

METRIS COMPANIES INC

Form PRE 14A

April 09, 2003

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SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a)

OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to § 240.14a-11(c) or § 240.14a-12

METRIS COMPANIES INC.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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**10900 Wayzata Boulevard
Minnetonka, Minnesota 55305-1534**

April 28, 2003

Dear Stockholder:

I am pleased to invite you to attend the Company's 2003 Annual Meeting of Stockholders, which will be held on Wednesday, June 4, 2003, at 9:00 a.m. (CDT) at our headquarters, located at 10900 Wayzata Boulevard, Minnetonka, Minnesota.

On the page following this letter you will find the Notice of Meeting, which lists the matters to be considered at the meeting. Following the Notice is the Proxy Statement, which describes those matters and provides other information concerning the Company and management. You should read carefully the Notice and Proxy Statement. Also enclosed is your Proxy card, which allows you to vote on the matters, and the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

Your vote and participation this year is important to us. ***Please vote your proxy promptly, even if you plan to attend the meeting.*** You can attend the meeting and vote in person, even if you have mailed in a Proxy card or voted by Internet or telephone.

The Board of Directors recommends that stockholders vote **FOR** each of the director nominees and **FOR** the other proposals.

I look forward to seeing you on June 4.

Sincerely,

DAVID D. WESSELINK
Chairman and Chief Executive Officer

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METRIS COMPANIES INC.

**10900 Wayzata Boulevard
Minnetonka, Minnesota 55305-1534**

**NOTICE OF ANNUAL MEETING
BY ORDER OF THE BOARD OF DIRECTORS**

TIME	9:00 a.m. Wednesday, June 4, 2003
PLACE	Metris Companies Inc. 10900 Wayzata Boulevard Minnetonka, Minnesota 55305-1534
ITEMS OF BUSINESS	<p>1) To amend the Company's Amended and Restated Certificate of Incorporation to declassify the Board of Directors and provide for one-year terms of office for all directors.</p> <p>2) To elect two directors for three-year terms or, if Proposal One is approved, electing six directors to serve one-year terms.</p> <p>3) To ratify KPMG LLP as the Company's independent auditor for the fiscal year ending December 31, 2003.</p> <p>4) To transact such other business as may properly come before the meeting and any adjournment or postponement thereof.</p>
RECORD DATE	You can vote if you were a stockholder of record on April 17, 2003.
PROXY VOTING	It is important that your shares be represented and voted at the meeting. Please vote promptly in one of the ways explained in the Proxy Statement.

Richard G. Evans
Secretary
April 28, 2003

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METRIS COMPANIES INC. PROXY STATEMENT

ATTENDANCE AND VOTING MATTERS

Why Did You Send Me This Proxy Statement?

We sent you this Proxy Statement and the enclosed Proxy card because the Board of Directors (Board) of Metris Companies Inc. (we, us, our, Metris or Company) is soliciting your proxy to vote at the 2003 Annual Meeting of Stockholders (Annual Meeting). This Proxy Statement summarizes information concerning the director nominees and certain other proposals, and provides you information concerning the Company's performance and the compensation of our officers and directors. This information will help you to make an informed vote at the Annual Meeting.

We began mailing this Proxy Statement, the attached Notice of Annual Meeting and the enclosed Proxy card on or about April 28, 2003.

Who is Entitled to Vote?

Holders of our Common Stock. Stockholders of record of the Company's common stock, par value \$.01 (Common Stock), at the close of business on April 17, 2003 (record date) are entitled to vote at the Annual Meeting. A holder of Common Stock is entitled to one vote for each share of Common Stock held on the record date for each of the proposals set forth herein, except for electing to the Board nominees to represent the holders of our Series C Perpetual Convertible Preferred Stock, as discussed below, in which case the holders of Common Stock have no right to vote. There is no cumulative voting.

Holders of our Series C Perpetual Convertible Preferred Stock. The holders of our Series C Perpetual Convertible Preferred Stock (Series C Preferred Stock) are entitled to vote on all matters voted on by holders of our Common Stock, voting as a single class with the Common Stockholders, except for the election of directors. With respect to a vote on any matter other than the election of directors, each share of Series C Preferred Stock entitles its holder to cast the same number of votes he or she would have been able to cast if the share of Series C Preferred Stock was converted into Common Stock on the record date. 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 2003, the premium amount would be equal to 54.4% of those dividends.

Affiliates of Thomas H. Lee Partners, L.P. and its predecessor, Thomas H. Lee Company, hold most of the outstanding shares of our Series C Preferred Stock. So long as they or their affiliates own at least 25% of the originally issued Series C Preferred Stock (or any shares of Common Stock issued upon conversion thereof), the holders of a majority of the shares of Series C Preferred Stock are entitled to elect four out of eleven directors of the Board. So long as the holders of our Series C Preferred Stock are entitled to elect four directors and the Thomas H. Lee Equity Fund IV, L.P. owns any shares of the Series C Preferred Stock (or any shares of Common Stock issued upon conversion thereof), it will have the right to appoint one of the four directors. So long as Thomas H. Lee Equity Fund IV, L.P. and its affiliates own at least 10% but less than 25% of the originally issued Series C Preferred Stock (or any shares of Common Stock issued upon conversion thereof), the holders of a majority of the shares of Series C Preferred Stock are entitled to elect one director.

On the record date (April 17, 2003) the total shares outstanding were:

xxxxxxx shares of Common Stock, and

xxxxxxx shares of Series C Preferred Stock.

