, and Vice President, Assistant General Counsel from November 1998, Assistant General Counsel from April 1998, and as an attorney advisor from November 1997. Prior to joining us, Ms. Waller was Associate General Counsel of Household International, Inc. Prior to that, she worked at the Senate Judiciary Committee and the Federal Reserve Board.

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Our officers are elected by, and hold office at the will of, our Board of Directors and do not serve a "term of office" as such.

### Risk Factors

This annual report on Form 10-K contains certain forward-looking statements and information relating to the Company that are based on the beliefs of our management as well as assumptions made by, and information currently available to, our management. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from such statements. You should not place undue reliance on these forward-looking statements as they speak only of our views as of the date the statement was made and are not a guarantee of future performance.

Forward-looking statements include statements and information as to our strategies and objectives, growth in earnings per share, return on equity, growth in our managed loan portfolio, net interest margins, funding costs, operating costs and marketing expenses, delinquencies and charge-offs and industry comparisons or projections. Forward-looking statements may be identified by the use of terminology such as "may," "will," "believes," "does not believe," "no reason to believe," "expects," "plans," "intends," "estimates," "anticipated," or "anticipates" and similar expressions, as they relate to the Company or our management. These statements reflect management's current views with respect to future events and are subject to certain risks, uncertainties and assumptions.

The factors discussed below, among others, could cause our actual results to differ materially from those expressed in any forward-looking statements. Although we have attempted to list comprehensively these important factors, we caution you that other factors may in the future prove to be important in affecting our results of operations. New factors emerge from time to time and it is not possible for us to predict all of these factors, nor can we assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

#### Our Target Market for Consumer Lending Products Has Higher Default and Bankruptcy Rates

The primary risk associated with secured and unsecured lending to moderate-income consumers is higher default rates than other income classes of

22

consumers, resulting in more accounts being charged off as uncollectible. In addition, general economic factors, such as the rate of inflation, unemployment levels and interest rates, may result in greater delinquencies and credit losses among moderate-income consumers than among other income classes of consumers. A recession or economic downturn may cause an increase in default rates and delinquencies. We may be unable to successfully identify and evaluate the creditworthiness of our target customers to minimize the expected higher delinquencies and losses. We also cannot assure you that our risk-based pricing system can offset the negative impact on profitability that the expected greater delinquencies and losses may have.

#### The Lack of Seasoning of Additions to Our Credit Card Portfolio Creates a Risk of Increasing Loss Levels

Our growth strategy is likely to produce a continued flow of unseasoned accounts into our portfolio. The average age of a credit card issuer's portfolio of accounts generally affects the level and stability of delinquency and loss

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rates of that portfolio. For example, a portfolio containing mostly older accounts generally behaves more predictably than a newly originated portfolio. At December 31, 2000, 48% of our managed accounts and 30% of our loans were less than 24 months old. The delinquency ratios for the following periods do not reflect the favorable impact of purchase accounting related to the portfolio acquisitions. At December 31, 2000, 8.3% of our managed credit card loans were 30 days or more delinquent before the impact of purchase accounting, compared to 7.8% at December 31, 1999, and 7.4% at December 31, 1998. Any material increases in delinquencies and losses beyond our expectations could have a material adverse impact on us and the value of our net retained interests in loans securitized, which are subordinated to the interests sold in such securitizations.

### We May Not be Able to Sustain and Manage Growth

In order to meet our strategic objectives, we plan to continue to expand our credit card loan portfolio. Continued growth in this area depends largely on:

- \* our ability to attract new cardholders;
- \* growth in both existing and new account balances;
- \* the degree to which we lose accounts and account balances to competing card issuers;
- \* levels of delinquencies and losses;
- \* the availability of funding, including securitizations, on favorable terms;
- \* general economic and other factors such as the rate of inflation, unemployment levels and interest rates, which are beyond our control;
- \* our ability to acquire and integrate portfolios; and
- \* stability and growth in management.

23

Our continued growth also depends on our ability to manage this growth effectively. Factors that affect our ability to successfully manage growth include:

- \* retaining and recruiting experienced management personnel;
- \* finding and adequately training new employees;
- \* cost-effectively expanding our facilities;
- \* growing and updating our management systems; and
- \* obtaining capital when needed.

### We May Not be Able to Successfully Market Our Enhancement Services or Sign Additional Marketing Alliances

We target our enhancement services to our credit card customers and customers of third parties. Because of the variety of offers provided and the diversity of the customers targeted, we are uncertain about how many customers will respond to our offers for these enhancement services. We may experience

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higher than anticipated costs in connection with the internal administration and underwriting of these enhancement services and lower than anticipated response or retention rates.

Furthermore, we may be unable to expand the enhancement services business or maintain historical growth and stability levels if:

- \* we cannot successfully market credit cards to new customers;
- \* existing credit card customers close accounts voluntarily or involuntarily;
- \* existing enhancement services customers cancel their services;
- \* we cannot form marketing alliances with other third parties or existing marketing alliances with third parties terminate; or
- \* new or restrictive state regulations limit our ability to market or sell enhancement services.

### Our Profitability and Ability to Grow is Dependent on Our Funding Sources

Securitization Markets. We depend heavily upon the securitization of our credit card loans to fund our operations and growth. As recently as the fourth quarter of 1998, these markets have undergone disruptions which adversely affected the ability of companies like us to raise money from these sources. Furthermore, our ability to securitize our assets depends on the continued availability of credit enhancements on acceptable terms and the continued favorable legal, regulatory and tax environment for such transactions.

In addition, even if we are able to securitize our assets consistent with past practice, poor performance of our securitized assets, including increased delinquencies and credit losses, could result in a downgrade or withdrawal of the ratings on the outstanding securities issued in our securitization transactions, cause early amortization of such securities or result in higher required credit enhancement levels. As a result, poor performance of our

24

securitized assets could divert significant amounts of cash that would otherwise be available to us. This could jeopardize our ability to complete other securitization transactions on acceptable terms, decrease our liquidity and force us to rely on other potentially more expensive funding sources, to the extent available. We cannot assure you that the securitization market will continue to offer suitable funding alternatives.

Credit Facility. We rely on our credit facility to fund our operations and growth. If we breach any of our covenants under our credit facility, including various financial covenants, the lenders may terminate the facility. Disruptions in the securitization market could negatively affect our ability to comply with these covenants, and therefore our ability to borrow or replace this facility could be adversely affected.

CD Program. Direct Merchants Bank issues certificates of deposit in increments of \$100,000 or more. We expect to use the proceeds of these deposits to fund our operations and growth. To maintain our current level of access to the certificate of deposit market, Direct Merchants Bank must maintain a "well-capitalized" rating, as that rating is defined by the Office of the Comptroller of the Currency. If it does not do so, Direct Merchants Bank may be required to modify the program and may not be able to accept additional deposits.



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Other Funding Sources. We also expect to obtain financing by selling debt and equity securities. Our ability to obtain such financing is dependent upon many factors, including general market conditions. We cannot assure you that we will be able to obtain this financing on favorable terms or at all. In addition, restrictions contained in our debt agreements may adversely affect our ability to finance future operations or capital needs or to engage in other business activities.

Our ability to obtain financing from the various sources available to us is dependent upon many factors, including those outside of our control. In addition, disruptions or unfavorable conditions related to one financing source may negatively affect our ability to access other financing sources, or may increase our financing costs.

### We Require a High Degree of Liquidity to Operate Our Business

We depend on cash flows from operations, asset securitizations, bank loans, subsidiary bank deposit program, long-term debt and equity issuances to fund our operations and growth. The loss or interruption of any of these sources of funding could adversely affect our ability to operate.

Key elements of our strategy are dependent upon us having adequate available cash. These cash needs include:

- \* funding receivable growth through marketing campaigns;
- \* additional credit enhancement in the case of poor performance of our securitized assets;
- \* interest and principal payments under our securitizations, our credit agreement, our existing senior notes and other indebtedness;
- \* ongoing operating expenses;

25

- \* maintenance of the "well-capitalized" status of our subsidiary, Direct Merchants Bank, which is necessary to maintain the CD program;
- \* portfolio and business acquisitions;
- \* fees and expenses incurred in connection with the securitization of receivables and the servicing of them; and
- \* tax payments due on receipt of excess cash flow from securitization trusts.

Given these cash needs, we anticipate that we will need to enter into financing transactions on a regular basis. We cannot assure you that we will be able to secure funds to support our cash needs on terms as favorable as past transactions. Any adverse change in the funding sources we use could force us to rely on other potentially more expensive funding sources, to the extent available, and could have other adverse consequences. If any of our funding sources become limited it may require us to use more expensive sources of funding. Any material increase in our costs of financing beyond our expectations could negatively impact us.

### Interest Rate Fluctuations Impact the Yield on Our Assets and Funding Expense

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An increase or decrease in market interest rates could have a negative impact on the net interest spread between the yield on our assets and our cost of funding. A rise in market interest rates may indirectly impact the payment performance of our customers. We try to minimize the impact of changes in market interest rates on our cash flow, asset value and net income primarily by funding variable-rate assets with variable-rate funding sources and by using interest rate derivatives to match asset and liability repricings. However, changes in market interest rates may have a negative impact on us.

### We May Not be Able to Successfully Integrate Portfolio Acquisitions

As previously mentioned, our growth depends in part on our ability to acquire and successfully integrate new portfolios of credit card customers. Since our risk-based pricing system depends on information regarding customers, limited or unreliable historical information on customers within an acquired portfolio may have an impact on our ability to successfully and profitably integrate that portfolio. Our success also depends on whether the desirable customers of an acquired portfolio close their accounts after transfer of the portfolio. A large attrition rate would result in a lower borrowing base upon which to assess fees, higher costs relating to closing accounts and less potential for marketing enhancement services. In addition, if customers reduce their borrowings after the transfer of accounts, the acquired portfolio may be less profitable than originally expected.

### Current and Proposed Regulation and Legislation Limit Our Business Activities, Product Offerings and Fees Charged

Various federal and state laws and regulations significantly limit the activities in which we and Direct Merchants Bank are permitted to engage. Such laws and regulations, among other things, limit the fees and other charges that we are allowed to charge, limit or prescribe certain other terms of our products and services, require specified disclosures to consumers, govern the sale and terms of products and services we offer and require that we maintain certain licenses, qualifications, or capital requirements (see "Business -

26

Regulations"). In some cases, the precise application of these statutes and regulations is not clear. In addition, the regulatory framework at the state and federal level regarding some of our enhancement services is evolving. The regulatory framework affects the design or profitability of such products and our ability to sell certain products. In addition, numerous legislative and regulatory proposals are advanced each year which, if adopted, could adversely affect our profitability or further restrict the manner in which we conduct our activities. The failure to comply with, or adverse changes in, the laws or regulations to which our business is subject, or adverse changes in the interpretation thereof, could adversely affect our ability to collect our receivables and generate fees on the receivables which could have a material adverse effect on our business.

### The Impact of Existing, Pending and Possible Future Privacy Laws Could Result in Lower Marketing Revenue and Penalties for Non-Compliance

There is a new federal law effective July 2001, commonly known as the Gramm Leach Bliley Act, that will require many of our business groups to disclose our practices for collection and sharing of non-public customer information. This law could require us to limit or substantially modify our enhancement services and credit card marketing activities and practices with third-party companies in ways that would most likely decrease our revenue from that business. Furthermore, there is similar or related legislation currently pending or under consideration at the federal and state level. These initiatives could require us

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to end substantially all of our marketing efforts with third parties and may even adversely affect the ability of the subsidiary through which we issue our credit card products, Direct Merchants Bank, to share information about its customers with other Metris affiliates, particularly enhancement services. The curtailment of our marketing efforts directed to our customer base and third-party customers would significantly negatively impact our business.

The privacy laws require us to provide initial and continuing disclosures regarding our information sharing practices. The laws also require us to monitor these disclosures and customer responses so that we do not unlawfully disclose information about a customer who has directed us not to do so. If we do not adequately manage the new requirements, we may face regulatory sanctions, including fines, and consumer class action litigation.

### Other Industry Risks Related to Consumer Lending Products and Enhancement Services Could Negatively Impact Us

We face a number of risks associated with unsecured lending. These include the risk that delinquencies and credit losses will increase because of future economic downturns; the risk that an increasing number of customers will default on the payment of their outstanding balances or seek protection under bankruptcy laws; and the risk that fraud by cardholders and third parties will increase. We also face the risk that increased criticism from consumer advocates and the media could hurt consumer acceptance of our products, as well as the risk of litigation, including class action litigation, challenging our product terms, rates, disclosures, collections or other practices, under state and federal consumer protection statutes and other laws.

