METRIS COMPANIES INC
Form 10-Q
November 14, 2001

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2001

or

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

For the transition period from __________ to __________

Commission file number: 001-12351

METRIS COMPANIES INC.
(Exact name of registrant as specified in its charter)

Delaware	41-1849591
(State of Incorporation)	(I.R.S. Employer Identification No.)

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

(952) 525-5020
(Registrant's telephone number, including area code)

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

Yes X No _____

As of October 31, 2001, 63,761,612 shares of the registrant's common stock, par value $.01 per share, were outstanding.

METRIS COMPANIES INC.

FORM 10-Q

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September 30, 2001

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ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

	September 30,	December 31,

	2001	2000
Assets:		
Cash and due from banks	$ 95,351	$ 84,938
Federal funds sold	227,568	367,937
Short-term investments	92,707	68,565
Cash and cash equivalents	415,626	521,440
Retained interests in loans securitized	1,228,154	2,023,681
Less: Allowance for loan losses	596,153	640,852
Net retained interests in loans securitized	632,001	1,382,829
Credit card loans (net of allowance for loan losses of $283,369 and $123,123, respectively)	2,350,859	1,056,080
Property and equipment, net	121,098	128,395
Deferred income taxes	58,937	146,345
Purchased portfolio premium	91,175	95,537
Other receivables due from credit card securitizations, net	168,406	186,694
Other assets	239,118	218,705
Total assets	$ 4,077,220	$ 3,736,025
Liabilities:		
Deposits	$ 2,135,538	$ 2,106,199
Debt	451,471	356,066
Accounts payable	135,496	83,473
Deferred income	201,695	235,507
Accrued expenses and other liabilities	70,075	71,227
Total liabilities	2,994,275	2,852,472
Stockholders' Equity:		
Convertible preferred stock - Series C, par value $.01 per share; 10,000,000 shares authorized, 1,034,365 and 967,573 shares issued and outstanding, respectively	385,301	360,421
Common stock, par value $.01 per share; 300,000,000 shares authorized, 64,075,654 and 62,242,787 shares issued and outstanding, respectively	641	622
Paid-in capital	229,621	198,077
Unearned compensation	(4,423)	--
Retained earnings	471,805	324,433
Total stockholders' equity	1,082,945	883,553
Total liabilities and stockholders' equity	$ 4,077,220	$ 3,736,025

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months September
	2001	2000	2001
Interest Income:			
Credit card loans and retained interests in loans securitized	$ 175,330	$ 131,326	$ 507,554
Federal funds sold	364	2,444	3,004
Other	3,513	1,070	10,585
Total interest income	179,207	134,840	521,143
Deposit interest expense	31,427	24,321	100,986
Other interest expense	10,721	11,073	33,310
Total interest expense	42,148	35,394	134,296
Net Interest Income	137,059	99,446	386,847
Provision for loan losses	116,513	110,936	318,924
Net Interest Income (Expense) After Provision for Loan Losses	20,546	(11,490)	67,923
Other Operating Income:			
Net securitization and credit card servicing income	119,485	110,880	326,289
Credit card fees, interchange and other credit card income	77,527	59,982	215,196
Enhancement services revenues	86,168	68,767	247,332
	283,180	239,629	788,817
Other Operating Expense:			
Credit card account and other product solicitation and marketing expenses	42,354	36,619	134,600
Employee compensation	61,105	45,773	171,956
Data processing services and communications	23,095	21,844	67,615
Enhancement services claims expense	10,506	7,260	25,435
Credit card fraud losses	2,575	2,227	7,426
Purchased portfolio premium amortization	7,132	3,915	22,378
Other	42,609	32,011	120,119
	189,376	149,649	549,529
Income Before Income Taxes and Cumulative Effect of Accounting Changes	114,350	78,490	307,211
Income taxes	43,614	30,130	117,662
Income Before Cumulative Effect of Accounting Changes	70,736	48,360	189,549
Cumulative effect of accounting changes (net of income taxes of $9,000 and $2,180, respectively)	--	--	14,499
Net Income	70,736	48,360	175,050
Convertible preferred stock dividends-Series C	8,788	8,036	25,784

Net Income Applicable to Common Stockholders	$ 61,948	$ 40,324	$ 149,266

	Three Months Ended September 30,		Nine M Sept
	2001	2000	2001
Earnings per share:			
Basic-income before cumulative effect of accounting changes	$ 0.72	$ 0.53	$ 1.94
Basic-cumulative effect of accounting changes	--	--	(0.15
Basic-net income	0.72	0.53	1.79
Diluted-income before cumulative effect of accounting changes	0.70	0.52	1.90
Diluted-cumulative effect of accounting changes	--	--	(0.15
Diluted-net income	0.70	0.52	1.75
Shares used to compute earnings per share:			
Basic	98,846	90,457	97,731
Diluted	101,026	93,444	99,808
Dividends declared per common share	$ 0.010	$ 0.010	$ 0.030

See accompanying Notes to Consolidated Financial Statements.

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

	Number of Shares Preferred	Number of Shares Common	Preferred Stock	Common Stock	Paid-in Capital	Unea Compen
BALANCE AT DECEMBER 31, 1999	885	57,919	$ 329,729	$ 386	$ 130,772	$
Net income	--	--	--	--	--	
Cash dividends	--	--	--	--	--	
Preferred dividends in kind - Series C	61	--	22,761	--	--	
June 2000 three-for-two stock split	--	--	--	201	(201)	
Issuance of common stock						

under employee benefit plans	--	4,211	--	34	64,974	
BALANCE AT SEPTEMBER 30, 2000	946	62,130	$ 352,490	$ 621	$ 195,545	$
BALANCE AT DECEMBER 31, 2000 .	968	62,243	$ 360,421	$ 622	$ 198,077	$
Net income	--	--	--	--	--	
Cash dividends	--	--	--	--	--	
Preferred dividends in kind - Series C	66	--	24,880	--	--	
Issuance of common stock under employee benefit plans	--	1,833	--	19	31,544	(
Compensation expense related to restricted stock granted	--	--	--	--	--	
BALANCE AT SEPTEMBER 30, 2001	1,034	64,076	$ 385,301	$ 641	$ 229,621	$ (

See accompanying Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Operating Activities:		
Net income	$ 175,050	$ 146,598
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of accounting changes	14,499	3,438
Depreciation and amortization	64,395	53,791
Change in allowance for loan losses	115,547	110,247
Change in value of derivative instruments	3,883	--
Changes in operating assets and liabilities, net:		
Deferred income taxes	87,408	2,219
Other receivables due from credit card securitizations	(2,892)	20,579
Accounts payable and accrued expenses	55,800	55,199
Deferred income	(33,812)	55,039
Other	(43,401)	(69,512)
Net cash provided by operating activities	436,477	377,598
Investing Activities:		
Net proceeds from sales and repayments of securitized loans	1,091,934	176,964
Net loans originated	(1,609,466)	(1,058,924)
Credit card portfolio acquisitions	(157,640)	(195,597)

Additions to property and equipment	(6,506)	(72,335)
Net cash used in investing activities	(681,678)	(1,149,892)
Financing Activities:		
Net increase in debt	95,405	10,913
Net increase in deposits	29,339	856,913
Cash dividends paid	(2,798)	(2,030)
Increase in common equity	17,441	24,225
Net cash provided by financing activities	139,387	890,021
Net (decrease) increase in cash and cash equivalents	(105,814)	117,727
Cash and cash equivalents at beginning of period	521,440	194,433
Cash and cash equivalents at end of period	$ 415,626	$ 312,160
Supplemental disclosures and cash flow information:		
Cash paid during the period for:		
Interest	$ 129,220	$ 71,151
Income taxes	25,801	75,233
Tax benefit from employee stock option exercises	8,689	30,832

See accompanying Notes to Consolidated Financial Statements.