The Series C Preferred Stock is normally fully convertible into Common Stock. This would mean that, as of the record date, our Preferred Stockholders would receive xxxxxxxx shares, or approximately xxxxx%,

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of our Common Stock on a diluted basis upon conversion of their Preferred Stock. However, the indenture that governs our 10% Senior Notes due 2004 requires us to offer to purchase those Notes in the event that such a conversion would result in a stockholder or group obtaining 35% or more of our outstanding voting stock. Therefore, we included a provision in the terms of our Series C Preferred Stock that sets the maximum percentage of outstanding voting stock that any stockholder or group could obtain while any of our 10% Notes remain outstanding at 34.9%. Accordingly, on the record date, the Series C Preferred Stock could have been converted into xxxxxxxx shares of Common Stock, with the excess Series C Preferred Stock converting into xxxxxxxx shares of non-voting Series D Preferred Stock. The Series D Preferred Stock automatically converts into Common Stock on a share-for-share basis at the time that the conversion will not exceed the ownership limitations described above. The terms of our Series D Preferred Stock are essentially the same as the terms of our Common Stock, except that

the Series D Preferred Stock has a liquidation preference of \$.10 per share, and

is non-voting, except as required by law to preserve the powers, preferences or other rights of that class of stock.

A list of stockholders entitled to vote at the Annual Meeting will be available at the Annual Meeting and for 10 days prior to the Annual Meeting at our corporate headquarters during normal business hours.

How Do I Vote?

Stockholders of record. If you are a stockholder of record, you can vote on matters to come before the Annual Meeting in one of three ways:

you can attend the Annual Meeting and cast your vote there;

by marking, signing, dating and promptly returning a Proxy card by mail; or

on the Internet at www.proxyvote.com.

The Board has selected David D. Wesselink and Richard G. Evans, the persons named on the Proxy card accompanying this Proxy Statement, to serve as proxies for the Annual Meeting. Messrs. Wesselink and Evans are officers of the Company.

Employees in the Metris Companies Inc. Employee Stock Purchase Plan and employees holding Restricted Stock issued under the Metris Companies Inc. Amended and Restated Long-Term Incentive and Stock Option Plan. If you hold shares of Common Stock under the Metris Companies Inc. Employee Stock Purchase Plan or shares of Restricted Stock issued under the Metris Companies Inc. Amended and Restated Long-Term Incentive and Stock Option Plan, you can vote those shares in any of the ways described above.

Employees in the Metris Retirement Plan 401(k). If you hold shares of Common Stock in the Metris Retirement Plan 401(k) (401(k) Plan), an employee benefit plan of the Company, you may direct the Trustee to vote those shares in the ways described above except in person at the Annual Meeting. You should vote by May 28, 2003. ADP Investor Communication Services will calculate the votes returned by all holders in the 401(k) Plan and notify the Trustee of the 401(k) Plan. Scudder Trust Company, the Trustee for the 401(k) Plan, will act in accordance with your instructions for voting your shares of Common Stock held in your 401(k) account. If your voting instructions for your 401(k) account are not received by May 28, 2003, the Trustee will vote your shares in its absolute discretion.

Beneficial stockholders. If your shares are held in the name of a bank, broker or other holder of record, follow the voting instructions you receive from the holder of record to vote your shares. Telephone and Internet voting are available to stockholders owning stock through most major banks and brokers.

If you vote by telephone or the Internet, you do not

need to return your Proxy card.

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May I Revoke My Proxy?

If you give a proxy, you may revoke it at any time before it is exercised. You may revoke your proxy in any one of three ways:

you may send in another Proxy card with a later date;

you may notify our Secretary in writing at 10900 Wayzata Boulevard, Minnetonka, Minnesota 55305-1534; or

you may vote in person at the Annual Meeting.

If you choose to revoke your proxy by attending the Annual Meeting, you must vote at the meeting in accordance with the rules for voting at the Annual Meeting. Attending the Annual Meeting will not, by itself, constitute revocation of a proxy.

Must a Minimum Number of Stockholders Vote or be Present at the Annual Meeting?

A quorum of stockholders is necessary to hold a valid meeting. Our Amended and Restated Bylaws state that the presence, in person or by proxy, of holders of one-third of the shares entitled to vote shall constitute a quorum. Under Delaware law, if a stockholder abstains from voting as to any particular matter, then the shares held by that stockholder shall be deemed present at the Annual Meeting for purposes of determining a quorum and for purposes of calculating the vote with respect to the matter.

The Inspector of Election also will treat broker non-votes as shares that are present and entitled to vote for purposes of determining a quorum. Broker non-votes occur when a broker holding stock in street name votes shares on some matters but not others. As to matters for which the broker lacks discretionary authority, the shares will be treated as not present and not entitled to vote, even if included for purposes of determining a quorum.

If the number of shares present at the Annual Meeting is insufficient to constitute a quorum, the Annual Meeting may be adjourned to a later date by the vote of a majority of shares present. No notice, other than as given at the Annual Meeting itself, is required with respect to the time and place for the reconvening of the Annual Meeting.

What Vote is Required to Approve Each Proposal?

Amendments to Certificate of Incorporation. To amend the Company's Certificate of Incorporation, we need the affirmative vote of:

at least 80% of the combined voting power of all our outstanding shares of voting stock, voting together as a single class; and

at least a majority of the combined voting power of all our outstanding shares of voting stock that are held by Disinterested Stockholders, voting together as a single class.

