

ITC Holdings Corp.  
Form S-1  
June 19, 2006

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As filed with the Securities and Exchange Commission on June 19, 2006

Registration No. 333-

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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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### FORM S-1

REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

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## ITC HOLDINGS CORP.

(Exact Name of Registrant as Specified in its Charter)

**Michigan**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**4911**  
(Primary Standard Industrial  
Classification Code Number)  
**39500 Orchard Hill Place**  
**Suite 200**  
**Novi, Michigan 48375**  
**(248) 374-7100**

**32-0058047**  
(I.R.S. Employer  
Identification Number)

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

**Daniel J. Oginsky, Esq.**  
**Vice President, General Counsel and Secretary**  
**ITC Holdings Corp.**  
**39500 Orchard Hill Place, Suite 200**  
**Novi, Michigan 48375**  
**(248) 374-7045**

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

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**Approximate date of commencement of proposed sale to the public:**  
**As soon as practicable after the effective date of this Registration Statement.**

If the securities being registered on this form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

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If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  \_\_\_\_\_.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  \_\_\_\_\_.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  \_\_\_\_\_.

### CALCULATION OF REGISTRATION FEE

Title Of Each Class Of Securities To Be Registered	Proposed Maximum Aggregate Offering Price(1)(2)	Amount of Registration Fee
Common Stock, without par value	\$218,500,000	\$23,380

- (1) Estimated solely for the purpose of calculating the amount of the registration fee, which is calculated in accordance with Rule 457(o) of the rules and regulations of the Securities Act of 1933, as amended. Rule 457(o) permits the registration fee to be calculated on the basis of the maximum aggregate offering price.
- (2) Includes shares which may be purchased by the underwriters to cover over-allotments, if any.

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state or jurisdiction where the offer or sale is not permitted.

Subject to Completion, dated June 19, 2006

PROSPECTUS

Shares

Common Stock

We are selling \_\_\_\_\_ shares of our common stock. We will receive all of the net proceeds from the sale of these shares. We have entered into an agreement described elsewhere in this prospectus to acquire all of the indirect ownership interests in Michigan Electric Transmission Company, LLC, or METC, the owner and operator of our neighboring electricity transmission system. This offering is conditioned upon the consummation of the acquisition of METC.

Our common stock is listed on the New York Stock Exchange under the symbol "ITC." The last reported sale price of our common stock on the New York Stock Exchange on June 16, 2006 was \$26.47 per share.

*Investing in our common stock involves risks. See "Risk Factors" beginning on page 17.*

	<u>Per Share</u>	<u>Total</u>
Public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds to ITC Holdings Corp. (before expenses)	\$	\$

We have granted the underwriters a 30-day option to purchase up to an additional \_\_\_\_\_ shares of common stock from us on the same terms and conditions as set forth above to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

Lehman Brothers, on behalf of the underwriters, expects to deliver the shares on or about \_\_\_\_\_, 2006.

**LEHMAN BROTHERS**

, 2006

**CREDIT SUISSE**



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**ABOUT THIS PROSPECTUS**

You should rely only on the information contained in this prospectus. We and the underwriters have not authorized any other person to provide you with information different from that contained in this prospectus. If any person provides you with different or inconsistent information, you should not rely on it. We are only offering to sell, and only seeking offers to buy, the common stock in jurisdictions where offers and sales are permitted.

Prior to the acquisition described under "The Transactions," ITC Holdings does not own MTH and METC. However, unless otherwise noted or the context requires, we generally present information relating to our business and pro forma financial information in this prospectus assuming the consummation of ITC Holdings' acquisition of all of the indirect ownership interests in METC as well as the consummation of this offering, the issuance by ITC Holdings of senior notes, the issuance of our common stock to a selling shareholder in connection with the acquisition and the payment of a management services agreement termination fee. Historical financial information is presented separately for ITC Holdings and subsidiaries and for MTH and METC.

The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

Unless otherwise noted or the context requires, all references in this prospectus to:

"ITC Holdings" are references to ITC Holdings Corp. and not any of its subsidiaries;

"ITC*Transmission*" are references to International Transmission Company, a wholly-owned subsidiary of ITC Holdings;

"METC" are references to Michigan Electric Transmission Company, LLC, a wholly-owned subsidiary of MTH;

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"MTH" are references to Michigan Transco Holdings, Limited Partnership, the owner of all of the membership interests of METC; and

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"We," "our" and "us" are references to ITC Holdings together with all of its subsidiaries (including, after the consummation of ITC Holdings' acquisition of all of the indirect ownership interests in METC and the other transactions described under "The Transactions," MTH and METC).

All references in this prospectus to "kV" are references to kilovolts (one kilovolt equaling 1,000 volts). All references to "MW" are references to megawatts (one megawatt equaling 1,000,000 watts) and all references to "kW" are references to kilowatts (one kilowatt equaling 1,000 watts).

## SUMMARY

*This summary highlights selected information in this prospectus, but it may not contain all of the information that you should consider before deciding to invest in our common stock. You should read this entire prospectus carefully, including the "Risk Factors" section, ITC Holdings and Subsidiaries' audited and unaudited historical consolidated financial statements and the notes to those statements, the unaudited pro forma condensed consolidated financial statements and the notes to those statements and MTH and METC's audited and unaudited historical consolidated financial statements and the notes to those statements, all included elsewhere in this prospectus. Unless otherwise indicated, the information contained in this prospectus assumes that the underwriters' over-allotment option is not exercised.*

## Our Business

### Overview

Through our operating subsidiaries, ITCTransmission and METC, we are the only publicly traded company engaged exclusively in the transmission of electricity in the United States and the largest independent transmission company in the country based on transmission load served. Our business strategy is to operate, maintain and invest in our transmission infrastructure in order to enhance system integrity and reliability and to reduce transmission constraints. By pursuing this strategy, we seek to reduce the overall cost of delivered energy for end-use consumers by providing them with access to electricity from the lowest cost electricity generation sources. ITCTransmission and METC operate contiguous, fully-regulated, high-voltage systems that transmit electricity to local electricity distribution facilities from generating stations throughout Michigan and surrounding areas. The local distribution facilities connected to our systems serve an area comprising substantially all of the lower peninsula of Michigan, which had a population of approximately 9.8 million people at December 31, 2005.

As transmission utilities with rates regulated by the Federal Energy Regulatory Commission, our subsidiaries earn revenues through fees charged for the use of their electricity transmission systems by our customers, which include investor-owned utilities, municipalities, co-operatives, power marketers and alternative energy suppliers. As independent transmission companies, our subsidiaries are subject to rate regulation only by the Federal Energy Regulatory Commission. The rates charged by our subsidiaries are established using a formulaic cost-of-service model and re-calculated annually, allowing for the recovery of expenses and income taxes and a return of and on invested capital.

### The Electricity Transmission Sector

Electricity transmission is the flow of electricity at high voltages from electricity generation resources to local distribution systems. In the United States, electricity transmission assets are predominantly owned, operated and maintained by utilities that also own electricity generation and distribution assets, known as vertically integrated utilities. The vertically integrated utility model has produced inadequate investment in electricity transmission systems and has inhibited the provision of non-discriminatory electricity transmission access to all market participants. These factors, along with significant growth in electricity demand, have resulted in significant electricity transmission constraints, increased stress on aging electricity transmission equipment, electric power outages and other electric power quality problems. Given historical underinvestment, continued growth in demand for electricity and the costs associated with power outages, we believe a significant opportunity exists to invest in electricity transmission infrastructure with the support of policy makers and end-use consumers. See "Industry Overview" for a further description of the electricity transmission sector.

### Our Operations

Our operations are conducted through ITCTransmission and METC. We have no ownership of or financial interest in electricity generation or distribution assets, allowing us to focus exclusively on the transmission of electricity and investment in transmission infrastructure. Our primary operating responsibilities include maintaining, improving and expanding our transmission systems to meet our



customers' ongoing needs, scheduling outages on transmission system elements to allow for maintenance and construction, balancing electricity generation and demand, maintaining appropriate system voltages and monitoring flows over transmission lines and other facilities to ensure physical limits are not exceeded.

Our operating subsidiaries' assets include over 8,000 circuit miles of high-voltage lines, 235 stations and substations, approximately 61,000 transmission towers and poles and 14 external interconnections, which connect our transmission lines to generation resources, distribution facilities and neighboring transmission systems. There are also nine interconnections between *ITCTransmission* and METC. The rate base of our operating subsidiaries, which is comprised primarily of transmission property, plant and equipment, was in excess of \$1.0 billion as of December 31, 2005.

We are committed to investing capital in our transmission systems to improve reliability and lower the delivered cost of energy to end-use consumers. By prudently investing capital in our transmission systems, we believe we will enhance our earnings growth as we continue to earn a regulated return on our expanding rate base. For the period from January 1, 2004 through December 31, 2005, *ITCTransmission* and METC invested \$199.3 million and \$65.0 million, respectively, in property, plant and equipment. We expect investments by *ITCTransmission* and METC in property, plant and equipment in 2006 to be at least \$160.0 million. *ITCTransmission* and METC have invested \$34.8 million and \$15.1 million, respectively, in property, plant and equipment during the three months ended March 31, 2006.

Over the seven-year period from January 1, 2005 through December 31, 2011, we anticipate that *ITCTransmission* and METC will invest approximately \$1.6 billion to rebuild and upgrade existing equipment, relieve congestion and provide access to the lowest cost generation sources. Our forecasted investment in property, plant and equipment in 2007 for *ITCTransmission* and METC is estimated to be \$160.0 million to \$190.0 million in total. The actual timing and amounts of capital investment are dependent upon the timing of the closing of the acquisition, the timing of completing the joint planning process for the two systems and our ability to procure equipment with long lead times for production that has not yet been ordered. The amounts could also vary for the reasons described in footnote (c) to the table below. The remaining forecasted investment in property, plant and equipment for 2008 through 2011 for *ITCTransmission* and METC is estimated to be \$1.1 billion in total.

Property, plant and equipment additions in excess of depreciation and amortization expense result in an expansion of the rate base of our operating subsidiaries when these additions are placed in service. The table below presents the historical capital investment of our operating subsidiaries and our forecasts for capital investment for the remainder of 2006.

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(a) Amount represents additions to property, plant and equipment. Additions to property, plant and equipment differ from cash expenditures for property, plant and equipment in any period primarily

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due to differences in construction labor and materials costs incurred compared to cash paid for those costs and services during that period.

- (b) Amount represents depreciation and amortization expense. ITC Holdings' acquisition of all of the indirect ownership interests in METC will be accounted for using the purchase method of accounting. The application of the purchase method of accounting for the acquisition is expected to result in the recognition of an intangible asset relating to recoverable amounts that were deferred under METC's rate freeze to reflect its fair market value, which is expected to result in additional amortization expense of approximately \$14.0 million on an annual basis recognized on a straight-line method from the date of closing of the acquisition through May 31, 2011.
- (c) Approximate amount that ITC*Transmission* and METC expect to invest in additions to property, plant and equipment. Investments in property, plant and equipment could vary due to, among other things, the impact of weather conditions, union strikes, labor shortages, material and equipment prices and availability, our ability to obtain financing for such expenditures, if necessary, limitations on the amount of construction that can be undertaken on our systems at any one time or regulatory approvals for reasons relating to environmental, siting or regional planning issues or as a result of legal proceedings and variances between estimated and actual costs of construction contracts awarded. The allocation of our budgeted investments among ITC*Transmission*'s and METC's transmission systems remains contingent on our assessment of market conditions and opportunities and other factors. Therefore, future investments in ITC*Transmission*'s or METC's transmission system may be higher or lower than currently planned, or may be allocated differently between ITC*Transmission* and METC.

Substantially all of our revenues for the year ended December 31, 2005 were derived from providing transmission service. The Detroit Edison Company, a wholly-owned subsidiary of DTE Energy Company, and Consumers Energy Company, a wholly-owned subsidiary of CMS Energy Corporation, accounted for approximately 50.5% and 25.0%, respectively, of our pro forma consolidated revenues for the year ended December 31, 2005. ITC Holdings and Subsidiaries generated operating revenues, net income and adjusted EBITDA of \$205.3 million, \$34.7 million and \$112.1 million, respectively, for the year ended December 31, 2005. ITC Holdings and Subsidiaries generated operating revenues, net income and adjusted EBITDA of \$39.1 million, \$2.7 million and \$19.8 million, respectively, for the three months ended March 31, 2006. We generated pro forma operating revenues, net income and adjusted EBITDA of \$311.3 million, \$ million and \$ million, respectively, for the year ended December 31, 2005. We generated pro forma operating revenues, net income and adjusted EBITDA of \$71.4 million, \$ million and \$ million, respectively, for the three months ended March 31, 2006. See " Summary Historical and Pro Forma Financial Data" for the definition of adjusted EBITDA, which is a non-GAAP measure, and a discussion of its usefulness as a measure of our overall financial and operating performance and a reconciliation of net income to adjusted EBITDA.

### Regulation and Ratemaking

Our utility subsidiaries operate in two different rate zones and each currently charges a different transmission service rate. The rates of our utility subsidiaries are determined using a Federal Energy Regulatory Commission-approved formulaic rate setting mechanism known as Attachment O. Attachment O is a rate template used by members of the Midwest Independent Transmission System Operator, Inc. that is completed with information from a transmission provider's Federal Energy Regulatory Commission Form No. 1 financial information and calculates a transmission rate. Under Attachment O, our subsidiaries' rates adjust annually to account for year-to-year changes in network load, expenses and a return of and on invested capital. These annual adjustments occur under Attachment O without the need to file a rate case at the Federal Energy Regulatory Commission.

ITC*Transmission* implements a new rate on June 1 each year, calculated using data primarily from the previous calendar year as filed on Federal Energy Regulatory Commission Form No. 1.

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ITC*Transmission's* Federal Energy Regulatory Commission-approved tariff allows it to earn a return of 13.88% on the actual equity portion of its capital structure in calculating rates. Effective June 1, 2005, ITC*Transmission's* billed network transmission rate was \$1.594 per kW per month, or per kW/month, and, based upon 2005 data, its billed network transmission rate for the one-year period which began June 1, 2006 increased to \$1.744 per kW/month.

Until December 31, 2005, METC's billed network transmission rate was subject to a rate freeze of \$0.98 per kW/month. On December 30, 2005, the Federal Energy Regulatory Commission issued an order that authorized METC to bill rates determined using Attachment O, subject to specified adjustments. The December 2005 rate order also authorized METC to earn a return of 13.38% on the actual equity portion of its capital structure in calculating rates. Pursuant to the December 2005 rate order, METC began to charge a network transmission rate of \$1.567 per kW/month effective as of January 1, 2006, subject to refund based on the outcome of METC's current rate proceeding. METC began to charge a network transmission rate of \$1.524 per kW/month on June 1, 2006, subject to refund, based primarily on data from METC's 2005 Federal Energy Regulatory Commission Form No. 1.

### **Business Strengths**

We believe that our business combines operational excellence, growth through prudent capital investment and predictability resulting from a formulaic rate setting system. Our business strengths include:

*Operational excellence.* We are committed to operating, maintaining, planning and investing in our transmission systems to improve performance and reliability and lower the delivered cost of energy to end-use consumers.

Our goal is to provide best-in-class system performance. ITC*Transmission* is a top-quartile performer in key reliability measures such as outages and system availability.

We strive to provide cost-effective service. This is supported by our competitive bid process for major capital projects and by our business model whereby we outsource non-core functions to optimize the productivity of our workforce.

*Growth.* We will prudently invest in our systems to lower the delivered cost of energy to end-use consumers. Under the Attachment O rate setting mechanism, capital investment drives increases in rate base and revenues. Our forecasted capital investment plan to invest approximately \$1.6 billion from 2005 to 2011 includes projects needed to:

rebuild existing property, plant and equipment;

accommodate changes in regional population growth and related load requirements, wholesale markets and generation interconnections in Michigan and across the region; and

maintain reliable regional transmission systems that allow efficient access to generation resources.

We will also seek to identify opportunities in addition to those included in our current capital investment forecast resulting from coordinated regional transmission planning across the lower peninsula of Michigan. In addition, our growth strategy includes pursuing opportunities to acquire other complementary transmission systems.

*Predictability.* We believe that the following elements make our performance more predictable than other regulated businesses:

formulaic rate setting mechanism;

no rate hearings required to adjust rates; and

rates adjusted annually to reflect recent capital investment.



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In addition, we believe that the following strengths, when combined with our growth strategy and predictable performance, provide us with an opportunity for growth:

supportive regulatory environment for independent transmission companies;

lower risk, less contentious capital investment largely focused on rebuilding and upgrading existing transmission equipment;

minimal commodity and energy demand risk;

attractive service territories;

lack of competition; and

experienced management team.

### **The METC Acquisition**

On May 11, 2006, ITC Holdings entered into an agreement to acquire all of the indirect ownership interests in METC, ITC*Transmission's* neighboring transmission system, for an aggregate purchase price of approximately \$555.6 million plus approximately \$304.7 million of MTH and METC debt and certain liabilities (net of \$6.2 million of cash and cash equivalents), which we, MTH or METC will assume, repay, redeem or refinance in connection with the acquisition. METC's service area covers approximately two-thirds of Michigan's lower peninsula and is contiguous with ITC*Transmission's* service area with nine interconnection points.

We believe that ITC Holdings' acquisition of all of the indirect ownership interests in METC will provide significant operating and financial benefits through the common ownership of complementary transmission utilities, including:

earnings growth through the creation of opportunities for additional capital projects between the two systems to further our goals of improving reliability and reducing congestion;

enhanced ability to plan and coordinate transmission projects across our systems;

a larger platform for further consolidation of independent transmission assets through the creation of the tenth largest transmission load serving entity in the country;

more efficient operation of the transmission systems, which generate cost savings that will benefit end-use consumers; and

diversification of our customers located in our service territories.

Concurrently with ITC Holdings' acquisition of all of the indirect ownership interests in METC and this offering, ITC Holdings expects to issue approximately \$460.0 million of senior notes and METC expects to issue approximately \$155.0 million of mortgage bonds, or the METC Mortgage Bonds. We expect to use the net proceeds from this offering, together with a portion of the net proceeds from the senior notes private placement and the issuance of shares of our common stock with an approximate value of \$70.0 million to Macquarie Essential Assets Partnership, a current owner of indirect ownership interests in METC, to finance the purchase price of the acquisition. In addition, we, MTH or METC expect to assume, repay, redeem or refinance outstanding debt and certain liabilities (net of \$6.2 million of cash and cash equivalents) in the amount of approximately \$304.7 million at MTH and METC and pay related fees and expenses. The consummation of this offering, the senior notes private placement and the METC Mortgage Bonds private placement is conditioned upon the closing of the acquisition. The acquisition is also subject to customary closing conditions.



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The following table shows the expected sources and uses of capital from our planned financings in connection with the acquisition and related transactions:

Sources	(in millions)
<b>Debt:</b>	
METC Mortgage Bonds(1)	\$ 155
Assumed METC long-term interest bearing obligations	30
ITC Holdings' issuance of senior notes(1)	460
	645
<b>Total consolidated debt</b>	<b>645</b>
<b>Equity:</b>	
Net proceeds from this offering	182
Shares of our common stock to be issued to Macquarie Essential Assets Partnership	70
	252
<b>Total consolidated equity</b>	<b>252</b>
<b>Total Sources</b>	<b>\$ 897</b>
<b>Uses</b>	
<b>Enterprise purchase price:</b>	
Equity purchase price	\$ 556
MTH Notes(2)	90
METC Notes(3)	175
METC revolving credit facility	10
METC long-term interest bearing obligations	30
Trans-Elect management services agreement termination payment	6
Cash and cash equivalents	(6)
	861
<b>Total enterprise purchase price</b>	<b>861</b>
MTH Notes and METC Notes redemption/refinancing costs(4)	15
Estimated fees and expenses(2)(5)	21
	897
<b>Total Uses</b>	<b>\$ 897</b>

(1) The METC Mortgage Bonds and the senior notes will be issued in private placements and will not be registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

(2) MTH's outstanding \$90.0 million aggregate principal amount of 6.05% Senior Secured Notes due 2015, or the MTH Notes. In lieu of redeeming the MTH Notes, MTH may elect to leave them outstanding.

(3) METC's outstanding \$175.0 million aggregate principal amount of 5.75% Senior Secured Notes due 2015, or the METC Notes.

(4)

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Consists of the payment of "make whole" premiums in connection with the redemption of all of the outstanding MTH Notes and METC Notes. However, MTH may elect to leave the MTH Notes outstanding.

(5)

Consists of costs and expenses associated with the redemption of all of the outstanding MTH Notes and METC Notes (in each case, other than the payment of "make whole" premiums), expenses incurred in connection with this offering and the fees and expenses of ITC Holdings' issuance of senior notes and the private placement of the METC Mortgage Bonds as well as other costs and expenses incurred in connection with the transactions described under "The Transactions."



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For more information regarding these transactions and how these financings will affect us, see "Risk Factors," "The Transactions," "Capitalization" and "Unaudited Pro Forma Condensed Consolidated Financial Information."

### **Risks Related to Our Business**

Our ability to grow our business is subject to certain risks, including those generally associated with the electricity transmission industry. In addition, ITC Holdings is a holding company and is not able to pay dividends to its stockholders and fulfill its cash obligations unless it receives dividends or other payments from *ITC Transmission* or METC. After giving effect to the consummation of our acquisition of all of the indirect ownership interests in METC and the other transactions described under "The Transactions," we expect to have approximately \$1.2 billion of consolidated indebtedness, which may adversely affect our ability to generate cash flow, pay dividends on our common stock, remain in compliance with debt covenants and operate our business. In addition, we may not be able to successfully consolidate METC's business with ours. Any of these factors or other risks described under "Risk Factors" or elsewhere in this prospectus may limit our ability to grow our business.

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Our principal executive offices are located at 39500 Orchard Hill Place, Suite 200, Novi, Michigan 48375 and our telephone number at that address is (248) 374-7100. ITC Holdings' website is located at [www.itc-holdings.com](http://www.itc-holdings.com). The information on our website is not part of this prospectus.

### Ownership Structure

The chart below illustrates the ownership of our company after giving effect to this offering, ITC Holdings' acquisition of the indirect ownership interests in METC and the other transactions described under "The Transactions."

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- (1) International Transmission Holdings Limited Partnership, a Michigan limited partnership, or the IT Holdings Partnership, is managed by its general partner, Ironhill Transmission, LLC. The sole member of Ironhill Transmission, LLC is Mr. Lewis M. Eisenberg. We refer to Ironhill Transmission, LLC, together with its sole member, Mr. Lewis M. Eisenberg, as the General Partner. The IT Holdings Partnership has issued limited partnership interests to: KKR Millennium Fund, L.P. and KKR Partners III, L.P. (Series A), together the KKR Partnerships; Trimaran Fund II, L.L.C., Trimaran Parallel Fund II, L.P., Trimaran Capital, L.L.C., CIBC Employee Private Equity Fund (Trimaran) Partners and CIBC MB Inc., collectively, the Trimaran Partnerships; and Stockwell Fund, L.P., or Stockwell. The General Partner holds a 0.45% general partnership interest in the IT Holdings Partnership and the KKR Partnerships, the Trimaran Partnerships and Stockwell hold limited partnership interests of 68.11%, 29.19% and 2.25%, respectively.
  - (2) Includes approximately 2,644,503 shares of our common stock to be issued to Macquarie Essential Assets Partnership in connection with ITC Holdings' acquisition of the indirect ownership interests in METC, assuming a price per share of \$26.47, the closing price per share on the New York Stock Exchange on June 16, 2006. Also may include shares of our common stock held by employees, amounts of which we are unable to determine.
  - (3) Assumes the issuance of 7,177,937 shares of our common stock in this offering, assuming a price per share of \$26.47, the closing price per share on the New York Stock Exchange on June 16, 2006.
  - (4) After the acquisition, ITC Holdings will directly hold 100% of the equity interests in the following entities: METC GP Holdings, Inc., Evercore METC Investment Inc., Evercore METC Co-Investment Inc., Macquarie Transmission Michigan Inc., NA Capital Holdings Inc. and Mich 1400 Corp. After the acquisition, these entities will collectively directly own all of the partnership interests in MTH which, in turn, is the sole member of METC.

**The Offering**

Shares of common stock outstanding prior to this offering	33,297,448.
Shares of common stock offered by ITC Holdings Corp.	7,177,937.
Shares of common stock outstanding after this offering	40,475,385.
Use of proceeds	We estimate that our net proceeds from this offering, after deducting estimated underwriting discounts and commissions and estimated offering expenses, will be approximately \$181.5 million.
	We intend to use the net proceeds we receive from this offering, together with a portion of the net proceeds from the concurrent private placement of ITC Holdings' senior notes and the issuance of shares of ITC Holdings common stock with an approximate value of \$70.0 million, to finance ITC Holdings' acquisition of all of the indirect ownership interests in METC as described under "The Transactions."
Dividend policy	We paid a \$0.2625 per share quarterly dividend on our common stock for the first quarter of 2006. We intend to continue to pay quarterly dividends on our common stock.
New York Stock Exchange symbol	"ITC."

The number of shares of our common stock that will be outstanding after this offering is based on 33,297,448 shares outstanding as of June 16, 2006 and the number of shares of our common stock expected to be issued in this offering assumes a price per share of \$26.47, the last reported sale price of our common stock on the New York Stock Exchange on June 16, 2006. Unless we specifically state otherwise, all information in this prospectus assumes:

no exercise of the over-allotment option by the underwriters;

that none of the remaining 4,711,667 shares of common stock reserved for issuance under the Amended and Restated 2003 Stock Purchase and Option Plan for Key Employees of ITC Holdings Corp. and its Subsidiaries, or the 2003 Stock Purchase and Option Plan, the ITC Holdings Corp. 2006 Long Term Incentive Plan, or 2006 Long Term Incentive Plan, and ITC Holdings Corp. Employee Stock Purchase Plan, or Employee Stock Purchase Plan, has been issued, including 1,938,369 shares of common stock issuable upon the exercise of outstanding stock options as of March 31, 2006 at an exercise price of \$7.48 per share, 1,142,964 of which were vested, and 695,178 shares of common stock issuable upon the exercise of outstanding stock options as of March 31, 2006 at an exercise price of \$23.00 per share, 9,148 of which were vested; and

that none of the 2,644,503 shares of common stock to be issued to Macquarie Essential Assets Partnership, as described under "The Transactions" assuming a price per share of \$26.47, the last reported sale price of our common stock on the New York Stock Exchange on June 16, 2006, have been issued.