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

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

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

We have eliminated all significant intercompany balances and transactions in consolidation. We have reclassified certain prior-year amounts to conform with the current year's presentation.

Interim Financial Statements

We have prepared the unaudited interim consolidated financial statements and related unaudited financial information in the footnotes in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial statements. These interim financial statements reflect all adjustments consisting of normal recurring accruals which, in the opinion of management, are necessary to present fairly our consolidated financial position and the results of our operations and our cash flows for the interim periods. You should read these consolidated financial statements in conjunction with the financial statements and the notes thereto contained in our annual report on

Form 10-K for the fiscal year ended December 31, 2000. The nature of our business is such that the results of any interim period may not be indicative of the results to be expected for the entire year.

Pervasiveness of Estimates

We have prepared the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, which require us to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

NOTE 2 - EARNINGS PER SHARE

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

	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000
(In thousands)		
Income before cumulative effect of accounting changes	$ 70,736	$ 48,360
Preferred dividends - Series C	8,788	8,036
Net income applicable to common stockholders before cumulative effect of accounting changes	61,948	40,324
Cumulative effect of accounting changes, net	--	--
Net income applicable to common stockholders	$ 61,948	$ 40,324
Weighted-average common shares outstanding	63,588	61,293
Adjustments for dilutive securities:		
Assumed conversion of convertible preferred stock	35,258	29,164
Basic common shares (1)	98,846	90,457
Assumed exercise of outstanding stock options	2,180	2,987
Diluted common shares	101,026	93,444

(1) In accordance with Emerging Issues Task Force ("EITF") Topic No. D-95 ("Topic D-95"), we revised our computation of basic earnings per common share ("EPS"). As required by Topic D-95, the dilutive effect of our Series C Convertible Preferred Stock is now included in the computation of basic EPS, using the if-converted method. The Series C Convertible Preferred Stock participates in dividends on an as-converted basis with our common stock. For all periods presented, there is no impact to diluted earnings per share. We restated the basic EPS amounts for the three- and nine-month periods ended September 30, 2000 to be consistent with the revised methodology. Before the impact of Topic D-95, basic EPS would have been $0.97, $0.66, $2.37 and $2.07

for the three- and nine-month periods ended September 30, 2001 and 2000, respectively.

NOTE 3 - ACCOUNTING CHANGES

On January 1, 2001 we adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments. SFAS 133 requires enterprises to recognize all derivatives as either assets or liabilities in the statement of financial position and to measure those instruments at fair market value. This statement is effective for all quarters of fiscal years beginning after June 15, 2000. As a result of the adoption of SFAS 133 effective January 1, 2001 we marked our derivatives to market value and recognized a one-time, non-cash, after-tax charge to earnings of $14.5 million. This one-time charge is reflected as a "Cumulative effect of accounting change" in the consolidated statements of income for the nine months ended September 30, 2001.

We use derivatives to assist us in achieving our strategy of balanced asset and liability interest rate exposure. Our principal market risk is due to interest rate fluctuation. Our primary managed assets are credit card loans, which are virtually all priced at rates indexed to the variable Prime Rate. We fund credit card loans through a combination of cash flows from operations, asset securitizations, bank loans, subsidiary bank deposits, long-term debt and equity issuances. The majority of this funding is indexed to variable rate London Interbank Offered Rate ("LIBOR"). We seek to minimize the impact of changes in interest rates primarily by matching asset and liability repricings. We enter into interest rate cap, floor and swap agreements to hedge the cash flow, fair value 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 Metris Master Trust ("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. These agreements are for original terms ranging from two to ten years and are scheduled to terminate between February 2002 and January 2010. The contracted strike rate on the interest rate caps were above the current market interest rates at September 30, 2001 and December 31, 2000. Therefore, these caps are considered ineffective in hedging the interest rate movements. SFAS 133 required us to reduce the carrying value of these caps to their current market values. We recorded the reduction related to the adoption of SFAS 133 effective January 1, 2001 as a one-time, non-cash, after-tax charge to earnings of $14.7 million. We included this one-time charge in the "Cumulative effect of accounting change" in the consolidated statements of income for the nine months ended September 30, 2001. We recorded the adjustment to decrease the carrying value of the caps for the three- and nine-month periods ended September 30, 2001 as a non-cash, pre-tax charge of $6.9 million and $3.9 million, respectively, to "Net securitization and credit card servicing income" in the consolidated statements of income.

We also enter into interest rate swap agreements to hedge a portion of our fixed rate deposits. The interest rate swaps are designated as fair value hedges under SFAS 133. At adoption, the change in the fair value of the swaps exceeded the change in fair value of the fixed rate deposits. We recorded this difference of $0.2 million as a one-time, non-cash, after-tax benefit to earnings. We included this one-time benefit in the "Cumulative effect of accounting change" in the consolidated statements of income for the nine months ended September 30, 2001. The interest rate swaps were substantially effective in offsetting changes in the fair value of the hedged CD portfolio during the nine months ended

September 30, 2001. These interest rate swap agreements are for original terms ranging from one to two years and are scheduled to terminate between April 2002 and January 2003.

During the quarter ended March 31, 2000 we adopted Staff Accounting Bulletin ("SAB") 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 in 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 nine months ended September 30, 2000. Because we have applied the provisions of this SAB to our membership programs since 1998, before the SEC formalized its guidance, we did not have to adjust our membership services revenues.

NOTE 4 - ALLOWANCE FOR LOAN LOSSES

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	200
Balance at beginning of period	$ 826,141	$ 677,121	$ 763,975	$ 619,
Allowance related to assets acquired, net	6,063	5,963	6,063	5,
Provision for loan losses	116,513	110,936	318,924	296,
Provision for loan losses (1)	217,053	137,971	590,294	369,
Loans charged off	(320,630)	(220,689)	(889,782)	(610,
Recoveries	34,382	17,973	90,048	49,
Net loans charged off	(286,248)	(202,716)	(799,734)	(561,
Balance at end of period	$ 879,522	$ 729,275	$ 879,522	$ 729,

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

NOTE 5 - 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. In doing so, the income statement and balance sheet are adjusted to reverse the effects of securitizations. Presentation on a managed basis is not in conformity with accounting principles generally accepted in the United States of America. The elimination column in the segment table includes adjustments to present the information on an owned basis as reported in the financial statements of this quarterly report.

We do not allocate the expenses, assets and liabilities attributable to corporate functions to the operating segments, such as employee compensation, data processing services and communications, third-party servicing expenses, and other expenses including occupancy, depreciation and amortization, professional fees, and other general and administrative expenses. We include these expenses in the reconciliation of the income before income taxes and cumulative effect of accounting changes 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.

Our enhancement services operating segment pays a fee to our 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 our consumer lending products segment reports interest expense at our weighted-average borrowing rate for the excess cash flow generated by the enhancement services segment that is used by the consumer lending products segment to fund the growth of cardholder balances.