For this purpose, Disinterested Stockholders are stockholders that are not (i) beneficial owners of 20% or more of our outstanding voting stock; (ii) beneficial owners of 20% or more of our outstanding voting stock within the last two years and an affiliate of the Company currently; (iii) someone that succeeded to the beneficial ownership of the stock that was held within the last two years by an interested stockholder, other than through some form of public distribution; or (iv) any affiliate or associate of the three kinds of stockholders listed above.

Election of Directors. The affirmative vote of a majority of the shares of our Common Stock represented at the meeting is required to elect either two directors for three-year terms or six directors for one-year terms, and the affirmative vote of a majority of the shares of our Series C Preferred Stock is required to elect C. Hunter Boll, Thomas M. Hagerty, David V. Harkins and Thomas H. Lee as directors (see Proposal Two).

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Ratification of KPMG LLP. The affirmative vote of a majority of all shares represented at the meeting.

What Are the Costs of Soliciting Proxies?

We will pay all costs of soliciting proxies. In addition to mailing proxy soliciting materials, we may also solicit proxies by telephone, facsimile, e-mail or otherwise. We also ask banks, brokers and other institutions, nominees and fiduciaries to forward proxy materials to the beneficial owners or principals and to obtain authority to execute proxies. We will reimburse them for their expenses. Officers and other regular employees of the Company, who will receive no extra compensation for their services, may solicit proxies in person or by telephone or facsimile. In addition, we have retained D.F. King & Co., Inc. to aid in the solicitation of proxies. We have agreed to pay them a fee of \$6,000 plus telephone solicitation fees and out-of-pocket expenses, which is anticipated to be approximately \$45,000.

What Matters May be Raised at the Annual Meeting?

The Board is aware of three items for action at the Annual Meeting:

1. the approval of amendments to the Company's Amended and Restated Certificate of Incorporation to declassify the Board and provide for one-year terms of office for all directors;
2. the election of two directors for three-year terms or, if Proposal One is approved, electing six directors for one-year terms; and
3. the ratification of KPMG LLP as independent auditor for the Company for the fiscal year ending December 31, 2003.

For the Annual Meeting, our Bylaws required that stockholders submit in writing any nomination for director or any other item of business not less than 45 days prior to the date one year after the date on which we first mailed last year's Proxy Statement, or February 12, 2003. No stockholder has made a nomination or submitted an item of business.

Under the proxy rules promulgated by the Securities and Exchange Commission (SEC), a proxy may confer discretionary authority to vote on any matter for which we did not have notice in accordance with the notice provisions in our Bylaws. Therefore, if any other matter is presented at the Annual Meeting and you have signed and returned a Proxy card, the holder of your proxy will vote upon that matter in his or her discretion.

In addition, under the rules of the SEC, the holders of your proxy may also vote in their discretion with respect to matters incident to the conduct of the Annual Meeting or, in the case of a nominee for election as director who is unable to serve, for a substitute nominee.

What if I Want to Obtain Further Information as Reported on the Company's Form 10-K?

We sent copies of our Annual Report on Form 10-K for the year ended December 31, 2002 with this Proxy Statement to those stockholders who received this Proxy Statement by mail. Other stockholders who have actively consented can receive copies of both documents electronically. If you need a copy of our Form 10-K, we will send one to you without charge. Please submit your request to:

Metris Companies Inc.
Attention: Investor Relations
10900 Wayzata Boulevard
Minnetonka, Minnesota 55305-1534

or contact Investor Relations by phone at (952) 593-4874 or by fax at (952) 417-5613. You may also view, obtain or request a copy of our 2002 Annual Report on Form 10-K on our website at www.metriscompanies.com.

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CORPORATE GOVERNANCE

How Do We Manage Our Company?

Under Delaware law, the ultimate decision-making body of the Company is the Board of Directors. The Board decides all of our major questions and selects our management to manage operations day-to-day. To meet its obligations, the Board meets at least quarterly. When circumstances arise requiring the decision of the Board prior to the next regularly scheduled meeting, the Board may hold a special meeting to discuss such matters. In addition, during 2002, Board members met periodically on an *ad hoc* basis to discuss current issues facing the Company. The Board may also render decisions through unanimous written consents. On December 15, 2002, the Board terminated Ronald N. Zebeck and elected David D. Wesselink as Chairman of the Board and Chief Executive Officer (CEO) of the Company. On February 7, 2003, Derek V. Smith resigned as a director of the Company.

The Company's Board is currently divided into three classes, with one class being elected each year and members of each class elected for three-year terms. The proposed amendments to the Company's Amended and Restated Certificate of Incorporation will eliminate the classified Board (see Proposal One). If the proposal is approved, all directors will serve for one-year terms expiring at the annual meeting held in the year following their election, and all directors will be required to stand for re-election at each annual meeting of stockholders. In addition, if the proposal is approved, the Board intends to have all current directors, with the exception of Ronald N. Zebeck, stand for election at this Annual Meeting. If the proposal is not approved, the Company's Class Two directors (Edward B. Speno and David D. Wesselink) will stand for election at this Annual Meeting (see Proposal Two).

How Often Did Our Directors Meet?

During 2002, the Board held four regular quarterly meetings and twelve special meetings. In addition to meetings of the Board, the directors attended meetings of the various Board committees. From time to time, management also informally sought counsel and advice from members of the Board on an *ad hoc* basis. Overall director attendance at Board and committee meetings during 2002 was 93%.