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**Risk Factors**

Investing in our common stock involves substantial risk. You should carefully consider all of the information included in this prospectus and, in particular, should evaluate the specific factors set forth under "Risk Factors" in deciding whether to invest in our common stock.

**Summary Historical and Pro Forma Financial Data**

Set forth below is summary historical condensed consolidated financial, operating and other data of ITC Holdings and Subsidiaries at the dates and for the periods indicated.

The summary historical condensed consolidated financial data as of March 31, 2006 and for the three months ended March 31, 2006 and 2005 have been derived from, and should be read in conjunction with, ITC Holdings and Subsidiaries' unaudited historical condensed consolidated financial statements and the notes to those statements and MTH and METC's unaudited historical condensed consolidated financial statements and the notes to those statements, all included elsewhere in this prospectus. The unaudited historical condensed consolidated financial statements have been prepared on the same basis as the audited historical consolidated financial statements and, in management's opinion, include all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the financial position and the results of operations for these periods. The financial data presented for the three months ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. The summary historical consolidated financial data for the years ended December 31, 2005 and 2004 have been derived from, and should be read in conjunction with, ITC Holdings and Subsidiaries' audited historical consolidated financial statements and the notes to those statements and MTH and METC's audited historical consolidated financial statements and the notes to those statements, all included elsewhere in this prospectus.

The unaudited pro forma condensed consolidated financial data as of March 31, 2006 and for the three months ended March 31, 2006 and for the year ended December 31, 2005 have been developed by the application of pro forma adjustments to ITC Holdings and Subsidiaries' audited and unaudited historical consolidated financial statements and the notes to those statements for the three months ended March 31, 2006 and the year ended December 31, 2005 and to MTH and METC's audited and unaudited historical consolidated financial statements for the three months ended March 31, 2006 and the year ended December 31, 2005, all included elsewhere in this prospectus.

The unaudited pro forma condensed consolidated financial data give effect to the following transactions associated with the acquisition:

the issue and sale by us of            shares of our common stock in this offering;

the issuance of            shares of our common stock to Macquarie Essential Assets Partnership;

the private placement of \$            million aggregate principal amount of ITC Holdings' senior notes;

the acquisition of all of the indirect ownership interests in METC; and

the payment of \$6.0 million to Trans-Elect, Inc. in consideration of the termination of a management services agreement,

all as described under "The Transactions."

The unaudited pro forma condensed consolidated financial statements also give effect to the following transactions associated with debt refinancings which we expect to occur concurrently with this offering:

the private placement of \$            million aggregate principal amount of METC Mortgage Bonds;

the redemption of \$            million aggregate principal amount of METC Notes;

the redemption of \$            million aggregate principal amount of MTH Notes; and

the repayment of approximately \$            million currently outstanding under METC's existing \$35.0 million revolving credit facility,



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all as described under "The Transactions." In lieu of redeeming the MTH Notes, MTH may elect to leave them outstanding.

The pro forma adjustments are based upon available information and assumptions that management believes are reasonable. We will account for the proposed acquisition of all of the indirect ownership interests in METC using the purchase method of accounting, which will require us to estimate the fair values of assets and liabilities acquired. Since the acquisition has not been consummated, the pro forma adjustments to reflect the allocation of the purchase price, the fair value of assets and liabilities acquired, the amount of fees associated with the transactions, the number of shares of our common stock to be issued in this offering, the number of shares of our common stock to be issued to Macquarie Essential Assets Partnership, the interest rates applicable to the private placement of ITC Holdings' senior notes, as well as other assumptions used in the unaudited pro forma condensed consolidated financial statements are based upon preliminary information currently available, which may be revised as additional information becomes available and/or upon the consummation of the transactions described under "The Transactions." The notes to the unaudited pro forma condensed consolidated financial statements provide a more detailed discussion of how such adjustments were derived and presented in the unaudited pro forma condensed consolidated financial statements. See "Unaudited Pro Forma Condensed Consolidated Financial Information."

The unaudited pro forma condensed consolidated financial statements have been compiled from historical financial statements and other information, but do not purport to represent what our consolidated financial position or our consolidated results of operations would have been had this offering, the issuance of shares of our common stock to Macquarie Essential Assets Partnership, the private placement of ITC Holdings' senior notes, the issuance of the METC Mortgage Bonds, the acquisition of all of the indirect ownership interests in METC and the termination of a management services agreement as described under "The Transactions" occurred on the dates indicated, or to project our consolidated financial performance for any future period.

Our summary historical and pro forma financial data presented below should be read together with "Use of Proceeds," "Capitalization," "Selected Consolidated Financial Data," "Unaudited Pro Forma Condensed Consolidated Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "The Transactions," ITC Holdings and Subsidiaries' audited and unaudited historical consolidated financial statements and the notes to those statements and MTH and METC's audited and unaudited historical consolidated financial statements and the notes to those statements, all included elsewhere in this prospectus.

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ITC Holdings and Subsidiaries

	Pro Forma Three Months Ended March 31, 2006	Three Months Ended March 31,		Pro Forma Year Ended December 31, 2005	Year Ended December 31,	
		2006	2005		2005	2004(a)
(in thousands, except share and per share data)						
<b>Statement of operations data:</b>						
Operating revenues	\$ 71,440	\$ 39,069	\$ 42,460	\$ 311,324	\$ 205,274	\$ 126,449
Operating expenses:						
Operation and maintenance	15,259	6,657	6,522	89,728	48,310	24,552
General and administrative	10,790	7,477	5,286	35,943	25,198	24,412
Depreciation and amortization	17,667	8,870	8,018	43,771	33,197	29,480
Taxes other than income taxes	7,291	5,346	4,299	21,451	13,982	20,840
Termination of management agreements				6,725	6,725	
Total operating expenses	51,007	28,350	24,125	197,618	127,412	99,284
Operating income	20,433	10,719	18,335	113,706	77,862	27,165
Other expenses (income):						
Interest expense		7,240	6,854		28,128	25,585
Allowance for equity funds used in construction	(1,060)	(522)	(580)	(4,106)	(2,790)	(1,691)
Loss on extinguishment of debt						
Other income	(5,418)	(301)	(305)	(1,913)	(1,700)	(1,289)
Other expense	161	150	176	615	615	283
Total other expenses		6,567	6,145		24,253	22,888
Income before income taxes		4,152	12,190		53,609	4,277
Income tax provision		1,499	4,320		18,938	1,669
Income before cumulative effect of a change in accounting principle	\$	2,653	7,870	\$	34,671	2,608
Cumulative effect of a change in accounting principle		29				
Net income	\$	2,682	7,870	\$	34,671	2,608
<b>Net income per share data:(b)</b>						
Basic net income per share:						
Net income per share	\$	0.08	0.26	\$	1.10	0.09
Weighted average shares		32,984,807	30,341,967		31,455,065	30,183,886
Diluted net income per share:						
Net income per share	\$	0.08	0.25	\$	1.06	0.08
Weighted average shares		33,982,045	31,140,306		32,729,842	30,899,548

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MTH and METC

Three Months Ended March 31,		Year Ended December 31,	
2006	2005	2005(c)	2004(c)

(in thousands)

**Statement of operations data:**

Operating revenues	\$ 32,797	\$ 21,497	\$ 107,752	\$ 101,459
Operating expenses:				
Operation and maintenance	9,320	9,077	43,951	42,462
General and administrative	3,033	2,326	9,945	8,388
Depreciation and amortization	5,352	2,512	10,574	9,996
Taxes other than income taxes	1,933	1,619	7,438	7,066
Total operating expenses	19,638	15,534	71,908	67,912
Operating income	13,159	5,963	35,844	33,547
Other expenses (income):				
Interest expense	4,544	3,304	14,480	13,281
Allowance for equity funds used in construction	(538)	(461)	(1,316)	(693)
Other income	(5,117)	(29)	(213)	(108)
Other expense	11			
Total other expenses (income)	(1,100)	(2,814)	(12,951)	(12,480)
Net income	\$ 14,259	\$ 3,149	\$ 22,893	\$ 21,067

ITC Holdings and Subsidiaries

As of March 31, 2006

Pro Forma Actual

(in thousands)

**Balance sheet data:**

Cash and cash equivalents		\$	\$	28,601
Working capital				31,206
Property, plant and equipment net			975,761	631,110
Total assets				952,179
Total debt:				
ITC Holdings				274,133
ITC Transmission			284,804	284,804
METC				
Stockholders' equity				258,083

MTH and METC

As of March 31, 2006

(in thousands)



**MTH and METC**

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**Balance sheet data:**

Cash and cash equivalents	\$	6,223
Working capital (deficit)		(5,721)
Property, plant and equipment net		344,651
Total assets		530,201
Total debt:		
MTH		90,000
METC		184,800
Partners' capital		199,140

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ITC Holdings and Subsidiaries

Pro Forma Three Months Ended March 31, 2006	Three Months Ended March 31,		Pro Forma Year Ended December 31, 2005	Year Ended December 31,	
	2006	2005		2005	2004

(in thousands)

**Other data:**

Adjusted EBITDA(d)	\$	\$ 19,769	\$ 26,482	\$	\$ 112,144	\$ 57,651	
Capital expenditures		43,662	28,709	36,112	155,689	118,586	76,779

MTH and METC

Three Months Ended March 31,		Year Ended December 31,	
2006	2005	2005	2004

(in thousands)

**Other data:**

Adjusted EBITDA(d)		\$ 23,617	\$ 8,504	\$ 46,631	\$ 43,651
Capital expenditures		14,953	7,313	37,103	26,142

2006

2005

2004(a)

2003(a)

ITCTransmission	METC	ITCTransmission	METC(c)	ITCTransmission(a)	METC(c)	ITCTransmission(a)	METC(c)
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**Operating data:**

Network  
Transmission  
Rate (per  
kW/month):

January 1 to									
May 31	\$	1,594	\$ 1,567	\$ 1,587	0.98	\$ 1,075	0.98	\$ 1,075	0.98
June 1 to									
December 31	\$	1,744	\$ 1,524	\$ 1,594	0.98	\$ 1,075	0.98	\$ 1,075	0.98

Monthly Peak  
Load (MW):

January	7,754	6,091	8,090	6,493	8,022	6,482	7,608	6,436
February	7,667	5,990	7,672	6,177	7,656	6,205	7,437	6,319
March	7,554	5,868	7,562	6,155	7,434	5,987	7,542	6,258
April	7,035	5,382	7,299	5,718	7,305	5,634	6,934	5,679
May	10,902		7,678	5,889	8,718	6,294	7,017	5,682
June			12,108	8,971	11,114	7,832	11,266	8,228
July			11,822	8,758	11,344	8,241	10,225	7,213
August			12,308	9,229	10,877	8,031	11,617	8,788
September			10,675	7,912	9,841	7,529	8,717	6,649
October			9,356	7,243	7,197	5,787	7,369	5,848
November			7,943	6,287	7,832	6,301	7,843	6,311
December			8,344	6,565	8,469	6,904	8,124	6,458

Total

110,857

85,467

105,809

81,227

101,699

79,869

(a)

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During the year ended December 31, 2004 and the period from February 28, 2003 through December 31, 2003, *ITCTransmission's* billed transmission rate was frozen at \$1.075 per kW/month. Beginning January 1, 2005, *ITCTransmission's* billed transmission rates were set using the Attachment O formula mechanism.

- (b) Net income per share is calculated by dividing net income by the weighted average shares outstanding.
- (c) During the years ended December 31, 2005, 2004 and 2003, *METC's* billed transmission rate was frozen at \$0.98 per kW/month. In subsequent periods, *METC's* billed transmission rates were set using the Attachment O formula mechanism.
- (d) Adjusted EBITDA is not a measurement of operating performance calculated in accordance with generally accepted accounting principles in the United States, or GAAP, and should not be

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considered a substitute for net income, operating income, net profit after tax or cash flows from operating activities, as determined in accordance with GAAP.

We define adjusted EBITDA as net income *plus*:

income taxes;

depreciation and amortization expense; and

interest expense;

*excluding*:

allowance for equity funds used during construction; and

certain other items not related to operating performance such as loss on extinguishment of debt.

We use adjusted EBITDA on a consolidated basis to assess our overall financial and operating performance. We believe this non-GAAP measure, as we have defined it, is helpful in identifying trends in our day-to-day performance because the items excluded have little or no significance on our day-to-day operations. This measure provides an assessment of controllable expenses and affords management the ability to make decisions which are expected to facilitate meeting current financial goals as well as achieve optimal financial performance. It provides an indicator for management to determine if adjustments to current spending decisions are needed. Adjusted EBITDA provides us with a measure of financial performance independent of items that are beyond the control of management in the short-term, such as depreciation, taxation and interest expense associated with our capital structure. This metric measures our financial performance based on operational factors that management can impact in the short-term, namely the cost structure or expenses of the organization. Adjusted EBITDA is one of the metrics used by senior management and the board of directors to review the financial performance of the business on a monthly basis and to determine the level of bonuses for management and employees. Adjusted EBITDA is also used by research analysts and investors to evaluate the performance of and value companies in our industry. An investor or potential investor may find this item important in evaluating our performance, results of operations and financial position. We use non-GAAP financial measures as a supplement to our GAAP results in order to provide a more complete understanding of the factors and trends affecting our business. However, adjusted EBITDA has limitations as an analytical tool. Adjusted EBITDA is not an alternative to net income, operating income or cash flows from operating activities as calculated and presented in accordance with GAAP. In addition, because adjusted EBITDA is not a measure of financial performance under GAAP and is susceptible to varying calculations, adjusted EBITDA, as presented in this prospectus, may differ from and may not be comparable to similarly titled measures used by other companies.

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The following table reconciles ITC Holdings and Subsidiaries' net income and pro forma net income to adjusted EBITDA:

ITC Holdings and Subsidiaries

	Pro Forma Three Months Ended March 31, 2006	Three Months Ended March 31,		Pro Forma Year Ended December 31, 2005	Year Ended December 31,	
		2006	2005		2005	2004
		(in thousands)				
Net income	\$	\$ 2,682	\$ 7,870	\$	\$ 34,671	\$ 2,608
Income taxes		1,499	4,320		18,938	1,669
Allowance for equity funds used in construction	(1,060)	(522)	(580)	(4,106)	(2,790)	(1,691)
Interest expense		7,240	6,854		28,128	25,585
Loss on extinguishment of debt						
Depreciation and amortization	17,667	8,870	8,018	43,771	33,197	29,480
Adjusted EBITDA	\$	\$ 19,769	\$ 26,482	\$	\$ 112,144	\$ 57,651

The following table reconciles MTH and METC's net income to adjusted EBITDA:

MTH and METC

	Three Months Ended March 31,		Year Ended December 31,	
	2006	2005	2005	2004
	(in thousands)			
Net income	\$ 14,259	\$ 3,149	\$ 22,893	\$ 21,067
Income taxes				
Allowance for equity funds used in construction	(538)	(461)	(1,316)	(693)
Interest expense	4,544	3,304	14,480	13,281
Depreciation and amortization	5,352	2,512	10,574	9,996
Adjusted EBITDA	\$ 23,617	\$ 8,504	\$ 46,631	\$ 43,651

## RISK FACTORS

*An investment in our common stock involves risks. You should carefully consider the risks described below, together with the other information included in this prospectus, before deciding to purchase any common stock.*

### Risks Related to Our Business

***ITC Holdings is a holding company with no operations, and unless ITC Holdings receives dividends or other payments from ITCTransmission and/or METC, its operating subsidiaries, ITC Holdings will be unable to pay dividends to its stockholders and fulfill its cash obligations.***

As a holding company with no business operations, ITC Holdings' material assets consist only of the common stock of ITCTransmission, deferred tax assets relating primarily to federal income tax operating loss carryforwards and cash. After the consummation of the acquisition, ITC Holdings' assets will also include indirect ownership interests in METC (and any other subsidiaries ITC Holdings may own in the future). ITC Holdings' material cash inflows are only from dividends and other payments received from time to time from ITCTransmission, METC or such subsidiaries and the proceeds raised from the sale of debt and equity securities. ITC Holdings may not be able to access cash generated by ITCTransmission or METC in order to fulfill cash commitments or to pay dividends to stockholders. The ability of ITCTransmission's and METC to make dividend and other payments to ITC Holdings is subject to the availability of funds after taking into account ITCTransmission's and METC's respective funding requirements, the terms of ITCTransmission and METC's respective indebtedness, the regulations of the Federal Energy Regulatory Commission, or the FERC, under the Federal Power Act, or the FPA, and applicable state laws. ITC Holdings relies, in part, upon dividends and other payments from ITCTransmission, METC (and any other subsidiaries ITC Holdings may have in the future) to generate the funds necessary to fulfill its cash obligations. Each of ITCTransmission and METC, however, is legally distinct from ITC Holdings and has no obligation, contingent or otherwise, to make funds available to ITC Holdings.

***The FERC's December 2005 rate order authorizing METC's current rates is subject to a hearing, rehearings and possible judicial appeals. In any such proceedings, METC could be required to refund revenues to customers and the rates that METC charges for services could be reduced thereby materially and adversely impacting our results of operations, financial condition, cash flows and future earning capacity.***

On December 30, 2005, the FERC issued an order authorizing METC, beginning on January 1, 2006, to charge rates for its transmission service using the rate setting formula contained in Attachment O, which results in an authorized rate for network and point-to-point transmission service of \$1.567 per kW/month from January 1, 2006 to May 31, 2006 and \$1.524 per kW/month from June 1, 2006 to May 31, 2007. The FERC's December 2005 rate order authorizes METC to collect this rate, subject to any refunds that might be ordered as a result of further hearings currently pending before the FERC on this matter or the approval by the FERC of a settlement of the issues set for hearing. In particular, the FERC has set for hearing issues regarding the calculation of METC's rates, including:

the need for a mechanism to avoid over-collection of amounts that METC could not collect during the period from January 1, 2001 through December 31, 2005, when METC was subject to a rate freeze, but which METC was authorized to defer for subsequent collection;

the accuracy of the computation of those deferred amounts and the adequacy of information reflected in METC's FERC Form No. 1;

the reasonableness of the recovery of fees for services provided by METC's affiliate, Trans-Elect Inc., or Trans-Elect;

the proper calculation of the adjustment to METC's equity account balance resulting from the sale, in December 2003, of the limited partnership interests in MTH; and

the need for additional information regarding expenses associated with METC's operation and maintenance of facilities that are jointly owned with others.

The proceeding is currently suspended until September 1, 2006 pending the consummation of ITC Holdings' acquisition of the indirect ownership interests in METC. However, when the FERC does act, if it makes a finding as a result of hearings in the case or approves a settlement among the parties, that in either case modifies the components or calculations used in setting METC's current rates, METC would be required to refund to its customers, with interest, the difference between the revenues collected under the current rates and amounts that would have been collected under rates calculated using the modified components and calculations. If ordered, METC could be required to make cash refunds to the affected customers within a limited period of time, typically between 30 and 45 days. This could materially and adversely affect our results of operations, cash flows and financial condition.

Consumers Energy Company, or Consumer Energy, and the Michigan Public Service Commission, or the MPSC, have sought rehearing of portions of the FERC's December 2005 rate order. Once the FERC rules on those rehearing requests, interested parties may also seek judicial review in a United States Court of Appeals of the December 2005 rate order and any subsequent orders issued on rehearing. Moreover, after the FERC rules on the issues set for further hearing in the December 2005 rate order, interested parties may seek a rehearing or judicial review of any order issued as a result of or after those hearings. Although we cannot predict if any subsequent requests for rehearing or appeals will be filed, the FERC, in response to the requests for rehearing or on remand after a successful appeal, could modify the terms of its authorization of METC's current rates, including reducing those rates retroactively to January 1, 2006 and ordering refunds. This could result in a significant reduction in METC's earnings from what we currently expect and, accordingly, our financial condition, cash flows and results of operations could be materially and adversely affected.

***Certain elements of ITCTransmission's and METC's cost recovery through rates can be challenged which could result in lowered rates and/or refunds of amounts previously collected and thus have an adverse effect on our business, financial condition, results of operations and cash flows.***

ITCTransmission and METC provide transmission service under rates regulated by the FERC. The FERC has approved ITCTransmission's and METC's use of the rate setting formula under Attachment O, but it has not expressly approved the amount of ITCTransmission's or METC's actual capital and operating expenditures to be used in that formula. In addition, all aspects of ITCTransmission's or METC's rates approved by the FERC, including the Attachment O rate mechanism, ITCTransmission's and METC's respective allowed 13.88% and 13.38% return of and on the actual equity portion of their respective capital structures, and the data inputs provided by ITCTransmission and METC for calculation of each year's rate, are subject to challenge by interested parties at the FERC in a Section 206 proceeding under the FPA. If a challenger can establish that any of these aspects are unjust, unreasonable, imprudent or unduly discriminatory, then the FERC will make appropriate prospective adjustments to them and/or disallow ITCTransmission's or METC's inclusion of those aspects in the rate setting formula. This could result in lowered rates and/or refunds of amounts collected after the date that a Section 206 challenge is filed and have an adverse effect on our business, financial condition, results of operations and cash flows.

***The regulations to which we are subject may limit our ability to raise capital and/or pursue acquisitions, development opportunities or other transactions.***

Each of ITCTransmission and METC is a "public utility" under the FPA and, accordingly, is subject to regulation by the FERC. Approval of the FERC is required under Section 203 of the FPA for a disposition or acquisition of regulated public utility facilities, either directly or indirectly through a holding company. Such approval also is required to acquire securities in a public utility. Under the Energy Policy Act of 2005, or the Energy Policy Act, Section 203 of the FPA also provides the FERC

with explicit authority over utility holding companies' purchases or acquisitions of, and mergers or consolidations with, a public utility. Finally, each of *ITCTransmission* and METC must also seek approval by the FERC under Section 204 of the FPA for issuances of its securities.

***Changes in federal energy laws, regulations or policies could impact cash flows and could reduce the dividends we may be able to pay our stockholders.***

Attachment O, the rate formula mechanism used by *ITCTransmission* and METC to calculate their respective annual revenue requirements, will be used by *ITCTransmission* and METC for that purpose until and unless it is determined by the FERC to be unjust and unreasonable or another mechanism is determined by the FERC to be just and reasonable. Such determinations could result from challenges initiated at the FERC by interested parties or the FERC in a proceeding under Section 206 of the FPA, or by an application initiated by *ITCTransmission* or METC under Section 205 of the FPA. We cannot predict whether the approved rate methodologies will be changed.

Transmission costs constitute a relatively small portion of end-use consumers' overall electric utility costs. However, some large end-use consumers and entities supplying electricity to end-use consumers may attempt to influence government and/or regulators to change the rate setting system that applies to *ITCTransmission* and METC, particularly if rates for delivered electricity increase substantially.

Each of *ITCTransmission* and METC is regulated by the FERC as a "public utility" under the FPA and is a transmission owner in the Midwest Independent Transmission System Operator, Inc., or MISO. The FERC could propose new policies and regulations concerning transmission services or rate setting methodologies. In addition, the U.S. Congress periodically considers enacting energy legislation that could shift new responsibilities to the FERC, modify provisions of the FPA or provide the FERC or another entity with increased authority to regulate transmission matters. *ITCTransmission* and METC cannot predict whether, and to what extent, *ITCTransmission* and METC may be affected by any such changes in federal energy laws, regulations or policies in the future.

***If the network load on either ITCTransmission's or METC's transmission system is lower than expected, our revenues would be reduced.***

If the network load on either *ITCTransmission's* or METC's transmission system is lower than expected due to weather, a weak economy, changes in the nature or composition of the transmission grid in Michigan or surrounding regions, poor transmission quality of neighboring transmission systems, or for any other reason, it would reduce our revenues until and unless such circumstances are adjusted for in *ITCTransmission's* or METC's formula rate mechanism.

***ITCTransmission's and METC's revenues and net income typically fluctuate on a seasonal and quarterly basis.***

Demand for electricity is largely dependent on weather conditions. As a result, *ITCTransmission* and METC's overall revenues and net income typically fluctuate substantially on a seasonal basis, thereby impacting *ITCTransmission's*, METC's and our operating results. In general, *ITCTransmission's* and METC's revenues typically are higher in summer months, although a particularly cool summer could reduce electricity demand and revenues for that period as compared to the same period of the previous year.

***Each of ITCTransmission and METC depends on its primary customer for a substantial portion of its revenues, and any material failure by those primary customers to make payments for transmission services would adversely affect our revenues and our ability to service ITCTransmission's and METC's and our debt obligations.***

*ITCTransmission* derives a substantial portion of its revenues from the transmission of electricity to The Detroit Edison Company's, or Detroit Edison's, local distribution facilities. Payments from Detroit



Edison, billed by MISO, constituted approximately 77% of ITCTransmission's total operating revenues for the year ended December 31, 2005 and are expected to constitute the majority of ITCTransmission's revenues for the foreseeable future. Detroit Edison is rated BBB/stable and Baa1/stable by Standard and Poor's Ratings Services and Moody's Investors Services, Inc., respectively. Similarly, Consumers Energy, the regulated utility subsidiary of CMS Energy Corporation, accounted for approximately 73% of METC's revenues for the year ended December 31, 2005 and is expected to constitute the majority of METC's revenues for the foreseeable future. Consumers Energy is rated BB/stable and Baa3/negative outlook by Standard & Poor's Ratings Services and Moody's Investors Service, Inc., respectively. Any material failure by Detroit Edison or Consumers Energy to make payments for transmission services would adversely affect our revenues and our ability to service ITCTransmission's and METC's and our debt obligations.

***We may be materially and adversely affected by the termination of METC's services contract with Consumers Energy.***

Consumers Energy provides METC with operating, maintenance, inspection and other services relating to METC's transmission assets pursuant to a services contract. For the years ended December 31, 2005 and 2004, METC paid \$21.1 million and \$19.7 million, respectively, to Consumers Energy for these services. METC gave Consumers Energy notice of termination of the system control and system optimization portions of the services contract on November 2, 2004 and of the remainder of the services provided by Consumers Energy under the services contract on February 6, 2006. Each of these notices is effective in May 2007. METC has begun the process of hiring staff and procuring services to replace those provided under the services contract and will contract with qualified parties on the most economically attractive terms available to METC. After the termination of the services contract, METC may not be able to replace these services in a timely manner or on terms and conditions, including service levels and costs, as favorable as those METC has received from Consumers Energy.