27

### Due to Intense Competition in Our Consumer Lending Products and Enhancement Services Businesses, We May Not be Able to Compete Successfully

We face intense and increasing competition from numerous financial services providers, many of which have greater resources than we do. In particular, our credit card business competes with national, regional and local bankcard issuers, as well as other general purpose and private label credit card issuers. There has been a recent increase in solicitations to moderate-income consumers, as competitors have increasingly focused on this market. Customers are attracted to credit card issuers largely on the basis of price, credit limit and other product features; as a result, customer loyalty is often limited. According to published reports, as of December 2000, the 20 largest issuers accounted for approximately 90% (based on receivables outstanding) of the market for general purpose credit cards. Many of these issuers are substantially larger, have more seasoned credit card portfolios and often compete for customers by offering lower interest rates and/or fee levels than we do. We cannot assure you that we will be able to compete successfully in this environment.

We also face competition from numerous enhancement services providers, including insurance companies, financial services institutions and other membership-based or consumer services providers, many of which are larger, better capitalized and more experienced than us. As we continue to expand our extended service plan business to the customers of third-party retailers, we compete with manufacturers, financial institutions, insurance companies and a number of independent administrators, many of which have greater operating experience and financial resources than we do.

### Potential Volatility in the Stock Market May Negatively Affect Our Stock Price

The Company, which began as a subsidiary of Fingerhut, was incorporated in 1996 and prior to the spin off was 83% owned by Fingerhut. Factors such as

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actual or anticipated fluctuations in our operating results, regulatory developments, conditions and trends in the consumer credit industry, general market conditions and other factors beyond our control may significantly affect the market price of our common stock. In addition, the market has, from time to time, experienced significant price and volume fluctuations that often have been unrelated to the operating performance of particular companies. These broad fluctuations may adversely affect the market price of our common stock.

### Item 2. Properties

We currently lease our principal executive office space in Minnetonka, Minnesota, consisting of leases for approximately 300,000 and 19,000 square feet. These leases expire in December 2011 and February 2005, respectively. We also lease 15,000 square feet of warehouse space in Minnetonka, Minnesota, which expires in October 2003. Direct Merchants Bank leases office space in Phoenix, Arizona, consisting of approximately 26,000 square feet. This lease expires in June 2004, and may be terminated by us after June 2001. In addition, Direct Merchants Bank purchased a new 130,000 square foot building in Scottsdale, Arizona, during the third quarter of 1999. The new building serves as western regional headquarters for us and Direct Merchants Bank's operation center. In addition, we lease facilities in Tulsa, Oklahoma, White Marsh, Maryland, Jacksonville, Florida, and Champaign, Illinois, consisting of

28

approximately 100,000, 115,000, 160,000, and 15,000 square feet, respectively. These leases expire in December 2010, September 2007, June 2005, and October 2002, respectively. The leased properties in Oklahoma, Maryland, and Florida support our collections, customer service and back office operations. We also own our Hispanic operations center in Orlando, Florida, which consists of approximately 25,000 square feet. We believe our facilities are suitable to our businesses and that we will be able to lease or purchase additional facilities as needed.

### Item 3. Legal Proceedings

We are a party to various legal proceedings resulting from the ordinary business activities relating to our operations. In July 2000 an Amended Complaint was filed in Hennepin County Court in Minneapolis, Minnesota, against Metris Companies Inc., Metris Direct, Inc. and Direct Merchants Bank. The complaint seeks damages in unascertained amounts and purports to be a class action on behalf of all cardholders who were issued a credit card by Direct Merchants Bank and were allegedly assessed fees or charges that the cardholder did not authorize. Specifically, the complaint alleges violations of the Minnesota Prevention of Consumer Fraud Act, the Minnesota Deceptive Trade Practices Act and breach of contract. We filed our answer to the complaint in August 2000. To date, the complaint has not been certified as a class action claim. We believe we have numerous substantive legal defenses to these claims and are prepared to vigorously defend the case. There can be no assurance that defense or resolution of these matters will not have a material adverse effect on our financial position.

### Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of security holders during the fourth quarter of our fiscal year ended December 31, 2000.

## PART II

### Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

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The information required by Item 201 of Regulation S-K is set forth in the "Summary of Consolidated Quarterly Financial Information and Stock Data" on pages 66 and 67 of our Annual Report to Shareholders as of and for the year ended December 31, 2000, and is incorporated herein by reference.

### Item 6. Selected Financial Data

The information required by this item is set forth under the caption "Selected Financial Data" on pages 25 and 26 of the 2000 Annual Report and is incorporated herein by reference.

### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information required by this item is set forth under the captions "Management's Discussion and Analysis of Financial Condition and Results of

29

Operations" and "Forward Looking Statements" on pages 27 to 41 of the 2000 Annual Report and is incorporated herein by reference.

### Item 7a. Quantitative And Qualitative Disclosures About Market Risk

The information required by this item is set forth under the captions "Management's Discussion and Analysis-Market Risk" on page 37 of the 2000 Annual Report and is incorporated herein by reference.

30

### Item 8. Financial Statements and Supplementary Data

METRIS COMPANIES INC. AND SUBSIDIARIES  
Consolidated Balance Sheets  
(Dollars in thousands, except per-share data)

	December 31,	
	2000	1999
	----	----
<b>Assets:</b>		
Cash and due from banks .....	\$ 84,938	\$ 28,
Federal funds sold .....	367,937	118,
Short-term investments .....	68,565	46,
	-----	-----
Cash and cash equivalents .....	521,440	194,
	-----	-----
Retained interests in loans securitized .....	2,023,681	1,617,
Less: Allowance for loan losses .....	640,852	606,
	-----	-----
Net retained interests in loans securitized .....	1,382,829	1,010,
	-----	-----
Credit card loans (net of allowance for loan losses of \$123,123 and \$12,175, respectively).....	1,056,080	133,
Property and equipment, net .....	128,395	56,
Deferred income taxes .....	146,345	185,
Purchased portfolio premium .....	95,537	83,
Other receivables due from credit card securitizations, net.....	186,694	243,
Other assets .....	218,705	136,

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Total assets .....	\$ 3,736,025	\$ 2,045,
	=====	=====
Liabilities:		
Deposits .....	\$ 2,106,199	\$ 775,
Debt .....	356,066	345,
Accounts payable .....	83,473	45,
Deferred income .....	235,507	171,
Accrued expenses and other liabilities .....	71,227	83,
	-----	-----
Total liabilities .....	2,852,472	1,421,
	-----	-----
Stockholders' Equity:		
Convertible preferred stock - Series C, par value \$.01 per share; 10,000,000 shares authorized, 967,573 and 885,178 shares issued and outstanding, respectively.....	360,421	329,
Common stock, par value \$.01 per share; 100,000,000 shares authorized, 62,242,787 and 57,919,433 shares issued and outstanding, respectively.....	622	
Paid-in capital .....	198,077	130,
Retained earnings .....	324,433	162,
	-----	-----
Total stockholders' equity .....	883,553	623,
	-----	-----
Total liabilities and stockholders' equity .....	\$ 3,736,025	\$ 2,045,
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

31

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

	Year Ended December 31,		
	2000	1999	1998
	-----	-----	-----
Interest Income:			
Credit card loans and retained interests in loans securitized .....	\$ 490,929	\$ 229,394	\$ 111,118
Federal funds sold .....	9,139	4,477	1,065
Other .....	4,710	2,298	1,028
	-----	-----	-----
Total interest income .....	504,778	236,169	113,211
	-----	-----	-----
Deposit interest expense .....	89,560	19,329	--
Other interest expense .....	43,446	36,512	30,513
	-----	-----	-----
Total interest expense .....	133,006	55,841	30,513
	-----	-----	-----
Net Interest Income .....	371,772	180,328	82,698

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Provision for loan losses .....	388,234	174,800	77,770
	-----	-----	-----
Net Interest (Loss) Income			
After Provision for Loan Losses .....	(16,462)	5,528	4,928
	-----	-----	-----
Other Operating Income:			
Net securitization and credit card			
servicing income .....	444,254	318,873	138,221
Credit card fees, interchange			
and other credit card income .....	223,333	129,808	68,136
Enhancement services revenues .....	266,200	175,091	109,123
	-----	-----	-----
	933,787	623,772	315,480
	-----	-----	-----
Other Operating Expense:			
Credit card account and other product			
solicitation and marketing expenses.....	144,481	107,726	43,471
Employee compensation .....	178,592	122,417	62,627
Data processing services and			
communications.....	86,166	65,970	46,519
Warranty and debt waiver underwriting			
and claims servicing expense .....	26,431	21,091	12,279
Credit card fraud losses .....	8,886	7,384	4,436
Purchased portfolio premium			
amortization .....	19,275	31,752	10,051
Other .....	130,583	81,644	47,777
	-----	-----	-----
	594,414	437,984	227,160
	-----	-----	-----
Income Before Income Taxes,			
Extraordinary Loss and Cumulative			
Effect of Accounting Change .....	322,911	191,316	93,248
Income taxes .....	124,320	75,953	35,900
	-----	-----	-----
Income Before Extraordinary Loss and			
Cumulative Effect of Accounting			
Change .....	198,591	115,363	57,348
Extraordinary loss from early			
extinguishment of debt .....	--	50,808	--
Cumulative effect of accounting change			
(net of income taxes of \$2,180) .....	3,438	--	--
	-----	-----	-----
Net Income .....	195,153	64,555	57,348
Preferred stock dividends-Series B .....	--	7,506	1,100
Convertible preferred stock			
dividends-Series C .....	31,624	17,080	--
Adjustment for the retirement of Series			
B preferred stock.....	--	101,615	--
	-----	-----	-----
Net Income (Loss) Applicable to			
Common Stockholders .....	\$ 163,529	\$ (61,646)	\$ 56,248
	=====	=====	=====

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Earnings per share:

Basic-income (loss) before extraordinary loss and cumulative effect of accounting change .....	\$ 2.78	\$ (0.19)	\$ 0.97
Basic-extraordinary loss .....	--	(0.88)	--
Basic-cumulative effect of accounting change .....	(0.06)	--	--
Basic-net income (loss) .....	2.72	(1.07)	0.97
Diluted-income (loss) before extraordinary loss and cumulative effect of accounting change .....	2.15	(0.19)	0.94
Diluted-extraordinary loss .....	--	(0.88)	--
Diluted-cumulative effect of accounting change .....	(0.04)	--	--
Diluted-net income (loss) .....	2.11	(1.07)	0.94
Shares used to compute earnings per share:			
Basic .....	60,070	57,855	57,696
Diluted .....	92,582	57,855	59,905

See accompanying Notes to Consolidated Financial Statements.

33

METRIS COMPANIES INC. AND SUBSIDIARIES  
Consolidated Statements of Changes in Stockholders' E  
(Dollars and shares in thousands)

	Number of Shares Preferred	Common	Preferred Stock	Common Stock	Paid-In Capital
BALANCE, DECEMBER 31, 1997 ....	--	57,675	\$ --	\$ 192	\$ 107,059
Net income .....	--	--	--	--	--
Issuance of preferred stock - Series B .....	537	--	200,000	--	--
Cash dividends and other..	--	--	--	--	--
Preferred dividends in kind - Series B .....	3	--	1,100	--	--
Issuance of common stock under employee benefit plans .....	--	104	--	1	556
BALANCE, DECEMBER 31, 1998 ....	540	57,779	\$ 201,100	\$ 193	\$ 107,615
Net income .....	--	--	--	--	--
Retirement of preferred stock - Series B .....	(560)	--	(208,606)	--	(101,615)
Issuance of preferred stock - Series C .....	840	--	312,910	--	122,369
Cash dividends .....	--	--	--	--	--



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June 1999 two-for-one stock split .....	--	--	--	193	(193)
Preferred dividends in kind - Series B .....	20	--	7,506	--	--
Preferred dividends in kind - Series C .....	45	--	16,819	--	--
Issuance of common stock under employee benefit plans .....	--	140	--	--	2,596
	-----	-----	-----	-----	-----
BALANCE, DECEMBER 31, 1999 ....	885	57,919	\$ 329,729	\$ 386	\$ 130,772
	=====	=====	=====	=====	=====
Net income .....	--	--	--	--	--
Cash dividends .....	--	--	--	--	--
June 2000 three-for- two stock split .....	--	--	--	201	(201)
Preferred dividends in kind - Series C .....	83	--	30,692	--	--
Issuance of common stock under employee benefit plans .....	--	4,324	--	35	67,506
	-----	-----	-----	-----	-----
BALANCE, DECEMBER 31, 2000 ....	968	62,243	\$ 360,421	\$ 622	\$ 198,077
	=====	=====	=====	=====	=====

See accompanying Notes to Consolidated Financial Statements.