	Three Months Ended September 30, 2001			
	Consumer Lending Products	Enhancement Services	Reconciliation(a)	Consolidated
Interest income	$ 514,818	$ 2,970	$ (338,581)(b)	$ 179,207
Interest expense	122,539	--	(80,391)(b)	42,148
Net interest income	392,279	2,970	(258,190)	137,059
Other revenue ..	155,875	86,168	41,137	283,180
Total revenue ..	548,154	89,138	(217,053)	420,239

Income before income taxes	191,515(c)	56,776(c)	(133,941)(d)	114,350
Total assets ...	$10,583,562	$ 145,857	$(6,652,199)(e)	$ 4,077,220

Three Months Ended September 30, 2000

	Consumer Lending Products	Enhancement Services	Reconciliation(a)	Consolidated
Interest income	$ 416,509	$ 3,337	$ (285,006)(b)	$ 134,840
Interest expense	140,774	--	(105,380)(b)	35,394
Net interest income	275,735	3,337	(179,626)	99,446
Other revenue ..	129,207	68,767	41,655	239,629
Total revenue ..	404,942	72,104	(137,971)	339,075
Income before income taxes .	137,426(c)	44,607(c)	(103,543)(d)	78,490
Total assets ...	$ 8,447,600	$ 160,072	$(5,385,424)(e)	$ 3,222,248

Nine Months Ended September 30, 2001

	Consumer Lending Products	Enhancement Services	Reconciliation(a)	Consolidated
Interest income	$ 1,463,178	$ 9,792	$ (951,827)(b)	$ 521,143
Interest expense	395,830	--	(261,534)(b)	134,296
Net interest income	1,067,348	9,792	(690,293)	386,847
Other revenue	441,486	247,332	99,999	788,817
Total revenue	1,508,834	257,124	(590,294)	1,175,664
Income before income taxes and cumulative				

effect of accounting change..............	522,766(c)	166,513(c)	(382,068)(d)	307,211
Total assets	$10,583,562	$ 145,857	$(6,652,199)(e)	$ 4,077,220

Nine Months Ended September 30, 2000

	Consumer Lending Products	Enhancement Services	Reconciliation(a)	Consolidated
Interest income	$1,152,033	$ 8,239	$ (811,872)(b)	$ 348,400
Interest expense	378,276	--	(289,992)(b)	88,284
Net interest income	773,757	8,239	(521,880)	260,116
Other revenue	373,912	192,367	152,845	719,124
Total revenue	1,147,669	200,606	(369,035)	979,240
Income before income taxes and cumulative effect of accounting change..................	420,518(c)	129,150(c)	(305,311)(d)	244,357
Total assets	$8,447,600	$ 160,072	$(5,385,424)(e)	$ 3,222,248

(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 revenue and interest expense includes the elimination of $3.0 million for the three months ended September 30, 2001, $3.3 million for the three months ended September 30, 2000, $9.8 million for the nine months ended September 30, 2001 and $8.2 million for the nine months ended September 30, 2000 of intercompany interest received by the enhancement services segment from the consumer lending products segment.

(c) Income before income taxes (and cumulative effect of accounting changes) 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 $2.6 million for the three months ended September 30, 2001, $6.4 million for the three months ended September 30, 2000, $8.8 million for the nine months ended September 30, 2001 and $10.8 million for the nine months ended September 30, 2000.

(d) The reconciliation to the owned income before income taxes (and cumulative effect of accounting changes) 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 6 SHAREHOLDERS' EQUITY

On February 6, 2001, the board of directors authorized a share repurchase program of up to $200 million of its outstanding common stock over a period ending December 31, 2002. The amount of shares the company can repurchase in a calendar year is limited under its various debt agreements. In 2001, the company may repurchase up to approximately $75 million of shares. As of September 30, 2001, no shares had been repurchased under the program. Subsequent to September 30, 2001, we repurchased 0.8 million shares for $13 million.

NOTE 7 - SUPPLEMENTAL CONSOLIDATING FINANCIAL STATEMENTS

We have various indirect subsidiaries which do not guarantee company debt. We have presented the following condensed consolidating financial statements of the Company, the guarantor subsidiaries and the non-guarantor subsidiaries to comply with SEC reporting requirements. We have not presented separate financial statements of the guarantor and non-guarantor subsidiaries because management has determined that the subsidiaries' financial statements would not be material to investors.

METRIS COMPANIES INC.
Supplemental Consolidating Balance Sheets
September 30, 2001
(Dollars in thousands)
Unaudited

	Metris Companies Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminat
Assets:				
Cash and cash equivalents	$ 7,103	$ 2,503	$ 406,020	$
Net retained interests in loans securitized	(312)	--	632,313	
Credit card loans	5,809	--	2,345,050	
Property and equipment, net	--	83,036	38,062	
Deferred income taxes	(6,117)	5,984	59,070	
Purchased portfolio premium	248	--	90,927	
Other receivables due from credit card securitizations, net...................	21	2,750	165,635	
Other assets	10,280	38,186	196,796	(6,1
Investment in subsidiaries	1,816,025	1,660,333	--	(3,476,3
Total assets	$ 1,833,057	$ 1,792,792	$ 3,933,873	$(3,482,5

Liabilities:				
Deposits	$ (1,000)	$ --	$ 2,136,538	$ --
Debt	345,697	874	104,900	--
Accounts payable	6,083	21,953	110,532	(3,0
Deferred income	5,605	29,185	169,977	(3,0
Accrued expenses and other liabilities	393,727	(75,245)	(248,407)	
Total liabilities	750,112	(23,233)	2,273,540	(6,1
Total stockholders' equity	1,082,945	1,816,025	1,660,333	(3,476,3
Total liabilities and stockholders' equity..................	$ 1,833,057	$ 1,792,792	$ 3,933,873	$(3,482,5

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

	Metris Companies Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination
Assets:				
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
Total assets	$ 1,667,983	$ 1,589,780	$ 3,520,105	$(3,041,843
Liabilities:				
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)	--
Total liabilities	784,430	862	2,077,810	(10,630
Total stockholders' equity	883,553	1,588,918	1,442,295	(3,031,213
Total liabilities and stockholders'				

equity	$ 1,667,983	$ 1,589,780	$ 3,520,105	$(3,041,843

METRIS COMPANIES INC.
Supplemental Consolidating Statements of Income
Three Months Ended September 30, 2001
(Dollars in thousands)
Unaudited

	Metris Companies Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination
Net Interest Income (Expense)	$ 62,939	$ (1,962)	$ 76,082	$ --
Provision for loan losses	874	--	115,639	--
Net Interest Income (Expense) After Provision for Loan Losses	62,065	(1,962)	(39,557)	--
Other Operating Income:				
Net securitization and credit card servicing income	(3,774)	--	123,259	--
Credit card fees, interchange and other credit card income	4,539	12,060	60,928	--
Enhancement services revenues	--	11,885	74,283	--
Intercompany allocations	11	121,492	(121,503)	--
	776	145,437	136,967	--
Other Operating Expense:				
Credit card account and other product solicitation and marketing expenses	--	(969)	43,323	--
Employee compensation	356	54,023	6,726	--
Data processing services and communications	--	(16,892)	39,987	--
Enhancement services claims expense	--	330	10,176	--
Credit card fraud losses	1	5	2,569	--
Purchased portfolio premium amortization	--	--	7,132	--
Other	37	39,784	2,788	--
	394	76,281	112,701	--
Income (Loss) Before Income Taxes and Equity in				

Income of Subsidiaries............	62,447	67,194	(15,291)	--
Income taxes	23,918	27,653	(7,957)	--
Equity in income of subsidiaries......................	32,207	(7,334)	--	(24,873)
Net Income (Loss)	$ 70,736	$ 32,207	$ (7,334)	$ (24,873)

METRIS COMPANIES INC.
Supplemental Consolidating Statements of Income
Three Months Ended September 30, 2000
(Dollars in thousands)
Unaudited