Consumers Energy also provides certain transmission control functions for METC at an integrated transmission and distribution control center in Jackson, Michigan. Effective upon the termination of the services contract in May 2007, METC will be performing these functions at the new operations and control center METC is constructing in Caledonia, Michigan. METC may not be able to hire all of the qualified staff required to operate the new operations and control center or the new operations and control center may not be fully functional by the anticipated transition date, in which event METC will be required to continue to rely on Consumers Energy for the performance of those services even after the termination of the services contract.

***METC does not own the majority of the land on which its transmission assets are located and, as a result, it must comply with the provisions of an easement agreement with Consumers Energy.***

METC does not own the majority of the land on which the transmission assets it acquired from Consumers Energy are located. Instead, under the provisions of an easement agreement with Consumers Energy, METC pays an annual fee of approximately \$10.0 million to Consumers Energy in exchange for rights-of-way, leases, fee interests and licenses which allow METC to use the land on which its transmission lines are located. Under the terms of the easement agreement, METC's easement rights could be eliminated if METC fails to meet certain requirements, such as paying contractual rent to Consumers Energy in a timely manner.

***Deregulation and/or increased competition may adversely affect ITCTransmission's and METC's customers, or Detroit Edison's and Consumers Energy's customers, which in turn may reduce our revenues.***

The business of ITCTransmission's and METC's primary customers is subject to regulation that has undergone substantial change in accordance with Michigan Public Act 141 of 2000, which mandates the

implementation of retail access, as well as changes in federal regulatory requirements. The utility industry has also been undergoing dramatic structural change for several years, resulting in increasing competitive pressures on electric utility companies, such as Detroit Edison and Consumers Energy. The manufacturing sector in Detroit Edison's and Consumers Energy's service territories has also been subject to increasing competitive pressures. As a result, demand for electricity transmission service by manufacturing companies in ITC*Transmission's* and METC's service territories may be negatively impacted. These factors may create greater risks to the stability of Detroit Edison's and Consumers Energy's revenues and may affect Detroit Edison's and Consumers Energy's ability to make payments for transmission service to MISO and thus to ITC*Transmission* and METC, which would adversely affect our financial condition and results of operations.

On April 1, 2005, MISO began centrally dispatching generation resources throughout much of the Midwest with the launch of its Midwest Energy Markets. Because of this restructuring of power markets throughout the Midwest, the risk profile of some of our customers may have changed, which may affect their ability to pay for the services provided by ITC*Transmission* and METC.

***Hazards associated with high-voltage electricity transmission may result in suspension of ITCTransmission's or METC's operations or the imposition of civil or criminal penalties.***

ITC*Transmission's* and METC's operations are subject to the usual hazards associated with high-voltage electricity transmission, including explosions, fires, inclement weather, natural disasters, mechanical failure, unscheduled downtime, equipment interruptions, remediation, chemical spills, discharges or releases of toxic or hazardous substances or gases and other environmental risks. The hazards can cause personal injury and loss of life, severe damage to or destruction of property and equipment and environmental damage, and may result in suspension of operations and the imposition of civil or criminal penalties. We maintain property and casualty insurance, but we are not fully insured against all potential hazards incident to our business, such as damage to poles and towers or losses caused by outages.

***ITCTransmission and METC are subject to environmental regulations and to laws that can give rise to substantial liabilities from environmental contamination.***

ITC*Transmission's* and METC's operations are subject to federal, state and local environmental laws and regulations, which impose limitations on the discharge of pollutants into the environment, establish standards for the management, treatment, storage, transportation and disposal of hazardous materials and of solid and hazardous wastes, and impose obligations to investigate and remediate contamination in certain circumstances. Liabilities to investigate or remediate contamination, as well as other liabilities concerning hazardous materials or contamination such as claims for personal injury or property damage, may arise at many locations, including formerly owned or operated properties and sites where wastes have been treated or disposed of, as well as at properties currently owned or operated by ITC*Transmission* or METC. Such liabilities may arise even where the contamination does not result from noncompliance with applicable environmental laws. Under a number of environmental laws, such liabilities may also be joint and several, meaning that a party can be held responsible for more than its share of the liability involved, or even the entire share. Environmental requirements generally have become more stringent in recent years, and compliance with those requirements more expensive.

ITC*Transmission* and METC have incurred expenses in connection with environmental compliance, and we anticipate that each will continue to do so in the future. Failure to comply with the extensive environmental laws and regulations applicable to each could result in significant civil or criminal penalties and remediation costs. ITC*Transmission's* and METC's assets and operations also involve the use of materials classified as hazardous, toxic, or otherwise dangerous. Some of ITC*Transmission's* and METC's facilities and properties are located near environmentally sensitive areas such as wetlands and

habitats of endangered or threatened species. In addition, certain properties in which ITC<sup>Transmission</sup> has an ownership interest or at which ITC<sup>Transmission</sup> or METC operates are, and others are suspected of being, affected by environmental contamination. Compliance with these laws and regulations, and liabilities concerning contamination or hazardous materials, may adversely affect our costs and, therefore our business, financial condition and results of operations.

In addition, claims have been made or threatened against electric utilities for bodily injury, disease or other damages allegedly related to exposure to electromagnetic fields associated with electricity transmission and distribution lines. We cannot assure you that such claims will not be asserted against us or that, if determined in a manner adverse to our interests, would not have a material adverse effect on our business, financial condition and results of operations.

***Acts of war, terrorist attacks and threats or the escalation of military activity in response to such attacks or otherwise may negatively affect our business, financial condition and results of operations.***

Acts of war, terrorist attacks and threats or the escalation of military activity in response to such attacks or otherwise may negatively affect our business, financial condition and results of operations in unpredictable ways, such as increased security measures and disruptions of markets. Strategic targets, such as energy related assets, including, for example, ITC<sup>Transmission</sup>'s and METC's transmission facilities and Detroit Edison's and Consumers Energy's generation and distribution facilities, may be at risk of future terrorist attacks. In addition to the increased costs associated with heightened security requirements, such events may have an adverse effect on the economy in general. A lower level of economic activity could result in a decline in energy consumption, which may adversely affect our business, financial condition and results of operations.

#### **Risks Relating to the Acquisition of METC**

***We may encounter difficulties consolidating METC into our business and may not fully attain or retain, or achieve within a reasonable time frame, expected strategic objectives, cost savings and other expected benefits of the acquisition.***

We expect to realize strategic and other benefits as a result of ITC Holdings' acquisition of the indirect ownership interests in METC. Our ability to realize these benefits or successfully consolidate METC's business with ours, however, is subject to certain risks and uncertainties, including, among others:

the challenges of consolidating businesses;

the costs of consolidating METC and upgrading and enhancing its operations may be higher than we expect and may require more resources, capital expenditures and management attention than anticipated;

delay of capital investments in METC's system due to uncertainty around the timing of the closing of the acquisition;

employees important to METC's operations may decide not to continue employment with us; and

we may be unable to anticipate or manage risks that are unique to METC's historical business, including those related to its workforce, customer demographics and information systems.

Our failure to manage these risks, or other risks related to the acquisition that are not presently known to us, could prevent us from realizing the expected benefits of the acquisition and also may have a material adverse effect on our results of operations and financial condition following this offering, which could cause the value of our common stock to decline.

## Risks Related to Our Capital Structure and Leverage

***ITCTransmission's or METC's actual capital expenditures may be lower than planned, which would decrease expected rate base and therefore our revenues.***

Each of ITCTransmission's and METC's rate base is determined in part by additions to property, plant and equipment when placed in service. ITCTransmission and METC expect to invest at least \$135.0 million and \$25.0 million, respectively, in additional property, plant and equipment in 2006. Over the seven-year period beginning January 1, 2005, we anticipate investing approximately \$1.6 billion in capital projects, including projects currently planned or under consideration at METC. If ITCTransmission's or METC's capital expenditures and the resulting in-service property, plant and equipment are lower than anticipated for any reason, including, among other things, the impact of weather conditions, union strikes, labor shortages, material and equipment prices and availability, our ability to obtain financing for such expenditures, if necessary, limitations on the amount of construction that can be undertaken on our system at any one time or regulatory approvals for reasons relating to environmental, siting or regional planning issues or as a result of legal proceedings and variances between estimated and actual costs of construction contracts awarded, ITCTransmission or METC will have a lower than anticipated rate base thus causing its revenue requirement and future earnings to be potentially lower than anticipated.

***Because we are controlled by the IT Holdings Partnership, the ability of stockholders of ITC Holdings, other than the IT Holdings Partnership, to influence our management and policies will be severely limited.***

As of March 31, 2006, approximately 53.3% of our outstanding shares of common stock was beneficially owned by the IT Holdings Partnership. After the consummation of this offering and the transactions described under "The Transactions," the IT Holdings Partnership will own approximately 41.2% of our common stock. Consequently, the ability of stockholders, other than the IT Holdings Partnership, to influence our management and policies will be severely limited, including with respect to our acquisition or disposition of assets, the approval of a merger or similar business combination, the incurrence of indebtedness, the issuance of additional shares of common stock or other equity securities and the payment of dividends or other distributions on our common stock. In addition, we cannot take certain actions that would adversely affect the limited partners of the IT Holdings Partnership without their approval. We cannot assure you that the interests of the IT Holdings Partnership and/or its limited partners will not conflict with the interests of other holders of our common stock.

***We are highly leveraged and our dependence on debt may limit our ability to pay dividends and/or obtain additional financing.***

After giving effect to the consummation of the acquisition, ITC Holdings' expected issuance of approximately \$460.0 million of senior notes, METC's expected issuance of approximately \$155.0 million of METC Mortgage Bonds and the other transactions described under "The Transactions," we expect to have approximately \$1.2 billion of consolidated indebtedness.

As of March 31, 2006, ITCTransmission had outstanding \$185.0 million of 4.45% First Mortgage Bonds Series A due 2013 and \$100.0 million of 6.125% First Mortgage Bonds Series C due 2036. ITC Holdings had outstanding \$267.0 million of 5.25% Senior Notes due 2013. Additionally, at March 31, 2006, we had total revolving credit facility commitments at ITCTransmission and ITC Holdings of \$75.0 million and \$50.0 million, respectively, with \$8.0 million drawn at ITC Holdings. There are no amounts outstanding under ITCTransmission's revolving credit facility.

As of March 31, 2006, MTH had outstanding \$90.0 million of the MTH Notes and METC had outstanding \$175.0 million of the METC Notes, and a \$35.0 million revolving credit facility, under which \$9.8 million was drawn. In connection with the acquisition, MTH may redeem all of the

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outstanding MTH Notes or, in lieu of redeeming the MTH Notes, MTH may elect to leave them outstanding. In addition, ITC Holdings expects that METC will refinance the METC Notes and refinance and increase the size of its revolving credit facility to \$50.0 million concurrently with this offering and the acquisition. For more information, see "The Transactions" and "Description of Our Indebtedness MTH and METC Debt."

This capital structure can have several important consequences, including, but not limited to, the following:

If future cash flows are insufficient, we or our subsidiaries may need to incur further indebtedness in order to make the capital expenditures and other expenses or investments planned by us.

Our indebtedness will have the general effect of reducing our flexibility to react to changing business and economic conditions insofar as they affect our financial condition and, therefore, may pose substantial risk to our stockholders. A substantial portion of the dividends and payments in lieu of taxes we receive from ITCTransmission and METC will be dedicated to the payment of interest on our indebtedness, thereby reducing the funds available for the payment of dividends on our common stock.

In the event that we are liquidated, any of our senior or subordinated creditors and any senior or subordinated creditors of our subsidiaries will be entitled to payment in full prior to any distributions to the holders of our shares of common stock.

Our credit facilities mature in March 2010, and our ability to secure additional financing prior to or after that time, if needed, may be substantially restricted by the existing level of our indebtedness and the restrictions contained in our debt instruments.

We may incur substantial indebtedness in the future. The incurrence of additional indebtedness would increase the leverage-related risks described in this prospectus.

### ***Certain provisions in our debt instruments limit our capital flexibility.***

Our debt instruments include senior notes and first mortgage bonds and revolving credit facilities containing numerous financial and operating covenants that place significant restrictions on, among other things, our ability to:

incur additional indebtedness;

engage in sale and lease-back transactions;

create liens or other encumbrances;

enter into mergers, consolidations, liquidations or dissolutions, or sell or otherwise dispose of all or substantially all of our assets; and

pay dividends or make distributions on ITC Holdings' and ITCTransmission's capital stock.

The revolving credit facilities also require us to meet certain financial ratios. Our ability to comply with these and other requirements and restrictions may be affected by changes in economic or business conditions, results of operations or other events beyond our control. A failure to comply with the obligations contained in any of our debt instruments could result in acceleration of the related debt and the acceleration of debt under other instruments evidencing indebtedness that may contain cross acceleration or cross default provisions.

### ***Adverse changes in our credit ratings may negatively affect us.***

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Our ability to access capital markets is important to our ability to operate our business. Increased scrutiny of the energy industry and the impacts of regulation, as well as changes in our financial

performance could result in credit agencies reexamining our credit rating. A downgrade in our credit rating could restrict or discontinue our ability to access capital markets at attractive rates and increase our borrowing costs. A rating downgrade could also increase the interest we pay under our revolving credit facilities.

Following the announcement that ITC Holdings entered into an agreement to acquire the indirect ownership interests in METC, Standard & Poor's Ratings Services placed the corporate credit ratings and debt ratings of ITC Holdings and ITC *Transmission* on credit watch with negative implications. A downgrade in any of ITC Holdings' and ITC *Transmission*'s credit ratings could adversely impact our business, financial condition and prospects.

***This offering may cause us to undergo an "ownership change" for purposes of Section 382 of the Internal Revenue Code which would limit our ability to use our net operating loss carryforwards to reduce our tax liability.***

As of December 31, 2005, we had net operating loss carryforwards, or NOLs, of \$68.1 million. These NOLs may be used to offset future taxable income and thereby reduce our U.S. federal income taxes otherwise payable. Section 382 of the Internal Revenue Code of 1986, as amended, imposes an annual limit on the ability of a corporation that undergoes an "ownership change" to use its NOLs to reduce its tax liability. In the event of an ownership change, we would not be able to use our pre-ownership change NOLs in excess of the limitation imposed by Section 382 for each annual period.

Although no definite determination can be made at this time, it is likely that this offering or the transactions described under "The Transactions" will cause us to experience an ownership change. In addition, even if this offering does not cause an ownership change to occur, we may experience an ownership change after this offering as a result of subsequent shifts in our common stock ownership that could have the results described above.

In addition, we expect to acquire approximately \$50.0 million of NOLs in the acquisition described under "The Transactions." We will be subject to annual limitations as a result of the acquisition of all of the indirect ownership interests in METC by ITC Holdings, as well as limitations resulting from prior transactions by the acquired entities.

While our NOLs may be subject to an annual limitation as a result of the ownership change described above, we expect that our ability to use the NOLs over time will not be materially affected by such limitation, although we cannot assure you in this regard.

***We may not be able to pay dividends, and the reduction or elimination of dividends would negatively affect the market price of our common stock.***

While we currently intend to continue to pay quarterly dividends on our common stock, we have no obligation to do so. Dividend payments are within the absolute discretion of our board of directors and will depend on, among other things, our results of operations, working capital requirements, capital expenditure requirements, financial condition, contractual restrictions, anticipated cash needs and other factors that our board of directors may deem relevant. For example, we may not generate sufficient cash from operations in the future to pay dividends on our common stock in the intended amounts or at all. In addition, ITC Holdings is a holding company and its ability to pay dividends may be limited by restrictions upon transfer of funds applicable to its subsidiaries (including, for example, those which are contained in ITC *Transmission*'s revolving credit facility, METC's revolving credit facility and the ITC Holdings Partnership agreement). As a holding company without any specific operations, ITC Holdings is dependent on receiving dividends from its operating subsidiaries, such as ITC *Transmission* and METC, in order to be able to make dividend distributions of its own. Any reduction or elimination of dividends could adversely affect the market price of our common stock.

***Provisions in the Articles of Incorporation and bylaws of ITC Holdings and Michigan corporate law may prevent efforts by our stockholders to change the direction or management of our company.***

The Articles of Incorporation and bylaws of ITC Holdings contain provisions that might enable our management to resist a proposed takeover. These provisions could discourage, delay or prevent a change of control or an acquisition at a price that our stockholders may find attractive. These provisions also may discourage proxy contests and make it more difficult for our stockholders to elect directors and take other corporate actions. The existence of these provisions could limit the price that investors might be willing to pay in the future for shares of our common stock. These provisions include:

a requirement that special meetings of our stockholders may be called only by our board of directors, the chairman of our board of directors, our president or the holders of a majority of the shares of our outstanding common stock;

a requirement of unanimity when stockholders are acting by consent without a meeting if the IT Holdings Partnership owns less than 35% of our shares of common stock;

advance notice requirements for stockholder proposals and nominations; and

the authority of our board to issue, without stockholder approval, common or preferred stock, including in connection with our implementation of any stockholders rights plan, or "poison pill."

***Provisions of the Articles of Incorporation of ITC Holdings restrict market participants from voting or owning 5% or more of the outstanding shares of capital stock of ITC Holdings.***

ITC Transmission was granted favorable regulatory treatment by the FERC based on its independence from market participants. The FERC defines a "market participant" as any person or entity that, either directly or through an affiliate, sells or brokers electricity, or provides ancillary services to MISO. An affiliate, for these purposes, includes any person or entity that directly or indirectly owns, controls or holds with the power to vote 5% or more of the outstanding voting securities of a market participant. To help ensure that ITC Holdings and its subsidiaries will remain independent of market participants, ITC Holdings' Articles of Incorporation impose certain restrictions on the ownership and voting of shares of capital stock of ITC Holdings by market participants. In particular, the Articles of Incorporation provide that ITC Holdings is restricted from issuing any shares of capital stock or recording any transfer of shares if the issuance or transfer would cause any market participant, either individually or together with members of its "group" (as defined in SEC beneficial ownership rules), to beneficially own 5% or more of any class or series of our capital stock. Additionally, if a market participant, together with its group members, acquires beneficial ownership of 5% or more of any series of the outstanding shares of capital stock of ITC Holdings, such market participant or any stockholder who is a member of a group including a market participant will not be able to vote or direct or control the votes of shares representing 5% or more of any series of ITC Holdings' outstanding capital stock. Finally, to the extent a market participant, together with its group members, acquires beneficial ownership of 5% or more of the outstanding shares of any series of capital stock of ITC Holdings, the Articles of Incorporation allow the board of directors of ITC Holdings to redeem any shares of capital stock of ITC Holdings so that, after giving effect to the redemption, the market participant, together with its group members, will cease to beneficially own 5% or more of that series of ITC Holdings' outstanding capital stock.



**Risks Related to This Offering**

*Future sales of our shares could depress the market price of our common stock.*

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market after this offering or the perception that these sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. We and our directors and executive officers have agreed with the underwriters not to sell, dispose of or hedge any shares of our common stock or securities convertible into or exchangeable for shares of our common stock during the period from the date of this prospectus continuing through the date that is 90 days after the date of this prospectus, except with the prior written consent of Lehman Brothers Inc.

Pursuant to the management stockholder's agreements that we entered into with each of our employees who have purchased or been granted shares of our common stock, these employee stockholders generally have the right, upon the sale by the IT Holdings Partnership of shares of our common stock in any underwritten offering, to sell a percentage of the shares of our common stock that the employee stockholders hold at the time of the offering and any shares of our common stock underlying then exercisable options. Under the management stockholder's agreements, as a percentage of total shares held, the employee stockholders would be eligible to sell a percentage equal to the percentage sold by the IT Holdings Partnership in any underwritten offering. Otherwise, each of these employee stockholders is restricted from selling any common stock he or she holds until the fifth anniversary of the date of the execution of the employee stockholder's respective management stockholder's agreement (which were generally entered into between February 2003 and November 2004), which date in all cases falls after 90 days from the date of this prospectus. The "piggyback" registration rights described above also expire on such fifth anniversary. However, the management stockholder's agreements have been modified with respect to new employees hired after November 16, 2005 and receiving restricted stock grants after that date so that such employees will not have "piggyback" registration rights with respect to such stock and will not have vesting rights in such stock upon any change of control of our company. As of March 31, 2006, we had 973,877 shares subject to "piggyback" registration rights.

After this offering and the issuance of shares with an approximate value of \$70.0 million to Macquarie Essential Assets Partnership, or MEAP, we expect to have approximately 43,119,888 shares of common stock outstanding, based on the last reported sale price on the NYSE of \$26.47 per share of our common stock on June 16, 2006. Of those shares, 22,016,632 shares, including the 7,177,937 shares to be sold in this offering will be freely tradable. Approximately 179,450 shares, including shares subject to options, held by our employees will be eligible for resale immediately after this offering and approximately            shares will be eligible for resale after the expiration of the 90-day lock-up period referred to above, in each case subject to restrictions under the Securities Act of 1933, as amended. Approximately            shares outstanding after this offering will be eligible for resale from time to time, subject to the contractual restrictions on sales referred to above and to the volume, manner of sale and other conditions of Rule 144, including approximately            shares which may be sold freely pursuant to Rule 144(k). See "Shares Eligible for Future Sale."

In addition, as of March 31, 2006, 4,711,667 shares were available for future issuance under our 2003 Stock Purchase and Option Plan, Employee Stock Purchase Plan and 2006 Long Term Incentive Plan, including 2,633,547 shares issuable upon the exercise of outstanding stock options, of which 1,152,112 were vested as of March 31, 2006. In the future, we may issue our common stock in connection with investments or repayment of our debt. The amount of such common stock issued could constitute a material portion of our then outstanding common stock.

### FORWARD-LOOKING STATEMENTS

This prospectus contains certain statements that describe our management's beliefs concerning future business conditions and prospects, growth opportunities and the outlook for our business and the electricity transmission industry based upon information currently available. Wherever possible, we have identified these "forward-looking" statements by words such as "anticipates," "believes," "intends," "estimates," "expects," "projects" and similar phrases.

These forward-looking statements are based upon assumptions our management believes are reasonable. Such forward-looking statements are subject to risks and uncertainties which could cause our actual results, performance and achievements to differ materially from those expressed in, or implied by, these statements, including, among other things:

unless ITC Holdings receives dividends or other payments from *ITCTransmission* and/or METC, ITC Holdings will be unable to pay dividends to its stockholders and fulfill its cash obligations;

the FERC's December 2005 rate order authorizing METC's current rates is subject to a hearing, rehearings and possible judicial appeal and in any such proceedings, METC could be required to refund revenues to customers under the rates that became effective January 1, 2006 and June 1, 2006, and the rates that METC charges for services could be reduced;

certain elements of *ITCTransmission's* and METC's cost recovery through rates can be challenged which could result in lowered rates and have an adverse effect on our business, financial condition and results of operations;

the regulations to which we are subject may limit our ability to raise capital and/or pursue acquisitions or development opportunities or other transactions;

*ITCTransmission's* and METC's operating results fluctuate on a seasonal and quarterly basis and point-to-point revenues received by *ITCTransmission* and METC vary from period to period and may be unpredictable;

changes in federal energy laws, regulations or policies could reduce the dividends we may be able to pay our stockholders;

our network load may be lower than expected;

*ITCTransmission* and METC depend on their primary customers for a substantial portion of their revenues;

deregulation and/or increased competition may adversely affect *ITCTransmission's* customers, METC's customers, Detroit Edison's customers or Consumers Energy's customers;

*ITCTransmission's* and METC's actual capital expenditures may be lower than planned, which would decrease *ITCTransmission* and METC's expected rate base;

hazards associated with high-voltage electricity transmission may result in suspension of *ITCTransmission's* or METC's operations or the imposition of civil or criminal penalties;

*ITCTransmission* and METC are subject to environmental regulations and to laws that can give rise to substantial liabilities from environmental contamination;

we may encounter difficulties consolidating METC's business into ours and may not fully attain or retain, or achieve within a reasonable time frame, expected strategic objectives, cost savings and other expected benefits of the acquisition;

we are highly leveraged and our dependence on debt may limit our ability to pay dividends and/or obtain additional financing;

adverse changes in our credit ratings may negatively affect us;

certain provisions in our debt instruments limit our capital flexibility; and

other risk factors discussed herein and listed from time to time in our public filings with the Securities and Exchange Commission, or SEC.

Because our forward-looking statements are based on estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond our control or are subject to change, actual results could be materially different and any or all of our forward-looking statements may turn out to be wrong. They speak only as of the date made and can be affected by assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in our discussion in this prospectus will be important in determining future results. Consequently, we cannot assure you that our expectations or forecasts expressed in such forward-looking statements will be achieved. Actual future results may vary materially.

Except as required by law, we undertake no obligation to publicly update any forward-looking or other statements, whether as a result of new information, future events, or otherwise. Also, please note that we provide a cautionary discussion of risks and uncertainties under the "Risk Factors" section in this prospectus. These are factors that we think could cause our actual results to differ materially from expected results. Other factors besides those listed here could adversely affect our business and results of operations.

## THE TRANSACTIONS

### The METC Acquisition

#### *Purchase Agreement*

On May 11, 2006, ITC Holdings entered into a purchase agreement with TE Power Opportunities Investors, L.P., Mich 1400 LLC, US Holdings Ltd., MEAP, Evercore Co-Investment Partnership II L.P., Evercore METC Capital Partners II L.P. and the other parties thereto. Pursuant to the purchase agreement, ITC Holdings will acquire indirect ownership of all the partnership interests in MTH, the sole member of METC, in a transaction valued at approximately \$860.3 million, which we refer to as the "acquisition." Under the terms of the purchase agreement, the current indirect owners of the partnership interests, whom we refer to as the "selling shareholders," will receive approximately \$485.6 million in cash and shares of our common stock with an approximate value of \$70.0 million will be issued to MEAP. Until June 30, 2006, MEAP may elect to increase or decrease the value of the common stock to be delivered to it by \$2.5 million, in which case the cash portion of the consideration paid to MEAP will be adjusted by a corresponding amount. The number of shares of our common stock to be delivered will depend on the average closing price of our common stock for the 20 consecutive trading-day period ending on the third trading day prior to the consummation of the acquisition. In addition, we, MTH or METC expect to assume, repay, redeem or refinance approximately \$304.7 million of MTH and METC debt and certain liabilities (net of \$6.2 million of cash and cash equivalents). Also as part of the acquisition, ITC Holdings will acquire METC GP Holdings, Inc., Evercore METC Investment Inc., Evercore METC Co-Investment Inc., Macquarie Transmission Michigan Inc., NA Capital Holdings Inc. and Mich 1400 Corp. These entities collectively are expected to have NOLs of approximately \$50.0 million at the acquisition date which will be subject to annual limitations as a result of the acquisition of such entities by ITC Holdings, as well as limitations that resulted from prior transactions.