34

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

		Year En ----- 2000 ----
Operating Activities:		
Net income .....	\$	195,153
Adjustments to reconcile net income to net cash provided by operating activities:		
Extraordinary loss from early extinguishment of debt.....		--
Cumulative effect of accounting change .....		3,438
Depreciation and amortization .....		76,256
Change in allowance for loan losses .....		144,948
Changes in operating assets and liabilities, net:		
Deferred income taxes .....		39,268
Other receivables due from credit card securitizations, net.....		47,904
Accounts payable and accrued expenses .....		45,877
Deferred income .....		60,403
Other .....		(95,563)
		-----
Net cash provided by operating activities .....		517,684
		-----
Investing Activities:		

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Net proceeds from sales and repayments of securitized loans .....	551,911	
Net loans originated or collected .....	(1,827,192)	
Credit card portfolio acquisitions .....	(195,597)	
Additions to premises and equipment .....	(85,007)	
	-----	
Net cash used in investing activities .....	(1,555,885)	
	-----	
Financing Activities:		
Net increase in debt .....	11,054	
Net increase in deposits .....	1,330,818	
Cash dividends paid .....	(2,942)	
(Decrease) increase in preferred equity .....	--	
Increase in common equity .....	26,278	
	-----	
Net cash provided by financing activities .....	1,365,208	
	-----	
Net increase (decrease) in cash and cash equivalents.....	327,007	
Cash and cash equivalents at beginning of year.....	194,433	
	-----	
Cash and cash equivalents at end of year .....	\$ 521,440	\$
	=====	=====
Supplemental disclosures and cash flow information:		
Cash paid during the year for:		
Interest .....	\$ 81,724	\$
Income taxes .....	75,384	
Tax benefit from employee stock option exercises.....	31,174	
Non-cash conversion of Senior Notes:		
Accrued expenses and other liabilities .....	--	
Debt .....	--	
Metris preferred stock .....	--	

See accompanying Notes to Consolidated Financial Statements.

35

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

### NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Metris Companies Inc. ("MCI") and its subsidiaries, including Direct Merchants Credit Card Bank, N.A. ("Direct Merchants Bank"), which may be referred to as "we," "us," "our" and the "Company". The Company is an information-based direct marketer of consumer lending products and enhancement services primarily to moderate-income consumers.

Prior to September 25, 1998, Fingerhut Companies, Inc. owned 83% of the Company. On September 25, 1998, Fingerhut distributed its remaining shares of the Company to Fingerhut shareholders in a tax-free distribution (the "spin off").

All significant intercompany balances and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform with the current year's presentation.

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### Pervasiveness of Estimates

We have prepared the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, which require us to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements as well as the reported amount of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting and reporting policies used in preparing the consolidated financial statements.

#### Federal Funds Sold and Short-term Investments

Federal funds sold are short-term loans made to banks through the Federal Reserve System. It is our policy to make such loans only to banks that are considered to be in compliance with their regulatory capital requirements. Short-term investments are investments in money market mutual funds and commercial paper with maturities less than three months.

36

#### Credit Card Loans

Credit card loans presented on our balance sheet are receivables from consumers that we have not securitized, and are recorded at the principal amount outstanding. We accrue and earn interest income on credit card loans based on the principal amount of the loans outstanding using the effective-yield method. Accrued interest which has been billed to the customer but not yet received is classified on the consolidated balance sheet with the related credit card loans. Accrued interest which has not yet been billed to the customer is estimated and classified on the consolidated balance sheet in "Other assets." Interest income is generally recognized until a loan is charged off. At that time, the accrued interest portion of the charged off balance is deducted from current period interest income.

#### Securitization, Retained Interests in Loans Securitized and Securitization Income

We publicly and privately securitize a significant portion of our credit card loans to investors through the Metris Master Trust and third-party, single-seller and multi-seller receivables conduits. We retain participating interests in the credit card loans under "Retained interests in loans securitized" on the consolidated balance sheets. Our retained interests in loans securitized are subordinate to the interests of investors in the trust and conduit portfolios. Although we continue to service the securitized credit card accounts and maintain the customer relationships, these transactions are treated as sales for financial reporting purposes and the associated loans are not reflected on the consolidated balance sheets. Retained interests include contractual subordinated interests, excess transferor's interests and cash reserve accounts.

We have recorded the sales of these loans in accordance with Statement of Financial Accounting Standards ("SFAS") No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Upon sale, we remove the sold credit card loans from the consolidated balance sheet and initially measure the related financial and servicing assets controlled and liabilities incurred at fair value, if practicable. SFAS 125 also requires that

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servicing assets and other retained interests in the transferred assets be measured by allocating the previous carrying amount between the assets sold, if any, and retained interests, if any, based on their relative fair values at the date of the transfer.

The securitization and sale of credit card loans changes our interest in such loans from lender to servicer, with a corresponding change in how revenue is reported in the consolidated statements of income. For securitized and sold credit card loans, amounts that otherwise would have been recorded as interest income, interest expense, fee income and provision for loan losses are instead reported in other operating income as "Net securitization and credit card servicing income." We have various receivables from the trust or conduits and other assets as a result of securitizations, including: amounts deposited in accounts held by the trust for the benefit of the trust's security holders; amounts due from interest rate caps and floors; accrued interest and fees on the securitized receivables; servicing fee receivables and various other

37

receivables. These amounts are reported as "Other receivables due from credit card securitizations, net" on the consolidated balance sheets.

### Allowance for Loan Losses

We provide for loan losses in amounts necessary to maintain the allowance at a level we estimate to be sufficient to absorb probable losses of principal and earned interest, net of recoveries, that is inherent in the existing managed loan portfolio. This effectively reduces our retained interests in loans securitized to fair value. In evaluating the adequacy of the allowance for loan losses, we consider several factors, including: historical charge-off and recovery activity by age (vintage) of each loan portfolio (noting any particular trends over recent periods); recent delinquency and collection trends by vintage; current economic conditions and the impact such conditions might have on borrowers' ability to repay; the risk characteristics of the portfolios; and other factors. Significant changes in these factors could affect the adequacy of our allowance for loan losses. In general, we charge off unsecured credit card accounts at the end of the month during which the loan becomes contractually 180 days past due. In addition, we charge off secured credit card accounts at the end of the month during which the loan becomes contractually 120 days past due. Bankrupt accounts are charged off immediately upon formal notification of bankruptcy. Accounts of deceased cardholders without a surviving, contractually liable individual, or an estate large enough to pay the debt in full are also charged off immediately upon notification.

### Property and Equipment

We state property and equipment, and computer hardware and software at cost and depreciate them on a straight-line basis over their estimated economic useful lives, which range from one to twenty-five years. We capitalize software developed for internal use that represents major enhancements or replacements of operating and management information systems. We begin amortization of such capitalized software when the systems are fully developed and ready for implementation. We expense repair and maintenance costs as incurred.

### Purchased Portfolio Premium

The purchased portfolio premium represents the excess of amounts paid for portfolio acquisitions over the related credit card loan balances net of reserves and discounts. The intangible assets are amortized over the estimated periods of benefit, generally five to seven years, in proportion to the expected benefits to be recognized.

## Enhancement Services

## Debt Waiver Products

Direct Merchants Bank offers various debt waiver products to its credit card customers for which it retains the claims risk. Revenue for such products is recognized ratably over the coverage period, generally one month, and reserves are provided for pending claims based on Direct Merchants Bank's historical experience with settlement of such claims. Revenues recorded for debt waiver products are included in the consolidated statements of income under "Enhancement services revenues" and were \$144.7 million, \$106.0 million and \$73.8 million for the years ended December 31, 2000, 1999 and 1998, respectively. Unearned revenues and reserves for pending claims are recorded in the consolidated balance sheets in "Deferred income" and "Accrued expenses and other liabilities" and combined amounted to \$17.3 million and \$7.1 million as of December 31, 2000 and 1999, respectively.

## Membership Programs

We generally bill membership fees for enhancement products through financial institutions, including Direct Merchants Bank, and other cardholder-based institutions. We record these fees as deferred membership income upon acceptance of membership and amortize them on a straight-line basis over the membership period beginning after the contractual cancellation period is complete. Deferred enhancement revenues totaled \$199.8 million and \$127.5 million at December 31, 2000 and 1999, respectively.

In accordance with the provisions of Statement of Position 93-7, "Reporting on Advertising Costs," qualifying membership acquisition costs are deferred and charged to expense as membership fees are recognized. These costs, which relate directly to membership solicitations (direct response advertising costs), principally include: postage, printing, mailings and telemarketing costs. We amortize these costs on a straight-line basis as we realize revenues over the membership period. Amortization of membership acquisition costs amounted to \$14.9 million, \$9.9 million and \$8.9 million for the years ended December 31, 2000, 1999 and 1998, respectively. If deferred membership acquisition costs were to exceed forecasted future net revenues, we would make an appropriate adjustment for impairment. All other membership acquisition costs are expensed as incurred. Deferred membership acquisition costs amounted to \$59.3 million and \$30.6 million as of December 31, 2000 and 1999, respectively.

## Extended Service Plans

We coordinate the marketing activities for Fingerhut's sales of extended service plans. We perform administrative services and retain the claims risk for all extended service plans sold. As a result, we defer and recognize extended service plan revenues and the incremental direct acquisition costs on a straight-line basis over the life of the related extended service plan contracts beginning after the expiration of any manufacturers' warranty coverage. The provision for service contract returns charged against deferred income for the years ended December 31, 2000, 1999 and 1998, amounted to \$3.0 million, \$5.0 million and \$4.8 million, respectively. Additionally, prior to 1999, we reimbursed Fingerhut for the cost of its marketing media and other services utilized

in the sales of extended service plans, based on contracts sold and on media utilization costs as agreed to by us and Fingerhut. Beginning in 1999, Fingerhut was responsible for paying a majority of the marketing expense and

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therefore retained a larger portion of the related revenue.

During the quarter ended March 31, 2000, we adopted Staff Accounting Bulletin No. 101 - "Revenue Recognition in Financial Statements" for our debt waiver products. This SAB formalized the accounting for services sold where the right to a full refund exists, requiring all companies to defer recognition of revenues until the cancellation period is complete. Previously, we recognized half of the revenues in the month billed and half in the following month. We now recognize all of the revenue the month following completion of the cancellation period. This change resulted in a one-time, non-cash net charge to earnings of \$3.4 million, which is reflected as a "Cumulative effect of accounting change" in the consolidated statements of income for the year ended December 31, 2000. Because we have applied the provisions of this SAB to our membership programs since 1998, before the SEC formalized its guidance, no adjustment was required for our membership services revenues. The proforma effect of adopting SAB 101 was immaterial for the prior-year periods.

### Credit Card Fees and Origination Costs

Credit card fees include annual membership, late payment, overlimit, returned check, cash advance transaction fees and other miscellaneous fees. These fees are assessed according to the terms of the related cardholder agreements and, except for annual membership fees, are recognized as revenue when charged to the cardholder's account.

We defer direct credit card origination costs associated with successful credit card solicitations that we incur in transactions with independent third parties, and certain other costs that we incur in connection with loan underwriting and the preparation and processing of loan documents. We net these deferred credit card origination costs against the related credit card annual fee, if any, and amortize them on a straight-line basis over the cardholder's privilege period, which is generally 12 months. Net deferred fees were \$13.1 million and \$11.8 million as of December 31, 2000 and 1999, respectively.

### Solicitation Expenses

We generally expense credit card account costs, including printing, credit bureaus, list processing costs, telemarketing and postage, as incurred over the two-to-three month period during which the related responses to such solicitation are received.

### Credit Card Fraud Losses

We experience credit card fraud losses from the unauthorized use of credit cards. We expense these fraudulent transactions when identified, through the establishment of a reserve for the transactions. We charge off these amounts after 90 days, after all attempts to recover the amounts from these transactions, including chargebacks to merchants and claims against cardholders, are exhausted.

40

### Interest Rate Risk Management Contracts

The nature and composition of our assets and liabilities and securitized loans expose us to interest rate risk. We enter into a variety of interest rate risk management contracts such as interest rate swap, floor and cap agreements with highly rated counterparties in order to hedge our interest rate exposure on securitized loans and deposits. The monthly interest rate differential to be paid or received on these contracts is accrued and included in "Net securitization and credit card servicing income" or "Deposit interest expense," as appropriate, on the consolidated statements of income. Premiums paid for

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these contracts and the related interest payable or receivable under these contracts are classified under "Other receivables due from credit card securitization, net," on the consolidated balance sheets. We record premiums paid for interest rate contracts at cost and amortize them on a straight-line basis over the life of the contract.

### Debt Issuance Costs

Debt issuance costs are the costs related to issuing new debt securities and establishing new securitizations under the trust or conduits. We capitalize the costs as incurred and amortize them to expense over the term of the new debt security.

### Income Taxes

We determine deferred taxes based on the temporary differences between the financial statement and the tax bases of assets and liabilities that will result in future taxable or deductible amounts. The deferred taxes are based on the enacted rate that is expected to apply when the temporary differences reverse. For periods prior to the spin off, we were included in the consolidated federal and certain state income tax returns of Fingerhut Companies, Inc. Based on a tax sharing agreement between us and Fingerhut Companies, Inc., the 1998 provision and deferred income taxes were computed based only on our financial results as if we filed our own federal and state tax returns.

### Earnings Per Share

Basic earnings per share ("EPS") excludes dilution and is computed by dividing net income applicable to common stockholders by the weighted average number of common shares outstanding for the year. Diluted EPS reflects the potential dilution that could occur if dilutive securities or other contracts to issue common stock were exercised or converted into common stock.

