METRIS COMPANIES INC
Form 10-Q
August 09, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2004

or

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

For the transition period from _________ to _________
Commission file number: 001-12351

METRIS COMPANIES INC.

(Exact name of Registrant as specified in its charter)

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

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

(952) 525-5020
(Registrant s telephone number)

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

Yes [X] No [ ]

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

Yes [X] No [ ]

As of July 31, 2004, 57,965,743 shares of the registrant s common stock, par value $.01 per share, were outstanding.

METRIS COMPANIES INC.

FORM 10-Q

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June 30, 2004

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Part I. Financial Information

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

METRIS COMPANIES INC. AND SUBSIDIARIES

Consolidated Balance Sheets
(In thousands, except per share data)

	June 30, 2004 (Unaudited)	December 31, 2003
Assets:		
Cash and due from banks	$ 26,364	$ 32,076
Federal funds sold	29,700	25,300
Short-term investments	345,165	121,109
Cash and cash equivalents	401,229	178,485
Liquidity reserve deposit	74,863	80,158
Credit card loans	72,491	128,615
Less: Allowance for loan losses	15,375	45,492
Net credit card loans	57,116	83,123
Retained interests in loans securitized	761,613	836,901
Property and equipment, net	28,527	33,680
Purchased portfolio premium	12,987	17,561
Other receivables due from credit card securitizations, net	75,773	80,714
Other assets	68,482	81,774
Total assets	$1,480,590	$1,392,396
Liabilities:		
Deposits	$ 4,572	$ 6,262
Debt	448,172	350,448
Accounts payable	34,197	32,397
Deferred income	14,258	18,060
Accrued expenses and other liabilities	96,645	76,036

Total liabilities	597,844	483,203
Stockholders Equity:		
Convertible preferred stock Series C, par Value $.01 per share; 10,000,000 Shares authorized, 1,321,204 and 1,263,699 shares issued and outstanding, respectively	492,149	470,728
Common stock, par value $.01 per share; 300,000,000 shares authorized, 65,012,591 and 64,862,314 shares issued, respectively	650	649
Paid-in capital	231,896	229,655
Unearned compensation		(27)
Treasury stock 7,055,300 shares	(58,308)	(58,308)
Retained earnings	216,359	266,496
Total stockholders equity	882,746	909,193
Total liabilities and stockholders equity	$1,480,590	$1,392,396

See accompanying Notes to Consolidated Financial Statements.

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METRIS COMPANIES INC. AND SUBSIDIARIES

Consolidated Statements of Income
(In thousands, except earnings per-share data) (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Revenues:				
Securitization (expense) income	$ (24,343)	$ 17,707	$ 94,642	$ (20,263)
Servicing income on securitized receivables	33,847	45,335	70,084	93,148
Credit card loan and other interest income	5,010	31,432	10,116	63,593
Credit card loan fees, interchange and other income	5,264	23,460	16,080	49,779
Enhancement services income	6,976	39,690	14,456	83,199
Total revenues	26,754	157,624	205,378	269,456
Expenses:				
Interest expense	18,714	18,716	32,645	38,057
Provision for loan losses	(491)	30,033	(6,583)	74,819
Credit card account and other product solicitation and marketing expenses	15,726	32,032	31,658	65,720
Employee compensation	35,723	45,721	74,668	99,102
Data processing services and communications	13,777	17,034	30,249	36,212
Credit protection claims expense	5,036	7,646	11,384	19,952
Occupancy and equipment	5,984	8,924	12,385	18,537
Purchased portfolio premium amortization	2,105	6,499	4,502	12,995
Asset impairments, lease write-offs and severance	1,812	6,011	3,273	22,788
Other	24,818	22,607	43,335	46,314
Total expenses	123,204	195,223	237,516	434,496
Loss Before Income Taxes	(96,450)	(37,599)	(32,138)	(165,040)
Income tax benefit	(26,124)	(12,851)	(3,422)	(57,462)
Net Loss	(70,326)	(24,748)	(28,716)	(107,578)
Convertible preferred stock dividends	10,830	9,908	21,421	19,597

Net Loss Applicable to Common Stockholders	$ (81,156)	$ (34,656)	$ (50,137)	$(127,175)
Income (Loss) per share:				
Basic				
Distributed Preferred	$ 8.38	$ 8.38	$ 16.76	$ 16.76
Undistributed Preferred				
Basic Preferred	$ 8.38	$ 8.38	$ 16.76	$ 16.76
Distributed Common	$	$	$	$
Undistributed Common	(1.40)	(0.60)	(0.87)	(2.22)
Basic Common	$ (1.40)	$ (0.60)	$ (0.87)	$ (2.22)
Diluted				
Distributed Common	$	$	$	$
Undistributed Common	$ (1.40)	$ (0.60)	$ (0.87)	$ (2.22)
Diluted Common	$ (1.40)	$ (0.60)	$ (0.87)	$ (2.22)
Shares used to compute income (loss) per share:				
Basic Preferred	1,292	1,182	1,278	1,169
Basic Common	57,924	57,462	57,857	57,360
Diluted Common	57,924	57,462	57,857	57,360

See accompanying Notes to Consolidated Financial Statements.