*Conditions.* In addition to the conditions listed elsewhere in this section, each party's obligation to consummate the acquisition is subject to certain customary conditions, including, among others:

expiration of the 30-day waiting period under the Hart-Scott-Rodino Antitrust Improvements Act; and

receipt of approval from the FERC pursuant to Sections 203 and 204 of the FPA.

ITC Holdings' obligation to consummate the acquisition is further subject to:

absence of a material adverse effect on METC since May 11, 2006;

the completion of an internal restructuring of Trans-Elect and its related companies, including the formation of METC GP Holdings, Inc.;

receipt of such FERC approval without any material limitation or condition; and

expiration of a 30-consecutive day "marketing period," throughout which current financial information relating to METC must be available, beginning on (a) the third business day after satisfaction of the regulatory approval conditions described above or (b) in the event such regulatory approval conditions are not satisfied on or prior to July 15, 2006, the later of (x) September 1, 2006 and (y) the third business day after satisfaction of such regulatory approval conditions.

#### *Stockholders Agreement*

Under the purchase agreement, ITC Holdings has agreed to enter into a stockholders agreement with MEAP upon the consummation of the acquisition. The stockholders agreement will prohibit MEAP from selling the shares of our common stock that MEAP acquired in the acquisition, or the



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"acquired stock," for one year following the acquisition closing date, other than with ITC Holdings' consent or in connection with certain permitted transfers to affiliates of MEAP. The stockholders agreement will also prohibit MEAP from entering into any transaction designed to reduce MEAP's risk as a holder of the acquired stock during the one year lock-up period.

Under the stockholders agreement, MEAP will be entitled to incidental registration rights during the second year after the consummation of the acquisition. If during that second year ITC Holdings proposes to register its common stock under the Securities Act for its own account (excluding registrations on Form S-4 or S-8 and registrations of common stock to be issued to acquire the assets or securities of another entity in connection with an acquisition or business combination), ITC Holdings will use commercially reasonable efforts to register the acquired stock under the Securities Act if MEAP so requests. ITC Holdings will pay all expenses of registering the acquired stock, but not any underwriting commissions or discounts applicable to any sale of the acquired stock. The stockholders agreement will require ITC Holdings to indemnify MEAP, any affiliate of MEAP and any underwriter who participates in the offering or sale of the acquired stock pursuant to the stockholders agreement against certain liabilities arising under the Securities Act.

### ***Management Services Agreement Termination***

Under the purchase agreement, and as a condition to the consummation of the acquisition, the selling shareholders have agreed to deliver upon the consummation of the acquisition an agreement terminating the Management Services Agreement between Trans-Elect and METC, or the MSA. This agreement will terminate the MSA and all rights, obligations and liabilities of METC and Trans-Elect thereunder, excluding certain sections to the extent they relate to services performed under the MSA prior to the acquisition closing date. In consideration for terminating the MSA, we will pay to Trans-Elect, on behalf of METC, the sum of:

\$6.0 million;

all unpaid expenses of Trans-Elect reimbursable under the MSA; and

the accrued and unpaid service fees owed to Trans-Elect under the MSA.

METC and Trans-Elect will concurrently each release and discharge the other and the other's affiliates, employees, officers, directors, successors and assigns from all obligations, damages, liabilities and claims of any kind relating to or arising out of the MSA, subject to the survival of the provisions noted above.

### **Financing of the METC Acquisition**

We expect to finance ITC Holdings' acquisition of all of the indirect ownership interests in METC and the assumption, repayment, redemption or refinancing of approximately \$304.7 million of MTH and METC debt and certain liabilities (net of \$6.2 million of cash and cash equivalents), together with fees and expenses related to these transactions, with the net proceeds from:

ITC Holdings' issuance of \$460.0 million of senior notes; and

the issuance of our common stock in this offering,

together with the issuance to MEAP of shares of our common stock with an approximate value of \$70.0 million.

In connection with the acquisition, we expect that METC will also enter into a new \$50.0 million revolving credit facility. This credit facility will not be drawn for purposes of financing the acquisition.

**Assumption, Repayment, Redemption or Refinancing of Debt at MTH and METC**

In connection with ITC Holdings' acquisition of the indirect ownership interests in METC, we expect that we, MTH or METC will:

redeem \$90.0 million aggregate principal amount of the MTH Notes, resulting in "make whole" premium costs of approximately \$6.6 million, based on assumptions and market data as of June 12, 2006;

issue \$155.0 million aggregate principal amount of METC Mortgage Bonds;

redeem \$175.0 million aggregate principal amount of the METC Notes, resulting in "make whole" premium costs of approximately \$8.7 million, based on assumptions and market data as of June 12, 2006;

repay approximately \$10.0 million currently outstanding under METC's existing \$35.0 million revolving credit facility; and

assume \$30.1 million of long-term interest bearing obligations at METC.

In lieu of redeeming the MTH Notes, MTH may elect to leave them outstanding. For more information, see "Description of Our Indebtedness MTH and METC Debt."



**USE OF PROCEEDS**

We estimate that net proceeds to us from the sale of shares of common stock in this offering, after deducting estimated underwriting discounts and commissions and estimated offering expenses, will be approximately \$181.5 million. We intend to use the net proceeds we receive from this offering, together with a portion of the net proceeds from the concurrent private placement of ITC Holdings' senior notes and the issuance of shares of our common stock with an approximate value of \$70.0 million, to finance the acquisition of all of the indirect ownership interests in METC as described under "The Transactions."

**PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY**

Our common stock has traded on the New York Stock Exchange, or NYSE, under the symbol "ITC" since July 26, 2005. Prior to that time, there was no public market for our stock. The following table sets forth the high and low sales prices per share of our common stock, as reported by the NYSE, for the periods indicated and the cash dividends per share paid for the periods indicated.

	<u>High</u>	<u>Low</u>	<u>Dividends</u>
<b>2006</b>			
April 1, 2006 June 16, 2006	\$ 27.31	\$ 24.50	\$ 0.2625
Quarter ended March 31, 2006	\$ 29.10	\$ 25.29	\$ 0.2625
<b>2005</b>			
Quarter ended December 31, 2005	\$ 29.50	\$ 26.25	\$ 0.2625
July 26, 2005 September 30, 2005	\$ 30.30	\$ 26.22	\$ 0.2625

The closing sale price of our common stock, as reported by the NYSE, on May 11, 2006, the trading day immediately prior to the announcement of our agreement to acquire METC, was \$25.03. For more information regarding the acquisition, see "The Transactions."

The closing sale price of our common stock, as reported by the NYSE, on June 16, 2006 was \$26.47. As of March 31, 2006, there were 188 holders of record of our common stock.

**Dividend Policy**

We paid a \$0.2625 per share quarterly dividend on our common stock for each quarter since our initial public offering on July 25, 2005. We intend to continue to declare and pay quarterly dividends on our common stock. The declaration and payment of dividends is subject to the discretion of ITC Holdings' board of directors and depends on various factors, including our net income, financial condition, cash requirements, future prospects and other factors deemed relevant by our board of directors. As a holding company with no business operations, ITC Holdings' material assets consist only of the stock of *ITCTransmission* and any other subsidiaries ITC Holdings may have, including METC, deferred tax assets relating primarily to federal income tax operating loss carryforwards and cash on hand. ITC Holdings' only sources of cash to pay dividends to its stockholders are dividends and other payments received by ITC Holdings from time to time from *ITCTransmission* and any other subsidiaries ITC Holdings may have, including METC, and the proceeds raised from the sale of our debt and equity securities. Each of *ITCTransmission* and METC, however, is legally distinct from ITC Holdings and has no obligation, contingent or otherwise, to make funds available to ITC Holdings for the payment of dividends to ITC Holdings' stockholders or otherwise. The ability of *ITCTransmission* and any other subsidiaries ITC Holdings may have, including METC, to pay dividends and make other payments to ITC Holdings is subject to, among other things, the availability of funds, after taking into account capital expenditure requirements, the terms of its indebtedness, applicable state laws and regulations of the FERC and the FPA. The debt agreements to which ITC Holdings, *ITCTransmission*, MTH and METC are parties contain covenants that could limit our ability to pay dividends, as well covenants that prohibit us from paying dividends if we are in default under our revolving credit facilities.

If and when our board of directors declares and pays a dividend on our common stock, pursuant to our special bonus plans for executives and non-executive employees, amounts equivalent to the dividend may be paid to the special bonus plan participants, if approved by the compensation committee. We expect these amounts to be paid upon the declaration of dividends on our common stock. The board of directors intends to increase the dividend rate from time to time as necessary for the yield to remain competitive, subject to prevailing business conditions, applicable restrictions on dividend payments and the availability of capital resources.

Each of ITC Holdings' revolving credit agreement, *ITC Transmission's* revolving credit agreement and METC's revolving credit agreement imposes restrictions on our ability to pay dividends if an event of default has occurred under the relevant agreement, and thus our ability to pay dividends on our common stock will depend upon, among other things, our level of indebtedness at the time of the proposed dividend and whether we are in compliance with the covenants under our revolving credit facilities and our debt instruments. See "Description of Our Indebtedness." Our future dividend policy will also depend on the requirements of any future financing agreements to which we may be a party and other factors considered relevant by our board of directors. For a discussion of our cash resources and needs, see "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources."

**CAPITALIZATION**

The following table sets forth our capitalization and cash and cash equivalents as of March 31, 2006 on an actual basis and on an as adjusted basis after giving effect to:

the issue and sale by us of        shares of our common stock in this offering, assuming a price per share of \$        , resulting in net proceeds of \$        million after deducting estimated underwriting discounts and commissions and estimated offering expenses;

the issuance of        shares of our common stock to MEAP, assuming a price per share of \$        ;

the private placement of \$        million aggregate principal amount of ITC Holdings' senior notes;

the acquisition of all of the indirect ownership interests in METC; and

the payment of \$6.0 million to Trans-Elect in consideration of the termination of the MSA,

all as described under "The Transactions."

The adjustments to the capitalization table also include the following transactions associated with debt refinancings which we expect to occur concurrently with this offering:

the private placement of \$        million aggregate principal amount of METC Mortgage Bonds;

the redemption of \$        million aggregate principal amount of the METC Notes;

the redemption of \$        million aggregate principal amount of the MTH Notes; and

the repayment of approximately \$        million currently outstanding under METC's existing \$35.0 million revolving credit facility,

all as described under "The Transactions." In lieu of redeeming the MTH Notes, MTH may elect to leave them outstanding.

You should read the information in this table in conjunction with "Selected Consolidated Financial Data," "Unaudited Pro Forma Condensed Consolidated Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations," ITC Holdings and Subsidiaries' audited and unaudited historical consolidated financial statements and the notes to those statements and MTH and METC's audited and unaudited consolidated historical financial statements and the notes to those statements, all included elsewhere in this prospectus.

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As of March 31, 2006		
Actual	As adjusted for acquisition	As adjusted for acquisition and debt refinancings
(in thousands, except share data)		
<b>Cash and cash equivalents</b>	\$ 28,601	\$
<b>Long-term debt:</b>		
ITC Holdings 5.25% Senior Notes due July 15, 2013	\$ 266,133	\$
ITC Holdings % Senior Notes due (a)		
ITC Holdings' revolving credit facility	8,000	
ITCTransmission 4.45% First Mortgage Bonds Series A due July 15, 2013	184,914	
ITCTransmission 6.125% First Mortgage Bonds Series C due March 31, 2036	99,890	
ITCTransmission's revolving credit facility		
METC % Mortgage Bonds Series A due (a)		
Other long-term interest bearing obligations(b)		
<b>Total long-term debt</b>	<b>\$ 558,937</b>	<b>\$</b>
<b>Stockholders' equity:</b>		
Common stock, without par value, 100,000,000 shares authorized, 33,272,498 shares issued and outstanding and shares as adjusted(c)	\$ 252,508	\$
Retained earnings	5,747	
Accumulated other comprehensive loss	(172)	
<b>Total stockholders' equity</b>	<b>258,083</b>	
<b>Total long-term debt and stockholders' equity</b>	<b>\$ 817,020</b>	<b>\$</b>

- (a) The senior notes and the METC Mortgage Bonds will be issued in private placements and will not be registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.
- (b) Excludes the current portion of interest bearing obligations of \$ million.
- (c) Assuming a price per share of \$ , the last reported sale price of our common stock on the NYSE on , 2006.

**SELECTED CONSOLIDATED FINANCIAL DATA**

The following table sets forth selected historical consolidated financial data of ITC Holdings and Subsidiaries and selected historical financial data of Predecessor *ITCTransmission* as of the dates and for the periods indicated. The term "Predecessor *ITCTransmission*" refers to the *ITCTransmission* business prior to its acquisition by ITC Holdings from DTE Energy Company, or DTE Energy, on February 28, 2003. We accounted for the acquisition as a purchase. We adopted certain accounting policies and methods which differ from those followed by Predecessor *ITCTransmission* prior to the acquisition.

The selected historical condensed consolidated financial data presented on the following pages for ITC Holdings and Subsidiaries as of March 31, 2006 and for the three months ended March 31, 2006 and 2005 have been derived from, and should be read in conjunction with, ITC Holdings and Subsidiaries' unaudited historical condensed consolidated financial statements and the notes to those statements, all included elsewhere in this prospectus. The unaudited condensed consolidated historical financial statements have been prepared on the same basis as the audited historical consolidated financial statements and, in management's opinion, include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the financial position and the results of operations for these periods. The financial data presented for the three months ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

The selected financial data presented on the following pages for ITC Holdings and Subsidiaries as of December 31, 2005, 2004 and 2003 and for the years ended December 31, 2005 and 2004, and the period from February 28, 2003 through December 31, 2003, and Predecessor *ITCTransmission*'s two-month period ended February 28, 2003 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The selected financial data presented on the following pages for Predecessor *ITCTransmission* as of December 31, 2002 and 2001 and for the year ended December 31, 2002, and the seven-month period ended December 31, 2001 have been derived from the audited financial statements of Predecessor *ITCTransmission* not included in this prospectus. Neither Predecessor *ITCTransmission*'s two-month period ended February 28, 2003, seven-month period ended December 31, 2001 nor the period from February 28, 2003 through December 31, 2003 is reflective of a twelve-month year of operations and, accordingly, neither of such periods individually is directly comparable to the results of operations for the year ended December 31, 2005, December 31, 2004 or December 31, 2002.

The selected financial data for the five months ended May 31, 2001 are omitted because, prior to June 1, 2001, the provision of electricity transmission services over the facilities now owned by *ITCTransmission* was undertaken as part of Detroit Edison's transmission business which was integrated with Detroit Edison's distribution business. The revenues, expenses and cash flows associated with the transmission business were integrated with Detroit Edison's other operations and were not separately identifiable. On May 31, 2001, Detroit Edison's transmission business was separated from Detroit Edison's distribution business and was contributed to Predecessor *ITCTransmission*.

From June 1, 2001 until February 28, 2003, Predecessor *ITCTransmission* was operated as a subsidiary of DTE Energy.

Our selected consolidated financial data presented below should be read together with Predecessor *ITCTransmission*'s financial statements and the notes to those statements, our audited and unaudited consolidated financial statements and the notes to those statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations," all included elsewhere in this prospectus.

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	ITC Holdings and Subsidiaries				Predecessor ITC Transmission			
	Three Months Ended March 31,		Year Ended December 31,		Period From February 28, 2003 (Date of Acquisition) Through December 31, 2003(a)	Two-Month Period Ended February 28, 2003(a)	Year Ended December 31, 2002	Seven-Month Period Ended December 31, 2001(a)
	2006	2005	2005	2004				
	(in thousands, except share and per share data)							
Operating revenues(b)	\$ 39,069	\$ 42,460	\$ 205,274	\$ 126,449	\$ 102,362	\$ 20,936	\$ 137,535	\$ 63,664
Operating expenses								
Operation and maintenance	6,657	6,522	48,310	24,552	22,902	5,675	34,699	22,566
General and administrative	7,477	5,286	25,198	24,412	26,342			
Depreciation and amortization	8,870	8,018	33,197	29,480	21,463	3,665	21,996	12,481
Taxes other than income taxes	5,346	4,299	13,982	20,840	11,499	4,298	15,776	8,875
Termination of management agreements			6,725					
Total operating expenses	28,350	24,125	127,412	99,284	82,206	13,638	72,471	43,922
Operating income	10,719	18,335	77,862	27,165	20,156	7,298	65,064	19,742
Other expenses (income)								
Interest expense	7,240	6,854	28,128	25,585	21,630		58	12
Allowance for equity funds used in construction	(522)	(580)	(2,790)	(1,691)	(322)			
Loss on extinguishment of debt					11,378			
Other income	(301)	(305)	(1,700)	(1,289)	(197)	(147)	(1,720)	(1,120)
Other expense	150	176	615	283	27	45	245	551
Total other expenses (income)	6,567	6,145	24,253	22,888	32,516	(102)	(1,417)	(557)
Income (loss) before income taxes	4,152	12,190	53,609	4,277	(12,360)	7,400	66,481	20,299
Income tax provision (benefit)	1,499	4,320	18,938	1,669	(4,306)	3,915	23,268	7,105
Income before cumulative effect of a change in accounting principle	2,653	7,870	34,671	2,608	(8,054)	3,485	43,213	13,194
Cumulative effect of a change in accounting principle (net of tax \$16)	29							
Net income (loss)	\$ 2,682	\$ 7,870	\$ 34,671	\$ 2,608	\$ (8,054)	\$ 3,485	\$ 43,213	\$ 13,194
Basic earnings (loss) per share	\$ 0.08	\$ 0.26	\$ 1.10	\$ 0.09	\$ (0.27)	n/a	n/a	n/a

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	ITC Holdings and Subsidiaries					Predecessor ITC <i>Transmission</i>		
Diluted earnings (loss) per share	\$ 0.08	\$ 0.25	\$ 1.06	\$ 0.08	\$ (0.27)	n/a	n/a	n/a
Weighted-average basic shares	32,984,807	30,341,967	31,455,065	30,183,886	29,339,394	n/a	n/a	n/a
Weighted-average diluted shares	33,982,045	31,140,306	32,729,842	30,899,548	29,339,394	n/a	n/a	n/a
Dividends or distributions declared per share	\$ 0.2625	\$	\$ 0.525	\$	\$ 0.897	n/a	n/a	n/a



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	ITC Holdings and Subsidiaries					Predecessor ITCTransmission	
	Three Months Ended March 31,		As of December 31,			As of December 31,	
	2006	2005	2005	2004	2003	2002	2001
	(in thousands)						
<b>Balance Sheet Data:</b>							
Cash and cash equivalents	\$ 28,601	\$ 3,863	\$ 24,591	\$ 14,074	\$ 8,139	\$	8
Working capital (deficit)	31,206	(6,870)	19,945	(27,117)	(17,633)	46,041	(2,573)
Property, plant and equipment net	631,110	543,251	603,609	513,684	459,393	434,539	441,035
Total assets	952,179	833,087	916,639	808,847	751,657	634,785	514,927
Total Debt:							
ITC Holdings	274,133	280,315	266,104	273,485	265,866		
ITCTransmission	284,804	239,448	251,211	209,945	184,887		
Stockholders'/Member's equity(c)	258,083	204,846	263,301	196,602	191,246	382,790	339,577

	ITC Holdings and Subsidiaries				Predecessor ITCTransmission			
	Three Months Ended March 31,		Year Ended December 31,		Period From February 28, 2003 (Date of Acquisition) Through December 31, 2003(a)	Two-Month Period Ended February 28, 2003(a)	Year Ended December 31, 2002	Seven-Month Period Ended December 31, 2001(a)
	2006	2005	2005	2004				
	(in thousands)							

<b>Cash Flow Data:</b>								
Capital expenditures	\$ 28,709	\$ 36,112	\$ 118,586	\$ 76,779	\$ 26,805	\$ 5,616	\$ 15,360	\$ 22,322

- (a) ITCTransmission's business is seasonal, with peak transmission loads occurring during months when cooling demand is higher. Annualized financial data for the period from February 28, 2003 through December 31, 2003, the two-month period ended February 28, 2003, and the seven-month period ended December 31, 2001 are not indicative of results for the full year.
- (b) ITCTransmission's rate freeze ended December 31, 2004. See Note 5 of the notes to ITC Holdings and Subsidiaries' consolidated historical financial statements for the year ended December 31, 2005, included elsewhere in this prospectus.
- (c) ITC Holdings' initial public offering in 2005 resulted in net proceeds of \$53.9 million. See the discussion of the initial public offering described in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

The unaudited pro forma condensed consolidated financial information presented below has been developed by the application of pro forma adjustments to the respective historical consolidated financial statements of ITC Holdings and Subsidiaries and MTH and METC. The unaudited pro forma condensed consolidated financial information should be read in conjunction with "Selected Consolidated Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "The Transactions," ITC Holdings and Subsidiaries' audited and unaudited historical consolidated financial statements and notes to those statements and MTH and METC's audited and unaudited historical financial statements and notes to those statements, all included elsewhere in this prospectus.

The unaudited pro forma condensed consolidated financial statements give effect to the following transactions associated with the acquisition:

the issue and sale by us of \_\_\_\_\_ shares of our common stock in this offering, assuming a price per share of \$ \_\_\_\_\_, resulting in net proceeds of \$ \_\_\_\_\_ million after deducting estimated underwriting discounts and commissions and estimated offering expenses;

the issuance of \_\_\_\_\_ shares of our common stock to MEAP, assuming a price per share of \$ \_\_\_\_\_;

the private placement of \$ \_\_\_\_\_ million aggregate principal amount of ITC Holdings' senior notes;

the acquisition of all of the indirect ownership interests in METC; and

the payment of \$6.0 million to Trans-Elect in consideration of the termination of the MSA,

all as described under "The Transactions."

The unaudited pro forma condensed consolidated financial statements also give effect to the following transactions associated with debt refinancings which we expect to occur concurrently with this offering:

the private placement of \$ \_\_\_\_\_ million aggregate principal amount of METC Mortgage Bonds;

the redemption of \$ \_\_\_\_\_ million aggregate principal amount of METC Notes;

the redemption of \$ \_\_\_\_\_ million aggregate principal amount of MTH Notes; and

the repayment of approximately \$ \_\_\_\_\_ million currently outstanding under METC's existing \$35.0 million revolving credit facility,

all as described under "The Transactions." In lieu of redeeming the MTH Notes, MTH may elect to leave them outstanding.

The unaudited pro forma condensed consolidated statement of financial position was prepared as if the acquisition and the debt refinancings had occurred on March 31, 2006. The unaudited pro forma condensed consolidated statement of income for the three months ended March 31, 2006 and the year ended December 31, 2005 was prepared as if the acquisition and the debt refinancings had occurred on January 1, 2005.

The pro forma adjustments are based upon available information and assumptions that management believes are reasonable. We will account for the proposed acquisition of all of the indirect ownership interests in METC using the purchase method, which will require us to estimate the fair values of assets and liabilities acquired. Since the acquisition has not been consummated, the pro forma adjustments to reflect the allocation of the purchase price, the fair value of assets and liabilities acquired, the amount of fees associated with the acquisition and debt refinancings, the number of



shares of our common stock to be issued in this offering, the number of shares of our common stock to be issued to MEAP, the interest rates applicable to the private placements of ITC Holdings' senior notes and the METC Mortgage Bonds, as well as other assumptions used in the unaudited pro forma condensed consolidated financial statements are based upon preliminary information currently available, which may be revised as additional information becomes available. The notes to the unaudited pro forma condensed consolidated financial statements provide a more detailed discussion of how such adjustments were derived and presented in the unaudited pro forma condensed consolidated financial statements.

Such unaudited pro forma condensed consolidated financial statements have been compiled from historical financial statements and other information, but do not purport to represent what our consolidated financial position or our consolidated results of operations would have been had the acquisition and the debt refinancing occurred on the dates indicated, or to project our consolidated financial performance for any future period.

## Unaudited Pro Forma Condensed Consolidated Statement of Financial Position as of March 31, 2006

	ITC Holdings and Subsidiaries (Historical)	MTH and METC (Historical)	Acquisition- related pro forma adjustments	Pro forma consolidated for acquisition	Debt refinancing pro forma adjustments	Pro forma consolidated for acquisition and debt refinancing
(in thousands)						
<b>Assets</b>						
<b>Current assets:</b>						
Cash and cash equivalents	\$ 28,601	\$ 6,223	\$ (1)	\$	\$ (1)	\$
Restricted cash		4,353		\$ 4,353		4,353
Accounts receivable	18,145	11,365	(484) <sup>(2)</sup>	29,026		29,026
Inventory	23,425	5,763		29,188		29,188
Deferred income taxes	6,717			6,717		6,717
Other	2,704	3,139		5,843		5,843
<b>Total current assets</b>	<b>79,592</b>	<b>30,843</b>				
Property, plant and equipment, net	631,110	344,651		975,761		975,761
<b>Other assets:</b>						
Goodwill	174,256	82,044	335,612 <sup>(3)</sup>	591,912		591,912
Intangible asset			71,193 <sup>(3)</sup>	71,193		71,193
Regulatory assets-acquisition adjustment	51,259			51,259		51,259
Other regulatory assets	5,637	66,592		72,229	(4)	
Deferred financing fees, net	7,355	4,445	(5)		(5)	
Other	2,970	1,626		4,596		4,596
<b>Total other assets</b>	<b>241,477</b>	<b>154,707</b>				
<b>Total Assets</b>	<b>\$ 952,179</b>	<b>\$ 530,201</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Liabilities and stockholders' equity</b>						
<b>Current liabilities:</b>						
Accounts payable	\$ 32,595	\$ 10,850	\$ (484) <sup>(2)</sup>	\$ 42,961		\$ 42,961
Accrued payroll	1,566	510		2,076		2,076
Accrued interest	4,774	3,933		8,707		8,707
Accrued taxes	6,005	2,017		8,022		8,022
Current portion of long-term interest bearing obligations		5,832		5,832		5,832
Revolving credit facility		9,800		9,800	(6)	
Other	3,446	3,622	6,000 <sup>(3)</sup>	13,068		13,068
<b>Total current liabilities</b>	<b>48,386</b>	<b>36,564</b>	<b>5,516</b>	<b>90,466</b>		<b>90,466</b>
Accrued pension liability	6,187			6,187		6,187
Accrued postretirement liability	2,670			2,670		2,670
	658			658		658

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	ITC Holdings and Subsidiaries (Historical)	MTH and METC (Historical)	Acquisition- related pro forma adjustments	Pro forma consolidated for acquisition	Debt refinancing pro forma adjustments	Pro forma consolidated for acquisition and debt refinancing
Deferred compensation liability						
Deferred income taxes	22,731		27,189 <sup>(7)</sup>	49,920	(8)	
Regulatory liabilities	46,062	3,509		49,571		49,571
Asset retirement obligation	4,800	993		5,793		5,793
Deferred payables	3,665			3,665		3,665
Long-term debt	558,937	265,000	(6)		(6)	
Other long-term interest bearing obligations		24,282		24,282		24,282
Other		713		713		713
<b>Stockholders' equity</b>						
Common stock	252,508		(9)			
Partners' capital		199,140	(199,140) <sup>(5)</sup>			
Retained earnings	5,747			5,747	(8)	
Accumulated other comprehensive loss	(172)			(172)		(172)
<b>Total stockholders' equity</b>	<b>258,083</b>	<b>199,140</b>				
<b>Total liabilities and stockholders' equity</b>	<b>\$ 952,179</b>	<b>\$ 530,201</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

(See accompanying notes to the unaudited pro forma condensed consolidated financial statements.)