41

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

	Year Ended December 31,		
	2000	1999	1998
	----	----	----
(In thousands)			
Income before extraordinary loss and cumulative effect of accounting change .....	\$ 198,591	\$ 115,363	\$ 57,348
Preferred dividends - Series B .....	--	7,506	1,100
Preferred dividends - Series C .....	31,624	17,080	--
Adjustment for the retirement of Series B preferred stock .....	--	101,615	--
	-----	-----	-----
Net income (loss) applicable to common stockholders before extraordinary loss and cumulative effect of accounting change	166,967	(10,838)	56,248
Extraordinary loss from the early extinguishment of debt .....	--	50,808	--
Cumulative effect of accounting change, net ...	3,438	--	--
	-----	-----	-----
Net income (loss) applicable to common stockholders .....	\$ 163,529	\$ (61,646)	\$ 56,248
	=====	=====	=====

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Weighted average common shares			
outstanding (basic common shares) .....	60,070	57,855	57,696
Adjustments for dilutive securities:			
Assumed exercise of outstanding stock			
options .....	3,348	--(1)	2,209
Assumed conversion of convertible preferred			
stock .....	29,164	--(1)	--
	-----	-----	-----
Diluted common shares .....	92,582	57,855	59,905
	=====	=====	=====

(1) For the year ended December 31, 1999, there were options and convertible preferred stock outstanding to purchase 3.2 million and 15.3 million common shares. These potential common shares have been excluded from the computation of diluted earnings per share because their inclusion would have been anti-dilutive.

42

### Comprehensive Income

Statement of Financial Accounting Standard 130 "Reporting Comprehensive Income," does not apply to our current financial results and therefore, net income equals comprehensive income.

### NOTE 3 - SECURITIZATION ACTIVITY

Securitization activity as of and for the year ended December 31, 2000, is as follows:

At December 31, 2000

Principal amount of credit card	
receivables sold .....	\$6,070,224
Retained interests in loans securitized.....	2,023,681
Loans more than 30-days contractually	
delinquent.....	612,523

For the year ended December 31, 2000

Cash flow to/from the Company	
Net proceeds from sales and repayments	
of securitized loans.....	\$ 551,911
Collections reinvested in revolving	
period securitizations.....	3,858,146
Servicing fees .....	119,572
Cash flow from retained interests, net.....	401,557
	-----
Total .....	\$4,931,186
	=====

Loans charged off, net of recoveries .....	\$ 645,309
	=====

43

### NOTE 4 - ALLOWANCE FOR LOAN LOSSES

We maintain an allowance for loan losses for both owned loans and the



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retained interests in loans securitized. The portion allocated to the retained interest in loans securitized represents our estimated valuation adjustment to report this asset in accordance with SFAS 125. For securitized loans, losses and related provisions for loan losses are reflected in the calculations of net securitization and credit card servicing income. We make provisions for loan losses in amounts necessary to maintain the allowance at a level estimated to be sufficient to absorb probable losses of principal and earned interest, net of recoveries, inherent in the existing loan portfolio.

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

	Year Ended December 31,		
	2000	1999	1998
	----	----	----
Balance at beginning of year .....	\$ 619,028	\$ 393,283	\$ 244,084
Allowance related to assets acquired, net	5,963	26,293	20,152
Provision for loan losses .....	388,234	174,800	77,770
Provision for loan losses (1) .....	529,671	567,737	456,354
Loans charged off .....	(854,087)	(582,637)	(420,875)
Recoveries .....	75,166	39,552	15,798
	-----	-----	-----
Net loans charged off .....	(778,921)	(543,085)	(405,077)
	-----	-----	-----
Balance at end of year .....	\$ 763,975	\$ 619,028	\$ 393,283
	=====	=====	=====

(1) Amounts are included in "Net securitization and credit card servicing income."

### NOTE 5 - PROPERTY AND EQUIPMENT

The carrying value of property and equipment is as follows:

	At December 31,	
	2000	1999
	----	----
Furniture and equipment .....	\$ 46,416	\$ 12,186
Computer software and equipment .....	55,399	24,675
Construction in progress .....	6,842	24,500
Buildings and land .....	27,805	--
Leasehold improvements .....	18,537	8,631
	-----	-----
Total .....	\$154,999	\$ 69,992
Less: Accumulated depreciation and amortization.....	26,603	13,078
	-----	-----
Balance at end of year .....	\$128,396	\$ 56,914
	=====	=====

Depreciation and amortization expense for the years ended December 31, 2000, 1999 and 1998, was \$16.0 million, \$6.8 million and \$4.4 million, respectively.

### NOTE 6 - PORTFOLIO ACQUISITIONS

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On August 25, 2000, Direct Merchants Bank purchased the U.S. Bankcard Program from Banco Popular. The acquired credit card portfolio had approximately 184,000 active accounts and approximately \$186 million in receivables. On June 30, 1999, Direct Merchants Bank purchased a portion of the consumer bankcard portfolio of GE Capital Consumer Card Co., a unit of General Electric Company. The acquired credit card portfolio had approximately 485,000 active accounts and approximately \$1.2 billion in receivables. In December 1998, the Company acquired an \$800 million credit card portfolio from PNC Bank Corp. representing loans from customers outside of PNC's normal banking relationship.

### NOTE 7 - CONVERTIBLE PREFERRED STOCK

The Series C Perpetual Convertible Preferred Stock is held by affiliates of the Thomas H. Lee Company, a private equity firm, and is convertible into common shares at a conversion price of \$12.42 per common share subject to adjustment in certain circumstances. The Series C Preferred Stock has a 9% dividend payable in additional shares of Series C Preferred Stock and will also receive any cash dividends paid on our common stock on a converted basis. One share of Series C Preferred Stock is convertible into 30 shares of common stock, plus a premium amount designed to guarantee a portion of seven years' worth of dividends at a 9% annual rate. For conversions in 2000, the premium amount would be equal to approximately 14% of those future dividends. Assuming conversion of the Series C Preferred Stock into common stock, the Lee Company would own approximately 32% of the Company on a diluted basis at December 31, 2000. The Series C Preferred Stock entitles the holders to elect four members to our Board of Directors. The Series C Preferred Stock may be redeemed by us in certain circumstances after December 31, 2001, by paying 103% of the redemption price of \$372.50 and any accrued dividends at the time of redemption. We also have the option to redeem the Series C Preferred Stock after December 9, 2008, without restriction by paying the redemption price of \$372.50 and any accrued dividends at the time of redemption.

The Series C Preferred Stock is normally convertible into common stock. However, in the event that such conversion would result in a stockholder or group (within the meaning of Rules 13d-3 and 13d-5 promulgated under the Securities Exchange Act of 1934) obtaining 35% or more of the outstanding voting stock of the Company, the indenture which governs our outstanding 10% Senior Notes due 2004 requires us to make an offer to purchase those notes. Accordingly, for so long as any of our 10% Notes remain outstanding, in the event that the conversion of the Series C Preferred Stock into common stock would cause any stockholder or group to beneficially own more than 34.9% of the outstanding voting stock of the Company, the excess number of shares of Series C Preferred Stock will be convertible into non-voting stock, currently Series D Preferred Stock. The Series D Preferred Stock has a liquidation preference of \$.01 per share, is non-voting, except as required by law, and will automatically convert into common stock at the time such conversion will not trigger the restrictions set forth in the indenture described above.

Prior to shareholder approval and the receipt of notice that there was no regulatory objection to the Series C Preferred Stock investment, the Lee Company agreed to purchase \$200 million in Series B Perpetual Preferred Stock and \$100 million in 12% Senior Notes due 2006. We also

45

issued the Lee Company 7.5 million ten-year warrants to purchase shares of our common stock.

On March 12, 1999, shareholders approved the conversion of the Series B Preferred Stock and 12% Senior Notes into Series C Preferred Stock. Notice was received on May 28, 1999, that there was no regulatory objection to the conversion to the Series C Preferred Stock. On June 1, 1999, the Series B

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Preferred Stock and the 12% Senior Notes were extinguished, and the warrants were canceled causing a one-time, non-cash accounting adjustment. The excess of the fair value of the Series C Preferred Stock over the carrying value of the Series B Preferred Stock and the 12% Senior Notes at the time of the conversion was allocated to the 12% Senior Notes and the Series B Preferred Stock based upon their initial fair values. To arrive at net income applicable to common stockholders in the calculation of earnings per share, the amount allocated to the 12% Senior Notes was recognized as an extraordinary loss from the early extinguishment of debt in the amount of \$50.8 million and the amount allocated to the Series B Preferred Stock was recognized as a reduction of net income applicable to common stockholders in the amount of \$101.6 million. The extraordinary loss attributable to the 12% Senior Notes is not recorded net of taxes. These adjustments did not have an impact on total stockholders' equity.

### NOTE 8 - STOCK OPTIONS

We offer the Metris Companies Inc. Long-Term Incentive and Stock Option Plan, which permits a variety of stock-based grants and awards and gives us flexibility in tailoring our long-term compensation programs. In 2000, the Board of Directors recommended, and the shareholders approved, an increase in the number of shares permitted to be granted under the plan to 15.0 million shares of common stock for awards of stock options or other stock-based awards, subject to adjustment in certain circumstances. As of December 31, 2000, 1.3 million shares were available for grant.

The Compensation Committee has the authority to determine the exercise prices, vesting dates or conditions, expiration dates and other material conditions upon which options or awards may be exercised, except that the option price for Incentive Stock Options ("ISOs") may not be less than 100% of the fair market value of the common stock on the date of grant (and not less than 110% of the fair market value in the case of an ISO granted to any employee owning more than 10% of the common stock) and the terms of nonqualified stock options may not exceed 15 years from the date of grant (not more than 10 years for ISOs and five years for ISOs granted to any employee owning more than 10% of the common stock). Full- or part-time employees, consultants or independent contractors are eligible to receive nonqualified options and awards. Only full- or part-time employees are eligible to receive ISOs.

During 2000, 1999 and 1998, we granted 4.2 million, 2.7 million and 3.2 million options, respectively, to officers and employees. Restricted stock grants are also issued under the stock option plan to our executive officers. A total of 0.1 million and 0.3 million common shares were granted in 2000 and 1999, with an approximate aggregate market value of \$2.3 million and \$4.0 million at the time of the grant, respectively. The market value of these restricted shares at the date of grant is amortized into expense over a period not less than the restriction period. We recognized \$1.1 million in 2000 and \$0.6 million in 1999 for these restricted shares. If the restrictions are removed, generally upon

46

death, disability or retirement, the remaining unamortized market value of the restricted shares is expensed.

We also offer the Metris Companies Inc. Non-Employee Director Stock Option Plan which provides up to 750,000 shares of common stock for awards of options, subject to adjustments in certain circumstances. During 2000, 1999 and 1998, we granted 82,500, 127,500 and 75,000 options, respectively. At December 31, 2000, 375,000 shares were available for grant.

We have adopted the disclosure-only provisions of SFAS No. 123 "Accounting for Stock-Based Compensation." Accordingly, we continue to account for

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stock-based compensation under the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Under the guidelines of Opinion 25, compensation cost for stock-based employee compensation plans is recognized 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.

Had compensation cost for these plans been determined based on the fair value methodology prescribed by SFAS 123, our net earnings and earnings per share would have been reduced to the pro forma amounts indicated below:

	Year Ended December 31,		
	2000	1999	1998
	----	----	----
Net income as reported .....	\$ 195,193	\$64,555	\$57,348
Net income pro forma .....	185,356	59,733	47,264
Diluted earnings (loss) per share			
as reported .....	2.11	(1.07)	0.94
Diluted earnings (loss) per share			
pro forma .....	2.00	(1.15)	0.79

The above pro forma amounts may not be representative of the effects on reported net earnings for future years. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The following weighted-average assumptions were used for grants in 2000, 1999 and 1998, respectively: dividend yield of 0.10%, 0.10% and 0.10%; expected volatility of 58.4%, 55.4% and 71.3%; risk-free interest rate of 6.40%, 5.30% and 4.72%; and expected lives of six years, six years and seven years, respectively.

47

Information regarding our stock option plans for 2000, 1999 and 1998, is as follows:

	Year Ended December 31,			
	2000		1999	
	----	-----	----	-----
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
	-----	-----	-----	-----
Options outstanding, beginning of year .....	10,129,614	\$ 9.72	7,862,100	\$ 8.5
Options exercised .....	4,212,537	5.46	111,750	6.4
Options granted .....	4,348,685	24.78	2,860,914	13.4
Options canceled/ forfeited .....	358,700	22.64	481,650	13.7
-----				
Options outstanding, end of year .....	9,907,062	17.67	10,129,614	9.7
Weighted-average fair value of options granted during the year .....	--	13.47	--	6.5

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The following table summarizes information about stock options outstanding at December 31, 2000:

Exercise Price -----	Options Outstanding			Options Exercisable	
	Number Outstanding at 12/31/00 -----	Weighted- Average Remaining Contractual Life ----	Weighted- Average Exercise Price -----	Number Exercisable at 12/31/00 -----	Weighted- Average Exercise Price -----
\$ 5.33-\$13.46 .....	4,351,869	7.6	\$10.16	2,411,532	\$10.18
\$13.47-\$24.42 .....	3,744,642	8.6	22.01	1,144,497	18.86
\$24.43-\$38.88 .....	1,810,551	9.5	26.78	82,650	25.79
-----	9,907,062	8.3	\$17.67	3,638,679	\$13.26
	=====	===	=====	=====	=====

### Employee Stock Purchase Plan

During the third quarter of 1999, we adopted an employee stock purchase plan (ESPP), whereby eligible employees may authorize payroll deductions of up to 15% of their salary to purchase shares of our common stock. Under the plan, shares of our common stock may be purchased at the end of each monthly offering period at 85% of the lower of the fair market value on the first or last day of the monthly offering period. Employees contributed \$2.0 million and \$0.7 million to purchase 100,624 and 40,022 shares of common stock under the ESPP for 2000 and 1999, respectively. We are authorized to issue up to 2.6 million shares of common stock to employees under the plan, and as of December 31, 2000, there were approximately 2.4 million shares available for future issuance.