It should be noted that due to various issues facing the Company in 2002, many special meetings of the Board and Audit Committee were convened without a great deal of advance notice to the directors. In 2002, Walter M. Hoff had an overall attendance rate of 73%, as he was unable to attend seven out of twenty-six Board and committee meetings. Mr. Hoff always followed-up with other members of the Board or executive management after each meeting that he was unable to attend in order to remain current with regard to the important issues facing the Company.

What Committees has the Board Authorized?

Our Bylaws authorize the full Board to create committees to assist in the management of the Company. The Board has four standing committees.

The *Audit Committee*, comprised of three members of the Board, supervises and reviews our financial and accounting practices. The Audit Committee also reviews financial information with management before the public release of quarterly earnings information, meets with our internal audit personnel and makes recommendations to the Board as to the selection of the independent auditor. The Audit Committee met at four regular meetings and six special meetings during 2002. At each regular meeting in 2002, it received reports from management and our independent auditor concerning the Company's accounting and reporting practices and fiscal soundness. All members of the Audit Committee are independent for purposes of the New York Stock Exchange listing standards.

On February 7, 2003, Derek V. Smith resigned as a director of the Company and as a member of the Audit Committee. Mr. Smith is Chairman and CEO of ChoicePoint Inc., a company that provides information-related services to Metris on a regular basis. ChoicePoint billed the following for services it

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provided to us in 2002: \$35,866 for background and credit checks of prospective employees, and \$75,642 in connection with appending demographic data for marketing campaigns. In 2002, the Board determined, in the directors' business judgment, that Metris' relationship with ChoicePoint did not interfere with Mr. Smith's exercise of independent judgment.

The *Compensation Committee*, comprised of three members of the Board, determines the compensation awarded to directors and officers, subject to ratification by the full Board for compensation and benefits granted to our Chairman and CEO. The Compensation Committee approves, adopts and administers our compensation plans and administers and grants stock options under the Company's stock option plan for employees. During 2002, the Compensation Committee met at four regular and nine special meetings. All members of the Compensation Committee are independent for purposes of the New York Stock Exchange listing standards.

On December 31, 2002, Lee R. Anderson, Sr. resigned as a member of the Compensation Committee due to his relationship with A & L Partnership, LLP, the landlord with which our subsidiary, Metris Direct, Inc. (MDI), has a lease in Duluth, Minnesota. See *Do Any Directors Have Relationships With Entities Doing Business With the Company?* on page 9 of this Proxy Statement for additional information. Pursuant to Internal Revenue Code §162(m), Mr. Anderson is not considered an outside director for purposes of voting on compensation plans of the Company.

On February 26, 2003, Thomas M. Hagerty replaced David V. Harkins as a member of the Compensation Committee.

The *Executive Committee*, comprised of three members of the Board, is authorized to exercise the full power of the Board in the management and conduct of business affairs during interim periods between meetings of the Board. The Executive Committee met four times during 2002. On December 15, 2002, Ronald N. Zebeck was removed as a member of the Executive Committee and David D. Wesselink was appointed to fill the vacancy.

The *Nominating/ Corporate Governance Committee* is comprised of three members of the Board. The Nominating/ Corporate Governance Committee's charter is attached to this Proxy Statement as Appendix A. Among other things, the Nominating/ Corporate Governance Committee is authorized to identify, select and recommend for consideration by the Board, candidates for election as directors of the Company and assist the Board in fulfilling its corporate governance and oversight responsibilities. This committee will also review and respond to director nominations or recommendations submitted by stockholders of the Company. A stockholder of the Company that wants to make such a nomination or recommendation must submit a notice to the Secretary of the Company within the time frame described above (see *What Matters May be Raised at the Annual Meeting?* on page 4 of this Proxy Statement). The notice must set forth (i) the name, age, business and residence addresses of the nominee; (ii) the principal occupation or employment of the nominee; (iii) the class and number of shares of stock of the Company beneficially owned by the nominee; (iv) any other information relating to the nominee that would be required to be disclosed in solicitations or proxies for the election of such nominee; (v) the name and address of the stockholder submitting the nomination or recommendation; and (vi) the class and number of shares of stock of the Company beneficially owned by the stockholder submitting the nomination or recommendation. The Nominating/ Corporate Governance Committee, which was created by the Board in May 2002, did not meet during 2002. All members of the Nominating/ Corporate Governance Committee are independent for purposes of the New York Stock Exchange listing standards.

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The table below shows the committee membership of each director as of the record date. Only Mr. Wesselink is an employee of the Company on the record date.

Committees

Director	Audit	Compensation	Executive	Nominating/ Corporate Governance
Anderson				X
Boll				
Cleary		X*		
Hagerty		X		
Harkins			X	
Hoff	X			
Lee				X
Speno	X	X		X*
Trestman	X*		X	
Wesselink			X*	
Zebeck				

* Indicates Chair

How Are Directors Compensated?

Only non-employee directors received compensation for serving as directors of the Company. We have the following arrangements for compensation of non-employee directors.

Annual Retainer	\$30,000 for each Board member \$30,000 for each Executive Committee member
Attendance Fees	\$3,500 for each Board and Committee meeting attended in person \$1,750 for each Board and Committee meeting attended via teleconference
Committee Chair Stipend	\$5,000 annually

In 2002, non-employee directors received a total of \$1,028,500 as a group.