## Unaudited Pro Forma Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2006

	ITC Holdings and Subsidiaries (Historical)	MTH and METC (Historical)	Acquisition- related pro forma adjustments	Pro forma consolidated for acquisition	Debt refinancing pro forma adjustments	Pro forma consolidated for acquisition and debt refinancing
(in thousands, except share and per share data)						
<b>Operating revenues</b>	\$ 39,069	\$ 32,797	\$ (426) <sup>(2)</sup>	\$ 71,440		\$ 71,440
<b>Operating expenses:</b>						
Operation and maintenance	6,657	9,320	(718) <sup>(2)</sup>	15,259		15,259
General and administrative	7,477	3,033	280 <sup>(2)</sup>	10,790		10,790
Depreciation and amortization	8,870	5,352	3,445 <sup>(10)</sup>	17,667		17,667
Taxes other than income taxes	5,346	1,933	12 <sup>(2)</sup>	7,291		7,291
<b>Total operating expenses</b>	<b>28,350</b>	<b>19,638</b>	<b>3,019</b>	<b>51,007</b>		<b>51,007</b>
<b>Operating income</b>	<b>10,719</b>	<b>13,159</b>	<b>(3,445)</b>	<b>20,433</b>		<b>20,433</b>
<b>Other expenses (income):</b>						
Interest expense	7,240	4,544	(11) <sup>(11)</sup>		(11) <sup>(11)</sup>	
Allowance for equity funds used in construction	(522)	(538)		(1,060)		(1,060)
Other income	(301)	(5,117)		(5,418)		(5,418)
Other expense	150	11		161		161
<b>Total other expenses (income)</b>	<b>6,567</b>	<b>(1,100)</b>				
<b>Income before income taxes</b>	<b>4,152</b>	<b>14,259</b>				
<b>Income tax provision</b>	<b>1,499</b>		(12) <sup>(12)</sup>		(12) <sup>(12)</sup>	
<b>Net income</b>	<b>\$ 2,653</b>	<b>\$ 14,259</b>		<b>\$</b>	<b>\$</b>	<b>\$</b>
Basic earnings per share	\$ 0.08					\$
Diluted earnings per share	\$ 0.08					\$
Weighted-average basic shares	32,984,807		(9) <sup>(9)</sup>			
Weighted-average diluted shares	33,982,045		(9) <sup>(9)</sup>			

(See accompanying notes to the unaudited pro forma condensed consolidated financial statements.)





**Unaudited Pro Forma Condensed Consolidated Statements of Operations  
for the Year Ended December 31, 2005**

	ITC Holdings and Subsidiaries (Historical)	MTH and METC (Historical)	Acquisition- related pro forma adjustments	Pro forma consolidated for acquisition	Debt refinancing pro forma adjustments	Pro forma consolidated for acquisition and debt refinancing
(in thousands, except share and per share data)						
<b>Operating revenues</b>	\$ 205,274	\$ 107,752	\$ (1,702) <sup>(2)</sup>	\$ 311,324		\$ 311,324
<b>Operating expenses:</b>						
Operation and maintenance	48,310	43,951	(2,533) <sup>(2)</sup>	89,728		89,728
General and administrative	25,198	9,945	800 <sup>(2)</sup>	35,943		35,943
Depreciation and amortization	33,197	10,574		43,771		43,771
Taxes other than income taxes	13,982	7,438	31 <sup>(2)</sup>	21,451		21,451
Termination of management agreements	6,725			6,725		6,725
Total operating expenses	127,412	71,908	(1,702)	197,618		197,618
<b>Operating income</b>	77,862	35,844		113,706		113,706
<b>Other expenses (income):</b>						
Interest expense	28,128	14,480	(11)		(11)	
Allowance for equity funds used in construction	(2,790)	(1,316)		(4,106)		(4,106)
Loss on extinguishment of debt					(8)	
Other income	(1,700)	(213)		(1,913)		(1,913)
Other expense	615			615		615
Total other expenses (income)	24,253	12,951				
<b>Income before income taxes</b>	53,609	22,893				
<b>Income tax provision</b>	18,938		(12)		(12)	
<b>Net income</b>	\$ 34,671	\$ 22,893	\$	\$	\$	\$
Basic earnings per share	\$ 1.10					\$
Diluted earnings per share	\$ 1.06					\$
Weighted-average basic shares	31,455,065		(9)			

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	<b>ITC Holdings and Subsidiaries (Historical)</b>	<b>MTH and METC (Historical)</b>	<b>Acquisition- related pro forma adjustments</b>	<b>Pro forma consolidated for acquisition</b>	<b>Debt refinancing pro forma adjustments</b>	<b>Pro forma consolidated for acquisition and debt refinancing</b>
Weighted-average diluted shares	32,729,842		(9)			
(See accompanying notes to the unaudited pro forma condensed consolidated financial statements.)						

**Notes to the Unaudited Pro Forma Condensed Consolidated Financial Statements**

**Basis of presentation**

The unaudited pro forma condensed consolidated financial statements included herein have been prepared, without audit, under the rules and regulations of the SEC. Some information and disclosures, normally included in consolidated financial statements prepared in accordance with GAAP, have been condensed or omitted under these rules and regulations. However, we believe that the disclosures are adequate to make the information presented not misleading. Certain amounts from MTH and METC's historical financial statements have been reclassified to conform to the presentation used by ITC Holdings and subsidiaries. Net income presented in the statements of operations for the three months ended March 31, 2006 and the year ended December 31, 2005 reflects only income from continuing operations.

The preparation of unaudited pro forma condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the unaudited pro forma condensed consolidated financial statements and the reported amount of revenues and expenses during the reported period. Actual results could differ from those estimates.

**Pro forma income per share**

The pro forma consolidated net income per share is based on the weighted average number of shares of our common stock for the period presented and the additional shares of our common stock presumed issued at the beginning of the period presented based upon the number of shares of our common stock to be issued to MEAP upon the closing of the acquisition and additional shares of our common stock to be issued in connection with this offering. The pro forma income per share for the three months ended March 31, 2006 excludes the cumulative effect of a change in accounting principle of less than \$0.1 million.

**Transaction related expenses**

We estimate that we will incur transaction-related expenses, consisting primarily of underwriter discounts and commissions, investment banker fees, attorneys fees, accountants fees, financial printing and other related charges, of approximately \$            million in connection with the acquisition and the debt refinancings. This estimate is preliminary and is therefore subject to change. The costs incurred in connection with this offering will be shown as a reduction to stockholders' equity. The costs incurred in connection with the acquisition are added to the purchase price of the acquisition. The costs incurred in connection with the private placements of ITC Holdings' senior notes and the METC Mortgage Bonds will be recorded as debt issuance costs and amortized to interest expense over the term of the notes and the Bonds, respectively. The costs and fees incurred in connection with the redemption of \$90.0 million of MTH Notes will be recorded as a reduction to long-term debt that had been adjusted to its fair value in purchase accounting. The costs and fees incurred in connection with the redemption of the \$175.0 million of METC Notes and METC's revolving credit facility will be deferred to regulatory assets and amortized to interest expense over the remaining term of the redeemed METC Notes and METC's revolving credit facility.

**Pro forma adjustments**

The following sets forth the adjustments contained in the unaudited pro forma condensed consolidated financial information:

- (1) Acquisition-related pro forma adjustments give effect to cash sources and uses from this offering, the issuance of our common stock with an approximate value of \$70.0 million to MEAP, the private placement of \$            million aggregate principal amount of ITC Holdings'

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senior notes, the acquisition of all of the indirect ownership interests of METC and the termination of the MSA as described under "The Transactions."

The calculation of the acquisition-related pro forma adjustment is as follows:

	<b>(in thousands)</b>
<b>Cash sources:</b>	
Proceeds from this offering net of underwriter fees and discounts(9)	\$
Proceeds from the issuance of \$           million aggregate principal amount of ITC Holdings' senior notes(6)	\$
	\$
Total cash sources	\$
<b>Cash uses:</b>	
Cash outlay by ITC Holdings for the acquisition of all of the indirect ownership interests in METC(3)	\$ (485,600)
Cash outlay for direct acquisition fees(3)	(10,794)
Cash outlay for other costs associated with this offering(9)	\$
Cash outlay for \$           million aggregate principal amount of ITC Holdings' senior notes debt issuance fees(5)	\$
	\$
Total cash uses	\$
Acquisition-related pro forma adjustment to cash, net	\$

The debt refinancing pro forma adjustment gives effect to cash sources and uses from the issuance of the METC Mortgage Bonds, the redemption of the MTH Notes and the METC Notes and repayment of METC's existing revolving credit agreement.

The calculation of the debt refinancing pro forma adjustment is as follows:

	<b>(in thousands)</b>
<b>Cash sources:</b>	
Proceeds from the issuance of the METC Mortgage Bonds(6)	\$
	\$
Total cash sources	\$
<b>Cash uses:</b>	
Repayment of METC's revolving credit facility(6)	\$
Repayment of the METC Notes(6)	\$
Repayment of the MTH Notes(6)	\$
Cash outlay for METC Notes redemption(4)	\$
Cash outlay for MTH Notes redemption(6)	\$
Cash outlay for the METC Mortgage Bonds debt issuance fees(5)	\$
	\$
Total cash uses	\$

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(in thousands)

Debt refinancing pro forma adjustment to cash, net

\$

**\_\_\_\_\_**

(2)

Acquisition-related pro forma adjustments give effect to the elimination of revenue, operating expense, accounts receivable and accounts payable that result from transactions between ITC Holdings and Subsidiaries and MTH and METC as of and for the periods presented.

(3)

Acquisition-related pro forma adjustments give effect to the application of the purchase method of accounting as of March 31, 2006 where (a) assets and liabilities acquired have been adjusted to their estimated fair values, (b) MTH and METC's historical equity of \$199.1 million and the goodwill of \$82.0 million have been eliminated and (c) the allocation of the aggregate purchase price, including \$            million in cash and shares of our common stock with an approximate value of \$70.0 million to be issued to MEAP. Until June 30, 2006, MEAP may elect to increase or decrease the value of the common stock to be delivered to it by \$2.5 million, in which case the cash portion of the consideration paid to MEAP will be adjusted by a corresponding amount as discussed under "The Transactions."

We have identified an intangible asset in the acquisition that is equivalent to regulatory assets recorded on METC's FERC financial statements that were not recorded on METC's GAAP financial statements for the amounts of depreciation and amortization expense and the related interest expense for property, plant and equipment placed in service during the period from January 1, 2001 to April 30, 2002, which was the period prior to METC's acquisition from Consumers Energy, as well as the equity return on investments and the carrying costs for the entire period from January 1, 2001 to December 31, 2005. Please see Note 6 of the notes to MTH and METC's audited historical consolidated financial statements for the year ended December 31, 2005 included herein. The FERC has approved the recovery of these amounts in rates; however, these amounts did not meet the requirement of an incurred cost eligible for deferral under Statement of Financial Accounting Standards 71 "Accounting for the Effects of Certain Types of Regulation," or SFAS 71, and were not recorded in MTH and METC's audited historical consolidated financial statements for the year ended December 31, 2005. The amortization of this intangible asset is expected to be from the date of the closing of the acquisition through May 31, 2011.

The final allocation could include other identifiable intangible assets with definite and indefinite lives separate from goodwill. Should there be an allocation to assets with definite lives, those assets would be amortized, resulting in additional depreciation and amortization expense. The final allocation of purchase price and the resulting effect on net income may differ significantly from the pro forma amount included herein.

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The calculation of the acquisition-related pro forma adjustment is as follows:

	(in thousands)
Assumed value of our common stock to be issued to MEAP(9)	\$ 70,000
Cash outlay by ITC Holdings for the acquisition of all of the indirect ownership interests in METC(1)	485,600
Direct acquisition fees(1)	10,794
	<hr/>
Aggregate purchase price	566,394
Less: book value of MTH and METC assets acquired and liabilities assumed	117,096
	<hr/>
Excess of purchase price over net book value of assets acquired	\$ 449,298
	<hr/>
Acquisition-related adjustments to goodwill:	
Deferred taxes recognized for MTH and METC upon consummation of the acquisition(7)	27,189
Liability assumed from the termination of the MSA	6,000
Fair value adjustment of the MTH Notes(6)	6,362
Identified intangible assets (10)	(71,193)
	<hr/>
Total acquisition-related adjustment to goodwill, net	(31,642)
Total acquisition-related goodwill	\$ 417,656
Elimination of MTH and METC goodwill	(82,044)
	<hr/>
Total pro forma adjustments to goodwill	\$ 335,612
	<hr/>

(4)

The debt refinancing pro forma adjustment gives effect to the deferred costs and fees in connection with the refinancing of the METC Notes. The unamortized deferred financing balance and any additional costs, such as redemption fees, associated with the redemption and repayment of METC's debt are deferred and amortized to interest expense over the remaining life of the debt that was redeemed or repaid under SFAS 71.

The calculation of the debt refinancing pro forma adjustment is as follows:

	(in thousands)
METC Notes redemption(1)	\$
METC Notes (original debt issuance costs)(5)	3,287
	<hr/>
Debt refinancing pro forma adjustment to regulatory assets(11)	\$
	<hr/>

(5)

The acquisition-related pro forma adjustment gives effect to the deferred costs and fees incurred in connection with this offering.

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The calculation of the acquisition-related pro forma adjustments is as follows:

	(in thousands)
\$ million aggregate principal amount of ITC Holdings' senior notes debt issuance costs(1),(11)	\$
	<hr/>
Acquisition-related pro forma adjustment to debt issuance costs	\$
	<hr/>

The debt refinancing pro forma adjustment gives effect to the deferred costs and fees incurred in connection with the private placement of the METC Mortgage Bonds and removing any unamortized debt issuance cost associated with the MTH Notes and the METC Notes.



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The calculation of the debt refinancing pro forma adjustment is as follows:

	<b>(in thousands)</b>
\$ million aggregate principal amount of METC Mortgage Bonds	
debt issuance costs(1), (11)	\$
Less: MTH Notes (original debt issuance costs)(8), (11)	
Less: METC Notes (original debt issuance costs)(4), (11)	
	\$
Debt refinancing pro forma adjustment to debt issuance costs	\$
	\$

(6)

Acquisition-related pro forma adjustments give effect to the issuance of \$ million aggregate principal amount of ITC Holdings' senior notes and give effect to the purchase method of accounting, where the MTH Notes are recorded at fair value at March 31, 2006.

The calculation of the acquisition-related pro forma adjustment is as follows:

	<b>(in thousands)</b>
Issuance of \$ million aggregate principal amount of ITC Holdings' senior notes(1), (11)	\$
Fair value adjustment of the MTH Notes	6,362
	\$
Acquisition-related pro forma adjustments to long-term debt	\$
	\$

The debt refinancing pro forma adjustments give effect to the issuance of \$ million aggregate principal amount of METC Mortgage Bonds, the redemption of the MTH Notes and the METC Notes and the repayment of METC's existing revolving credit agreement.

The debt refinancing pro forma adjustment is as follows:

	<b>(in thousands)</b>
Proceeds from the issuance of \$ million aggregate principal amount of METC Mortgage Bonds(1), (11)	\$
Repayment of the METC Notes(1), (11)	
Repayment of the MTH Notes(1), (11)	
Cash outlay for MTH redemption fees(1), (11)	
	\$
MTH and METC debt refinancing pro forma adjustments to long-term debt	\$
	\$
Repayment of METC's revolving credit facility(1), (11)	\$
	\$
Debt refinancing pro forma adjustments to revolving credit facility	\$
	\$

(7)

Acquisition-related pro forma adjustments give effect to the deferred taxes and net operating loss carryforwards acquired in the acquisition of all of the indirect ownership interests in METC. Prior to the consummation of the acquisition, MTH was

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organized as a limited partnership and consequently, was not subject to federal or state income taxes. Each partner is taxed on its partnership earnings. After the consummation of the acquisition, each of MTH and METC will have a change in tax status resulting in deferred federal income taxes and net operating loss carryforwards recognized by ITC Holdings. The pro forma adjustments include the recognition of deferred taxes associated with the termination of the MSA as described under "The Transactions."

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The calculation of the acquisition-related pro forma adjustment is as follows:

	(in thousands)
METC non-current net deferred tax liabilities	\$ (44,689)
MTH and METC net operating loss carryforwards acquired deferred tax asset	17,500
	<hr style="border-top: 1px solid black;"/>
Acquisition-related pro forma adjustments net deferred tax liabilities(3)	\$ (27,189)
	<hr style="border-top: 1px solid black;"/>

(8)

Debt refinancing pro forma adjustments give effect to the loss on repayment of debt associated with the MTH Notes.

The calculation of the debt refinancing pro forma adjustment is as follows:

	(in thousands, except tax rate)
Debt refinancing pro forma adjustment for loss on repayment of debt for the year ended December 31, 2005, MTH Notes (original debt issuance costs)(5)	\$
Statutory tax rate	35%
	<hr style="border-top: 1px solid black;"/>
Debt refinancing pro forma adjustment for net deferred income taxes	\$
	<hr style="border-top: 1px solid black;"/>
Debt refinancing pro forma adjustment for retained earnings as of March 31, 2006	\$
	<hr style="border-top: 1px solid black;"/>

(9)

Acquisition-related pro forma adjustments reflect approximately \$ million or shares of our common stock to be issued in this offering and approximately \$70.0 million or shares of our common stock to be issued to MEAP. Until June 30, 2006, MEAP may elect to increase or decrease the value of the common stock to be delivered to it by \$2.5 million, in which case the cash portion of the consideration paid to MEAP will be adjusted by a corresponding amount as discussed under "The Transactions." The assumed price per share of our common stock in this offering and to be issued to MEAP is based on the last reported sale price of \$ per share of our common stock on the NYSE on , 2006.

The calculation of the acquisition-related pro forma adjustment is as follows:

	<u>Shares</u>	<u>Total</u>
	(in thousands, except share data)	
Public offering price		\$
Less: underwriters discounts and commissions		
		<hr style="border-top: 1px solid black;"/>
Shares and net proceeds from this offering(1)		
Less: other offering fees(1)		
		<hr style="border-top: 1px solid black;"/>
Net proceeds from:		
Assumed shares and value of our common stock to be issued to MEAP(3)		70,000
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
Acquisition-related pro forma adjustment to basic shares for the three months ended March 31, 2006, basic and diluted		\$

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	<u>Shares</u>	<u>Total</u>
shares for the year ended December 31, 2005, and to common stock, net		

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(10)

Acquisition-related pro forma adjustment gives effect to additional depreciation and amortization expense for the periods presented based on the identified intangible assets acquired with finite lives resulting from the acquisition of all of the indirect ownership interests in METC. The amortization of this intangible asset is expected to be straight-line from the date of the closing of the acquisition through May 31, 2011. The recovery of these amounts began January 1, 2006, therefore, there would have been no effect on depreciation and amortization expense for the year ended December 31, 2005.

The calculation of the acquisition-related pro forma adjustment is as follows:

	Identified intangible assets	Definite life	Acquisition-related pro forma increase to depreciation and amortization	
			For the three months ended March 31, 2006	
(in thousands)				
Intangible assets(3)	\$ 71,193	through May 31, 2011	\$	3,445

(11)

Acquisition-related pro forma adjustment gives effect to the increase in interest expense for the periods presented resulting from interest payments and the amortization of deferred financing costs from the issuance of \$ million aggregate principal amount of ITC Holdings' senior notes at an assumed interest rate of % based on current interest rates.

The calculation of the acquisition-related pro forma adjustment is as follows:

	Principal balance	Deferred financing costs	Assumed interest rate	Acquisition-related pro forma increase to interest expense	
				For the three months ended March 31, 2006	For the year ended December 31, 2005
(in thousands, except interest rate)					
\$ million aggregate principal amount of ITC Holdings' senior notes(5), (6)				\$	\$

The debt refinancing pro forma adjustment gives effect to the increase in interest expense for the periods presented resulting from interest payments and the amortization of deferred financing costs from the issuance of the METC Mortgage Bonds at an assumed interest rate of % based on current interest rates and the amortization expense associated with the regulatory assets unamortized loss on reacquired debt. The debt refinancing pro forma adjustment also gives effect the reduction in interest expense based on the interest payments and the amortization of deferred financing costs associated with the MTH Notes and METC's revolving credit facility, which are being redeemed and repaid, respectively, and the METC Notes, which are being refinanced.

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The calculation of the debt refinancing pro forma adjustment is as follows:

Principal balance	Deferred financing costs or regulatory asset	Assumed interest rate	Term	For the three months ended March 31, 2006	For the year ended December 31, 2005
(in thousands, except interest rates and years)					
METC Mortgage Bonds(5), (6)	\$	\$	years	\$	\$
Amortization of regulatory asset unamortized loss on reacquired debt(4)	n/a	n/a	10 years		
Redemption of MTH Notes(5), (6)		6.05%	10 years		
Redemption of METC Notes(5), (6)		5.75%	10 years		
Repayment of METC's revolving credit facility(5), (6)		various	various		
Debt refinancing pro forma adjustments to interest expense, net				\$	\$

(12)

Acquisition-related pro forma adjustments give effect to the pro forma income tax expense for the consolidated companies for the periods presented at an assumed rate of 35% for the three months ended March 31, 2006 and the year ended December 31, 2005, based on each of MTH and METC becoming taxable entities upon the consummation of the acquisition, as well as the income tax effect of all acquisition pro forma adjustments that affected net income before taxes.

The calculation of the acquisition-related pro forma adjustment is as follows:

	For the three months ended March 31, 2006	For the year ended December 31, 2005
(in thousands, except tax rates)		
MTH and METC net income (historical)	\$ 14,259	\$ 22,893
Total effect on income before taxes from acquisition pro forma adjustments		
Total pro forma effect on income before taxes		
Statutory tax rate	35%	35%
Acquisition-related pro forma adjustments to income tax provision	\$	\$

Debt refinancing pro forma adjustments give effect to the income tax effect of all debt refinancing pro forma adjustments that affected net income before taxes for the periods



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presented at an assumed rate of 35% for the three months ended March 31, 2006 and the year ended December 31, 2005.

The calculation of the debt refinancing pro forma adjustment is as follows:

	<b>For the three months ended March 31, 2006</b>	<b>For the year ended December 31, 2005</b>
	<b>_____</b>	<b>_____</b>
	<b>(in thousands, except tax rates)</b>	
Total effect on income before taxes from the debt refinancing pro forma adjustments		
Statutory tax rate	35%	35%
Debt refinancing pro forma adjustments to income tax provision	\$ _____	\$ _____



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion and analysis together with our audited historical financial statements and the notes to those statements included elsewhere in this prospectus. This discussion contains forward-looking statements that are based on management's beliefs concerning future business conditions and prospects, growth opportunities and the outlook for our business and the electricity transmission industry based upon information currently available. Actual results could differ materially from those discussed below. Please see "Risk Factors" and "Forward-Looking Statements" for a discussion of certain of the uncertainties, risks and assumptions associated with these statements.*

### Overview

ITC Holdings is a holding company with no business operations and its material assets consist only of 100% of the common stock of ITCTransmission, deferred tax assets relating primarily to federal income tax operating loss carryforwards and cash. The historical financial information set forth below is applicable only to ITC Holdings and Subsidiaries prior to the consummation of the acquisition of METC described below under "Recent Developments" and does not include an analysis of METC's historical financial information. See MTH and METC's audited consolidated financial statements included elsewhere in this prospectus, as well as "Unaudited Pro Forma Condensed Consolidated Financial Information" for historical financial information about MTH and METC.

ITCTransmission is the first independently owned and operated electricity transmission company in the United States. ITCTransmission owns, operates and maintains a regulated, high-voltage transmission system that transmits electricity to local electricity distribution facilities from generating stations in Michigan, other midwestern states and Ontario, Canada. ITCTransmission became independent of market participants (generally, those that sell or broker electricity) as a result of DTE Energy's divestiture of its electricity transmission business, consistent with the FERC and State of Michigan policy initiatives encouraging the formation of independent transmission companies. The FERC's transmission policy was developed in part in response to the significant historical underinvestment in transmission infrastructure in the United States and the potential for discrimination that arises when a utility operates transmission and generation facilities within the same region.

Our primary operating responsibilities include maintaining, improving and expanding our transmission systems to meet our customers' ongoing needs, scheduling outages on transmission system elements to allow for maintenance and construction, balancing electricity generation and demand, maintaining appropriate system voltages and monitoring flows over transmission lines and other facilities to ensure physical limits are not exceeded.

We derive nearly all of our revenues from providing (1) network transmission service, (2) point-to-point transmission service and (3) scheduling, control and dispatch services over our system. Substantially all of our operating expenses and assets support our transmission operations. ITCTransmission's principal transmission service customer is Detroit Edison. Our remaining revenues are generated from providing service to other entities such as alternative electricity suppliers, power marketers and other wholesale customers that provide electricity to end-use consumers and from transaction-based capacity reservations on our transmission systems. Our network rates are established on a cost-of-service model allowing for the recovery of expenses, including depreciation and amortization and a return on invested capital. Our network rates are determined on an annual basis using a FERC-approved formulaic rate setting mechanism known as Attachment O.