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METRIS COMPANIES INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders Equity
(In thousands) (Unaudited)

	Number of Preferred	Shares Common	Preferred Stock	Common Stock	Paid-in Capital	Unearned Compensation	Treasury Stock	Retained Earnings	Total Stockholders Equity
BALANCE AT DECEMBER 31, 2002	1,156	57,168	$430,642	$642	$227,376	$	$(58,308)	$ 454,321	$1,054,673
Net loss								(107,578)	(107,578)
Preferred dividends in kind	53		19,597					(19,597)	
Issuance of common stock under employee benefit plans		352		3	2,367				2,370
Deferred compensation obligation		303		3	546	(549)			
Restricted stock forfeitures		(24)			(48)	46			(2)
Amortization of restricted stock						211			211
BALANCE AT JUNE 30, 2003,	1,209	57,799	$450,239	$648	$230,241	$ (292)	$(58,308)	$ 327,146	$ 949,674
BALANCE AT DECEMBER 31, 2003	1,264	57,807	$470,728	$649	$229,655	$ (27)	$(58,308)	$ 266,496	$ 909,193
Net loss								(28,716)	(28,716)
Preferred dividends in kind	57		21,421					(21,421)	
Issuance of common stock under employee benefit plans		200		1	2,331				2,332
Deferred compensation obligation					(85)				(85)
		(50)			(5)	4			(1)

Restricted stock forfeitures									
Amortization of restricted stock						23			23
BALANCE AT JUNE 30, 2004,	1,321	57,957	$492,149	$650	$231,896	$	$(58,308)	$ 216,359	$ 882,746

See accompanying Notes to Consolidated Financial Statements.

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METRIS COMPANIES INC. AND SUBSIDIARIES

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

	Six Months Ended June 30,	
	2004	**2003**
Operating Activities:		
Net loss	$ (28,716)	$(107,578)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation, amortization, and accretion	(100,583)	(81,545)
Provision for loan losses	(6,583)	74,819
Loss from credit card securitization	141,267	123,982
Asset impairments, lease write-offs, and severance	3,273	22,788
Market loss on derivative financial instruments	7,572	8,161
Changes in operating assets and liabilities, net:		
Liquidity Reserve deposit	5,295	(80,590)
Fair value of retained interests in loans securitized	(68,683)	103,897
Spread accounts receivable	163,728	(201,314)
Other receivables due from credit card securitizations	4,941	17,860
Accounts payable and accrued expenses	19,136	4,473
Deferred income	(3,802)	(37,014)
Other	13,808	(67,123)
Net cash provided by (used in) operating activities	150,653	(219,184)
Investing Activities:		
Proceeds from transfers of portfolios to the Metris Master Trust		315,065
Net cash from loan originations and principal collections on loans receivable	(11,873)	(84,739)
Net disposals of property and equipment	2,072	18,525
Net cash (used in) provided by investing activities	(9,801)	248,851
Financing Activities:		
Proceeds from issuance of debt	283,974	125,348
Repayment of debt	(202,724)	(100,206)
Net decrease in deposits	(1,690)	(250,820)
Proceeds from issuance of common stock	2,332	2,370

Net cash provided by (used in) financing activities	81,892	(223,308)
Net increase (decrease) in cash and cash equivalents	222,744	(193,641)
Cash and cash equivalents at beginning of period	178,485	580,232
Cash and cash equivalents at end of period	$ 401,229	$ 386,591
Supplemental disclosures and cash flow information:		
Cash paid (received) during the period for:		
Interest	$ 21,064	$ 36,280
Income taxes	(35,820)	(31,846)

See accompanying Notes to Consolidated Financial Statements.

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METRIS COMPANIES INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
(Dollars in thousands, except as noted) (Unaudited)

NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Metris Companies Inc. (MCI) and its subsidiaries. MCI s principal subsidiaries are Direct Merchants Credit Card Bank, National Association (Direct Merchants Bank or the Bank), Metris Direct, Inc. and Metris Receivables, Inc. (MRI). MCI and its subsidiaries, as applicable, may be referred to as we, us, our or the Company. We are an information-based direct marketer of consumer lending produ

All dollar amounts are presented as pre-tax amounts unless otherwise noted. We have eliminated all significant intercompany balances and transactions in consolidation.