We believe that payment of compensation to non-employee directors should not be solely in the form of cash but should be tied to the Company's performance. In October 1996, the Board adopted a Non-Employee Director Stock Option Plan. The first grants under the plan went to non-employee directors serving at the time of our initial public offering. Those grants were in the amount of 15,000 shares with an exercise price of \$5.33, which was the price of the Common Stock at the time of the initial public offering, adjusted for the two-for-one stock split in June 1999, and the three-for-two stock split in June 2000.

The Board adopted a resolution in May 2001 updating a policy that it originally approved in April 1997, whereby non-employee directors receive options to purchase Common Stock at the fair market value on certain dates. That policy awards 7,500 shares to each non-employee director upon commencement of service on the Board. Each non-employee director also receives options to purchase 7,500 shares annually at the second regular quarterly meeting of the Board. The exercise price for those options is based on the closing price of the Common Stock the day before the grant. The options are immediately exercisable. In 2002, our non-employee directors (Lee R. Anderson, Sr., C. Hunter Boll, John A. Cleary, Thomas M. Hagerty, David V. Harkins, Walter M. Hoff, Thomas H. Lee, Derek V. Smith, Edward B. Speno and

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Frank D. Trestman) were each awarded options to purchase 7,500 shares of Common Stock of the Company under the Metris Companies Inc. Amended and Restated Non-Employee Director Stock Option Plan.

The Board may change the amounts and timing of such awards in the future. To date, the Board has granted options to purchase up to 530,000 shares of Common Stock to its non-employee directors.

Directors that are employees of the Company do not receive compensation from us for service as a director. However, all directors, including employee directors, are reimbursed for reasonable travel, lodging and other incidental expenses incurred in attending meetings of the Board and its Committees.

We also indemnify our directors and officers to the fullest extent permitted by law. Our Bylaws require such indemnification.

Has the Company Engaged in Any Transactions with Our Management?

In May 1999, we entered into an agreement with Ronald N. Zebeck designed to provide him incentives to continue long-term service as a key employee of Metris. The following are the significant terms and conditions of that agreement:

Loan. We have loaned Mr. Zebeck \$5 million for a five-year term (due May 17, 2004) at an annual interest rate of 6.25% compounded quarterly. As of March 14, 2003, the largest aggregate amount of indebtedness outstanding on the note is \$6,339,895, \$5 million of which is unpaid principal and \$1,339,895 of which is accrued interest.

Bonus Payment. Effective December 15, 2002, Mr. Zebeck was terminated as an officer of the Company. The terms of the loan agreement provide that if Mr. Zebeck remained employed by us until May 17, 2004, or if his employment by us is terminated before that date due to (a) his death or disability, or (b) for any reason other than for cause, we will pay him a bonus equal to (1) the amount of interest accrued on the loan, plus (2) the gross-up amount of taxes relating to his receipt of the interest amount. At the time it terminated Mr. Zebeck's employment, the Company reserved the right to treat his termination as for cause. Accordingly, whether Mr. Zebeck is entitled to the bonus described in this paragraph will depend on the resolution of the basis for his termination.

Option Reload. The loan agreement provides that on the date of each exercise of the options to purchase 1,968,225 shares of our Common Stock that Mr. Zebeck held at the time of the loan agreement, he will be granted a new non-qualified stock option under our Amended and Restated Long-Term Incentive and Stock Option Plan to purchase the number of whole shares that he instructs us to withhold as payment for the exercise price and taxes. On June 2, 2000, Mr. Zebeck exercised options to purchase 1,968,225 shares of Common Stock and instructed us to withhold 1,125,000 shares as payment for the exercise price and taxes. On June 2, 2000, Mr. Zebeck was issued a replacement option to purchase 997,750.5 shares of Common Stock, the exercise price of which was the fair market value (\$27.42) of the withheld shares on the date that Mr. Zebeck exercised the original option. The replacement option vests on the fifth anniversary of the date it was granted (June 2, 2005), provided that Mr. Zebeck remains employed by the Company and retains ownership of at least 25% of the aggregate number of shares received by him upon the exercise of the original option and any replacement option. The loan agreement further provides that if, prior to the fifth anniversary of the grant of any replacement option, he no longer owns at least that number of shares, Mr. Zebeck will forfeit any unexercised remaining replacement option. Due to Mr. Zebeck's termination from employment on December 15, 2002, the replacement option will not vest.

Restricted Stock Award. Under the loan agreement, Mr. Zebeck was awarded 300,000 shares of Restricted Common Stock that would vest on April 1, 2004. Due to Mr. Zebeck's termination from employment, the shares of Restricted Common Stock were forfeited to the Company.

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Do Any Directors Have Relationships With Entities Doing Business With the Company?

Lee R. Anderson, Sr. owns 51% of A & L Partnership, LLP, the landlord with which our subsidiary MDI, entered into a lease in June 2001 of a building in Duluth, Minnesota. The facility, which MDI leased for an initial term of five years, houses an operations center where we currently employ approximately 210 collectors and support staff. During 2002, MDI paid a total of \$320,562, which includes base rent and operating expenses. Under the terms of the lease, base rent (excluding operating expenses) is \$19,694 per month, which will increase by approximately \$1,250 per year for the remainder of the lease term. Mr. Anderson was not involved in negotiations regarding the lease. Neither Metris nor A & L Partnership considers the lease to be material to its business. We believe that the rental rates and other terms of the lease are comparable to those that MDI would negotiate on an arm s-length basis with other entities with which our directors do not have relationships.