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Without giving effect to the consummation of the acquisition, significant items that influenced our financial position and result of operations for the three months ended March 31, 2006 and that may affect future results are:

Capital investment of \$34.8 million resulting from our focus on improving system reliability;

Lower revenues and cash flows due to lower point-to-point revenues of \$2.8 million; and

ITC*Transmission's* issuance of \$100.0 million of its 6.125% First Mortgage Bonds, Series C, due March 31, 2036, the proceeds of which were used to repay amounts outstanding under ITC*Transmission's* revolving credit agreement, to partially fund our capital expenditure program and for general corporate purposes.

Without giving effect to the consummation of the acquisition, significant items that influenced our financial performance for the year ended December 31, 2005 and that may affect future results are:

Capital investment of \$117.8 million resulting from our focus on improving system reliability;

Our initial public offering;

The termination of management agreements resulting in an expense of \$6.7 million (\$4.4 million net of tax);

Higher revenues and cash flows due to higher network loads resulting from an unseasonably warm summer; and

Higher maintenance expenses due to the acceleration of multi-year maintenance initiatives.

These items are discussed in more detail below.

### Recent Developments

#### *The METC Acquisition*

On May 11, 2006, ITC Holdings entered into a purchase agreement pursuant to which ITC Holdings will acquire indirect ownership of all the partnership interests in MTH, the sole member of METC, in a transaction valued at approximately \$860.3 million. Under the terms of the purchase agreement, the selling shareholders will receive both cash and shares of our common stock. In addition, we, MTH or METC expect to assume, repay, redeem or refinance approximately \$304.7 million of MTH and METC debt and certain liabilities (net of \$6.2 million of cash and cash equivalents). The total purchase price payable to the selling shareholders upon consummation of the acquisition is approximately \$555.6 million, consisting of approximately \$485.6 million in cash and shares of our common stock with a value of approximately \$70.0 million to be issued to MEAP. Until June 30, 2006, MEAP may elect to increase or decrease the value of the common stock to be delivered to it by \$2.5 million, in which case the cash portion of the consideration paid to MEAP will be adjusted by a corresponding amount. The number of shares of our common stock to be delivered will depend on the average closing price of our common stock for the 20 consecutive trading-day period ending on the third trading day prior to the consummation of the acquisition.

As with ITC*Transmission*, METC is an independent electric transmission utility, with rates regulated by the FERC and established on a cost-of-service model. METC's service area covers approximately two-thirds of Michigan's lower peninsula and is contiguous with ITC*Transmission's* service area with nine interconnection points.

### ***Financial Systems***

In May 2006, we implemented new financial system modules for fixed assets, inventory, procurement, accounts payable and general ledger. It is anticipated that this implementation will provide operational and internal control benefits including system security and automation of previously manual controls. The new systems have resulted in changes to the overall internal control over financial reporting that will be evaluated as part of management's annual assessment of internal control over financial reporting as of December 31, 2006.

### ***Management Agreements***

On February 28, 2003, we entered into agreements with Kohlberg Kravis Roberts & Co. L.P., or KKR, Trimaran Fund Management, L.L.C. and the IT Holdings Partnership for management, consulting and financial services in exchange for annual fees. We incurred general and administrative expenses under these agreements of \$0.8 million in 2005, \$1.3 million in 2004 and \$1.0 million for the period from February 28, 2003 through December 31, 2003, excluding out-of-pocket costs. In connection with ITC Holdings' initial public offering that was completed on July 29, 2005, these agreements were amended to terminate further annual fees in exchange for payment of fees to KKR, Trimaran Fund Management, L.L.C. and the IT Holdings Partnership of \$4.0 million, \$1.7 million and \$1.0 million, respectively. The total amount of \$6.7 million was paid and recorded in operating expenses in 2005.

### ***Redirected Transmission Service***

In January and February 2005 in FERC Docket Nos. EL05-55 and EL05-63, respectively, transmission customers filed complaints against MISO claiming that MISO had charged excessive rates for redirected transmission service for the period from February 2002 through January 2005. In April 2005, FERC ordered MISO to refund, with interest, excess amounts charged to all affected transmission customers for redirected service within the same pricing zone. *ITCTransmission* earns revenues based on an allocation from MISO for certain redirected transmission service and is obligated to refund the excess amounts charged to all affected transmission customers. In May 2005, FERC gave notice that MISO's refund date established by the order was extended through September 16, 2005, as requested by MISO, but FERC required MISO to file an interim status report of the refund calculation. In September 2005, MISO completed the refund calculations and *ITCTransmission* refunded \$0.5 million relating to redirected transmission service, which was recorded as a reduction in operating revenues.

With respect to the April 2005 order requiring refunds, certain transmission customers have filed requests for rehearing at the FERC claiming additional refunds based on redirected transmission service between different pricing zones and redirected transmission service where the delivery point did not change. In November 2005, FERC granted the rehearing requests, which required additional refunds to transmission customers. In December 2005, MISO filed an emergency motion seeking extension of the refund date until May 18, 2006, which was granted in January 2006. In December 2005, *ITCTransmission* and other transmission owners filed requests for rehearing of the November 2005 order on rehearing and clarification challenging the retroactive refunds and the rates used to price redirected transmission service between different pricing zones. FERC has not yet acted on the rehearing requests filed in December 2005. As of March 31, 2006, we have reserved an estimate of \$1.3 million for the anticipated May 2006 refund of redirected transmission service revenues by reducing operating revenues by \$0.7 million in the fourth quarter of 2005 and an additional \$0.6 million in the first quarter of 2006. We do not expect the final resolution of this matter to have a material impact on our consolidated financial statements.

***Long-Term Pricing***

In November 2004 in FERC Docket No. EL02-111 et al., the FERC approved a pricing structure to facilitate seamless trading of electricity between MISO and PJM Interconnection, a regional transmission organization that borders MISO. The order establishes a Seams Elimination Cost Adjustment, or SECA, as set forth in previous FERC orders, that took effect December 1, 2004, and remained in effect through March 31, 2006 as a transitional pricing mechanism. Prior to December 1, 2004, *ITCTransmission* earned revenues for transmission of electricity between MISO and PJM Interconnection based on a regional through-and-out rate for transmission of electricity between MISO and PJM Interconnection administered by MISO. SECA revenue and through-and-out revenue are both accounted for as point-to-point revenues.

From December 1, 2004 through March 31, 2006, we recorded \$2.4 million of SECA revenue based on an allocation of these revenues by MISO as a result of the FERC order approving this transitional pricing mechanism. The SECA revenues are subject to refund as described in the FERC order and are being litigated in a contested hearing before the FERC which began May 1, 2006 with an initial decision expected in August 2006. In the event a ruling requires a refund of previously recognized revenues, an adjustment to revenue would be recorded at that time. We cannot anticipate whether any refunds of amounts earned by *ITCTransmission* will result from this hearing and we have not accrued any refund amounts relating to this proceeding.

***Michigan Public Power Agency Receivable and Revenues***

The Michigan Public Power Agency, or MPPA, has an ownership interest in *ITCTransmission's* Greenwood-St. Clair-Jewell-Stephens Transmission Line and Monroe-Wayne-Coventry-Majestic Transmission Line. Under an Ownership and Operating Agreement between MPPA and *ITCTransmission*, *ITCTransmission* is authorized to operate, maintain, and make capital improvements to the transmission lines, while MPPA is responsible for the capital and operation and maintenance costs allocable to its ownership interest. We have \$4.4 million of accounts receivable as of March 31, 2006 for amounts billed to MPPA under the Ownership and Operating Agreement for the period from March 2003 through March 2006 for which MPPA has not remitted any payment to us. *ITCTransmission* commenced litigation in June 2005 in state court to recover the full amount billed to MPPA. In January 2006, the state court determined that under the Ownership and Operating Agreement the claim must be arbitrated, which *ITCTransmission* is pursuing. Although we believe we have appropriately billed MPPA under the terms of the Ownership and Operating Agreement, we have reserved an amount of \$0.9 million relating to this matter at March 31, 2006 resulting in a net amount of accounts receivable from MPPA of \$3.5 million. We will continue to vigorously support the validity of our billings during arbitration proceedings. Due to the status of this matter, it is not possible to predict its outcome with any degree of certainty.

MPPA has counterclaimed that *ITCTransmission* breached a 2003 letter agreement by not previously executing a revenue distribution agreement, under which MPPA would receive revenue from MISO through *ITCTransmission*. MPPA has contended previously that amounts it owes to *ITCTransmission* under the Ownership and Operating Agreement are set off by revenue MPPA would have received from MISO if *ITCTransmission* had executed the revenue distribution agreement. We do not expect that the resolution of the MPPA counterclaim will have a material adverse effect on our consolidated results of operations, cash flows or financial position. MPPA also alleged that *ITCTransmission* is improperly retaining MPPA revenue, totaling \$2.1 million at March 31, 2006, which MISO has remitted to *ITCTransmission* on MPPA's behalf beginning January 1, 2005. We have not recognized these revenue amounts in our results of operations and expect to remit these retained amounts in the event we execute a revenue distribution agreement and collect the accounts receivable from MPPA. The amount payable to MPPA has not been netted against the \$4.4 million account

receivable from MPPA as it does not meet the criteria to set off the balances in our statement of financial position.

### ***Property Taxes***

Numerous municipalities applied their own valuation tables in assessing the value of *ITCTransmission's* personal property at December 31, 2003 rather than the valuation tables approved by the State of Michigan Tax Commission, or STC. *ITCTransmission* filed tax appeals for December 31, 2003 tax assessments with various municipalities, which were the basis for 2004 property tax expense. *ITCTransmission* filed formal appeals with the Michigan Tax Tribunal, or MTT, for the municipalities that did not utilize the STC tax tables. Prior to these appeals being resolved, *ITCTransmission* made property tax payments based on the valuation tables approved by the STC, while continuing to expense the full amounts billed by the municipalities in applying their own valuation tables. Property tax expense accrued for 2004 was based on a total annual liability of \$20.5 million from the 2004 tax statements received from the municipalities. During the second and third quarters of 2005, *ITCTransmission* reached settlements with the municipalities for the 2004 tax statements and the settlements were approved by the MTT in the third quarter of 2005. As of December 31, 2005, we have paid \$1.4 million and expect to pay an additional \$0.6 million for a total of \$2.0 million to the municipalities as a result of the settlements, which was less than the amount of \$4.8 million that had been accrued for this matter at June 30, 2005. We recorded a reduction of property tax expense of \$2.8 million during the third quarter of 2005 relating to this matter.

*ITCTransmission* also appealed the assessments for certain real property for which the assessed value at December 31, 2003 was uncapped as a result of a change in real property ownership upon the acquisition of *ITCTransmission*. The assessed values at December 31, 2003 were the basis for 2004 property tax expense. For the real property parcels that have been appealed, *ITCTransmission* expensed and paid to municipalities the total assessed taxes relating to 2004 in the amount of \$1.7 million. In 2005, *ITCTransmission* recorded a reduction to property tax expense totaling \$0.1 million for property tax refunds related to the real estate tax appeals. Any additional reductions of these assessments would be and have been recorded as a reduction to property tax expense when realized and are not expected to be material.

The December 31, 2004 tax assessments received from the municipalities were the basis for 2005 property taxes and used the STC-approved valuation tables for personal property taxes. Property tax expense accrued relating to tax year 2005 was based on a total annual liability of \$16.5 million.

### **Trends and Seasonality**

We expect a general trend of moderate growth in the tariff rate for *ITCTransmission* over the next few years under Attachment O, although we cannot predict a specific year-to-year trend due to the variability of network load and other factors beyond our control. The tariff rate for the period from June 1, 2006 through May 31, 2007 is \$1.744 per kW/month compared to \$1.594 per kW/month for the period from June 1, 2005 through May 31, 2006.

There were certain items that caused the increase in the rate at June 1, 2006 to \$1.744 per kW/month. Beginning June 1, 2006, one-fifth, or \$11.9 million, of the revenue that was deferred during the rate freeze that ended on December 31, 2004 is included in *ITCTransmission's* rates in each of the following five 12-month periods. Additionally, operating expenses in 2005 were higher due primarily to higher maintenance expenses as a result of the acceleration of multi-year maintenance initiatives.

The other component of the increase in our June 1, 2006 rate that is expected to continue to increase our rates in future years is the result of our five- to seven-year capital investment program due to our ongoing capital investment in excess of depreciation. *ITCTransmission* strives for high reliability

for its system and low delivered costs of electricity to end-use consumers. We continually assess our transmission system against standards established by the North American Electric Reliability Council and ReliabilityFirst Corporation which are electric industry organizations that, in part, develop standards for reliability and monitor compliance with those standards. Analysis of the transmission system against these voluntary reliability standards has become more focused and rigorous in recent years, primarily as a reaction to the August 2003 electrical blackout that affected sections of the northeastern and midwestern United States and Ontario, Canada. Moreover, on August 8, 2005 the Energy Policy Act of 2005 was enacted, which requires the FERC to implement mandatory electricity transmission reliability standards to be enforced by an Electric Reliability Organization. We also assess our transmission system against our own planning criteria that are filed annually with the FERC. Projects that are undertaken to meet the reliability standards may have added benefits of increasing throughput and reducing transmission congestion in *ITCTransmission's* system, which in turn reduces the delivered cost of energy to end-use customers.

For the period beginning in and including 2005 through approximately 2011, based on our planning studies, we see needs within the *ITCTransmission* service territory alone to spend approximately \$600.0 million to rebuild existing transmission property, plant and equipment. There may be additional investment of up to approximately \$400.0 million over the same period to upgrade the system to address demographic changes in Southeastern Michigan that have impacted transmission load and the changing role that transmission plays in meeting the needs of the wholesale market. This additional investment may be needed to accommodate the siting of new generation or to increase import capacity to meet expected growth in peak electrical demand. Approximately \$100.0 million may be invested over this period for the primary benefit of relieving congestion in the transmission system in Southeastern Michigan, but the total of all these investments is not expected to exceed \$1.0 billion for the *ITCTransmission* system.

In 2005, we completed the first year of this capital investment program, and invested \$117.8 million in property, plant and equipment. For the three months ended March 31, 2006, we invested \$34.8 million in property, plant and equipment. We expect total investments in property, plant and equipment in 2006 to be at least \$135.0 million based on projects currently planned or being considered, and we expect total investments in property, plant and equipment in 2007 to be at least \$120.0 million based on projects currently planned or being considered.

Investments in property, plant and equipment could vary due to, among other things, the impact of weather conditions, union strikes, labor shortages, material and equipment prices and availability, our ability to obtain financing for such expenditures, if necessary, limitations on the amount of construction that can be undertaken on our system at any one time or regulatory approvals for reasons relating to environmental, siting or regional planning issues or as a result of legal proceedings and variances between estimated and actual costs of construction contracts awarded. Additions to property, plant and equipment, when placed in service upon completion of a capital project, are added to rate base each year. Property, plant and equipment additions in excess of depreciation and amortization expense as presented in the following table result in an expansion of rate base when these additions are placed in service. We expect \$110.0 million to \$120.0 million of property, plant and equipment additions to be placed in service in 2006 and added to rate base.

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- (a) Amount represents additions to property, plant and equipment. Additions to property, plant and equipment differ from cash expenditures for property, plant and equipment in any period primarily due to differences in construction labor and materials costs incurred compared to cash paid for those costs and services during that period.
- (b) Amount represents depreciation and amortization expense.
- (c) Approximate amount that *ITCTransmission* expects to invest in additions to property, plant and equipment. Investments in property, plant and equipment could vary due to, among other things, the impact of weather conditions, union strikes, labor shortages, material and equipment prices and availability, our ability to obtain financing for such expenditures, if necessary, limitations on the amount of construction that can be undertaken on our system at any one time or regulatory approvals for reasons relating to environmental, siting or regional planning issues or as a result of legal proceedings and variances between estimated and actual costs of construction contracts awarded.

Our capital investment strategy is aligned with FERC's policy objective to promote needed investment in transmission infrastructure, improve reliability and reduce transmission constraints. We assess our performance based primarily on the levels of prudent and necessary capital investment and maintenance spending on our transmission system. We do not use revenues or net income as the primary measure of our performance. Revenues and net income vary between the current year and prior year based on monthly peak loads, among other factors. To the extent that actual conditions during an annual period vary from the data on which the Attachment O rate is based, *ITCTransmission* will earn more or less revenue during that annual period and therefore will recover more or less than its revenue requirement. However, this recovery of more or less than *ITCTransmission's* revenue requirement is taken into account by Attachment O in the following period. Therefore, Attachment O has the effect of smoothing the recovery of *ITCTransmission's* revenue requirement over time. The Attachment O template is completed on an annual basis, and the formulaic rate setting mechanism adjusts *ITCTransmission's* network transmission rates for differences experienced from the prior year, including the amount of network load, operating expenses and capital additions.

Our point-to-point revenue for the year ending December 31, 2006 will be negatively impacted by the elimination of certain components of point-to-point revenues and decreases in other types of point-to-point revenues. We expect an overall decrease in point-to-point revenues of \$8.0 million to

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\$12.0 million in 2006 compared to 2005. The expected level of these revenues for 2006 could change due to other factors that affect point-to-point revenues.

The total of the monthly peak loads for the three months ended March 31, 2006 was down 1.5% compared to the corresponding totals for the three months ended March 31, 2005.

	Monthly Peak Load (in MW)				
	2006	2005	2004	2003	2002
January	7,754	8,090	8,022	7,608	7,668
February	7,667	7,672	7,656	7,437	7,572
March	7,554	7,562	7,434	7,542	7,566
April	7,035	7,299	7,305	6,934	8,386
May	10,902	7,678	8,718	7,017	8,702
June		12,108	11,114	11,266	11,067
July		11,822	11,344	10,225	11,423
August		12,308	10,877	11,617	11,438
September		10,675	9,841	8,717	10,894
October		9,356	7,197	7,369	8,645
November		7,943	7,832	7,843	7,271
December		8,344	8,469	8,124	7,772
Total		110,857	105,809	101,699	108,404

Our results of operations are subject to seasonal variations. Our network revenues depend on the monthly peak loads and regulated transmission rates. Demand for electricity and thus transmission load, to a large extent depends upon weather conditions. Our revenues and operating income are higher in the summer months when cooling demand and network load are higher.

We are not aware of any trends or uncertainties in the economy or the industries in ITC*Transmission's* service territory that are reasonably likely to have a material effect on our financial condition or results of operations. However, any change in economic conditions that either increases or decreases the use of ITC*Transmission's* system to transmit electricity will impact revenue for a given year. Additionally, adverse economic conditions could impact our customers' ability to pay for our services.

### Non-GAAP Financial Measures

A non-GAAP financial measure is generally defined as one that purports to measure historical or future financial performance, financial position or cash flows but excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure. In this prospectus, we define and use adjusted EBITDA, a non-GAAP financial measure, as set forth below.

#### *Definition of Adjusted EBITDA*

We define adjusted EBITDA as follows:

net income *plus*:

income taxes;

depreciation and amortization expense; and

interest expense;





*excluding:*

allowance for equity funds used during construction; and

certain other items not related to operating performance such as loss on extinguishment of debt.

#### ***Management's Use of Adjusted EBITDA***

We use adjusted EBITDA on a consolidated basis to assess our overall financial and operating performance. We believe this non-GAAP measure, as we have defined it, is helpful in identifying trends in our day-to-day performance because the items excluded have little or no significance on our day-to-day operations. This measure provides an assessment of controllable expenses and affords management the ability to make decisions which are expected to facilitate meeting current financial goals as well as achieve optimal financial performance. It provides an indicator for management to determine if adjustments to current spending decisions are needed.

Adjusted EBITDA provides us with a measure of financial performance independent of items that are beyond the control of management in the short-term, such as depreciation, taxation and interest expense associated with our capital structure. This metric measures our financial performance based on operational factors that management can impact in the short-term, namely the cost structure or expenses of the organization. Adjusted EBITDA is one of the metrics used by senior management and the board of directors to review the financial performance of the business on a monthly basis and to determine the level of bonuses for management and employees. Adjusted EBITDA is also used by research analysts and investors to evaluate the performance of and value companies in our industry.

We have not used adjusted EBITDA as a measure of segment performance. We only measure performance on a consolidated basis because we have only one primary operating segment.

#### ***Limitations of Adjusted EBITDA***

Adjusted EBITDA has limitations as an analytical tool. It should not be viewed in isolation or as a substitute for GAAP measures of earnings. Material limitations in making the adjustments to our earnings to calculate adjusted EBITDA, and using this non-GAAP financial measure as compared to GAAP net income (loss), include:

the cash portion of interest expense, income tax (benefit) provision and non-recurring charges related to securities issuance activities generally represent charges (gains) which may significantly affect our financial results;

depreciation and amortization, though not directly affecting our current cash position, represent the wear and tear and/or reduction in value of other plant, equipment and intangible assets which permit us to provide electricity transmission to our customers and may be indicative of future needs for capital expenditures, or development or acquisition of intangible assets; and

allowance for equity funds used during construction is a result of strategic capital spending decisions and is excluded for the same reason as interest expense.

An investor or potential investor may find this item important in evaluating our performance, results of operations and financial position. We use non-GAAP financial measures to supplement our GAAP results in order to provide a more complete understanding of the factors and trends affecting our business.

Adjusted EBITDA is not an alternative to net income, operating income or cash flows from operating activities as calculated and presented in accordance with GAAP. You should not rely on adjusted EBITDA as a substitute for any such GAAP financial measure. We strongly urge you to

review the reconciliation of GAAP net income to adjusted EBITDA, along with our consolidated financial statements included elsewhere in this prospectus. We also strongly urge you to not rely on any single financial measure to evaluate our business. In addition, because adjusted EBITDA is not a measure of financial performance under GAAP and is susceptible to varying calculations, the adjusted EBITDA measure, as presented in this prospectus, may differ from and may not be comparable to similarly titled measures used by other companies.

### **Critical Accounting Policies**

Our consolidated financial statements are prepared in accordance with GAAP. The preparation of these financial statements requires the application of appropriate technical accounting rules and guidance, as well as the use of estimates. The application of these policies necessarily involves judgments regarding future events. These estimates and judgments, in and of themselves, could materially impact the consolidated financial statements and disclosures based on varying assumptions, as future events rarely develop exactly as forecasted, and the best estimates routinely require adjustment.

The following is a list of accounting policies that are most significant to the portrayal of our financial condition and results of operations and/or that require management's most difficult, subjective or complex judgments.

#### ***Regulation***

Nearly all of *ITCTransmission's* business is subject to regulation by the FERC. As a result, we believe it is appropriate to apply accounting principles in accordance with Statement of Financial Accounting Standards 71, "Accounting for the Effects of Certain Types of Regulation," or SFAS 71. Use of SFAS 71 results in differences in the application of GAAP between regulated and non-regulated businesses. SFAS 71 requires the recording of regulatory assets and liabilities for certain transactions that would have been treated as expense or revenue in non-regulated businesses. Future regulatory changes or changes in the competitive environment could result in discontinuing the application of SFAS 71. If we were to discontinue the application of SFAS 71 on *ITCTransmission's* operations, we may be required to record losses of \$52.0 million relating to the regulatory asset-acquisition adjustment and \$6.1 million of other regulatory assets relating to deferred losses on debt extinguishment at December 31, 2005. Additionally, we may be required to record gains of \$45.6 million relating to asset removal costs recorded as regulatory liabilities at December 31, 2005, that have been accrued in advance of incurring these costs.

We believe that currently available facts support the continued applicability of SFAS 71 and that all regulatory assets and liabilities are recoverable or refundable under our current rate environment.

#### ***Attachment O Revenue Deferral***

*ITCTransmission's* revenue deferral resulted from the difference between the revenue *ITCTransmission* would have collected under Attachment O and the actual revenue *ITCTransmission* received based on the frozen rate for the period from February 28, 2003 through December 31, 2004. The cumulative revenue deferral at December 31, 2005 was \$59.7 million (\$38.8 million net of tax). The revenue deferral and related taxes are not reflected as an asset or as revenue in our consolidated financial statements because they do not meet the criteria to be recorded as regulatory assets in accordance with SFAS 71 or Emerging Issues Task Force 92-7, "Accounting by Rate-Regulated Utilities for the Effects of Certain Alternative Revenue Programs," or EITF 92-7. SFAS 71 provides that an enterprise shall capitalize all or part of an incurred cost that would otherwise be charged to expense if certain criteria are met, including whether it is probable that future revenue in an amount at least

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equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes. Although the amortization of the revenue deferral is an allowable component of future rates based on FERC approval obtained for this item, the revenue deferral does not represent an incurred cost. Rather, it is a delayed recovery of revenue based on many components of our tariff rate, including incurred costs, rate base, capital structure, network load and other components of Attachment O. EITF 92-7 provides that a regulated enterprise should recognize revenue for other than incurred costs if the revenue program meets certain criteria. The revenue deferral does not satisfy the criteria of EITF 92-7 to record the revenue deferral in the year it is determined. We believe the proper revenue recognition relating to the revenue deferral occurs when we begin to charge the rate that includes the amortization of the revenue deferral beginning in June 2006.

### ***Purchase Accounting***

We accounted for our acquisition of Predecessor *ITCTransmission* using the purchase method, prescribed by Statement of Financial Accounting Standards 141, "Business Combinations," or SFAS 141. Estimates have been made in valuing certain assets and liabilities in the balance sheet. The provisions of our acquisition of Predecessor *ITCTransmission* from DTE Energy required an adjustment to the acquisition price of \$610.0 million based on the closing balance sheet at February 28, 2003 prepared by DTE Energy. Subsequent to February 28, 2003 and through 2005, ITC Holdings and DTE Energy negotiated adjustments to the purchase price relating to the acquisition for various property, plant and equipment, inventory, and other closing balance sheet items related to our acquisition of Predecessor *ITCTransmission*. We do not expect any further adjustments to the purchase price.

We will account for the proposed acquisition of MTH and METC using the purchase method, which will require us to estimate the fair values of assets and liabilities acquired.