	Metris Companies Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination
Net Interest (Expense) Income..............................	$ (17,105)	$ (1,606)	$ 118,157	$ --
Provision for loan losses	21	--	110,915	--
Net Interest (Expense) Income After Provision for Loan Losses.....................	(17,126)	(1,606)	7,242	--
Other Operating Income:				
Net securitization and credit card servicing income..............................	2,379	1	108,500	--
Credit card fees, interchange and other credit card income..................	(1,735)	503	61,214	--
Enhancement services revenues............................	--	9,188	59,579	--
	644	9,692	229,293	--
Other Operating Expense:				
Credit card account and other product solicitation and marketing expenses..................	--	2,250	34,369	--
Employee compensation	--	37,969	7,804	--
Data processing services and communications	--	(21,327)	43,171	--
Enhancement services claims expense............................	--	99	7,161	--
Credit card fraud losses	1	--	2,226	--
Purchased portfolio premium amortization.......................	--	--	3,915	--
Other	(396)	22,771	9,636	--
	(395)	41,762	108,282	--

(Loss) Income Before Income Taxes and Equity in Income of Subsidiaries..............	(16,087)	(33,676)	128,253	--
Income taxes	(6,178)	(13,341)	49,649	--
Equity in income of subsidiaries........................	58,269	78,604	--	(136,873
Net Income	$ 48,360	$ 58,269	$ 78,604	$(136,873

METRIS COMPANIES INC.
Supplemental Consolidating Statements of Income
Nine Months Ended September 30, 2001
(Dollars in thousands)
Unaudited

	Metris Companies Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimina
Net Interest Income (Expense)............................	$ 2,002	$ (5,554)	$ 390,399	$
Provision for loan losses	2,091	--	316,833	
Net Interest (Expense) Income After Provision for Loan Losses......................	(89)	(5,554)	73,566	
Other Operating Income:				
Net securitization and credit card servicing income..............................	982	--	325,307	
Credit card fees, interchange and other credit card income...................	1,688	21,357	192,151	
Enhancement services revenues.............................	--	43,086	204,246	
Intercompany allocations	11	121,492	(121,503)	
	2,681	185,935	600,201	
Other Operating Expense:				
Credit card account and other product solicitation and marketing expenses...................	--	9,515	125,085	
Employee compensation	698	151,249	20,009	
Data processing services and communications	2	(69,824)	137,437	
Enhancement services claims expense...............................	--	820	24,615	

Credit card fraud losses	1	5	7,420	
Purchased portfolio premium amortization	--	--	22,378	
Other	127	84,071	35,921	
	828	175,836	372,865	
Income Before Income Taxes, Equity in Income of Subsidiaries and Cumulative Effect of Accounting Change.....................	1,764	4,545	300,902	
Income taxes	676	1,743	115,243	
Equity in income of subsidiaries..........................	173,962	171,160	--	(345,
Income Before Cumulative Effect of Accounting Change................................	175,050	173,962	185,659	(345,
Cumulative effect of accounting change, net	--	--	14,499	
Net Income	$ 175,050	$ 173,962	$ 171,160	$(345,

METRIS COMPANIES INC.
Supplemental Consolidating Statements of Income
Nine Months Ended September 30, 2000
(Dollars in thousands)
Unaudited

	Metris Companies Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	El
Net Interest (Expense) Income..................................	$ (49,986)	$ (3,404)	$ 313,506	$
Provision for loan losses	(1)	--	296,945	
Net Interest (Expense) Income After Provision for Loan Losses......................	(49,985)	(3,404)	16,561	
Other Operating Income:				
Net securitization and credit card servicing income................................	7,143	(3)	355,308	
Credit card fees, interchange and other credit card income....................	(4,932)	1,373	167,868	
Enhancement services revenues.............................	--	36,907	155,460	
	2,211	38,277	678,636	
Other Operating Expense:				

Credit card account and other product solicitation and marketing expenses....................	--	12,898	92,179	
Employee compensation	--	108,742	23,585	
Data processing services and communications	--	(59,180)	122,468	
Enhancement services claims expense...............................	--	917	19,835	
Credit card fraud losses	4	--	6,795	
Purchased portfolio premium amortization	--	--	14,107	
Other	(303)	56,233	39,659	
	(299)	119,610	318,628	
(Loss) Income Before Income Taxes, Equity in Income of Subsidiaries and Cumulative Effect of Accounting Change......................	(47,475)	(84,737)	376,569	
Income taxes	(18,325)	(33,481)	146,127	
Equity in income of subsidiaries..........................	175,748	227,004	--	
Income Before Cumulative Effect of Accounting Change................................	146,598	175,748	230,442	
Cumulative effect of accounting change, net	--	--	3,438	
Net Income	$ 146,598	$ 175,748	$227,004	$

METRIS COMPANIES INC.
Supplemental Condensed Consolidating Statements of Cash Flows
Nine Months Ended September 30, 2001
(Dollars in thousands)
Unaudited

	Metris Companies Inc.	Guarantor Subsidiaries	Non-Guar Subsidia
Operating Activities:			
Net cash (used in) provided by operating activities.......................................	$ (41,555)	$ (9,607)	$ 487,

Investing Activities:			
Net proceeds from sales and repayments of securitized loans	--	--	1,091,
Net loans originated	(3,031)	--	(1,606,
Credit card portfolio acquisition	--	--	(157,
(Additions to) dispositions of property and equipment.....................................	--	(17,522)	11,
Net cash used in investing activities	(3,031)	(17,522)	(661,
Financing Activities:			
Net increase in debt	25,322	18,831	51,
Net increase in deposits	--	--	29,
Cash dividends paid	(2,798)	--	
Net (decrease) increase in equity	(35,704)	143	53,
Net cash (used in) provided by financing activities..	(13,180)	18,974	133,
Net decrease in cash and cash equivalents	(57,766)	(8,155)	(39,
Cash and cash equivalents at beginning of period	64,869	10,658	445,
Cash and cash equivalents at end of period	$ 7,103	$ 2,503	$ 406,

METRIS COMPANIES INC.
Supplemental Condensed Consolidating Statements of Cash Flows
Nine Months Ended September 30, 2000
(Dollars in thousands)
Unaudited

	Metris Companies Inc.	Guarantor Subsidiaries	Non-Guar Subsidia
Operating Activities:			
Net cash (used in) provided by operating activities......................................	$ (85,127)	$ (81,397)	$ 544
Investing Activities:			
Net proceeds from sales and repayments of securitized loans	--	--	176
Net loans originated	(1,768)	--	(1,057
Credit card portfolio acquisition	--	--	(195
Additions to property and equipment	--	(45,960)	(26
Net cash used in investing activities	(1,768)	(45,960)	(1,102
Financing Activities:			
Net increase (decrease) in debt	223,744	13,705	(226
Net increase in deposits	--	--	856
Cash dividends paid	(2,030)	--	
Net (decrease) increase in equity	(133,995)	119,960	38
Net cash provided by financing activities	87,719	133,665	668
Net increase in cash and cash equivalents	824	6,308	110

Cash and cash equivalents at beginning of period	43,619	309	150
Cash and cash equivalents at end of period	$ 44,443	$ 6,617	$ 261

ITEM 2.

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

The following discussion and analysis provides information management believes to be relevant to understanding the financial condition and results of operations of Metris Companies Inc. ("MCI") and its subsidiaries, including Direct Merchants Credit Card Bank, N.A. ("Direct Merchants Bank"), which may be referred to as "we," "us," "our" and the "Company." You should read this discussion along with the following documents for a full understanding of our financial condition and results of operations: Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2000 Annual Report to Shareholders; our annual report on Form 10-K for the fiscal year ended December 31, 2000; and our Proxy Statement for the 2001 Annual Meeting of Shareholders. In addition, you should read this discussion along with our quarterly report on Form 10-Q for the period ended September 30, 2001, of which this commentary is a part, and the condensed consolidated financial statements and related notes thereto.