Directors Representing Our Series C Preferred Stock. All of our Preferred Stockholders, and the four directors representing them C. Hunter Boll, Thomas M. Hagerty, David V. Harkins and Thomas H. Lee are affiliates of Thomas H. Lee Partners, L.P. On the record date, the outstanding shares of Series C Preferred Stock were convertible into approximately (a) xxx million shares of Common Stock, or 34.9% of our Common Stock on a diluted basis, and (b) xxx million shares of non-voting Series D Preferred Stock. Our independent auditor, KPMG LLP, provides services to affiliates of Thomas H. Lee Partners, L.P. on a periodic basis.

Backup Financing Facility. On March 31, 2003, Thomas H. Lee Equity Fund IV, L.P. (THL Fund IV), an affiliate of Thomas H. Lee Partners, L.P., committed to provide a term loan to the Company in an aggregate amount of \$125 million as a backup financing facility, secured by assets of the Company. The Company paid THL Equity Advisors IV, LLC, a \$5.625 million commitment fee for this transaction.

On the record date, THL Fund IV holds shares of the Company s Series C Preferred Stock convertible into xxxxxxxxx shares of the Company s Common Stock. Furthermore, the four directors elected by holders of our Series C Preferred Stock, Messrs. Boll, Hagerty, Harkins and Lee, are each a principal managing director of Thomas H. Lee Advisors, LLC, which is the general partner of Thomas H. Lee Partners, L.P., which is the managing member of THL Equity Advisors IV, LLC, which in turn is the sole general partner of THL Fund IV. Therefore, these four directors may have a material interest in this backup facility transaction.

The backup facility would carry an interest rate of 12% per annum plus an option to earn an additional meaningful economic return based on the performance of the Company s managed receivables through December 31, 2004. The backup facility would be repayable in full on March 1, 2004. THL Fund IV s obligation to loan funds to the Company is subject to a number of conditions, including the requirement that the Company receive an opinion or opinions satisfactory to THL Fund IV that the new credit facility is fair, from a financial point of view, to the Company and to the holders of the Company s outstanding Senior Notes.

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PERSONS OWNING MORE THAN 5% OF THE COMPANY S COMMON STOCK
(As of March 14, 2003)

The following table sets forth information with respect to persons we know to be the beneficial owner of more than 5% of our outstanding Common Stock on March 14, 2003.

It should be noted that the shares disclosed in the following table as beneficially owned by each of Messrs. Lee, Harkins, Boll and Hagerty include 40,838,414 shares which they may be deemed to be the indirect beneficial owners of THL Equity Advisors IV, LLC, which is the sole general partner of Thomas H. Lee Equity Fund IV, L.P., Thomas H. Lee Foreign Fund IV, L.P. and Thomas H. Lee Foreign Fund IV-B, L.P. (See footnotes to the table for additional information.)

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned(1)	Percent of Class(2)
Thomas H. Lee and certain of his affiliates(3) c/o Thomas H. Lee Partners, L.P. 75 State Street Boston, MA 02109	41,665,523	41.9%
David V. Harkins and certain of his affiliates(4) c/o Thomas H. Lee Partners, L.P. 75 State Street Boston, MA 02109	41,009,518	41.6%
C. Hunter Boll and certain of his affiliates(5) c/o Thomas H. Lee Partners, L.P. 75 State Street Boston, MA 02109	40,974,233	41.5%
Thomas M. Hagerty and certain of his affiliates(6) c/o Thomas H. Lee Partners, L.P. 75 State Street Boston, MA 02109	40,974,233	41.5%
THL Equity Advisors IV, LLC and certain of its affiliates(7) c/o Thomas H. Lee Partners, L.P. 75 State Street Boston, MA 02109	40,838,414	41.5%
Thomas H. Lee Equity Fund IV, L.P.(8) c/o Thomas H. Lee Partners, L.P. 75 State Street Boston, MA 02109	36,078,675	38.5%
NewSouth Capital Management, Inc.(9) 1100 Ridgeway Loop Road, Suite 444 Memphis, TN 38120	7,476,346	13%
Wellington Management Company, LLP(10) 75 State Street Boston, MA 02109	6,858,500	11.9%
Vanguard Windsor Funds- Vanguard Windsor Fund(11) 100 Vanguard Boulevard Malvern, PA 19355	6,226,700	10.8%
Wasatch Advisors, Inc.(12) 150 Social Hall Avenue Salt Lake City, UT 84111	5,475,355	9.5%

(continued on next page)

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Name and Address of Beneficial Owner	Number of Shares Beneficially Owned(1)	Percent of Class(2)
Thomas H. Lee Foreign Fund IV-B, L.P.(13) c/o Thomas H. Lee Partners, L.P. 75 State Street Boston, MA 02109	3,512,058	5.7%
Schneider Capital Management Corporation(14) 460 East Swedesford Road, Suite 1080 Wayne, PA 19087	3,189,050	5.5%
Second Curve Capital, LLC(15) 200 Park Avenue New York, NY 10166	3,000,000	5.2%