### ***Contingent Obligations***

We are subject to a number of federal and state laws and regulations, as well as other factors and conditions that potentially subject us to environmental, litigation, income tax and other risks. We periodically evaluate our exposure to such risks and record reserves for those matters where a loss is considered probable and reasonably estimable in accordance with GAAP. The adequacy of reserves can be significantly affected by external events or conditions that can be unpredictable; thus, the ultimate outcome of such matters could materially affect our financial statements. These events or conditions include the following:

Changes in existing state or federal regulation by governmental authorities having jurisdiction over air quality, water quality, control of toxic substances, hazardous and solid wastes, and other environmental matters.

Changes in existing income tax regulations or changes in Internal Revenue Service interpretations of existing regulations.

Identification and evaluation of potential lawsuits or complaints in which we may be or have been named as a defendant.

Resolution or progression of existing matters through the legislative process, the courts, the Internal Revenue Service, or the Environmental Protection Agency.

### ***Goodwill***

We have goodwill resulting from our acquisition of Predecessor *ITCTransmission* from DTE Energy. In accordance with Statement of Financial Accounting Standards 142, "Goodwill and Other Intangible Assets," or SFAS 142, we are required to perform an impairment test annually or whenever

events or circumstances indicate that the value of goodwill may be impaired. In order to perform these impairment tests, we determined fair value using quoted market prices in active markets, and valuation techniques based on discounted future cash flows under various scenarios and also considered estimates of market-based valuation multiples for companies within *ITCTransmission's* peer group. The market-based multiples involve judgment regarding the appropriate peer group and the appropriate multiple to apply in the valuation and the cash flow estimates involve judgments based on a broad range of assumptions, information and historical results. To the extent estimated market-based valuation multiples and/or discounted cash flows are revised downward, we may be required to write down all or a portion of *ITCTransmission's* goodwill, which would adversely impact earnings. As of December 31, 2005, goodwill totaled \$174.3 million and we determined that no impairment existed as of our goodwill impairment testing date of October 1, 2005.

### ***Valuation***

Our accounting for stock-based compensation requires us to determine the fair value of shares of our common stock. Prior to becoming a publicly traded company in July 2005, the fair value of our common stock was determined using a discounted future cash flow method, which is a valuation technique that is acceptable for privately-held companies. Cash flow estimates involve judgments based on a broad range of assumptions, information and historical results. In the event different assumptions were used, it would have resulted in a different fair value of our common stock which would impact the amount of compensation expense recognized related to our stock-based awards. Since July 2005, we use the value of our common stock at the date of grant in the calculation of the fair value of our stock-based awards. The fair value of stock options held by our employees is determined using a Black-Scholes option valuation method, which is a valuation technique that is acceptable for stock based compensation accounting. In the event different assumptions were used for volatility, risk-free interest rate, or expected lives, a different option value would be derived.

### **Significant Components of Results of Operations**

#### ***Revenues***

We derive nearly all of our revenues from providing network transmission service, point-to-point transmission service and other related services over our system to Detroit Edison and to other entities such as alternative electricity suppliers, power marketers and other wholesale customers that provide electricity to end-use consumers and from transaction-based capacity reservations on *ITCTransmission's* transmission system. MISO is responsible for billing and collection of transmission services in the MISO service territory. MISO, as the billing agent for *ITCTransmission*, collects fees for the use of *ITCTransmission's* transmission system, invoicing Detroit Edison and other *ITCTransmission* customers on a monthly basis. MISO has implemented credit policies for its members, which include *ITCTransmission's* customers.

***Network Revenues*** are generated from fees charged to network customers for their use of *ITCTransmission's* electricity transmission system during the one hour of monthly peak usage. For the years ended December 31, 2005 and 2004 and the period from February 28, 2003 through December 31, 2003, approximately 86.0%, 90.2% and 91.6%, respectively, of *ITCTransmission's* operating revenues were derived from the provision of network service. *ITCTransmission's* network revenues are dependent on monthly peak loads and regulated transmission rates.

Network revenues are determined using rates regulated by the FERC. ITC*Transmission's* monthly network revenues are the result of a calculation which can be simplified to the following:

- (1) *multiply* the network load measured in kW's achieved during the one hour of monthly peak usage for ITC*Transmission's* transmission system by the appropriate monthly tariff rate as calculated under Attachment O by 12 by the number of days in that month; and
- (2) *divide* the result by 365.

**Point-to-Point Revenues** consist of revenues generated from a type of transmission service for which the customer pays for transmission capacity reserved along a specified path between two points on an hourly, daily, weekly or monthly basis. Point-to-point revenues also include other components pursuant to schedules under the MISO transmission tariff. Approximately 9.9% of ITC*Transmission's* operating revenues for the year ended December 31, 2005 were derived from providing point-to-point service.

The rates approved by the FERC in connection with our acquisition of Predecessor ITC*Transmission* from DTE Energy included specific treatment of point-to-point revenues received during 2004 and the period from February 28, 2003 through December 31, 2003. Based on FERC orders as part of the acquisition of Predecessor ITC*Transmission* from DTE Energy, ITC*Transmission* refunded 100% of point-to-point revenues earned during the period from February 28, 2003 through December 31, 2003 in March 2004 and refunded 75% of 2004 point-to-point revenues in March 2005. Point-to-point revenues collected for periods after December 31, 2004 are no longer refunded. Point-to-point revenues collected for the year ended December 31, 2004 that were not refunded (25% of total point-to-point revenues for 2004) and point-to-point revenues collected subsequent to December 31, 2004 are deducted from ITC*Transmission's* revenue requirement in determining the annual network transmission rates.

**Scheduling, Control and Dispatch Revenues** also are approved by the FERC and are allocated to ITC*Transmission* by MISO as compensation for the services ITC*Transmission* performs, jointly with METC, in operating the Michigan Electric Coordinated Systems, or MECS, control area. Such services include processing energy schedule requests utilizing the MECS system, monitoring of reliability data, implementation of emergency procedures, and coordination of the MECS operation. Approximately 3.2% of ITC*Transmission's* operating revenues for the year ended December 31, 2005 were derived from providing scheduling, control and dispatch services.

**Other Revenues** consist primarily of rental revenues received from METC for the use of the Michigan Electric Power Coordination Center building as well as property easement revenues. Approximately 0.9% of ITC*Transmission's* revenues for the year ended December 31, 2005 consisted of other revenues.

### **Operating Expenses**

**Operation and Maintenance Expenses** consist primarily of the costs of contractors to operate and maintain ITC*Transmission's* transmission system and salary-related expenses for ITC*Transmission* personnel involved in operation and maintenance activities. The majority of expenses for the operation of the transmission system relate to activities of the MECS control area. Maintenance expenses include preventive or planned maintenance, such as vegetation management, tower painting and equipment inspections, as well as reactive maintenance for equipment failures.

Prior to February 28, 2003, Predecessor ITC*Transmission* had a Master Services Agreement with Detroit Edison whereby Detroit Edison performed maintenance, asset construction and day-to-day management of transmission operations and administration services. Detroit Edison received compensation for wages and benefits for employees performing work on behalf of Predecessor ITC*Transmission* and for costs of construction or maintenance directly related to Predecessor

ITCTransmission in addition to overhead and other fees. Subsequent to February 28, 2003 and through April 2004, ITCTransmission operated under a construction and maintenance, engineering, and system operations service level agreements, or the SLA, with Detroit Edison whereby Detroit Edison performed maintenance, asset construction, and certain aspects of transmission operations and administration, or the SLA Activities, on behalf of ITCTransmission. ITCTransmission entered into the SLA to provide an orderly transition from being a subsidiary of an integrated utility to a stand-alone independent transmission company. Under the terms of the SLA, ITCTransmission's SLA Activities were jointly managed by ITCTransmission and Detroit Edison and therefore ITCTransmission did not have exclusive control over its expenditures relating to the SLA Activities through the term of the SLA. The terms of the SLA included an agreed upon pricing mechanism whereby Detroit Edison was paid an amount to compensate it for its fully allocated costs.

In August 2003, ITCTransmission entered into an Operation and Maintenance Agreement with its primary maintenance contractor and a Supply Chain Management Agreement with its primary purchasing and inventory management contractor to perform these services subsequent to the term of the SLA. In order to facilitate the transition from Detroit Edison, the new contractors performed work in parallel with Detroit Edison prior to the termination of the SLA. The agreements reduce uncertainty with regard to ITCTransmission's cost structure through August 28, 2008. Additionally, the new operating agreements allow ITCTransmission to exclusively manage and control operating expenditures.

**General and Administrative Expenses** consist primarily of compensation and benefits costs for personnel in our finance, human resources, regulatory, information technology and legal organizations, and fees for professional services. Professional services are principally composed of outside legal, audit and information technology consulting.

During the period from February 28, 2003 through December 31, 2003, under the terms of the SLA, Detroit Edison performed many of the administrative duties in support of ITCTransmission's construction program. Subsequent to the termination of the SLA and as a result of our management of the expanded construction program, we began to capitalize to property, plant and equipment certain general and administrative expenses such as compensation, office rent, utilities, and information technology support. These expenses are included in property, plant and equipment on our balance sheet.

**Depreciation and Amortization Expenses** consist primarily of depreciation of property, plant and equipment using the straight-line method of accounting. Additionally, we amortize the regulatory asset-acquisition adjustment, representing a portion of the goodwill that resulted from the acquisition of Predecessor ITCTransmission from DTE Energy that was approved for recovery in rates by the FERC. The original amount of \$60.6 million as of February 28, 2003 is being amortized over 20 years on a straight-line basis.

**Taxes other than Income Taxes** consist primarily of property tax expenses.

**Other items of income or expense**

**Interest Expense** consists primarily of interest on ITC Holdings' \$267.0 million of 5.25% Senior Notes and ITCTransmission's \$185.0 million of 4.45% First Mortgage Bonds Series A. ITC Holdings and ITCTransmission also have revolving credit facilities, with the interest expense and facility fees being recorded here. Additionally, the amortization of debt financing expenses is recorded to interest expense. An allowance for borrowed funds used during construction is included in property, plant and equipment accounts and is a reduction to interest expense. In March 2006, ITCTransmission issued \$100.0 million of 6.125% First Mortgage Bonds Series C, which will result in additional interest expense in periods subsequent to their issuance.

*Allowance for Equity Funds Used During Construction* is recorded as an item of other income and is included in property, plant and equipment accounts. The allowance represents a return on stockholders' equity used for construction purposes in accordance with FERC regulations. Assuming all other factors are constant, if construction work in progress balances increase, the allowance amount capitalized will also increase. The capitalization rate applied to the construction work in progress balance is based on the proportion of equity to total capital (which currently includes equity and long-term debt) and the allowed return on equity for *ITCTransmission* (currently 13.88%).

### **Results of Operations**

The financial information presented in this prospectus includes results of operations for predecessor *ITCTransmission* for the two-month period ended February 28, 2003 and ITC Holdings and Subsidiaries for the period from February 28, 2003 through December 31, 2003. Neither the two-month period nor the period from February 28, 2003 through December 31, 2003 is reflective of a twelve-month year of operations and, accordingly, neither of such periods individually is directly comparable to the results of operations for the year ended December 31, 2005 or 2004.

In order to provide a year-over-year analysis, we have included the 2003 pro forma period, which combines the audited information for ITC Holdings and Subsidiaries for the period from February 28, 2003 through December 31, 2003 and the audited financial information for Predecessor *ITCTransmission* for the two-month period ended February 28, 2003 to create a pro forma period consisting of the year ended December 31, 2003. The discussion is provided for comparative purposes only, but the value of such a comparison may be limited. You should not interpret the 2003 pro forma period financial information as the result of operations that ITC Holdings and Subsidiaries would have achieved had the acquisition occurred prior to January 1, 2003.



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Results of Operations for the Three Months Ended March 31, 2006 Compared to the Three Months Ended March 31, 2005

	Three months ended March 31,		Increase (Decrease)	Percentage Increase (Decrease)
	2006	2005		
	(in thousands)			
<b>Operating revenues</b>	\$ 39,069	\$ 42,460	\$ (3,391)	(8.0)%
<b>Operating expenses:</b>				
Operation and maintenance	6,657	6,522	135	2.1%
General and administrative	7,477	5,286	2,191	41.4%
Depreciation and amortization	8,870	8,018	852	10.6%
Taxes other than income taxes	5,346	4,299	1,047	24.4%
<b>Total operating expenses</b>	<b>28,350</b>	<b>24,125</b>	<b>4,225</b>	<b>17.5%</b>
<b>Operating income</b>	<b>10,719</b>	<b>18,335</b>	<b>(7,616)</b>	<b>(41.5)%</b>
<b>Other expenses (income)</b>				
Interest expense	7,240	6,854	386	5.6%
Allowance for equity funds used in construction	(522)	(580)	58	(10.0)%
Other income	(301)	(305)	4	(1.3)%
Other expense	150	176	(26)	(14.8)%
<b>Total other expenses</b>	<b>6,567</b>	<b>6,145</b>	<b>422</b>	<b>6.9%</b>
<b>Income before income taxes</b>	<b>4,152</b>	<b>12,190</b>	<b>(8,038)</b>	<b>(65.9)%</b>
<b>Income tax provision</b>	<b>1,499</b>	<b>4,320</b>	<b>(2,821)</b>	<b>(65.3)%</b>
<b>Income before cumulative effect of a change in accounting principle</b>	<b>2,653</b>	<b>7,870</b>	<b>(5,217)</b>	<b>(66.3)%</b>
<b>Cumulative effect of a change in accounting principle</b>	<b>29</b>		<b>29</b>	<b>n/a</b>
<b>Net income</b>	<b>\$ 2,682</b>	<b>\$ 7,870</b>	<b>\$ (5,188)</b>	<b>(65.9)%</b>

*Operating Revenues*

The following table sets forth the components of and changes in operating revenues for the three months ended March 31:

	2006		2005		Increase (Decrease)	Percentage Increase (Decrease)
	Amount	Percentage	Amount	Percentage		
	(in thousands)					
Network	\$ 36,078	92.3%	\$ 36,577	86.2%	\$ (499)	(1.4)%
Point-to-point	1,245	3.2%	4,087	9.6%	(2,842)	(69.5)%
Scheduling, control and dispatch	1,313	3.4%	1,332	3.1%	(19)	(1.4)%
Other	433	1.1%	464	1.1%	(31)	(6.7)%

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	2006		2005						
Total	\$	39,069	100%	\$	42,460	100%	\$	(3,391)	(8.0)%

Network revenues decreased due to a 1.5% decrease in the total of the monthly peak loads for the three months ended March 31, 2006 compared to the three months ended March 31, 2005 resulting in a reduction in network revenues of \$0.6 million. This decrease was partially offset by an increase of \$0.2 million due to an increase in the rate used for network revenues from \$1.587 per kW/month for

the three months ended March 31, 2005 to \$1.594 per kW/month for the three months ended March 31, 2006.

Point-to-point revenues decreased primarily due to lower utilization of the Michigan-Ontario Independent Electric System Operator interface for a decrease of \$1.1 million, the elimination of the Sub-Regional Rate Adjustment in October 2005 of \$0.9 million, \$0.2 million due to Seams Eliminations Cost Adjustment and \$0.6 million due to additional refunds recognized for redirected transmission service revenue as discussed in Note 3 of the notes to ITC Holdings and Subsidiaries' audited historical condensed consolidated financial statements as of and for the year ended December 31, 2005, included elsewhere in this prospectus. Additionally a \$0.6 million decrease resulted from reduced demand for long-term point-to-point reservations which may be related to the emergence of the MISO energy market in 2005. These decreases were partially offset by \$0.6 million of point-to-point revenue not recognized during the three months ended March 31, 2005 for amounts held in escrow relating to the Elimination of Transmission Rate Discount matter described in Note 3 of the notes to ITC Holdings and Subsidiaries' audited historical condensed consolidated financial statements as of and for the year ended December 31, 2005, included elsewhere in this prospectus. There were no such amounts recognized for the three months ended March 31, 2006.

### *Operating Expenses*

#### **Operation and maintenance expenses**

Operation and maintenance expenses increased due to additional maintenance of underground transmission lines of \$0.2 million, and \$0.4 million due to various net increases. These increases were partially offset by a decrease in vegetation management of \$0.5 million as a result of the accelerated maintenance activities undertaken in 2005.

#### **General and administrative expenses**

General and administrative expenses increased due to higher compensation and benefits expense of \$1.3 million primarily resulting from personnel additions for corporate and other functions needed to support our increased level of capital and maintenance activities, \$0.3 million due to fees associated with the audit of our internal control over financial reporting, \$0.3 million due to higher insurance premiums, \$0.3 million related to higher stock compensation expense associated with July 2005 option awards and \$0.4 million for compensation expense under the special bonus plans. These increases were partially offset by a decrease in management expenses of \$0.3 million due to the termination of certain management agreements during 2005 following ITC Holdings' initial public offering of common stock.

#### **Depreciation and amortization expenses**

Depreciation and amortization expenses increased due to a higher depreciable asset base primarily as a result of property, plant and equipment additions during 2005.

#### **Taxes other than income taxes**

Taxes other than income taxes increased as a result of higher property tax expenses of \$0.6 million primarily due to ITC Transmission's 2005 capital additions which are included in the assessments for 2006 personal property taxes. Taxes other than income taxes also increased by \$0.4 million due to Michigan Single Business Tax expenses.

#### **Other Expenses (Income)**

Interest expense increased primarily due to higher borrowing levels and higher interest rates under our revolving credit facilities to finance capital expenditures.

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Results of Operations for the Years Ended December 31, 2005 and 2004 and the 2003 Pro Forma Period

	ITC Holdings and Subsidiaries				ITC Holdings and Subsidiaries			Predecessor ITC	
	Year Ended December 31,		Increase (Decrease)	Percentage Increase (Decrease)	2003 Pro Forma Period (Unaudited)	Increase (Decrease)	Percentage Increase (Decrease)	Period From	
	2005	2004						February 28, 2003 (Date of Acquisition) Through December 31, 2003	Two-Month Period Ended February 28, 2003
	(in thousands)								
<b>Operating revenues</b>	\$ 205,274	\$ 126,449	\$ 78,825	62.3%	\$ 123,298	\$ 3,151	2.6%	\$ 102,362	\$ 20,936
<b>Operating expenses</b>									
Operation and maintenance	48,310	24,552	23,758	96.8%	28,577	(4,025)	(14.1)%	22,902	5,675
General and administrative	25,198	24,412	786	3.2%	26,342	(1,930)	(7.3)%	26,342	
Depreciation and amortization	33,197	29,480	3,717	12.6%	25,128	4,352	17.3%	21,463	3,665
Taxes other than income taxes	13,982	20,840	(6,858)	(32.9)%	15,797	5,043	31.9%	11,499	4,298
Termination of management agreements	6,725		6,725	n/a			n/a		
Total operating expenses	127,412	99,284	28,128	28.3%	95,844	3,440	3.6%	82,206	13,638
<b>Operating income</b>	77,862	27,165	50,697	186.6%	27,454	(289)	(1.1)%	20,156	7,298
<b>Other expenses (income)</b>									
Interest expense	28,128	25,585	2,543	9.9%	21,630	3,955	18.3%	21,630	
Allowance for equity funds used in construction	(2,790)	(1,691)	(1,099)	65.0%	(322)	(1,369)	425.2%	(322)	
Loss on extinguishment of debt				n/a	11,378	(11,378)	n/a	11,378	
Other income	(1,700)	(1,289)	(411)	31.9%	(344)	(945)	274.7%	(197)	(147)
Other expense	615	283	332	117.3%	72	211	293.1%	27	45
Total other expenses (income)	24,253	22,888	1,365	6.0%	32,414	(9,526)	(29.4)%	32,516	(102)
<b>Income (loss) before income taxes</b>	53,609	4,277	49,332	1153.4%	(4,960)	9,237	n/a	(12,360)	7,400
<b>Income tax provision (benefit)</b>	18,938	1,669	17,269	1034.7%	(391)	2,060	n/a	(4,306)	3,915
<b>Net income (loss)</b>	\$ 34,671	\$ 2,608	\$ 32,063	1229.4%	\$ (4,569)	\$ 7,177	n/a	\$ (8,054)	\$ 3,485

**Operating Revenues****Year Ended December 31, 2005 compared to Year Ended December 31, 2004**

The following table sets forth the components of and changes in operating revenues for the years ended December 31, 2005 and 2004:

	2005		2004		Increase (Decrease)	Percentage Increase (Decrease)
	Amount	Percentage	Amount	Percentage		
(in thousands, except percentages)						
Network	\$ 176,588	86.0%	\$ 114,082	90.2%	62,506	54.8%
Point-to-point	20,336	9.9%	4,248	3.3%	16,088	378.7%
Scheduling, control and dispatch	6,566	3.2%	6,146	4.9%	420	6.8%
Other	1,784	0.9%	1,973	1.6%	(189)	(9.6)%
<b>Total</b>	<b>\$ 205,274</b>	<b>100%</b>	<b>\$ 126,449</b>	<b>100%</b>	<b>78,825</b>	<b>62.3%</b>

Network revenues increased by \$57.3 million due to an increase in the rate used for network revenues under our rate freeze of \$1.075 per kW/month in the year ended December 31, 2004 to \$1.587 per kW/month for the period January 1, 2005 through May 31, 2005 and \$1.594 per kW/month for the period June 1, 2005 through December 31, 2005, as a result of the end of the rate freeze on December 31, 2004. Revenues also increased by \$5.5 million due to an increase of 4.8% in the total of the monthly peak loads for the year ended December 31, 2005.

Point-to-point revenues (net of refundable amounts) increased primarily because *ITCTransmission* is no longer required to refund point-to-point revenues earned in 2005, as was required for 75% of point-to-point revenues earned in 2004 by FERC orders authorizing the acquisition of Predecessor *ITCTransmission* from DTE Energy. We recognized point-to-point refunds during the year ended December 31, 2004 of \$12.7 million. The remaining increase was due to the elimination of the transmission rate discount in 2005 that had been effective during 2004 for transmission service at the Michigan-Ontario Independent Electric System Operator interface, which resulted in an increase of \$3.4 million and additional transmission capacity reservations by generators in *ITCTransmission's* service territory as a result of higher transmission capacity needs during the peak demand months of \$2.6 million, partially offset by redirected transmission service refunds and reserves of \$1.2 million.

**Year Ended December 31, 2004 compared to the 2003 Pro Forma Period**

Revenues increased primarily due to higher total monthly peak loads in 2004 resulting in increased network revenues of \$2.8 million.

**Operating Expenses****Operation and maintenance expenses****Year Ended December 31, 2005 compared to Year Ended December 31, 2004**

Operation and maintenance expenses increased primarily due to the accelerated completion of a backlog of necessary, multi-year, planned activities that help improve the reliability of *ITCTransmission's* transmission system. The accelerated maintenance activities included increases in vegetation management of \$5.4 million, tower painting of \$4.1 million and system-wide maintenance on transmission structures of \$4.9 million, primarily for repairs and restorations of transmission station buildings. The acceleration of these multi-year maintenance initiatives is expected to result in lower expenses in later years. Additionally, maintenance expenses increased by \$2.5 million for training costs of contract employees, \$2.8 million for transmission system equipment inspections and \$1.8 million for equipment repairs, as well as increases of \$1.1 million in other maintenance activities. Operation and maintenance expenses also increased due to an accounts receivable reserve of \$0.5 million, relating to

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certain Michigan Public Power Agency receivable and revenue matters. The remaining increases of \$2.7 million resulted primarily from additional costs for monitoring and controlling the system. Partially offsetting the increases in operation and maintenance expenses was a \$2.0 million decrease due to costs billed to ITC*Transmission* associated with Detroit Edison's performance of maintenance and certain aspects of transmission operations through April 2004 that were not incurred in 2005.

### *Year Ended December 31, 2004 compared to the 2003 Pro Forma Period*

Operation and maintenance expenses decreased primarily due to effective cost management. During 2003, Detroit Edison and ITC*Transmission* jointly controlled maintenance activities under the terms of the SLA. Beginning in April 2004, ITC*Transmission* had exclusive control over its operation and maintenance activities.

### **General and administrative expenses**

#### *Year Ended December 31, 2005 compared to Year Ended December 31, 2004*

General and administrative expenses increased by \$1.6 million due to greater compensation and benefits expense resulting from personnel additions, \$1.1 million for consulting expenses for Sarbanes-Oxley readiness efforts relating to internal controls documentation and evaluation that were not incurred in 2004, \$0.7 million for higher insurance premiums, \$0.6 million related to higher stock compensation expense associated with July 2005 option awards and \$0.5 million for compensation expense under the special bonus plans. Additionally, general and administrative expenses increased due to an accounts receivable reserve of \$0.3 million, relating to certain Michigan Public Power Agency receivable and revenue matters described under " Recent Developments." Partially offsetting these increases was a decrease of \$1.6 million due to amounts capitalized to property, plant and equipment in 2005. No such amounts were capitalized for the first six months of 2004. We began to capitalize these expenses in July 2004 as we assumed exclusive management of our expanded construction program that had previously been administered in part by Detroit Edison. General and administrative expenses also decreased by \$2.4 million due to losses incurred in 2004 related to our investment in Conjunction LLC. There was no impact from Conjunction LLC in 2005. Management expenses also decreased by \$0.5 million. See " Recent Developments Management Agreements."

#### *Year Ended December 31, 2004 compared to the 2003 Pro Forma Period*

General and administrative expenses decreased primarily due to expenses of \$4.9 million in the 2003 pro forma period comprised of regulatory asset amortization relating to MISO and ITC*Transmission* start-up costs that were not recognized in 2004 and \$2.5 million due to the capitalization of certain general and administrative expenses beginning in July 2004. These decreases were partially offset by general increases in salary, benefits and professional services.

### **Depreciation and amortization expenses**

Depreciation and amortization expenses increased in 2005 and 2004 compared to the prior year primarily due to a higher depreciable asset base as a result of property, plant and equipment additions during 2005, 2004 and the 2003 pro forma period.

### **Taxes other than income taxes**

#### *Year Ended December 31, 2005 compared to Year Ended December 31, 2004*

Taxes other than income taxes decreased due to ITC*Transmission*'s lower assessed property tax values as of December 31, 2004, which were the basis for the 2005 property taxes, compared to the assessed values as of December 31, 2003, which were the basis for the 2004 property taxes. Rather than

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using State Tax Commission-approved property valuation tables, numerous municipalities used their own higher valuation tables in assessing the value of ITCTransmission's personal property at December 31, 2003. The municipalities, however, used the State Tax Commission-approved valuation tables in assessing the value of ITCTransmission's personal property at December 31, 2004, which has resulted in lower property taxes of \$4.5 million. Additionally, property taxes decreased by \$2.8 million due to favorable settlements for 2004 property taxes approved by the State Tax Commission in the third quarter of 2005. See the discussion of the property tax appeals described under " Recent Developments." Partially offsetting these decreases was an increase in Michigan single business tax expense of \$0.4 million.