48

### Management Stock Purchase Plans

We provide management stock purchase plans, whereby any employee who is a Senior Vice President or higher and who participates in the Metris Management Incentive Bonus Plan is eligible to participate. Participants may elect to defer up to 50% of their bonus received under the Management Bonus Plan, which is credited to a stock purchase account as restricted stock units. We will make a match of \$1 for every \$3 contributed by the participant. The participant's contributions are vested immediately and our matching contributions vest after three years (two years for contributions made for the year of adoption). Employees contributed approximately \$1.3 million to purchase 52,231 restricted stock units under the Plans for 2000. The restricted stock units convert to common stock when distributed from the Plans. We are authorized to issue up to 900,000 shares of common stock to employees under the Plans, and as of December 31, 2000, approximately 830,000 of the authorized shares were available for future issuance.

### NOTE 9 - EMPLOYEE BENEFIT PLANS

We offer a defined contribution plan that is intended to qualify under section 401(k) of the Internal Revenue Code. The 401(k) Plan provides retirement benefits for eligible employees. Eligible employees may elect to contribute to the 401(k) Plan, and we match a portion of employee contributions and make discretionary contributions based upon our financial performance. For the years

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ended December 31, 2000, 1999 and 1998, we contributed \$1.4 million, \$1.8 million and \$0.9 million to the 401(k) Plan, respectively.

In 2000, the Company adopted a new Non-Qualified Deferred Compensation Plan for a select group of management or highly compensated employees. These employees are allowed to participate in the 401(k) Plan under the new Plan in 2000, but were unable to participate in the 401(k) Plan under the previous Non-Qualified Deferred Compensation Plan in 1998. There was no Non-Qualified Preferred Compensation Plan in effect during 1999. The new Plan provides saving and investment opportunities to those individuals who elect to defer a portion of their salary. Participants in the prior Plan were allowed to transfer their balances to the new Plan. The Company matches a portion of the employee contribution and makes discretionary contributions based on the Company's financial performance. For the years ended December 31, 2000 and 1998, respectively, the Company contributed \$0.3 million and \$0.2 million to the Plans.

### Supplemental Executive Retirement Plan

Our funded Supplemental Executive Retirement Plan ("SERP"), established in 1999, provides officers and other members of senior management with supplemental retirement benefits in excess of limits imposed on qualified plans by federal tax law. The SERP is an account balance plan to which we will make annual contributions targeted to provide 60% of the average of the participant's final five years of salary and bonus with us. These benefits will be paid in 15 annual installments beginning the year after they become eligible to receive benefits. Participants are eligible to receive benefits upon leaving our employment if they are at least 65 years of age or at least age 55 with

49

five years of plan participation, if a change of control occurs or in the event of death. We recognized \$0.9 million and \$2.2 million of expense in 2000 and 1999, respectively, related to the SERP Plan. Our liability was \$3.1 million and \$2.2 million at December 31, 2000 and 1999, respectively, for future payments under this Plan. This expense and liability are calculated based on actuarial assumptions regarding years of participation, future investment returns and participants continuing in the Plan until age 65.

### NOTE 10 - INCOME TAXES

The components of the provision for income taxes consisted of the following:

	Year Ended December 31,		
	2000	1999	1998
Current:			
Federal .....	\$ 77,185	\$ 94,309	\$ 98,428
State .....	7,867	14,236	8,355
Deferred .....	39,268	(32,592)	(70,883)
	\$124,320	\$ 75,953	\$ 35,900
	=====	=====	=====

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

Year Ended  
December 31,

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	-----	-----	-----
	2000	1999	1998
	----	----	----
Statutory federal income tax rate .....	35.0%	35.0%	35.0%
State income taxes, net of federal benefit ...	2.8%	3.2%	3.2%
Other, net .....	0.7%	1.5%	0.3%
	----	----	----
Effective income tax rate .....	38.5%	39.7%	38.5%
	====	====	====

Our deferred tax assets and liabilities are as follows:

	At December 31,	
	-----	-----
	2000	1999
	----	----
Deferred income tax assets resulting from future deductible temporary differences:		
Allowance for loan losses .....	\$214,989	\$196,840
Deferred revenues .....	74,755	48,200
Other .....	18,800	19,378
	-----	-----
Total deferred tax assets .....	\$308,544	\$264,418
Deferred income tax liabilities resulting from future taxable temporary differences:		
Accrued interest on credit card loans .....	\$114,595	\$ 65,260
Deferred costs .....	30,701	11,464
Intangible amortization .....	10,900	750
Other .....	6,003	1,331
	-----	-----
Total deferred tax liabilities .....	\$162,199	\$ 78,805
	-----	-----
Net deferred tax assets .....	\$146,345	\$185,613
	=====	=====

50

We believe, based on our history of operating earnings, expectations for operating earnings in the future, and the expected reversal of taxable temporary differences, earnings will be sufficient to fully utilize the deferred tax assets.

NOTE 11 - RELATED PARTY TRANSACTIONS

Prior to September 1998, Fingerhut owned approximately 83% of our outstanding common shares. In September 1998, Fingerhut distributed the remaining shares of the Company to shareholders of Fingerhut in a tax-free distribution.

Information related to transactions with Fingerhut have not been presented for the years ended December 31, 2000 and 1999, because Fingerhut is no longer considered a related party after distributing their remaining shares. Prior to the distribution of the shares, Fingerhut and its various subsidiaries had historically provided financial and operational support to us. We believe the fees paid for the operational support reasonably approximate market rates for the services performed. The direct and allocated expenses represent charges for various administrative services. We have also entered into several other agreements with Fingerhut that detail further business arrangements between the companies. Each of these agreements was negotiated and we believe they

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reasonably approximate contracts between unrelated third parties. Our exclusive license to use Fingerhut's customer database to market financial service products will become non-exclusive after October 31, 2001.

The following table summarizes the amounts of revenues, direct expense charges, cost allocations (including net interest income or expense), and our costs of the agreements mentioned above for each of the years reflected in our financial statements for the year ended December 31, 1998.

Revenues:	
Enhancement services .....	\$15,439
Expenses:	
Credit card account and other product solicitation and marketing expenses .....	10,796
Data processing services and communications.....	2,344
Other .....	659

In the ordinary course of business, our executive officers may have credit card loans issued by us. Pursuant to our policy, such loans are issued on the same terms as those available to all eligible employees and do not involve more than the normal risk of collectibility.

### NOTE 12 - COMMITMENTS AND CONTINGENCIES

Commitments to extend credit to consumers represent the unused credit limits on open credit card accounts. These commitments amounted to \$11.1 billion, \$9.7 billion and \$5.9 billion as of December 31, 2000, 1999 and 1998, respectively. While these amounts represent the total lines of credit available to our customers, we have not experienced and do not anticipate that all of our customers will exercise their entire available

51

line at any given point in time. We also have the right to increase, reduce, cancel, alter or amend the terms of these available lines of credit at any time.

We lease certain office facilities and equipment under various cancelable and non-cancelable operating lease agreements that provide for the payment of a proportionate share of property taxes, insurance and other maintenance expenses. These leases also may include scheduled rent increases and renewal options. Rental expense for these operating leases for the years ended December 31, 2000, 1999 and 1998, was \$18.1 million, \$11.1 million and \$6.4 million, respectively.

Future minimum lease commitments at December 31, 2000, under cancelable and non-cancelable operating leases are as follows:

2001	\$	18,528
2002		15,849
2003		12,354
2004		11,014
2005		8,650
Thereafter		39,027
		-----
Total minimum lease payments	\$	105,422
		=====

We are a party to various legal proceedings resulting from the ordinary business activities relating to our operations. In July 2000 an Amended Complaint was filed in Hennepin County Court in Minneapolis, Minnesota against



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Metris Companies Inc., Metris Direct, Inc. and Direct Merchants Bank. The complaint seeks damages in unascertained amounts and purports to be a class action complaint on behalf of all cardholders who were issued a credit card by Direct Merchants Bank and were allegedly assessed fees or charges that the cardholder did not authorize. Specifically, the complaint alleges violations of the Minnesota Prevention of Consumer Fraud Act, the Minnesota Deceptive Trade Practices Act and breach of contract. We filed our answer to the complaint in August 2000. To date, the complaint has not been certified as a class action claim. We believe we have numerous substantive legal defenses to these claims and are prepared to vigorously defend the case. There can be no assurance that defense or resolution of these matters will not have a material adverse effect on our financial position.

Direct Merchants Bank's activities as a credit card lender are subject to regular review and examination by federal regulators to assess compliance with various federal consumer protection laws. Regulators are authorized to impose penalties for violations of these laws and, in certain cases, to order Direct Merchants Bank to pay restitution to injured cardholders.

### NOTE 13 - CAPITAL REQUIREMENTS AND RESTRICTED PAYMENTS

In the normal course of business, we enter into agreements, or are subject to regulatory requirements, that result in cash, debt and dividend or other capital restrictions.

The Federal Reserve Act imposes various legal limitations on the extent to which banks can finance or otherwise supply funds to their affiliates. In particular, Direct Merchants Bank is subject to certain

52

restrictions on any extensions of credit to or other covered transactions, such as certain purchases of assets, with us and our affiliates. Such restrictions limit Direct Merchants Bank's ability to lend to us and our affiliates. Additionally, Direct Merchants Bank is limited in its ability to declare dividends to us in accordance with the national bank dividend rules.

Direct Merchants Bank is subject to certain capital adequacy guidelines adopted by the Office of the Comptroller of Currency. At December 31, 2000 and 1999, Direct Merchants Bank's Tier 1 risk-based capital ratio, risk-based total capital ratio and Tier 1 leverage ratio exceeded the minimum required capital levels, and Direct Merchants Bank was considered a "well-capitalized" depository institution under regulations of the OCC.

We are also bound by restrictions set forth in the indentures related to the Senior Notes dated November 7, 1997, and July 15, 1999. Pursuant to those indentures, we may not make dividend payments in the event of a default or if all such restricted payments would exceed 25% of our aggregate cumulative net income.

### NOTE 14 - CONCENTRATIONS OF CREDIT RISK

A concentration of credit risk is defined as significant credit exposure with an individual or group engaged in similar activities or affected similarly by economic conditions. We are active in originating credit card loans throughout the United States, and no individual or group had a significant concentration of credit risk at December 31, 2000 or 1999. The following table details the geographic distribution of our retained, sold and managed credit card loans:

Retained	Sold	Managed
----------	------	---------

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	-----	----	-----
At December 31, 2000			
-----			
California .....	\$ 404,947	\$ 765,909	\$1,170,856
Texas .....	273,187	516,701	789,888
New York .....	261,192	494,015	755,207
Florida .....	238,972	451,988	690,960
Ohio .....	129,958	245,801	375,759
Illinois .....	128,650	243,326	371,976
Pennsylvania .....	104,911	198,427	303,338
All others .....	1,661,067	3,154,057	4,815,124
	-----	-----	-----
Total .....	\$3,202,884	\$6,070,224	\$9,273,108
	=====	=====	=====

	Retained	Sold	Managed
	-----	----	-----
At December 31, 1999			
-----			
California .....	\$ 224,359	\$ 702,254	\$ 926,613
Texas .....	158,760	496,927	655,687
New York .....	134,087	419,700	553,787
Florida .....	131,960	413,043	545,003
Ohio .....	73,313	229,473	302,786
Illinois .....	66,947	209,546	276,493
Pennsylvania .....	56,025	175,363	231,388
All others .....	917,558	2,872,007	3,789,565
	-----	-----	-----
Total .....	\$1,763,009	\$5,518,313	\$7,281,322
	=====	=====	=====

53

We target our consumer lending products primarily to moderate-income consumers. Primary risks associated with lending to this market are that they may be more sensitive to future economic downturn, which may make them more likely to default on their obligations.