- (1) Beneficial ownership is a technical term broadly defined under the Securities Exchange Act of 1934 to mean more than ownership in the usual sense. So, for example, you beneficially own our Common Stock not only if you hold it directly, but also if you indirectly (through a relationship, a position as a director or trustee, or a contract or understanding) have (or share) the power to vote the stock, or to sell it, or you have the right to acquire it within 60 days.
- (2) Shares of Common Stock subject to options currently exercisable or exercisable within 60 days of March 14, 2003, are deemed outstanding for purposes of computing the percentage beneficially owned by the person holding such options, but are not deemed outstanding for purposes of computing the percentage beneficially owned by any other person. Shares of Common Stock currently convertible from our Preferred Stock are deemed outstanding for purposes of computing the percentage beneficially owned by the person holding such Preferred Stock, but are not deemed outstanding for purposes of computing the percentage beneficially owned by any other person. Unless otherwise noted, the persons or entities named have sole voting and investment power for all shares shown as beneficially owned by them.
- (3) The shares beneficially owned by **Thomas H. Lee** (Lee) are reflected assuming conversion of the Series C Preferred Stock into Common Stock of the Company. The number of shares listed equals the maximum number of shares of Common Stock into which the Series C Preferred Stock can be voluntarily converted during 2003. If voluntarily converted, the actual number of shares of Common Stock issued may be less than the number reported in accordance with the limitations of the Company's Series C Preferred Stock to satisfy certain provisions under the indentures for the Company's 10% Senior Notes due 2004 and 10 1/8% Senior Notes due 2006. The extra shares of Series C Preferred Stock which are not convertible into Common Stock will be convertible into the Company's non-voting Series D Preferred Stock. See *Who is Entitled to Vote?* on page 1 of this Proxy Statement. Shares beneficially owned by Lee include shares held by the following affiliates of Lee:

Name	Number of Shares
Thomas H. Lee Equity Fund IV, L.P.	36,078,675
Thomas H. Lee Foreign Fund IV, L.P.	1,247,681
Thomas H. Lee Foreign Fund IV-B, L.P.	3,512,058
1997 Thomas H. Lee Nominee Trust	551,866
Thomas H. Lee Charitable Investment L.P.	234,743
Thomas H. Lee Investors Limited Partnership	10,500

Except to the extent of a pecuniary interest therein, Lee disclaims beneficial ownership of the shares beneficially owned in the aggregate by Thomas H. Lee Equity Fund IV, L.P., Thomas H. Lee Foreign Fund IV, L.P. and Thomas H. Lee Foreign Fund IV-B, L.P., which may also be deemed to be beneficially owned by THL Equity Advisors IV, LLC (THL Advisors), as their general partner. Lee also disclaims beneficial ownership of the shares beneficially owned in the aggregate by Thomas H. Lee Charitable Investment L.P. (Charitable Investment), and Thomas H. Lee

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Investors Limited Partnership, which may also be deemed to be beneficially owned by THL Investment Management Corp. (Management Corp.). Lee, as General Director of THL Advisors, Chief Executive Officer and sole shareholder of Management Corp., General Partner of Charitable Investment, and grantor of the 1997 Thomas H. Lee Nominee Trust, may be deemed to share voting and investment power with respect to 41,635,523 shares beneficially owned by such entities. The filing of this statement shall not be construed as an admission that Lee, for the purposes of Section 13(d) of the Exchange Act, is the beneficial owner of the securities held by such entities. Also includes 30,000 shares that Lee has the right to acquire within 60 days of March 14, 2003 through the exercise of stock options. Information for security ownership of Lee is based on Company records and Schedule 13D Amendment No. 3 filed on February 14, 2003.

- (4) The shares beneficially owned by **David V. Harkins** (Harkins) are reflected assuming conversion of the Series C Preferred Stock into Common Stock of the Company. The number of shares listed equals the maximum number of shares of Common Stock into which the Series C Preferred Stock can be voluntarily converted during 2003. If voluntarily converted, the actual number of shares of Common Stock issued may be less than the number reported in accordance with the limitations of the Company's Series C Preferred Stock to satisfy certain provisions under the indentures for the Company's 10% Senior Notes due 2004 and 10 1/8% Senior Notes due 2006. The extra shares of Series C Preferred Stock which are not convertible into Common Stock will be convertible into the Company's non-voting Series D Preferred Stock. See *Who is Entitled to Vote?* on page 1 of this Proxy Statement. Shares beneficially owned by Harkins include shares held by the following affiliates of Harkins:

Name	Number of Shares
Thomas H. Lee Equity Fund IV, L.P.	36,078,675
Thomas H. Lee Foreign Fund IV, L.P.	1,247,681
Thomas H. Lee Foreign Fund IV-B, L.P.	3,512,058
The 1995 Harkins Gift Trust	14,160

Except to the extent of a pecuniary interest therein, Harkins disclaims beneficial ownership of the shares beneficially owned in the aggregate by Thomas H. Lee Equity Fund IV, L.P., Thomas H. Lee Foreign Fund IV, L.P. and Thomas H. Lee Foreign Fund IV-B, L.P., which may also be deemed to be beneficially owned by THL Equity Advisors IV, LLC, as their general partner. Harkins may be deemed to share voting and investment power with other investors with respect to 40,838,414 shares beneficially owned by such entities. The filing of this statement shall not be construed as an admission that Harkins, for the purposes of Section 13(d) of the Exchange Act, is the beneficial owner of the securities held by such entities. Harkins also disclaims beneficial ownership of the shares beneficially owned by The 1995 Harkins Gift Trust (Trust). Harkins may be deemed to share voting and investment power over shares held by the Trust. Also includes 30,000 shares that Harkins has the right to acquire within 60 days of March 14, 2003 through the exercise of stock options. Information for security ownership of Harkins is based on Company records and Schedule 13D Amendment No. 3 filed on February 14, 2003.