Results of Operations

Net income for the three months ended September 30, 2001 was $70.7 million, up from $48.4 million for the third quarter of 2000. Diluted earnings per share for the three months ended September 30, 2001 was $0.70 compared to $0.52 per share for the third quarter of 2000. The increase in net income is primarily due to increases in net interest income and other operating income, partially offset by other operating expenses. These increases are largely attributable to the growth in average managed loans to $10.6 billion for the third quarter 2001 from $8.2 billion for the third quarter 2000, an increase of 30%, and growth in total credit card accounts to 4.8 million at September 30, 2001 from 4.4 million at September 30, 2000. Enhancement services revenue, a component of other operating income, also increased 25% to $86.2 million for the third quarter of 2001 compared to the same period in 2000.

Net income for the nine months ended September 30, 2001 was $175.1 million, up from $146.6 million for the first nine months of 2000. Net income reported for the nine-month periods ended September 30, 2001 and 2000 includes $14.5 million and $3.4 million, respectively, of cumulative effect of accounting changes described below. Without these items, reported earnings would have been $189.5 million and $150.0 million for the nine-month periods ended September 30, 2001 and 2000, respectively. Diluted earnings per share for the nine months ended September 30, 2001 was $1.75 compared to $1.60 for the same period in 2000. Without the impact of the cumulative effect of accounting changes, diluted earnings per share would have been $1.90 for the nine months ended September 30, 2001 compared to $1.64 for same period in 2000. The increase in net income is primarily due to increases in net interest income and other operating income, partially offset by increases in the provision for loan losses and other operating expenses. These increases are largely attributable to the growth in average managed loans to $10.0 billion for the nine months ended September 30, 2001 from $7.7 billion for the same period in 2000, an increase of 29%, along with the previously discussed growth in credit card accounts. Enhancement services revenue also increased 29% to $247.3 million for the nine months ended September 30, 2001 compared to the same period in 2000.

On January 1, 2001 we adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments. SFAS 133 requires enterprises to recognize all derivatives as either assets or liabilities in the statement of financial position and to measure those instruments at fair value. Prior to SFAS 133, we amortized the costs of interest rate contracts on a straight-line basis over the expected life of the contract. The adoption of SFAS 133 resulted in a one-time, non-cash, after-tax charge to earnings of $14.5 million reflected as a "Cumulative effect of accounting change" in the consolidated statements of income for the nine months ended September 30, 2001.

In September 2000 the Financial Accounting Standards Board issued SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," which replaces SFAS 125, and revises the accounting standards and disclosure requirements for securitizations and transfers of financial assets and collateral. It requires enterprises to recognize, upon transfer of financial assets, the financial and servicing assets it controls and the liabilities it has incurred, derecognize financial assets when control has been surrendered, and derecognize liabilities when extinguished. This statement is effective for transfers and servicing of financial assets and extinguishment of liabilities occurring after March 31, 2001. The recognition and reclassification of collateral and additional disclosures related to securitization transactions and collateral were effective for fiscal years ending after December 15, 2000. The adoption of the new standard did not have a material impact on our financial statements.

During the quarter ended March 31, 2000 we adopted Staff Accounting Bulletin ("SAB") 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 nine months ended September 30, 2000. Because we have applied the provisions of this SAB to our membership programs since 1998, before the SEC formalized its guidance, we did not have to adjust our membership services revenues.

Managed Loan Portfolio

We analyze our financial performance on a managed loan portfolio basis. We do this by adjusting the income statement and balance sheet to reverse the effects of securitization. Our discussion of revenues, where applicable, and provision for loan losses includes comparisons to amounts reported in our consolidated statements of income ("owned basis"), as well as on a managed basis.

Our managed loan portfolio is comprised of credit card loans, retained interests in loans securitized and investors' interests in securitized credit card loans. The investors' interests in securitized credit card loans are not assets of the Company. Therefore, we do not show them on our consolidated balance sheets. The following tables summarize our managed loan portfolio:

(Dollars in thousands)	September 30, 2001	December 31, 2000	September 30, 2000
Period-end balances:			
Credit card loans:			
Credit card loans	$ 2,634,228	$ 1,179,203	$ 909,605
Retained interests in loans securitized	1,228,154	2,023,681	1,899,958
Investors' interests in securitized loans	7,161,810	6,070,224	5,695,276
Total managed loan portfolio .	$11,024,192	$ 9,273,108	$ 8,504,839

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2001	2000	2001	2
Average balances				
Credit card loans:				
Credit card loans	$ 1,837,506	$ 731,331	$ 1,563,662	$ 4
Retained interests in loans securitized	1,812,788	1,877,956	1,927,810	1,8
Investors' interests in securitized loans	6,992,493	5,601,047	6,476,755	5,4
Total managed loan portfolio .	$10,642,787	$ 8,210,334	$ 9,968,227	$ 7,7

In June of 2001, a bank financing conduit that was accounted for as a sale under SFAS 140 matured and was replaced by another financing conduit that did not qualify as a sale under SFAS 140. As a result, approximately $855 million of credit card loans that were classified as retained interest in loans securitized as of December 31, 2000 were classified as credit card loans as of September 30, 2001.

Impact of Credit Card Securitizations

The following table provides a summary of the effects of credit card securitizations on selected line items of our statements of income for each of the periods presented, as well as selected financial information on both an owned and managed loan portfolio basis:

	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
(Dollars in thousands)				
Statements of Income (owned basis):				
Net interest income	$ 137,059	$ 99,446	$ 386,847	$ 260,116
Provision for loan losses ..	116,513	110,936	318,924	296,944
Other operating income	283,180	239,629	788,817	719,124
Other operating expense	189,376	149,649	549,529	437,939
Income before income taxes and cumulative effect of accounting changes	$ 114,350	$ 78,490	$ 307,211	$ 244,357
Adjustments for Securitizations:				
Net interest income	$ 258,190	$ 179,626	$ 690,293	$ 521,880
Provision for loan losses ..	217,053	137,971	590,294	369,035
Other operating income	(41,137)	(41,655)	(99,999)	(152,845)
Other operating expense	--	--	--	--
Income before income taxes and cumulative effect of accounting changes	$ --	$ --	$ --	$ --
Statements of Income (managed basis):				
Net interest income	$ 395,249	$ 279,072	$ 1,077,140	$ 781,996
Provision for loan losses ..	333,566	248,907	909,218	665,979
Other operating income	242,043	197,974	688,818	566,279
Other operating expense	189,376	149,649	549,529	437,939
Income before income taxes and cumulative effect of accounting changes	$ 114,350	$ 78,490	$ 307,211	$ 244,357

	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	Nine M Sept 2001
(Dollars in thousands)			
Other Data:			
(owned basis):			
Average interest-earning assets......	$ 4,027,251	$ 2,824,446	$ 3,861,157
Return on average assets (1).........	7.2%	6.4%	6.6%
Return on average total equity (1)...	26.8%	24.0%	26.0%
Net interest margin (2)..............	13.5%	14.0%	13.4%
Managed Basis:			
Average interest-earning assets......	$ 11,019,743	$ 8,425,493	$ 10,337,912
Return on average assets (1).........	2.6%	2.2%	2.5%
Return on average total equity (1)...	26.8%	24.0%	26.0%
Net interest margin (2)..............	14.2%	13.2%	13.9%

(1) Amounts for the nine-month period ended September 30, 2001 and 2000 are shown before the cumulative effect of accounting changes.
(2) Net interest margin is equal to annualized net interest income divided by average interest-earning assets.