NOTE 15 - FAIR VALUE OF FINANCIAL INSTRUMENTS

We have estimated the fair value of our financial instruments in accordance with SFAS No. 107, "Disclosures About Fair Value of Financial Instruments." Financial instruments include both assets and liabilities, whether or not recognized in our consolidated balance sheets, for which it is practicable to estimate fair value. Additionally, certain intangible assets recorded on the consolidated balance sheets, such as purchased credit card relationships, and other intangible assets not recorded on the consolidated balance sheets (such as the value of the credit card relationships for originated loans and the franchise values of our various lines of business) are not considered financial instruments and, accordingly, are not valued for purposes of this disclosure. We believe there is substantial value associated with these assets based on current market conditions, including the purchase and sale of such assets. Accordingly, the aggregate estimated fair value amounts presented do not represent the entire underlying value of the Company.

Quoted market prices generally are not available for all of our financial instruments. Accordingly, in cases where quoted market prices are not available, fair values were estimated using present value and other valuation techniques that are significantly affected by the assumptions used, including the discount rate and estimated future cash flows. These assumptions are based on historical

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experience and assessments regarding the ultimate collectibility of assets and related interest, and estimates of product lives and repricing characteristics used in our asset/liability management process. These assumptions involve uncertainties and matters of judgment, and therefore, cannot be determined with precision. Thus, changes in these assumptions could significantly affect the fair-value estimates.

A description of the methods and assumptions used to estimate the fair value of each class of our financial instruments is as follows:

Cash and cash equivalents and accrued interest and fees receivable

The carrying amounts approximate fair value due to the short-term nature of these instruments.

Net retained interests in loans securitized and net credit card loans

Securitized credit card loans are originated with variable rates of interest that adjust with changing market interest rates. Thus, the carrying value of the retained interest in the loans securitized, less the allowance for loan losses, approximates fair value. This valuation does not include the value that relates to estimated cash flows generated from new loans from existing customers over the life of the cardholder relationship. Accordingly, the aggregate fair value of the credit card loans does not represent the underlying value of the established cardholder relationships.

54

Interest-only strip

The fair value of the interest-only strip is estimated by discounting the expected future cash flows from the trust and each of the conduits at rates which we believe to be consistent with those that would be used by an independent third party. However, because there is no active market for this, the fair values presented may not be indicative of the value negotiated in an actual sale. The future cash flows used to estimate fair value are limited to the securitized receivables that exist at year end and does not reflect the value associated with future receivables generated by cardholder activity.

Interest rate cap, floor and swap agreements

The fair values of interest rate cap, floor and swap agreements were obtained from dealer quoted prices. These values generally represent the estimated amounts we would receive or pay to terminate the agreements at the reporting dates, taking into consideration current interest rates and the current creditworthiness of the counterparties.

Other securitization assets

For other securitization assets, the carrying amount is a reasonable estimate of the fair value, due to their short-term nature.

Debt

We make short-term borrowings with variable rates of interest that adjust with changing market interest rates. Thus, carrying value approximates fair value.

We obtain the fair value of long-term debt from quoted market yields, when available.

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### Deposits

The fair value for fixed rate certificates of deposit are estimated based on quoted market prices of comparable instruments.

55

The estimated fair values of our financial instruments are summarized as follows:

	At December 31,			
	2000	Estimated		1999
	Carrying	Fair Value	Carrying	Estimated
	Amount	Fair Value	Amount	Fair Value
	-----	-----	-----	-----
Cash and cash equivalents .....	\$ 521,440	\$ 521,440	\$ 194,433	\$ 194,433
Accrued interest and fees receivable.....	30,531	30,531	17,704	17,704
Credit card loans, net .....	1,056,080	1,056,080	133,608	133,608
Securitization assets:				
Retained interest in loans securitized, net .....	1,382,829	1,382,829	1,010,373	1,010,373
Interest rate cap agreements .....	39,365	15,468	27,113	34,526
Interest rate floor agreements .....	--	--	23	6
Interest-only strip .....	--	--	--	--
Other .....	147,329	147,329	216,842	216,842
Interest rate swap agreements .....	--	2,716	--	--
Debt .....	356,066	327,917	345,012	346,218
Deposits .....	2,106,199	2,109,690	775,381	775,381

We have performed an analysis of the fair market value by discounting future cash flows of the trust and each of the conduits at rates which we believe to be consistent with those that would be used by an independent third party. However, because there is no active market for this, the fair values presented may not be indicative of the value negotiated in an actual sale. The future cash flows used to estimate fair value are limited to the securitized receivables that exist at year end and does not reflect the value associated with future receivables generated by cardholder activity.

The significant assumptions used at year end for estimating the fair value of the retained interest in loans securitized and related interest-only strip are as follows:

	At December 31,	
	2000	1999
	-----	-----
Annual discount rate(1) .....	15%	15%/12%
Monthly payment rate .....	7%	7%
Net interest rate spread(2) .....	14%	14%
Annual principal and finance charge default rate .....	16%	17%

(1) The 1999 discount rate for retained interests was 15% and interest-only strip was 12%.

(2) Weighted average Annual Percentage Rate (APR) minus weighted average cost

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of funds.

56

At December 31, 2000, the sensitivity of the current fair value to immediate 10 percent and 20 percent adverse changes are as follows (in millions):

	Impact on Fair Value	
	10% adverse change	20% adverse change
Annual discount rate .....	\$ 13	\$ 26
Monthly payment rate .....	22	47
Net interest rate spread .....	109	212
Annual principal and finance charge default rate .....	141	278

The actual life-to-date annual principal and finance charge default rates for loans securitized are as follows:

December 31, 2000 .....	13%
December 31, 1999 .....	13%
December 31, 1998 .....	12%

We believe these sensitivity analyses do not accurately reflect the potential impact on the asset values as they do not consider potential offsetting positive impacts that would occur in the portfolio.

57

NOTE 16- DERIVATIVE FINANCIAL INSTRUMENTS

We enter into interest rate cap, floor and swap agreements to hedge the cash flow and earnings impact of fluctuating market interest rates on the spread between the floating rate loans and the floating and fixed rate debt issued to fund the loans. In connection with the issuance of term asset-backed securities by the trust, we enter into term interest rate cap agreements with highly rated bank counterparties to effectively cap the potentially negative impact to us from increases in the floating interest rate of the securities. We also enter into interest rate swap agreements to hedge the fair value of a portion of our fixed rate deposits. These interest rate agreements are for original terms ranging from two to ten years and will terminate between February 2002 and January 2010.

Notional Amounts of Interest Rate Swap,  
Cap and Floor Agreements Purchased and Sold

Year Ended December 31,		Weighted- Average Interest Rate		Weighted- Average Interest Rate
(Dollars in thousands)	2000		1999	
	----	----	----	----
Interest rate swap agreements:				
Beginning balance .....	\$ --	--	\$ --	--
Additions .....	249,000	7.0%	--	--

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Maturities/terminations	--	--	--	--
	-----		-----	
Ending balance .....	\$ 249,000	7.0%	\$ --	--
	=====		=====	
Interest rate caps:				
Beginning balance .....	\$4,213,021	9.4%	\$2,393,021	8.7%
Additions .....	1,260,774	8.5%	2,460,000	9.5%
Maturities/terminations	354,167	9.1%	640,000	7.4%
	-----		-----	
Ending balance .....	\$5,119,628	9.2%	\$4,213,021	9.4%
	=====		=====	
Interest rate floor:				
Beginning balance .....	\$ 58,333	6.2%	\$ 467,367	6.2%
Additions .....	--	--	--	--
Maturities/terminations	58,333	6.2%	409,034	6.2%
	-----		-----	
Ending balance .....	\$ --	--	\$ 58,333	6.2%
	=====		=====	

Interest rate risk management contracts are generally expressed in notional principal or contract amounts that are much larger than the amounts potentially at risk for nonpayment by counterparties. Therefore, in the event of nonperformance by the counterparties, our credit exposure is limited to the uncollected interest and contract market value related to the contracts that have become favorable to us. We manage the credit risk of such contracts through established risk limits and monitoring of the credit ratings of our counterparties. We currently have no reason to anticipate nonperformance by any counterparty.

58

NOTE 17 - 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 card accountholders include customers obtained from third-party lists and other customers for whom general credit bureau information is available.

We market our enhancement services, including (i) debt waiver protection for unemployment, disability and death, (ii) membership programs such as card registration, purchase protection and other club memberships, and (iii) third-party insurance, directly to our credit card customers and customers of third parties. We currently administer our extended service plans sold through a third-party retailer, and the customer pays the retailer directly. In addition, we develop customized targeted mailing lists from information contained in our databases for use by unaffiliated companies in their own product solicitation efforts that do not directly compete with our efforts.

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. To do 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 generally accepted accounting principles. The elimination column in the segment table includes adjustments to present the information on an owned basis as reported in the financial statements of this annual report.

We do not allocate the expenses, assets and liabilities attributable to corporate functions to the operating segments, such as employee compensation,

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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 (and cumulative effect of accounting change and extraordinary loss) 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 operating assets located outside of the United States for the periods presented.

59

Our enhancement services operating segment pays a fee to the consumer lending products segment for successful marketing efforts to the consumer lending products segment's cardholders at a rate similar to those paid to our other third parties. Our enhancement services segment reports interest income and the 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.

	2000		
	Consumer Lending Products -----	Enhancement Services -----	Reconciliation (a) -----
Interest			
income .....	\$ 1,596,352	\$ 11,848	\$(1,103,422) (b)
Interest expense .....	533,325	--	(400,319) (b)
	-----	-----	-----
Net interest			
income .....	1,063,027	11,848	(703,103)
Other revenue .....	494,155	266,200	173,432
Total revenue .....	2,090,507	278,048	(929,990)
Income before			
income taxes and			
cumulative effect			
of accounting change.....	560,772 (c)	176,756 (c)	(414,617) (d)
Total assets .....	\$ 9,013,828	\$ 154,236	\$(5,432,039) (e)

	1999		
	Consumer Lending Products -----	Enhancement Services -----	Reconciliation (a) -----
Interest			
income .....	\$1,163,663	\$ 4,649	\$ (932,143) (b)
Interest expense .....	340,066	--	(284,225) (b)
	-----	-----	-----
Net interest			
income .....	823,597	4,649	(647,918)
Other revenue .....	368,500	175,091	80,181
Total revenue .....	1,532,163	179,740	(851,962)

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Income before income taxes and extraordinary loss .....	392,453 (c)	100,646 (c)	(301,783) (d)
Total assets .....	\$7,190,903	\$ 116,106	\$ (5,261,927) (e)

60

1998

----

	Consumer Lending Products -----	Enhancement Services -----	Reconciliation (a) -----
Interest income .....	\$ 740,768	\$ 2,754	\$ (630,311) (b)
Interest expense .....	237,710	--	(207,197) (b)
Net interest income .....	503,058	2,754	(423,114)
Other revenue .....	239,597	109,123	(33,240)
Total revenue .....	980,365	111,877	(663,551)
Income before income taxes .....	188,148 (c)	73,279 (c)	(168,179) (d)
Total assets .....	\$5,375,925	\$ 58,052	\$ (4,488,258) (e)

(a) The reconciliation column includes: intercompany eliminations; amounts not allocated to segments; and adjustments to the amounts reported on a managed basis to reflect the effects of securitization.

(b) The reconciliation to consolidated owned interest income and interest expense includes the elimination of \$11.8 million, \$4.6 million and \$2.8 million of intercompany interest received by the enhancement services segment from the consumer lending products segment for 2000, 1999 and 1998, respectively.

(c) Income before income taxes, extraordinary loss and cumulative effect of accounting change, includes intercompany commissions paid by the enhancement services segment to the consumer lending products segment for successful marketing efforts to consumer lending products cardholders of \$18.3 million, \$6.7 million and \$3.3 million for 2000, 1999 and 1998, respectively.

(d) The reconciliation to the owned income before income taxes, extraordinary loss and cumulative effect of accounting change, includes: unallocated costs related to employee compensation; data processing and communications; third-party servicing expenses; and other expenses. The majority of these expenses, although not allocated for the internal segment reporting used by management, relate to the consumer lending products segment.

(e) 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 18 - DEBT AND DEPOSITS

During July of 2000, we amended and restated our credit facility. The amended credit facility consists of a \$170 million revolving credit facility and a \$100 million term loan which mature in July 2003. At December 31, 2000 and



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1999, we had outstanding borrowings of \$100 million under the term loan facility with weighted-average interest rates of 9.9% and 8.7%, respectively. At December 31, 2000, we were in compliance with all financial covenants under these agreements.

We have \$150 million of 10.125% Senior Notes due 2006 outstanding. These Senior Notes were issued at a discount of \$6.3 million to yield an effective interest rate of 11%. The Senior Notes due 2006 and credit facility are unconditionally guaranteed on a senior basis, jointly and severally, by Metris

61

Direct, Inc. and Metris Recovery Services, Inc. (the "Guarantors"), and all of our future subsidiaries that guarantee any of our indebtedness. The guarantee is an unsecured obligation of the Guarantor and ranks equally with all existing and future unsubordinated indebtedness. We also have \$100 million of 10% Senior Notes due 2004 outstanding with terms and conditions substantially similar to the Senior Notes due 2006. We also have approximately \$0.9 million of debt with local governments to support growth in those areas.