- (5) The shares beneficially owned by **C. Hunter Boll** (Boll) are reflected assuming conversion of the Series C Preferred Stock into Common Stock of the Company. The number of shares listed equals the maximum number of shares of Common Stock into which the Series C Preferred Stock can be voluntarily converted during 2003. If voluntarily converted, the actual number of shares of Common Stock issued may be less than the number reported in accordance with the limitations of the Company's Series C Preferred Stock to satisfy certain provisions under the indentures for the Company's 10% Senior Notes due 2004 and 10 1/8% Senior Notes due 2006. The extra shares of Series C Preferred Stock which are not convertible into Common Stock will be convertible into the Company's non-voting Series D Preferred Stock. See *Who is Entitled to Vote?* on page 1 of this

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Proxy Statement. Shares beneficially owned by Boll include shares held by the following affiliates of Boll:

Name	Number of Shares
Thomas H. Lee Equity Fund IV, L.P.	36,078,675
Thomas H. Lee Foreign Fund IV, L.P.	1,247,681
Thomas H. Lee Foreign Fund IV-B, L.P.	3,512,058

Except to the extent of a pecuniary interest therein, Boll disclaims beneficial ownership of the shares beneficially owned in the aggregate by Thomas H. Lee Equity Fund IV, L.P., Thomas H. Lee Foreign Fund IV, L.P. and Thomas H. Lee Foreign Fund IV-B, L.P., which may also be deemed to be beneficially owned by THL Equity Advisors IV, LLC, as their general partner. Boll may be deemed to share voting and investment power with other investors with respect to 40,838,414 shares beneficially owned by such entities. The filing of this statement shall not be construed as an admission that Boll, for the purposes of Section 13(d) of the Exchange Act, is the beneficial owner of the securities held by such entities. Also includes 30,000 shares that Boll has the right to acquire within 60 days of March 14, 2003 through the exercise of stock options. Information for security ownership of Boll is based on Company records and Schedule 13D Amendment No. 3 filed on February 14, 2003.

- (6) The shares beneficially owned by **Thomas M. Hagerty** (Hagerty) are reflected assuming conversion of the Series C Preferred Stock into Common Stock of the Company. The number of shares listed equals the maximum number of shares of Common Stock into which the Series C Preferred Stock can be voluntarily converted during 2003. If voluntarily converted, the actual number of shares of Common Stock issued may be less than the number reported in accordance with the limitations of the Company's Series C Preferred Stock to satisfy certain provisions under the indentures for the Company's 10% Senior Notes due 2004 and 10 1/8% Senior Notes due 2006. The extra shares of Series C Preferred Stock which are not convertible into Common Stock will be convertible into the Company's non-voting Series D Preferred Stock. See *Who is Entitled to Vote?* on page 1 of this Proxy Statement. Shares beneficially owned by Hagerty include shares held by the following affiliates of Hagerty:

Name	Number of Shares
Thomas H. Lee Equity Fund IV, L.P.	36,078,675
Thomas H. Lee Foreign Fund IV, L.P.	1,247,681
Thomas H. Lee Foreign Fund IV-B, L.P.	3,512,058

Except to the extent of a pecuniary interest therein, Hagerty disclaims beneficial ownership of the shares beneficially owned in the aggregate by Thomas H. Lee Equity Fund IV, L.P., Thomas H. Lee Foreign Fund IV, L.P. and Thomas H. Lee Foreign Fund IV-B, L.P., which may also be deemed to be beneficially owned by THL Equity Advisors IV, LLC, as their general partner. Hagerty may be deemed to share voting and investment power with other investors with respect to 40,838,414 shares beneficially owned by such entities. The filing of this statement shall not be construed as an admission that Hagerty, for the purposes of Section 13(d) of the Exchange Act, is the beneficial owner of the securities held by such entities. Also includes 30,000 shares that Hagerty has the right to acquire within 60 days of March 14, 2003 through the exercise of stock options. Information for security ownership of Hagerty is based on Company records and Schedule 13D Amendment No. 3 filed on February 14, 2003.

- (7) The shares beneficially owned by **THL Equity Advisors IV, LLC** (THL Advisors) are reflected assuming conversion of the Series C Preferred Stock into Common Stock of the Company. The number of shares listed equals the maximum number of shares of Common Stock into which the Series C Preferred Stock can be voluntarily converted during 2003. If voluntarily converted, the actual number of shares of Common Stock issued may be less than the number reported in accordance with the limitations of the Company's Series C Preferred Stock to satisfy certain

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provisions under the indentures for the Company's 10% Senior Notes due 2004 and 10 1/8% Senior Notes due 2006. The extra shares of Series C Preferred Stock which are not convertible into Common Stock will be convertible into the Company's non-voting Series D Preferred Stock. See *Who is Entitled to Vote?* on page 1 of this Proxy Statement. Shares beneficially owned by THL Advisors include shares held by the following affiliates of THL Advisors:

Name	Number of Shares
Thomas H. Lee Equity Fund IV, L.P.	36,078,675
Thomas H. Lee Foreign Fund IV, L.P.	1,247,681
Thomas H. Lee Foreign Fu	