During the first quarter of 2004 we reclassified financial statement line items to more accurately reflect the continuing operations of our business. In prior periods we classified interest income from credit card loans, federal funds sold, and other as total interest income. For all periods presented, total interest income is classified as Credit card loan and other interest income. In prior periods we classified interest expense from deposits and other as total interest expense. For all periods presented total interest expense has been reclassified as Interest expense.

Interim Financial Statements

We have prepared the unaudited interim consolidated financial statements and related unaudited financial information in the footnotes in accordance with accounting principles generally accepted in the United States of America (GAAP) and the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial statements. These interim financial statements reflect all adjustments consisting of normal recurring accruals, which, in the opinion of management, are necessary to present fairly our consolidated financial position and the results of our operations and our cash flows for the interim periods. You should read these consolidated financial statements in conjunction with the financial statements and the notes thereto contained in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2003. The nature of our business is such that the results of any interim period may not be indicative of the results to be expected for the entire year.

Pervasiveness of Estimates

We have prepared the consolidated financial statements in accordance with GAAP, which require us to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. The most significant and subjective of these estimates are our determination of the fair value of Retained interests in loans securitized and the adequacy of the Allowance for loan losses. The significant factors susceptible to future change that have an impact on these estimates include default rates, net interest spreads, payment rates, liquidity and the ability to finance future receivables activity, and overall economic conditions. As a result, the actual losses in our Credit card loan portfolio and the fair value of our Retained interests in loans securitized as of June 30, 2004 and December 31, 2003, could materially differ from these estimates.

Comprehensive Income

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

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NOTE 2 ACCOUNTING CHANGES

In March 2004, the Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 03-6 Participating Securities and the two-class method under FASB Statement 128, (the Consensus or EITF 03-6). The Consensus requires net income to be reduced by the amount of dividends declared in the current period for each class of stock and by the contractual amount of dividends or other participation payments that are paid or accumulated for the current period. Undistributed earnings for the period are allocated to participating securities based on the contractual participation rights of the security to share in those current earnings assuming all earnings for the period are distributed. Our Series C preferred shareholders have contractual participation rights on a converted basis that are equivalent to those of common shareholders. Therefore, we allocate undistributed earnings to preferred and common shareholders based on their respective ownership percentage on a converted basis as of the end of the period. The guidance in EITF 03-6 is effective for fiscal periods (interim or annual) beginning after March 31, 2004. Companies are required to restate prior period earnings per share amounts to conform to the guidance in EITF 03-6 upon adoption.

The following table presents basic and diluted earnings (loss) per share using the two-class method for the first quarter of 2004 and the previous five annual periods:

	Three months ended March 31, 2004	Twelve months ended December 31, 2003	2002	2001	2000	1999
As Previously Reported:						
Basic earnings (loss) per share	$ 0.47	$ (3.27)	$ (0.66)	$ 1.64	$ 2.08	$ 1.50
Diluted earnings (loss) per share	$ 0.47	$ (3.27)	$ (0.66)	$ 1.61	$ 2.01	$ 1.44
As Restated:						
Basic Earnings (Loss) per Share						
Distributed Preferred[1]	$ 8.38	$32.78	$34.00	$33.99	$33.79	$147.43
Undistributed Preferred	10.80			43.19	52.06	
Basic Preferred	$19.18	$32.78	$34.00	$77.18	$85.85	$147.43
Distributed Common	$	$	$ 0.04	$ 0.04	$ 0.03	$ 0.02
Undistributed Common	0.30	(3.27)	(0.70)	1.25	1.72	(0.31)
Basic Common	$ 0.30	$ (3.27)	$ (0.66)	$ 1.29	$ 1.75	$ (0.29)
Diluted Earnings (Loss) per Share						
Distributed Common	$	$	$ 0.04	$ 0.04	$ 0.03	$ 0.02
Undistributed Common	0.30	(3.27)	(0.70)	1.21	1.63	(0.31)

Diluted Common	$ 0.30	$ (3.27)	$ (0.66)	$ 1.25	$ 1.66	$ (0.29)

(1) 1999 results include a one-time, non-cash amount of $101.6 million related to the conversion of Series B Preferred Stock, which is included in distributed earnings to preferred shareholders.

NOTE 3 LOSS PER SHARE

During the quarter ended June 30, 2004 we adopted the Consensus which requires the use of the two-class method for computing earnings (loss) per share, and requires affected companies to retroactively restate earnings per share previously reported.

The following table presents the computation of basic earnings per share. The dilutive earnings per share calculations for the three- and six-month periods ended June 30, 2004 and 2003 are equal to the basic earnings per share calculations because any conversion of preferred shares, stock options, or restricted stock units to common shares would be anti-dilutive.

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2004	**2003**	**2004**	**2003**
Net loss	$(70,326)	$(24,748)	$(28,716)	$(107,578)
Convertible preferred stock dividends	10,830	9,908	21,421	19,597