Net Interest Income

Net interest income consists primarily of interest earned on our credit card loans, less interest expense on borrowings to fund the loans. Managed net interest income for the three- and nine-month periods ended September 30, 2001 was $395.2 million and $1,077.1 million compared to $279.1 million and $782.0 million for the same periods in 2000. The increase in net interest income is primarily due to $2.6 billion and $2.4 billion increases in managed average interest-earning assets and increases in net interest margin to 14.2% for the three-month period and 13.9% for the nine-month period ended September 30, 2001, compared to 13.2% for both periods in 2000. The managed net interest margin increase is primarily due to lower cost of funds resulting from decreases in LIBOR. Financing costs as a percentage of borrowings for the third quarter and year-to-date periods of 2001 were 5.0% and 5.8%, compared with 7.4% and 7.1% in the same periods of 2000.

Analysis of Average Balances, Interest and Average Yields and Rates

The following tables provide an analysis of interest income and expense, net interest spread, net interest margin and average balance sheet data for the three- and nine-month periods ended September 30, 2001 and 2000:

Three Months Ended September 30, 2001		
Average	Yield/	Average

	Balance	Interest	Rate	Balance	
(Dollars in thousands)					
(owned basis)					
Assets:					
Interest-earning assets:					
Federal funds sold	$ 39,735	$ 364	3.6%	$ 149,496	$
Short-term investments	337,222	3,513	4.1%	65,663	
Credit card loans and retained interests in loans securitized	3,650,294	175,330	19.1%	2,609,287	
Total interest-earning assets	$ 4,027,251	$ 179,207	17.7%	$ 2,824,446	$
Other assets	772,649	--	--	889,667	
Allowances for loan losses ..	(875,606)	--	--	(713,028)	
Total assets	$ 3,924,294	--	--	$ 3,001,085	
Liabilities and Equity:					
Interest-bearing liabilities:					
Deposits	$ 2,148,610	$ 31,427	5.8%	$ 1,403,696	$
Debt	362,098	10,721	11.7%	353,626	
Total interest-bearing liabilities	$ 2,510,708	$ 42,148	6.7%	$ 1,757,322	$
Other liabilities	365,168	--	--	440,522	
Total liabilities	2,875,876	--	--	2,197,844	
Stockholders' equity	1,048,418	--	--	803,241	
Total liabilities and equity	$ 3,924,294	--	--	$ 3,001,085	
Net interest income and interest margin (1)	--	$ 137,059	13.5%	--	$
Net interest rate spread (2)	--	--	11.0%	--	
Managed Basis					
Credit card loans	$ 10,642,787	$ 510,942	19.0%	$ 8,210,334	$
Total interest-earning assets	11,019,743	514,818	18.5%	8,425,493	
Total interest-bearing liabilities	9,503,201	119,569	5.0%	7,358,369	
Net interest income and interest margin (1)	--	$ 395,249	14.2%	--	$
Net interest rate spread (2)	--	--	13.5%	--	

(1) We compute net interest margin by dividing annualized net interest income by average total interest-earning assets.
(2) The net interest rate spread is the annualized yield on average interest-earning assets minus the annualized funding rate on average interest-bearing liabilities.

Nine Months Ended September 30,
2001

	Average Balance	Interest	Yield/ Rate	Average Balance
(Dollars in thousands)				
(owned basis)				
Assets:				
Interest-earning assets:				
Federal funds sold	$ 77,984	$ 3,004	5.2%	$ 118,939
Short-term investments	291,701	10,585	4.9%	68,877
Credit card loans and retained interests in loans securitized	3,491,472	507,554	19.4%	2,292,435
Total interest-earning assets	$ 3,861,157	$ 521,143	18.1%	$ 2,480,251
Other assets	803,437	--	--	798,234
Allowances for loan losses ..	(821,635)	--	--	(674,808)
Total assets	$ 3,842,959	--	--	$ 2,603,677
Liabilities and Equity:				
Interest-bearing liabilities:				
Deposits	$ 2,113,702	$ 100,986	6.4%	$ 1,131,089
Debt	361,340	33,310	12.3%	352,478
Total interest-bearing liabilities	$ 2,475,042	$ 134,296	7.3%	$ 1,483,567
Other liabilities	391,434	--	--	393,925
Total liabilities	2,866,476	--	--	1,877,492
Stockholders' equity	976,483	--	--	726,185
Total liabilities and equity	$ 3,842,959	--	--	$ 2,603,677
Net interest income and interest margin (1)	--	$ 386,847	13.4%	--
Net interest rate spread (2).	--	--	10.8%	--
Managed Basis				
Credit card loans	$ 9,968,227	$ 1,449,589	19.4%	$ 7,726,668
Total interest-earning assets	10,337,912	1,463,178	18.9%	7,914,484
Total interest-bearing liabilities	8,951,797	386,038	5.8%	6,917,800
Net interest income and interest margin (1)	--	$ 1,077,140	13.9%	--
Net interest rate spread (2)	--	--	13.1%	--

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

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

Other Operating Income

Other operating income contributes substantially to our results of operations, representing 67% of owned revenues for the three- and nine-month periods ended September 30, 2001.

Other operating income increased $43.6 million and $69.7 million for the three- and nine-month periods ended September 30, 2001 over the comparable periods in 2000. These increases are primarily due to the $17.5 million and $50.9 million increases in income generated from credit card fees, interchange and other credit card income due to the growth in total accounts and loans in the managed credit card portfolio for the three- and nine-month periods ended September 30, 2001 over the comparable periods in 2000. For the three- and nine-month periods ended September 30, 2001 net securitization and credit card income increased $8.6 million and decreased $36.2 million, respectively, from the comparable periods in 2000. The decrease for the nine-month period ended September 30, 2001 is primarily the result of the increased provision for loan losses on securitized loans. For the nine-month period ended September 30, 2000 other operating income included the $12.1 million favorable impact related to the operational policy change in the billing of overlimit fees. This impact is reflected in net securitization and credit card servicing income and credit card fees, interchange and other credit card income in the consolidated statements of income.

Enhancement services revenues increased by $17.4 million and $55.0 million for the three- and nine-month periods ended September 30, 2001. These increases reflect higher credit protection revenue due to increased receivables and higher sales of our debt waiver products, as well as the increase in membership program revenues resulting from additional product offers to third-party cardholders. At September 30, 2001 combined active enhancement members totaled approximately 5.9 million compared to 6.0 million as of September 30, 2000

Other Operating Expense

Total other operating expenses for the three- and nine-month periods ended September 30, 2001 increased $39.7 million and $111.6 million over the comparable periods in 2000, largely due to costs associated with the growth of our business activities. Employee compensation increased $15.3 million and $39.6 million for the three- and nine-month periods ended September 30, 2001 due to increased staffing needs. Credit card account and other product solicitation and marketing expenses increased $5.7 million and $29.5 million over the comparable periods in 2000, largely due to increased costs associated with our credit card marketing activity which resulted in over 890 thousand new credit card accounts and 2.6 million new enhancement relationships during the first nine months of 2001. Other expenses increased $10.6 million and $24.5 million for the three- and nine-month periods ended September 30, 2001 due to increased professional services fees, rent and depreciation.

Income Taxes

Our provision for income taxes, which includes both federal and state income taxes, represents an effective tax rate of 38.3% for the nine-month period ended September 30, 2001 compared to 38.6% for the same period in 2000.

Asset Quality

Our delinquency and net loan charge-off rates at any point in time reflect, among other factors, the credit risk of loans, the average age of our various credit card account portfolios, the success of our collection and recovery efforts, and general economic conditions. The average age of our credit card portfolio affects the stability of delinquency and loss rates. In order to minimize losses, we continue to focus our resources on refining our credit underwriting standards for new accounts, and on collections and post charge-off recovery efforts. At September 30, 2001, 70% of our outstanding receivables balance were from accounts that have been with us in excess of two years, and 40% of outstanding receivables were with us in excess of four years.