Our debt outstanding as of December 31, 2000, matures as follows:

2001	\$ 362
2002	1,197
2003	100,434
2004	100,476
2005	8,543
Thereafter	145,054
	-----
Total	\$356,066
	=====

Direct Merchants Bank issues certificates of deposit of \$100,000 or more. As of December 31, 2000 and 1999, \$2.1 billion and \$0.8 billion of CDs were outstanding with original maturities ranging from three months to five years and three months to three years, respectively. These CDs pay fixed interest rates ranging from 5.4% to 7.6% and 5.2% to 6.6% at December 31, 2000 and 1999, respectively.

Our CDs outstanding as of December 31, 2000 and 1999, mature as follows:

	2000		1999	
	----		----	
Three months or less ...	\$ 359,860	17.3%	\$ 126,100	16.6%
Over three months through twelve months .....	1,214,288	58.3%	417,100	55.0%
Over one year through three years .....	467,652	22.5%	215,300	28.4%
Over three years .....	39,464	1.9%	--	--
	-----	-----	-----	-----
Total certificates of deposits .....	\$2,081,264	100.0%	\$ 758,500	100.0%
	=====	=====	=====	=====

We have various indirect subsidiaries which have not guaranteed the Senior Notes or credit facility. 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 the non-guaranteeing subsidiaries are not presented because management has determined that the

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subsidiaries financial statements would not be material to investors.

62

METRIS COMPANIES INC.  
Supplemental Consolidating Balance Sheets  
December 31, 2000  
(Dollars in thousands)

	Metris Companies Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations
<b>Assets:</b>				
Cash and cash equivalents .....	\$ 64,869	\$ 10,658	\$ 445,913	\$ --
Net retained interests in loans securitized .....	311	--	1,382,518	--
Credit card loans .....	2,232	--	1,053,848	--
Property and equipment, net ...	--	77,693	50,702	--
Deferred income taxes .....	(2,415)	17,104	131,656	--
Purchased portfolio premium ...	248	--	95,289	--
Other receivables due from credit card securitizations, net .....	14	84	186,596	--
Other assets .....	13,806	41,946	173,583	(10,630)
Investment in subsidiaries ....	1,588,918	1,442,295	--	(3,031,213)
<b>Total assets .....</b>	<b>\$ 1,667,983</b>	<b>\$ 1,589,780</b>	<b>\$ 3,520,105</b>	<b>\$ (3,041,843)</b>
<b>Liabilities:</b>				
Deposits .....	\$ (1,000)	\$ --	\$ 2,107,199	\$ --
Debt .....	345,024	880	10,162	--
Accounts payable .....	259	14,536	73,993	(5,315)
Deferred income .....	12,718	49,934	178,170	(5,315)
Accrued expenses and other liabilities .....	427,429	(64,488)	(291,714)	--
<b>Total liabilities .....</b>	<b>784,430</b>	<b>862</b>	<b>2,077,810</b>	<b>(10,630)</b>
<b>Total stockholders' equity ....</b>	<b>883,553</b>	<b>1,588,918</b>	<b>1,442,295</b>	<b>(3,031,213)</b>
<b>Total liabilities and stockholders' equity .....</b>	<b>\$ 1,667,983</b>	<b>\$ 1,589,780</b>	<b>\$ 3,520,105</b>	<b>\$ (3,041,843)</b>

63

METRIS COMPANIES INC.  
Supplemental Consolidating Balance Sheets  
December 31, 1999  
(Dollars in thousands)

	Metris Companies Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations
--	--------------------------	---------------------------	-------------------------------	--------------

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Assets:				
Cash and cash equivalents .....	\$ 43,619	\$ 309	\$ 150,505	\$ --
Net retained interests in loans securitized .....	(228)	--	1,010,601	--
Credit card loans .....	2,570	--	131,038	--
Property and equipment, net ...	--	33,152	23,762	--
Deferred income taxes .....	(1,835)	25,241	162,207	--
Purchased portfolio premium .....	--	--	83,809	--
Other receivables due from credit card securitizations, net .....	5	--	243,973	--
Other assets .....	12,951	34,929	88,474	--
Investment in subsidiaries ....	1,184,006	1,105,992	--	(2,289,998)
	-----	-----	-----	-----
Total assets .....	\$ 1,241,088	\$ 1,199,623	\$ 1,894,369	\$ (2,289,998)
	=====	=====	=====	=====
Liabilities:				
Deposits .....	\$ (1,000)	\$ --	\$ 776,381	\$ --
Debt .....	569,956	(82,779)	(142,165)	--
Accounts payable .....	494	12,337	33,019	--
Deferred income .....	22,231	58,856	90,579	--
Accrued expenses and other liabilities .....	25,606	27,203	30,563	--
	-----	-----	-----	-----
Total liabilities .....	617,287	15,617	788,377	--
	-----	-----	-----	-----
Total stockholders' equity ....	623,801	1,184,006	1,105,992	(2,289,998)
	-----	-----	-----	-----
Total liabilities and stockholders' equity .....	\$ 1,241,088	\$ 1,199,623	\$ 1,894,369	\$ (2,289,998)
	=====	=====	=====	=====

64

METRIS COMPANIES INC.  
Supplemental Consolidating Statements of Income  
Year Ended December 31, 2000  
(Dollars in thousands)

	Metris Companies Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations
	-----	-----	-----	-----
Net Interest (Expense) Income ...	\$ (76,200)	\$ (4,685)	\$ 452,657	\$ --
Provision for loan losses .....	(4)	--	388,238	--
	-----	-----	-----	-----
Net Interest (Expense) Income After Provision for Loan Losses .....	(76,196)	(4,685)	64,419	--
	-----	-----	-----	-----
Other Operating Income: Net securitization and credit				

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card servicing income .....	3,544	(3)	440,713	--
Credit card fees, interchange and other credit card income..	504	633	222,196	--
Enhancement services revenues ...	--	54,747	211,453	--
	-----	-----	-----	-----
	4,048	55,377	874,362	--
	-----	-----	-----	-----
Other Operating Expense:				
Credit card account and other product solicitation and marketing expenses .....	--	21,917	122,564	--
Employee compensation .....	--	147,567	31,025	--
Data processing services and communications .....	--	(82,227)	168,393	--
Warranty and debt waiver underwriting and claims servicing expense .....	--	1,353	25,078	--
Credit card fraud losses .....	5	--	8,881	--
Purchased portfolio premium amortization .....	--	--	19,275	--
Other .....	(119)	57,812	72,890	--
	-----	-----	-----	-----
	(114)	146,422	448,106	--
	-----	-----	-----	-----
(Loss) Income Before Income Taxes, Equity in Income of Subsidiaries and Cumulative Effect of Accounting Change .....	(72,034)	(95,730)	490,675	--
Income taxes .....	(27,733)	(38,485)	190,538	--
Equity in income of subsidiaries .....	239,454	296,699	--	(536,153)
	-----	-----	-----	-----
Income Before Cumulative Effect of Accounting Change ...	195,153	239,454	300,137	(536,153)
Cumulative effect of accounting change, net .....	--	--	3,438	--
	-----	-----	-----	-----
Net Income .....	\$ 195,153	\$ 239,454	\$ 296,699	\$ (536,153)
	=====	=====	=====	=====

65

METRIS COMPANIES INC.  
Supplemental Consolidating Statements  
Year Ended December 31, 1999  
(Dollars in thousands)

	Metris Companies Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	EL
	-----	-----	-----	-----
Net Interest (Expense) Income .....	\$ (39,529)	\$ (974)	\$ 220,831	
Provision for loan losses .....	248	--	174,552	
	-----	-----	-----	
Net Interest (Expense) Income After Provision for Loan Losses .....	(39,777)	(974)	46,279	
	-----	-----	-----	

60

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Other Operating Income:			
Net securitization and credit card			
servicing income .....	5,601	(4)	313,276
Credit card fees, interchange and other			
credit card income .....	886	(4,088)	133,010
Enhancement services revenues .....	--	51,341	123,750
	-----	-----	-----
	6,487	47,249	570,036
	-----	-----	-----
Other Operating Expense:			
Credit card account and other			
product solicitation and			
marketing expenses .....	--	36,751	70,975
Employee compensation .....	--	110,886	11,531
Data processing services and			
communications .....	--	(66,273)	132,243
Warranty and debt waiver underwriting and			
claims servicing expense .....	--	2,755	18,336
Credit card fraud losses .....	17	--	7,367
Purchased portfolio premium			
amortization .....	--	--	31,752
Other .....	1,071	32,997	47,576
	-----	-----	-----
	1,088	117,116	319,780
	-----	-----	-----
(Loss) Income Before Income			
Taxes, Equity in Income			
of Subsidiaries and			
Extraordinary Loss .....			
	(34,378)	(70,841)	296,535
Income taxes .....	(13,647)	(28,471)	118,071
Equity in income of subsidiaries .....	136,094	178,464	--
	-----	-----	-----
Income Before Extraordinary Loss .....	115,363	136,094	178,464
Extraordinary loss from the early			
extinguishment of debt .....	50,808	--	--
	-----	-----	-----
Net Income .....	\$ 64,555	\$ 136,094	\$ 178,464
	=====	=====	=====

66

METRIS COMPANIES INC.  
Supplemental Consolidating Statements of Income  
Year Ended December 31, 1998  
(Dollars in thousands)

	Metris Companies Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination
	-----	-----	-----	-----
Net Interest (Expense) Income ....	\$ (6,553)	\$ (24,444)	\$ 113,695	\$ --
Provision for loan losses .....	532	--	77,238	--
	-----	-----	-----	-----
Net Interest (Expense)				
Income After Provision				
for Loan Losses .....	(7,085)	(24,444)	36,457	--
	-----	-----	-----	-----
Other Operating Income:				

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Net securitization and credit card servicing income ..	9,668	(20)	128,573	--
Credit card fees, interchange and other credit card income .....	636	--	67,500	--
Enhancement services revenues ....	--	28,425	80,698	--
	-----	-----	-----	-----
	10,304	28,405	276,771	--
	-----	-----	-----	-----
Other Operating Expense:				
Credit card account and other product solicitation and marketing expenses .....	--	14,992	28,479	--
Employee compensation .....	--	55,980	6,647	--
Data processing services and communications .....	--	(46,289)	92,808	--
Warranty and debt waiver underwriting and claims servicing expense .....	--	1,875	10,404	--
Credit card fraud losses .....	18	--	4,418	--
Purchased portfolio premium amortization .....	--	--	10,051	--
Other .....	529	18,899	28,349	--
	-----	-----	-----	-----
	547	45,457	181,156	--
	-----	-----	-----	-----
Income (Loss) Before Income Taxes and Equity in Income of Subsidiaries .....	2,672	(41,496)	132,072	--
Income taxes .....	1,028	(16,768)	51,640	--
Equity in income of subsidiaries .....	55,704	80,432	--	(136,136)
	-----	-----	-----	-----
Net Income .....	\$ 57,348	\$ 55,704	\$ 80,432	\$ (136,136)
	=====	=====	=====	=====

67

METRIS COMPANIES  
Supplemental Condensed Consolidated  
Year Ended December 31, 2000  
(Dollars in thousands)

2000

	Metris Companies Inc.	Guarantor Subsidiaries	No S
Operating Activities:			
Net cash (used in) provided by operating activities .....	\$ (78,840)	\$ (13,591)	\$
	-----	-----	-----
Investing Activities:			
Net proceeds from sales and repayments of securitized loans .....	--	--	--
Net loans originated or collected .....	(417)	--	--
Credit card portfolio acquisitions .....	--	--	--

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Additions to premises and equipment .....	---	(54,552)
	-----	-----
Net cash used in investing activities .....	(417)	(54,552)
	-----	-----
Financing Activities:		
Net increase in deposits .....	---	---
Net increase (decrease) in debt .....	242,667	(47,376)
Cash dividends paid .....	(2,942)	---
Net (decrease) increase in equity .....	(139,218)	125,868
	-----	-----
Net cash provided by financing activities .....	100,507	78,492
	-----	-----
Net increase in cash and cash equivalents .....	21,250	10,349
Cash and cash equivalents at beginning of year .....	43,619	309
	-----	-----
Cash and cash equivalents at end of year .....	\$ 64,869	\$ 10,658
	=====	=====

1999

	Metris Companies Inc.	Guarantor Subsidiaries
	-----	-----
Operating Activities:		
Net cash (used in) provided by operating activities .....	\$ (12,089)	\$ (19,710)
	-----	-----
Investing Activities:		
Net proceeds from sales and repayments of securitized loans .....	---	---
Net loans originated or collected .....	(693)	---
Credit card portfolio acquisitions .....	---	---
Additions to premises and equipment .....	---	(20,944)
	-----	-----
Net cash used in investing activities .....	(693)	(20,944)
	-----	-----
Financing Activities:		
Net increase in deposits .....	---	---
Net increase (decrease) in debt .....	351,658	(97,800)
Cash dividends paid .....	(1,390)	(804)
Net (decrease) increase in equity .....	(288,860)	139,723
	-----	-----
Net cash provided by financing activities .....	61,408	41,119
	-----	-----
Net increase in cash and cash equivalents .....	48,626	465
Cash and cash equivalents at beginning of year .....	(5,007)	(156)
	-----	-----
Cash and cash equivalents at end of year .....	\$ 43,619	\$ 309
	=====	=====

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	METRIS COMPANIES INC	
	Supplemental Condensed Consolidated	
	Year Ended December 31, 2000	
	(Dollars in thousands)	
	Metris Companies Inc.	Guarantor Subsidiaries
	-----	-----
Operating Activities:		
Net cash provided by (used in) operating activities .....	\$ 97,276	\$ (22,625)
	-----	-----
Investing Activities:		
Net proceeds from sales and repayments of securitized loans .....	--	--
Net loans originated or collected .....	8,106	--
Credit card portfolio acquisitions .....	--	--
Additions to premises and equipment .....	--	(8,414)
	-----	-----
Net cash provided by (used in) investing activities .....	8,106	(8,414)
	-----	-----
Financing Activities:		
Net increase in debt .....	40,700	7,046
Cash dividends paid .....	20,039	--
Net (decrease) increase in equity .....	(171,464)	23,447
	-----	-----
Net cash (used in) provided by financing activities .....	(110,725)	30,493
	-----	-----
Net decrease in cash and cash equivalents .....	(5,343)	(546)
Cash and cash equivalents at beginning of year .....	336	390
	-----	-----
Cash and cash equivalents at end of year .....	\$ (5,007)	\$ (156)
	=====	=====

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders  
Metris Companies Inc.:

We have audited the accompanying consolidated balance sheets of Metris Companies Inc. and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally



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accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Metris Companies Inc. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of recognizing revenue for its debt waiver products in 2000.