We use credit line analyses, account management and customer transaction authorization procedures to minimize loan losses. Our risk models determine initial credit lines at the time of solicitation and generally result in lower credit lines than the industry average. We manage credit lines on an ongoing basis and adjust them based on customer usage and payment patterns. To maximize profitability, we continually monitor customer accounts and initiate appropriate collection activities when an account is delinquent or overlimit.

Delinquencies

Delinquencies not only have the potential to affect earnings in the form of net loan losses, but are also costly in terms of the personnel and other resources dedicated to their resolution. We monitor delinquency levels on a managed basis, since delinquency on either an owned or managed basis subjects us to credit loss exposure. A credit card account is contractually delinquent if we do not receive the minimum payment by the specified date on the cardholder's statement. It is our policy to continue to accrue interest and fee income on all credit card accounts, except in limited circumstances, until we charge off the account and all related loans, interest and other fees. The following table presents the delinquency trends of our credit card loan portfolio on a managed portfolio basis:

	September 30, 2001	% of Total	December 31, 2000	% of Total	Septe
(Dollars in thousands)					
Managed Basis:					
Loans outstanding.........	$ 11,024,192	100%	$ 9,273,108	100%	$ 8,
Loans contractually delinquent:					
30 to 59 days........	285,243	2.6%	228,238	2.5%	
60 to 89 days........	221,120	2.0%	173,531	1.9%	
90 or more days......	474,224	4.3%	365,963	3.9%	
Total	$ 980,587	8.9%	$ 767,732	8.3%	$

The seventy basis point increase in the managed delinquency rates over September 30, 2000 primarily reflects a deterioration in the economy and the adoption of recent FFIEC guidelines on re-aging accounts effective January 1, 2001, which required us to report an additional $41.5 million of receivables as delinquent as of September 30, 2001. Without the impact of the recent FFIEC guidelines, the managed delinquency ratio was 8.5% as of September 30, 2001. We continue to focus our resources on collection efforts to minimize delinquency levels.

Net Charge-Offs

Net charge-offs are the principal amount of losses from cardholders unwilling or unable to make minimum payments, bankrupt cardholders and deceased cardholders, less current period recoveries. Net charge-offs exclude accrued finance charges and fees which are charged against the related income at the time of charge-off. The following table presents our net charge-offs for the periods indicated as reported in the consolidated financial statements on a managed portfolio basis:

	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	
(Dollars in thousands)			
Owned basis:			
Average loans and retained interests in loans securitized outstanding	$ 3,650,294	$ 2,609,287	$
Net charge-offs	93,465	69,289	
Net charge-offs as a percentage of average loans outstanding (1)....	10.2%	10.6%	
Managed basis:			
Average loans outstanding	$ 10,642,787	$ 8,210,334	$
Net charge-offs	286,248	202,716	
Net charge-offs as a percentage .... of average loans outstanding (1) ...	10.7%	9.8%	

(1) Annualized

The increase in the managed net charge off ratio for both the three and nine month periods ended September 30, 2001 primarily reflect a deterioration in the economy. We believe, consistent with our statistical models and other credit analysis, this rate will continue to fluctuate between 10.5% and 11.5% over the next few quarters.

Provision and Allowance for Loan Losses

We maintain an allowance for loan losses for owned loans and the retained interest in loans securitized. The portion allocated to the retained interest in loans securitized represents our estimate of a valuation adjustment to report this asset in accordance with SFAS 140. For securitized loans, anticipated losses and related provisions for loan losses are reflected in the calculation 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 future loan losses, net of recoveries, inherent in the existing loan portfolio.

The provision for loan losses on a managed basis for the three- and nine-month periods ended September 30, 2001 totaled $333.6 million and $909.2 million compared to provisions of $248.9 million and $666.0 million for the three- and nine-month periods ended September 30, 2000. The increase for the three- and nine-month periods ended September 30, 2001, as compared to the three- and nine-month periods ended September 30, 2000, is reflective of the increase in credit card loans and an increase in net charge-offs as a percentage of managed loans outstanding.

The ratio of allowance for loan losses to period-end loans on a managed basis was 8.0% at September 30, 2001 compared to 8.2% at December 31, 2000 and 8.6% at September 30, 2000. The reduction in the allowance as a percentage of loans and as a percentage of 30-day plus receivables reflects a reduction in our partially secured credit card portfolio and related reserve requirements and continued seasoning of our credit card portfolio. As of September 30, 2001, 70% of our outstanding receivable balance has been with us over two years. Furthermore, we continue to see improvements in early stage delinquencies due to tighter underwriting and better account analysis and management.

As announced on September 20, 2001, we provided relief to customers in the geographic areas around the New York City and Washington D.C as a result of the September 11 terrorist attacks. Customers in these areas with payment due dates from September 11 to October 11 will not incur late fees due to possible delays in the U.S. Postal Service. We estimate that the overall impact of this relief program was approximately $2 million of waived late fees in the third quarter of 2001. We continue to monitor the impact of the September 11 events on collections, charge-offs and our reserve requirements. Collections on customer accounts and corresponding payments, subsequent to September 11, have continued to be in line with our expectations.

We believe the allowance for loan losses is adequate to cover probable future losses inherent in the loan portfolio under current conditions. However, there can be no assurance as to the future credit losses that may be incurred in connection with our loan portfolio, nor can there be any assurance that the loan loss allowance that has been established will be sufficient to absorb future loan losses. We continually monitor the allowance for loan losses and make additional provisions to the allowance as we deem appropriate.

Derivatives Activities

We use derivative financial instruments for the purpose of managing our exposure to interest rate risks. We have a number of procedures in place to monitor and control both market and credit risk from these derivatives activities. Our senior management approves all derivative strategies and transactions.

Liquidity, Funding and Capital Resources

One of our primary financial goals is to maintain an adequate level of liquidity through active management of assets and liabilities. Liquidity management is a dynamic process affected by changes in short- and long-term interest rates. We use a variety of financing sources to manage liquidity, refunding and interest rate risks.

We finance the growth of our credit card loan portfolio through cash flows from operations, asset securitizations, bank loans, subsidiary bank deposits, long-term debt and equity issuances. The outstanding balance and related weighted average interest rate on our financing sources as of September 30, 2001 and December 31, 2000 are as follows:

	September 30, 2001	Weighted-Average Interest Rate	December 31, 2000
Term loan due 2003	100,000	6.7%	100,000
Bank conduit due 2002	95,000	3.3%	--
Bank conduit	--	--	213,000
Senior note due 2004	100,000	10.0%	100,000
Senior note due 2006	145,697	11.5%	145,024
Other long-term debt	10,774	8.6%	11,042
Equity	1,082,945	--	883,553
Deposits	2,135,538	5.6%	2,106,199
Metris Master Trust	7,161,810	4.2%	5,857,224
Total period-end funding	10,831,764	4.7%	9,416,042

During the three- and nine-month periods ended September 30, 2001 we received net proceeds of $399.5 million and $1,091.9 million, respectively, from sales of credit card loans to the trust and conduits. We used cash generated from these transactions to fund credit card loan portfolio growth. During the three- and nine-month periods ended September 30, 2000 we received net proceeds of $211.0 million and $177.0 million, respectively, from the trust and conduits. We financed these receivables on our balance sheet with the growth in our subsidiary bank deposit program.

Deposits consist of certificates of deposit of $100,000 or more issued by Direct Merchants Bank, our subsidiary. Original maturities on deposits range from six months to five years and three months to five years as of September 30, 2001 and December 31, 2000, respectively. These CDs pay fixed interest rates ranging from 3.1% to 7.6% and 5.4% to 7.6%, respectively.

We have a $170 million, three-year revolving credit facility of which the total amount was available at September 30, 2001 and December 31, 2000. At September 30, 2001 and December 31, 2000 we were in compliance with all financial covenants under our credit agreements.

As the portfolio of credit card loans grows our funding needs will increase accordingly. We believe that our cash flows from operations, asset securitizations, bank loans, subsidiary bank deposits, long-term debt and equity issuances will provide us with adequate liquidity for meeting anticipated cash needs, although no assurance can be given to that effect.

Newly Issued Pronouncements

In July 2001, the Financial Accounting Standards Board issued SFAS No. 142, Goodwill and Other Intangible Assets, which establishes accounting and reporting standards for goodwill and other intangible assets. It requires enterprises to test these assets for impairment upon adoption of SFAS 142 as well as on an annual basis, and reduce the carrying amount of these assets if they are found to be impaired. Goodwill and other intangible assets with an indefinite useful life will no longer be amortized. Other intangible assets with an estimable useful life will continue to be amortized over their useful lives. This statement is effective for goodwill and intangible assets included on the balance sheet for all fiscal years beginning after December 15, 2001. The adoption of the new standard will not have a material impact on our financial statements.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, Accounting for the Impairment of Long-lived Assets and for Long-Lived Assets to Be Disposed Of. The standard is effective for fiscal years beginning after December 15, 2001. The new rules on asset impairment supersede FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and provide a single accounting model for long-lived assets to be disposed of. The adoption of the new standard will not have a material impact on our financial statements.

Forward-Looking Statements

This quarterly report contains some forward-looking statements. Forward-looking statements give our current expectations of future events. You will recognize these statements because they do not strictly relate to historical or current facts. Such statements may use words such as "anticipate," "estimate," "expect," "project," "intend," "think," "believe" and other words or terms of similar meaning in connection with any discussion of future performance of the Company. For example, these include statements relating to future actions, future performance of current or anticipated products, solicitation efforts, expenses, the outcome of contingencies such as litigation, and the impact of the capital markets on liquidity. From time to time, we also may provide oral or written forward-looking statements in other material released to the public.

Any or all of our forward-looking statements in this report and in any other public statements we make may turn out to be wrong. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Many factors, which can not be predicted with certainty, will be important in determining future results. Among such factors are higher default and bankruptcy rates of our target market of moderate-income consumers, interest rate risks, risks associated with acquired portfolios, dependence on the securitization markets and other funding sources, state and federal laws and regulations that limit our business activities, product offerings and fees, privacy laws that could result in lower marketing revenue and penalties for non-compliance, and general economic conditions that can have a major impact on the performance of loans. Each of these factors and others are more fully discussed under the caption "Business--Risk Factors" contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2000. As a result of these factors, we cannot guarantee any forward-looking statements. Actual future results may vary materially. Also, please note that the factors we provide are those we think could cause our actual results to differ materially from expected and historical results. Other factors besides those listed here or in our 10-K for the year ended December 31, 2000 could also adversely affect us.

We undertake no obligations to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosure we make on related subjects in our periodic filings with the Securities and Exchange Commission. This discussion is provided to you as permitted by the Private Securities Litigation Reform Act of 1995.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss from adverse changes in market prices and rates. Our principal market risk is due to changes in interest rates. This affects us directly in our lending and borrowing activities, as well as indirectly, as interest rates may impact the payment performance of our cardholders.

To manage our direct risk to market interest rates, management actively monitors the interest rates and the interest sensitive components of our owned and managed balance sheet to minimize the impact changes in interest rates have on the fair value of assets, net income and cash flow. We seek to minimize the impact of changes in interest rates on us primarily by matching asset and liability repricings.

Our primary managed assets are credit card loans, which are virtually all priced at rates indexed to the variable Prime Rate. We fund credit card loans through a combination of cash flows from operations, asset securitizations, bank loans, subsidiary bank deposits, long-term debt and equity issuances. Our securitized loans are owned by a trust and bank-sponsored single-seller and multi-seller receivable conduits, which have committed funding primarily indexed to variable commercial paper rates and LIBOR. The $270 million bank credit facility has pricing that is also indexed to LIBOR or Prime Rate. The subsidiary bank deposits are issued at fixed interest rates. We have entered into interest rate swap agreements which effectively converted $420 million of deposits to rates indexed to LIBOR. The long-term debt is at fixed interest rates. At September 30, 2001 approximately 10.0% of the trust and conduit funding of securitized receivables was funded with fixed rate securities.

In an interest rate environment with rates at or below current rates, 90.0% of the securitization funding for the managed loan portfolio is indexed to floating commercial paper and LIBOR rates. In an interest rate environment with rates significantly above current rates, the potentially negative impact on earnings of higher interest expense is mitigated by fixed rate funding and interest rate cap contracts.

The approach we use to quantify interest rate risk is a sensitivity analysis, which we believe best reflects the risk inherent in our business. This approach calculates the impact on net income from an instantaneous and sustained change in interest rates by 200 basis points. Assuming that we take no counteractive measures, a 200 basis point increase in interest rates affecting our floating rate financial instruments, including both debt obligations and loans, will result in an increase in net income of approximately $18.8 million relative to a base case over the next 12 months; while a decrease of 200 basis points will result in a reduction in net income of approximately $5.4 million. You should not construe our use of this methodology to quantify the market risk of financial instruments as an endorsement of its accuracy or the accuracy of the related assumptions. In addition, this methodology does not take into account the indirect impact interest rates may have on the payment performance of our cardholders. The quantitative information about market risk is necessarily limited because it does not take into account operating transactions or other costs associated with managing immediate changes in interest rates.

Part II. Other Information

Item 1. 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. and our subsidiaries 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 continuing 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.

On May 3, 2001, Direct Merchants Bank entered into a consent order with the Office of the Comptroller of the Currency ("OCC"). The consent order requires Direct Merchants Bank to pay approximately $3.2 million in restitution to about 62,000 credit card customers who applied for and received a credit card in connection with a series of limited test marketing campaigns from March 1999 to June 1, 2000. Under the terms of the consent order, Direct Merchants Bank made no admission or agreement on the merits of the OCC's assertions. The restitution as required by the OCC consent order is reflected in our September 30, 2001 financial statements. We believe that Direct Merchants Bank's agreement with the OCC will not have a material adverse effect on the financial position of Metris Companies Inc. or Direct Merchants Bank.

The OCC also indicated that it is considering whether or not to pursue an assessment of civil money penalties and gave Direct Merchants Bank the opportunity to provide information to the OCC bearing on whether imposing a penalty would be appropriate and the severity of any penalty. The statutory provisions pursuant to which a civil money penalty could be assessed give the OCC broad discretion in determining whether or not a penalty will be assessed and, if so, the amount of the penalty. Because we are unable at this time to determine whether or not any civil money penalty will be assessed, there can be no assurance that the resolution of this matter will not have a material adverse effect on our financial position.

Item 2. Changes in Securities
Not applicable

Item 3. Defaults Upon Senior Securities
Not applicable

Item 4. Submission of Matters to a Vote of Security Holders
Not applicable

Item 5. Other Information
Not applicable

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

11 Computation of Earnings Per Share.

(b) Reports on Form 8-K: Not applicable

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

METRIS COMPANIES INC.
(Registrant)

Date:	November 14, 2001	By: /s/ David D. Wesselink David D. Wesselink Vice Chairman Principal Financial Officer
Date:	November 14, 2001	By: /s/ Mark P. Wagener Mark P. Wagener Senior Vice President, Controller Principal Accounting Officer