/s/ KPMG LLP

KPMG LLP

Minneapolis, Minnesota  
January 17, 2001

70

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required by this item with respect to directors is set forth under "Proposal One: Election of Directors," in the Company's proxy statement for the annual meeting of shareholders to be held on May 9, 2001, which will be filed within 120 days of December 31, 2000 and is incorporated herein by reference. The information required by this item with respect to executive officers is, pursuant to instruction 3 of Item 401(b) of Regulation S-K, set forth in Part I of this Form 10-K under "Executive Officers of the Registrant." The information required by this item with respect to reports required to be filed under Section 16(a) of the Securities Exchange Act of 1934 is set forth under "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this item is set forth under "Compensation Tables and Compensation Matters" in the Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this item is set forth under "Company Stock

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Owned by Officers and Directors" and "Persons Owning More Than Five Percent of Company's Common Stock" in the Proxy Statement and is incorporated herein by reference.

### Item 13. Certain Relationships and Related Transactions

The information required by this item is set forth under "Corporate Governance" in the Proxy Statement and is incorporated herein by reference.

With the exception of the information incorporated by reference in Items 10-13 above, the Proxy Statement is not to be deemed filed as part of this Form 10-K.

71

## PART IV

### Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) The following documents are made part of this report:

1. Consolidated Financial Statements - See Item 8 above.
2. Financial Statement Schedules

All schedules to the consolidated financial statements normally required by Form 10-K are omitted since they are either not applicable or the required information is shown in the financial statements or the notes thereto.

(b) Reports on Form 8-K: None

(c) Exhibits: See Exhibit Index on page 75 of this Report.

72

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 27th day of March, 2001.

METRIS COMPANIES INC.  
(Registrant)

By /s/ Ronald N. Zebeck  
-----

Ronald N. Zebeck  
Chairman and  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Metris Companies Inc., the Registrant, and in the capacities and on the dates indicated.

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Signature -----	Title -----	Date -----
Principal executive officer and director:	Chairman and Chief Executive Officer	March 27, 2001

/s/ Ronald N. Zebeck  
-----  
Ronald N. Zebeck

Principal financial officer:	Vice Chairman	March 27, 2001
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/s/ David D. Wesselink  
-----  
David D. Wesselink

Principal accounting officer:	Executive Vice President, Finance, Corporate Controller	March 27, 2001
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/s/ Jean C. Benson  
-----  
Jean C. Benson

73

Directors:

/s/ Lee R. Anderson, Sr. ----- Lee R. Anderson, Sr.	Director	March 27, 2001
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/s/ C. Hunter Boll ----- C. Hunter Boll	Director	March 27, 2001
---	----------	----------------

/s/ John A. Cleary ----- John A. Cleary	Director	March 27, 2001
---	----------	----------------

/s/ Thomas M. Hagerty ----- Thomas M. Hagerty	Director	March 27, 2001
---	----------	----------------

/s/ David V. Harkins ----- David V. Harkins	Director	March 27, 2001
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/s/ Walter M. Hoff ----- Walter M. Hoff	Director	March 27, 2001
---	----------	----------------

/s/ Thomas H. Lee ----- Thomas H. Lee	Director	March 27, 2001
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/s/ Derek V. Smith ----- Derek V. Smith	Director	March 27, 2001
/s/ Edward B. Speno ----- Edward B. Speno	Director	March 27, 2001
/s/ Frank D. Trestman ----- Frank D. Trestman	Director	March 27, 2001

74

### EXHIBIT INDEX

#### Exhibit

#### Number Description of Exhibit -----

#### Charter Documents: -----

- 3.1 Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form 8-A (File No. 1-12351)).
- 3.2 Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1999 (File No. 1-12351)).

#### Instruments Defining Rights: -----

- 4.1 Indenture, dated as of November 7, 1997, among the Company, Metris Direct, Inc. as the Guarantor, and the First National Bank of Chicago, as Trustee, including form of 10% Senior Note due 2004 and form of Guarantee by Metris Direct, Inc. (incorporated by reference to Exhibit 4.a to the Company's Registration Statement on Form S-4 (File No. 333-43771)).
  - (i) First Supplemental Indenture, dated as of June 25, 1999, among the Company, the Guarantors named therein and the First National Bank of Chicago (incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-4 (File No. 333-86695)).
- 4.2 Certificate of Designation of Series B Perpetual Preferred Stock (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K dated December 22, 1998 (File No. 1-12351)).
- 4.3 Certificate of Designation of Series C Perpetual Preferred Stock (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K dated December 22, 1998 (File No. 1-12351)).
  - (i) Amended Certificate of Designation of Series C Perpetual Convertible Preferred Stock (incorporated by reference to Exhibit 3.3 to the Company's Registration Statement on Form S-3 (File No. 333-82007)).

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- 4.4 Certificate of Designation of Series D Junior Participating Convertible Preferred Stock (incorporated by reference to Exhibit 4.3 of the Company's Current Report on Form 8-K dated December 22, 1998 (File No. 1-12351)).
- 4.5 Registration Rights Agreement, dated as of December 9, 1998, between the Company and the Investors named therein (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated December 22, 1998 (File No. 1-12351)).
- 4.6 Form of common stock certificate of the Company (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-8 (File No. 333-91917)).
- 4.7 Indenture, dated as of July 13, 1999, by and among the Company, Metris Direct, Inc. and The Bank of New York, including Form of 10 1/8% Senior Notes due 2006 and Form of Guarantee (incorporated by

75

reference to Exhibit 4.1 to the Company's Registration Statement on Form S-4 (File No. 333-86695)).

- 4.8 Exchange and Registration Rights Agreement, dated as of July 13, 1999, by and among the Company, Bear, Stearns & Co. Inc., Chase Securities Inc., Salomon Smith Barney Inc. and Barclays Capital Inc., relating to the new notes (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-4 (File No. 333-86695)).

### Material Contracts

- 10.1 Amended and Restated Pooling and Servicing Agreement, dated as of July 30, 1998, among Metris Receivables, Inc. ("MRI"), as Transferor, Direct Merchants Credit Card Bank, National Association ("DMCCB"), as Servicer, and The Bank of New York (Delaware), as Trustee (incorporated by reference to Exhibit 4(a) to MRI's Registration Statement on Form S-3 (File No. 333-61343)).
- 10.2 Amended and Restated Bank Receivables Purchase Agreement, dated as of July 30, 1998, between DMCCB and the Company (incorporated by reference to Exhibit 4(c) to MRI's Registration Statement on Form S-3 (File No. 333-61343)).
- 10.3 Amended and Restated Bank Receivables Purchase Agreement, dated as of July 30, 1998, between the Company and MRI (incorporated by reference to Exhibit 4(d) to MRI's Registration Statement on Form S-3 (File No. 333-61343)).
- 10.4 Owner Trust Agreement, dated as of July 30, 1998, among MRI and Wilmington Trust Company (incorporated by reference to Exhibit 10.1(ii) to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1998 (File No. 1-12351)).
- 10.5 Liquidity Agreements, each dated July 30, 1998, among Metris Owner Trust, the Lenders thereto and the Administrative Agent (pursuant to Instruction 2 to Item 601, only one such agreement has been filed) (incorporated by reference to Exhibit 10.1(iii) to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1998 (File No. 1-12351)).
  - (i) Amendment, dated as of July 27, 2000, to the 364-Day Liquidity Agreement, dated as of July 30, 1998, among Metris Owner Trust, the

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lenders parties thereto and The Chase Manhattan Bank, as administrative agent for the lenders.

- (ii) Amendment, dated as of July 27, 2000, to the 3-Year Liquidity Agreement, dated as of July 30, 1998, among Metris Owner Trust, the lenders parties thereto and The Chase Manhattan Bank, as administrative agent for the lenders.

10.6\* Change of Control Severance Agreement, dated as of May 15, 1998, by and between the Company and Ronald N. Zebeck and a schedule of executive officers of the Company also having such an agreement with the Company, indicating the differences from the version of agreement filed (as permitted by Instruction 2 to Item 601 of Regulation S-K) (incorporated by reference to Exhibit 10.2 to the Company's Quarterly

76

Report on Form 10-Q for the quarter ended September 30, 1998 (File No. 1-12351)).

- (i) Amendment to Ronald N. Zebeck's Change of Control Severance Agreement, dated as of December 9, 1998 (incorporated by reference to Exhibit 10.7(i) to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 1-12351)).
- (ii) Amended Schedule of Executive Officers with Change of Control Severance Agreements.

10.7\* Retention Agreement, dated May 17, 1999, between Ronald N. Zebeck and Metris Companies Inc. (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 (File No. 1-12351)).

10.8 Amended and Restated Credit Agreement, dated as of July 21, 2000, among Metris Companies Inc.; the lenders from time to time parties thereto; The Chase Manhattan Bank, as Administrative Agent; Bank of America, N.A., as Syndicate Agent; Deutsche Bank AG, New York Branch, as Co-Documentation Agent; U.S. Bank National Association, as Co-Documentation Agent; and Barclays Bank PLC, as Co-Agent (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000 (File No. 1-12351)).

10.9 Transfer and Administration Agreement, dated December 9, 1998, among Enterprise Funding Corporation, Park Avenue Receivables Corporation, Sheffield Receivables Corporation, Metris Asset Funding Co. and Direct Merchants Credit Card Bank, National Association (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K the year ended December 31, 1998 (File No. 1-12351)).

10.10 Receivables Purchase Agreement, dated December 9, 1998, between the Company and Metris Asset Funding Co. (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K the year ended December 31, 1998 (File No. 1-12351)).

10.11\* Metris Companies Inc. Non-Employee Director Stock Option Plan (incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-4/A (File No. 333-86695)).

10.12\* Metris Companies Inc. Management Stock Purchase Plan (incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-4/A (File No. 333-86695)).

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10.13\* Metris Companies Inc. Amended and Restated Annual Incentive Plan for Designated Corporate Officers (incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-4/A (File No. 333-86695)).

10.14\* Metris Companies Inc. Amended and Restated Long-Term Incentive and Stock Option Plan (incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-4/A (File No. 333-86695)).

(i)\* Form of Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 1-12351)).

77

(ii)\* Form of Non-Qualified Performance Accelerated Stock Option Agreement.

(iii)\* Form of Restricted Stock Award Agreement.

10.15 Transfer and Administration Agreement, dated June 30, 1999, among Direct Merchants Credit Card Bank, National Association, as Transferor and Collection Agent; Enterprise Funding Corporation, Sheffield Receivables Corporation, as Purchasers; Barclays Bank PLC, as Agent; and NationsBank, N.A., as Bank Investor and Agent Bank (incorporated by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-4/A (File No. 333-86695)).

### Other Exhibits

11 Computation of Earnings Per Share.

12 (a) Computation of Ratio of Earnings to Fixed Charges.

12 (b) Computation of Ratio of Earnings to Fixed Charges and Preferred Dividends.

13 Pages 25 to 68 of the 2000 Annual Report to Shareholders. The 2000 Annual Report shall not be deemed to be filed with the Commission except to the extent that information is specifically incorporated herein by reference.

21 Subsidiaries of the Company.

23 Independent Auditors' Consent.

27 Financial Data Schedule.

\* Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 14(c) of Form 10-K.

78