### *Year Ended December 31, 2004 compared to the 2003 Pro Forma Period*

Taxes other than income taxes increased primarily due to ITCTransmission's higher property tax values as of December 31, 2003, which were the basis for 2004 property taxes. In accordance with Michigan law, ITCTransmission's real property tax values were uncapped as a result of the change in ownership of ITCTransmission's assets. Additionally, numerous municipalities had applied their own higher valuation tables in assessing the value of ITCTransmission's personal property at December 31, 2003, rather than using the valuation tables approved by the State Tax Commission, resulting in higher property taxes. See the discussion of the property tax appeals described under " Recent Developments."

### **Termination of management agreements**

#### *Year Ended December 31, 2005 compared to Year Ended December 31, 2004*

The termination of management agreements resulted in \$6.7 million of expense for the year ended December 31, 2005. These payments are discussed under " Recent Developments Management Agreements."

### *Other expenses (income)*

#### *Year Ended December 31, 2005 compared to Year Ended December 31, 2004*

Interest expense increased primarily due to higher borrowing levels and higher interest rates under our revolving credit facilities to finance capital expenditures.

Allowance for equity funds used in construction increased due to increased construction projects and the resulting higher construction work in progress balances during 2005 compared to 2004.

Other income increased primarily due to additional gains recognized associated with the sale of land of \$0.4 million and additional interest income of \$0.5 million. Partially offsetting these increases was a decrease due to gains recognized upon the application of the equity method accounting for Conjunction LLC in 2004. Prior to July 2004, we had consolidated the results of operations of Conjunction LLC, which had consisted primarily of general and administrative expense. In July 2004, we began to apply the equity method of accounting and reversed previously recognized losses that exceeded our investment balance in the amount of \$0.7 million recorded to other income.

### *Year Ended December 31, 2004 compared to the 2003 Pro Forma Period*

Interest expense increased primarily due to 12 months of borrowings in 2004, as compared to approximately 10 months of borrowings in the 2003 pro forma period, as well as higher borrowing levels in 2004 related to increased capital expenditures in 2004.

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There was an expense of \$11.4 million in the 2003 pro forma period relating to the extinguishment of debt as a result of ITC Holdings' debt refinancing in July 2003. No such amounts were incurred in 2004.

Allowance for equity funds used in construction increased due to increased construction projects and the resulting higher construction work in progress balances during 2004 compared to the 2003 pro forma period.

Other income increased by \$0.7 million due to gains recognized upon the deconsolidation of Conjunction LLC in 2004 as a result of the minority members obtaining additional rights.

### Liquidity and Capital Resources

We expect to fund our future capital requirements with cash from operations, our existing cash and cash equivalents and amounts available under our revolving credit facilities, subject to certain conditions. In addition, we may secure additional funding from either our existing equity investors or in the financial markets. We expect that our capital requirements will arise principally from our need to:

fund capital expenditures. We invested \$34.8 million in additional property, plant and equipment in the three months ended March 31, 2006 and we invested \$117.8 million in additional property, plant and equipment in 2005 and expect the level of capital investment to be at least \$135 million in 2006. Our plans with regard to property, plant and equipment investments are described in detail above under " Overview" and " Trends and Seasonality";

fund working capital requirements;

fund our debt service requirements. During the three months ended March 31, 2006, we paid \$12.1 million of interest expense and in 2005, we paid \$24.6 million of interest expense and expect the level of borrowings and interest expense in 2006 to be at least at the 2005 level; and

fund distributions to shareholders of our common stock. We paid dividends of \$17.4 million, consisting of two quarterly dividends of \$0.2625 per share, in September and December 2005. On February 8, 2006 our Board of Directors declared a quarterly cash dividend on our common stock of \$0.2625 per share, for which \$8.7 million was paid on March 15, 2006 to shareholders of record on March 1, 2006. The board of directors intends to increase the dividend rate from time to time as necessary for the yield to remain competitive, subject to prevailing business conditions, applicable restrictions on dividend payments and the availability of capital resources. See "Price Range of Common Stock and Dividend Policy."

We believe that we have sufficient capital resources to meet our currently anticipated short-term needs. We rely on both internal and external sources of liquidity to provide working capital and to fund capital investments. We expect to continue to utilize our existing revolving credit facilities as needed to meet our short-term cash requirements. On March 24, 2006, we extended the maturity dates of *ITCTransmission's* and ITC Holdings' revolving credit facilities, as well as the underlying First Mortgage Bonds Series B, from March 19, 2007 to March 10, 2010.

For our long-term capital requirements, we expect that we will need to issue additional debt and we believe we have the ability to borrow additional amounts in the financial markets. On March 28, 2006, *ITCTransmission* issued \$100.0 million of its 6.125% First Mortgage Bonds, Series C, due March 31, 2036 as described in Note 4 of the notes to ITC Holdings and Subsidiaries' historical unaudited condensed consolidated financial statements for the three months ended March 31, 2006 included elsewhere in this prospectus. We also may secure additional funding from the IT Holdings Partnership, our largest shareholder.

Even though Standard & Poor's Ratings Services placed the corporate credit ratings and debt ratings of ITC Holdings and *ITCTransmission* on credit watch with negative implications following the



announcement that ITC Holdings entered into an agreement to acquire the indirect ownership interests in METC, we do not expect the consummation of the acquisition of MTH and METC to negatively impact our liquidity or available capital resources.

ITC Holdings maintains credit ratings of BBB- and Baa3 and *ITCTransmission* maintains credit ratings of BBB+ and A3 by Standard and Poor's Ratings Services and Moody's Investor Service, Inc., respectively. We believe our investment-grade credit ratings should provide a significant degree of flexibility in obtaining funds on competitive terms. However, these credit ratings reflect the views of the rating agencies only. An explanation of the significance of these ratings may be obtained from each rating agency. Such ratings are not a recommendation to buy, sell, or hold debt securities, but rather an indication of creditworthiness. Any rating can be revised upward or downward or withdrawn at any time by a rating agency if it decides that the circumstances warrant the change. Each rating should be evaluated independently of any other rating.

In July 2005, we received proceeds of \$53.9 million (net of the underwriting discount) from the initial public offering of our common stock, which were used in part to pay off the borrowings under the ITC Holdings revolving credit facility of \$21.8 million in August 2005 and to pay costs related to the initial public offering of \$7.1 million with the remainder used for general corporate purposes.

In July 2003, the original term loans borrowed in connection with our acquisition of Predecessor *ITCTransmission* from DTE Energy were refinanced. ITC Holdings issued \$267.0 million of its 5.25% Senior Notes due July 15, 2013 and *ITCTransmission* issued \$185.0 million of its 4.45% First Mortgage Bonds Series A due July 15, 2013. The ITC Holdings Senior Notes and *ITCTransmission* First Mortgage Bonds require the principal amount to be repaid at maturity.

ITC Holdings is a party to a \$50.0 million revolving credit facility with a syndicate of lenders. The revolving credit facility contains a \$10.0 million letter of credit sub-facility for which no amounts were outstanding at December 31, 2005 or 2004. The revolving credit facility has a maturity date of March 10, 2010. Borrowings under the revolving credit facility bear interest, at ITC Holdings' option, at either LIBOR plus 1.50% each year or the alternate base rate plus 0.50% each year, which applicable spreads are subject to adjustment based on the ratings by Moody's Investor Service, Inc. and Standard & Poor's Ratings Services applicable to ITC Holdings' senior notes from time to time. ITC Holdings' revolving credit facility provides for the payment to the lenders of a commitment fee on the average daily unused commitments under the revolving credit facility at a rate equal to 0.375% each year and a letter of credit fee on the average daily stated amount of all outstanding letters of credit at a rate equal to the then-applicable spread for LIBOR loans, in each case payable quarterly in arrears. ITC Holdings' revolving credit facility also provides for the payment to Canadian Imperial Bank of Commerce, as letter of credit issuer, of a letter of credit fronting fee on the average daily stated amount of all outstanding letters of credit at a rate equal to 0.125% each year, payable quarterly in arrears.

*ITCTransmission* is a party to a \$75.0 million revolving credit facility with a syndicate of lenders that matures on March 10, 2010. Borrowings under *ITCTransmission's* revolving credit facility bear interest, at *ITCTransmission's* option, at either LIBOR plus 1.05% each year or the alternate base rate plus 0.05% each year, which applicable spreads are subject to adjustment based on the ratings by Moody's Investor Service, Inc. and Standard & Poor's Ratings Services applicable to *ITCTransmission's* First Mortgage Bonds from time to time. *ITCTransmission's* revolving credit facility also provides for the payment to the lenders of a commitment fee on the average daily unused commitments under the revolving credit facility at a rate equal to 0.50% each year, payable quarterly in arrears.

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ITC*Transmission* also issued \$75.0 million of its First Mortgage Bonds Series B due March 10, 2010 in support of its revolving credit facility. The ITC*Transmission* Series B Mortgage Bonds are supported by a first mortgage lien on substantially all of ITC*Transmission*'s property. Under the terms of the ITC*Transmission* Series B Mortgage Bonds, ITC*Transmission* is required to make interest or principal payments on the ITC*Transmission* Series B Mortgage Bonds only if ITC*Transmission* defaults on interest or principal payments under its revolving credit facility. ITC*Transmission* has not defaulted on its interest or principal payments under its revolving credit facility.

The ITC Holdings Senior Notes, ITC*Transmission* First Mortgage Bonds and our revolving credit facilities contain numerous financial and operating covenants that place significant restrictions on, among other things, our ability to:

incur additional indebtedness;

engage in sale and lease-back transactions;

create liens or other encumbrances;

enter into mergers, consolidations, liquidations or dissolutions, or sell or otherwise dispose of all or substantially all of our assets; and

pay dividends or make distributions on ITC Holdings and ITC*Transmission*'s capital stock.

ITC*Transmission*'s revolving credit facility requires ITC*Transmission* to maintain a ratio of total debt to total capitalization (calculated as total debt plus total stockholder's equity) of less than or equal to 60%, and ITC Holdings' revolving credit facility requires ITC Holdings to maintain a ratio of total debt to total capitalization (calculated as total debt plus total stockholders' equity) of less than or equal to 85%. Both ITC*Transmission* and ITC Holdings have complied with their respective total debt to total capitalization ratios over the life of the revolving credit facilities as well as their other covenants.

Concurrently with this offering and with ITC Holdings' acquisition of the indirect ownership interests in METC, ITC Holdings will issue approximately \$460.0 million of senior notes. In addition, we expect that METC will refinance the majority of its currently existing debt, consisting of \$175.0 million aggregate principal amount of METC Notes and a \$35.0 million revolving credit facility, and replace such debt with approximately \$155.0 million aggregate principal amount of METC Mortgage Bonds and a new \$50.0 million revolving credit facility, in each case with substantially the same terms as those of ITC*Transmission* described above. In addition, upon consummation of ITC Holdings' acquisition of the indirect ownership interests in METC, we expect MTH to redeem \$90.0 million of the MTH Notes. In lieu of redeeming the MTH Notes, MTH may elect to leave them outstanding. For a more detailed description of the MTH Notes, see "Description of Our Indebtedness MTH and METC Debt."

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The following table summarizes cash flows for the periods indicated:

	ITC Holdings and Subsidiaries				2003 Pro Forma Period (Unaudited)	ITC Holdings and Subsidiaries	Predecessor ITC <i>Transmission</i>
	Three Months Ended March 31,		Year ended December 31,			Period From February 28, 2003 (Date of Acquisition) Through December 31, 2003	Two-Month Period Ended February 28, 2003
	2006	2005	2005	2004			
	(in thousands)						
<b>Cash Flows from Operating Activities</b>							
Net income (loss)	\$ 2,682	\$ 7,870	\$ 34,671	\$ 2,608	\$ (4,569)	\$ (8,054)	\$ 3,485
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:							
Depreciation and amortization expense	8,870	8,018	33,197	29,480	25,128	21,463	3,665
Loss on extinguishment of debt					11,378	11,378	
Deferred income taxes	1,412	4,320	17,473	1,435	(5,133)	(4,306)	(827)
Other	1,888	1,043	1,217	2,485	13,731	13,731	
Changes in current assets and liabilities, exclusive of changes shown separately	(13,727)	(31,063)	(24,884)	13,638	(17,644)	18,664	(36,308)
Net cash provided by (used in) operating activities	1,125	(9,812)	61,674	49,646	22,891	52,876	(29,985)
<b>Cash Flows from Investing Activities</b>							
Expenditures for property, plant and equipment	(28,709)	(36,112)	(118,586)	(76,779)	(32,421)	(26,805)	(5,616)
Acquisition of ITC <i>Transmission</i> and related costs					(634,004)	(634,004)	
Change in affiliated note receivable					72,355		72,355
Other		229	5,650	308	(1,988)	(2,000)	12
Net cash provided by (used in) investing activities	(28,709)	(35,883)	(112,936)	(76,471)	(596,058)	(662,809)	66,751
<b>Cash Flows from Financing Activities</b>							
Net borrowing/repayment of long-term debt	99,890		(46)	46	456,593	456,593	
Net borrowings under revolving credit facilities	(58,300)	36,300	33,800	32,500			
Dividends and distributions on common stock	(8,731)		(17,433)		(27,095)	(27,095)	
Acquisition-related debt issuance costs					(20,878)	(20,878)	
Issuance/repurchase of common stock net	118		53,383	1,020	218,675	218,675	
Common stock issuance costs		(145)	(7,083)				
Cash effect of assets and liabilities transferred to DTE Energy					(36,766)		(36,766)
Other	(1,383)	(671)	(842)	(806)	(9,223)	(9,223)	
Net cash provided by (used in) financing activities	31,594	35,484	61,779	32,760	581,306	618,072	(36,766)
<b>Net Increase in Cash and Cash Equivalents</b>	4,010	(10,211)	10,517	5,935	8,139	8,139	
<b>Cash and Cash Equivalents</b> Beginning of period	24,591	14,074	14,074	8,139			

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		<b>ITC Holdings and Subsidiaries</b>					
<b>Cash and Cash Equivalents</b>	End of						
period		\$ 28,601	\$ 3,863	\$ 24,591	\$ 14,074	\$ 8,139	\$ 8,139

*Cash Flows From Operating Activities*

*Three Months Ended March 31, 2006 compared to Three Months Ended March 31, 2005*

We generally experience low operating cash flows during the first quarter as a result of the seasonality of operating revenues, as well as property taxes and interest payments made during the first quarter. The increase in operating cash flows in the first quarter of 2006 compared with 2005 was primarily due to the refund to customers of \$12.8 million of 2004 point-to-point revenues paid during the three months ended March 31, 2005. This increase in operating cash flows was partially offset by a

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\$3.4 million decrease in operating revenues for the three months ended March 31, 2006 primarily related to lower point-to-point revenues in 2006 compared to 2005.

### *Year Ended December 31, 2005 compared to Year Ended December 31, 2004*

The increase was primarily due to higher network revenues of \$62.8 million in 2005 compared to 2004 as a result of the end of the rate freeze on December 31, 2004 and higher peak loads. This was partially offset by decreases in cash flows due to higher operating and maintenance expenses in 2005 and the termination of management agreements of \$6.7 million. We did not pay any significant amounts of federal income taxes during 2005 or 2004.

### *Year Ended December 31, 2004 compared to the 2003 Pro Forma Period*

The increase was primarily due to the changes in operating cash flows from Predecessor ITCTransmission during the 2003 pro forma period, which primarily consisted of the settlement of intercompany balances included in working capital prior to our acquisition of Predecessor ITCTransmission from DTE Energy.

### ***Cash Flows From Investing Activities***

#### *Three Months Ended March 31, 2006 compared to Three Months Ended March 31, 2005*

The decrease in cash used in investing activities was primarily due to the timing of payments for our additions to property, plant and equipment.

#### *Year Ended December 31, 2005 compared to Year Ended December 31, 2004*

The increase in cash used in investing activities was primarily due to higher expenditures for property, plant and equipment in 2005.

#### *Year Ended December 31, 2004 compared to the 2003 Pro Forma Period*

The majority of our cash outflows for 2004 related to expenditures for property, plant and equipment.

The cash outflow for the 2003 pro forma period was primarily due to our acquisition of Predecessor ITCTransmission from DTE Energy for \$618.3 million, plus transaction costs of \$15.7 million, and expenditures for property, plant and equipment, partially offset by changes in the affiliated note receivable at Predecessor ITCTransmission.

### ***Cash Flows From Financing Activities***

#### *Three Months Ended March 31, 2006 compared to Three Months Ended March 31, 2005*

The decrease was due primarily to dividends paid during the three months ended March 31, 2006 of \$8.7 million partially offset by net increases in borrowing activities.

Proceeds from ITCTransmission's \$100.0 million (\$99.9 million net of discount) bond offering on March 28, 2006 were used primarily to repay amounts that were outstanding under ITCTransmission's revolving credit facility of \$70.0 million. The remaining proceeds are expected to be used to partially fund our capital expenditure program and for general corporate purposes.

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### *Year Ended December 31, 2005 compared to Year Ended December 31, 2004*

The increase was primarily due to proceeds of \$53.9 million (net of the underwriting discount) received from ITC Holdings' initial public offering less issuance costs of \$7.1 million partially offset by 2005 dividend payments on common stock of \$17.4 million.

ITCTransmission had \$66.3 million and \$25.0 million outstanding under its revolving credit facility at December 31, 2005 and 2004, respectively.

ITC Holdings had no amounts outstanding under its revolving credit facility as of December 31, 2005 and had borrowings of \$7.5 million under its revolving credit facility at December 31, 2004.

### *Year Ended December 31, 2004 compared to the 2003 Pro Forma Period*

The majority of our cash inflows for 2004 represented primarily net borrowings under the revolving credit facilities. In July 2003, the original term loans borrowed in connection with our acquisition of Predecessor ITCTransmission from DTE Energy were refinanced through the issuance of the ITC Holdings 5.25% Senior Notes due July 15, 2013 and the ITCTransmission 4.45% First Mortgage Bonds Series A due July 15, 2013. The proceeds of both issues were used to redeem the term loans used to partially finance the acquisition and, in addition, ITC Holdings' proceeds were used in part to make a \$27.1 million distribution to its stockholders, or \$0.897 per share of common stock. Additionally, in the two months ended February 28, 2003, Predecessor ITCTransmission and DTE Energy settled intercompany balances that resulted in cash outflows of \$36.8 million.

### Contractual Obligations

During the three months ended March 31, 2006, there have been no material changes to our contractual obligations since December 31, 2005 outside the ordinary course of business, other than the issuance of \$100.0 million of ITCTransmission's 6.125% First Mortgage Bonds, Series C in March 2006. The following table details our contractual obligations as of December 31, 2005:

	<u>Total</u>	<u>Less than 1 year</u>	<u>1 3 years</u>	<u>4 5 years</u>	<u>More than 5 years</u>
	(in thousands)				
<b>Long-term debt:</b>					
ITCTransmission 4.45% First Mortgage Bonds	\$ 185,000	\$	\$	\$	\$ 185,000
ITCTransmission revolving credit facility	66,300		66,300		
ITC Holdings 5.25% Senior Notes	267,000				267,000
<b>Interest payments:</b>					
ITCTransmission 4.45% First Mortgage Bonds	62,111	8,233	24,698	16,465	12,715
ITC Holdings 5.25% Senior Notes	105,755	14,018	42,053	28,035	21,649
Operating leases	2,010	823	1,187		
Deferred payables	4,887	1,222	3,665		
Property, plant and equipment-related	49,509	44,767	4,742		
Minimum pension funding	36	36			
<b>Total obligations</b>	<b>\$ 742,608</b>	<b>\$ 69,099</b>	<b>\$ 142,645</b>	<b>\$ 44,500</b>	<b>\$ 486,364</b>

Interest payments included above relate to our fixed-rate long-term debt. We also expect to pay interest and commitment fees under our variable-rate revolving credit facilities that have not been included above due to varying amounts of borrowings and interest rates under the facilities.

Pursuant to the terms of the SLA, deferred payables were recorded for operation and maintenance expenses incurred by ITCTransmission under the SLA during the period from February 28, 2003 through December 31, 2003 to the extent these expenses exceeded \$15.9 million. The deferred payables



were recognized as expense but payment was deferred as a long-term payable and subsequently paid to Detroit Edison in five equal annual installments of \$1.2 million, which began on June 30, 2005.

The property, plant and equipment-related items represent commitments for materials, services and equipment that had not been received as of December 31, 2005, primarily for construction and maintenance projects for which we have an executed contract. The majority of the items relate to materials and equipment that have long production lead times.

The minimum pension funding requirement is only estimable for 2006 as of December 31, 2005. Our minimum contribution is less than \$0.1 million, which is included above; however, we expect to contribute \$1.8 million to our retirement plan during 2006. It is expected that there will be additional minimum funding requirements in future years. Additionally, we have no minimum funding requirement for our postretirement benefits plans as of December 31, 2005.

#### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements that have or are reasonably likely to have a material effect on our financial condition.

#### **Quantitative and Qualitative Disclosures About Market Risk**

##### **Commodity Price Risk**

*ITCTransmission* has commodity price risk arising from market price fluctuations for materials such as copper, aluminum, steel, oil and gas and other goods used in construction and maintenance activities. Higher costs of these materials are passed on to *ITCTransmission* by the contractors for these activities. These costs are a component of the tariff rate under Attachment O, which has the effect of offsetting the earnings effect of these higher costs by increasing the tariff rate in the following year, all other factors being constant.

##### **Interest Rate Risk**

At March 31, 2006, ITC Holdings had \$8.0 million outstanding under its revolving credit facility, which are variable rate loans and therefore fair value approximates book value. A 10% increase in ITC Holdings' short-term borrowing rate, from 6.0% to 6.6% for example, would increase interest expense by \$0.1 million for an annual period on a constant borrowing level of \$8.0 million.

Based on the borrowing rates currently available for bank loans with similar terms and average maturities, the fair value of the *ITCTransmission* 4.45% First Mortgage Bonds Series A, *ITCTransmission* 6.125% First Mortgage Bonds Series C, and ITC Holdings 5.25% Senior Notes was \$522.9 million at March 31, 2006. The total book value of the *ITCTransmission* 4.45% First Mortgage Bonds Series A, *ITCTransmission* 6.125% First Mortgage Bonds Series C, and ITC Holdings 5.25% Senior Notes was \$550.9 million at March 31, 2006. We performed an analysis calculating the impact of changes in interest rates on the fair value of long-term debt at March 31, 2006. An increase in interest rates of 10% at March 31, 2006 would decrease the fair value of debt by \$23.0 million, and a decrease in interest rates of 10% at March 31, 2006 would increase the fair value of debt by \$24.8 million.

At December 31, 2005, *ITCTransmission* had \$66.3 million outstanding under its revolving credit facility which are variable rate loans and therefore fair value approximates book value. A 10% increase in *ITCTransmission's* short-term borrowing rate, from 6.0% to 6.6% for example, would increase interest expense by \$0.4 million for an annual period on a constant borrowing level of \$66.3 million.

Based on the borrowing rates currently available for bank loans with similar terms and average maturities, the fair value of the *ITCTransmission* 4.45% First Mortgage Bonds and ITC Holdings 5.25% Senior Notes was \$435.2 million at December 31, 2005. The total book value of the *ITCTransmission*



4.45% First Mortgage Bonds and ITC Holdings 5.25% Senior Notes was \$451.0 million at December 31, 2005. We performed an analysis calculating the impact of changes in interest rates on the fair value of long-term debt at December 31, 2005. An increase in interest rates of 10% at December 31, 2005 would decrease the fair value of debt by \$15.2 million, and a decrease in interest rates of 10% at December 31, 2005 would increase the fair value of debt by \$15.9 million.

### **Credit Risk**

Our credit risk is primarily with Detroit Edison, which was responsible for approximately 77% of our total operating revenues for 2005. Under Detroit Edison's current rate structure, Detroit Edison includes in its retail rates the cost of transmission services provided by *ITCTransmission* in its billings to its customers, effectively passing through to end-use consumers the total cost of transmission service. However, any financial difficulties experienced by Detroit Edison may affect Detroit Edison's ability to make its payments for transmission service to *ITCTransmission* which could negatively impact our business. MISO, as *ITCTransmission's* billing agent, bills Detroit Edison and other *ITCTransmission* customers on a monthly basis and collects fees for the use of *ITCTransmission's* transmission system. MISO has implemented strict credit policies for its members, which include customers using *ITCTransmission's* transmission system. In general, if these customers do not maintain their investment grade credit rating or have a history of late payments, MISO may require them to provide MISO with a letter of credit or cash deposit equal to the highest monthly invoiced amount over the previous 12 months. There has been no material change in credit risk during the three months ended March 31, 2006.

### **Recent Accounting Pronouncements**

#### **Statement of Financial Accounting Standards 123(R), Share Based Payment**

Statement of Financial Accounting Standards 123(R) "Share Based Payment," or SFAS 123(R), requires all entities to recognize compensation expense in an amount equal to the fair value of share-based payments made to employees, among other requirements. We adopted SFAS 123(R) on January 1, 2006 using the modified prospective method. Through December 31, 2005, we had accounted for our stock-based compensation under the expense recognition provisions of Statement of Financial Accounting Standards 123 "Accounting for Stock-Based Compensation," or SFAS 123.

The adoption of SFAS 123(R) resulted in an increase in income before taxes and net income of less than \$0.1 million and an increase in basic and diluted earnings per share of less than \$0.01 for the three months ended March 31, 2006. We did not adjust prior year amounts upon adopting SFAS 123(R) using the modified prospective method.

We recorded less than \$0.1 million of income net of tax as the cumulative effect of a change in accounting principle, resulting from our accounting under SFAS 123(R) for unvested awards that may be forfeited prior to vesting. Under SFAS 123, we recognized the effect of forfeitures on unvested awards in the periods in which they occurred. Upon the adoption of SFAS 123(R), the effect of expected forfeitures on unvested awards was estimated and reduced the cumulative amount of stock compensation expense recorded as of January 1, 2006.

Additionally, prior to the adoption of SFAS 123(R), we recorded tax deductions that exceeded the cumulative compensation cost recognized for options exercised or restricted shares that vested as increases to additional paid-in capital and increases in deferred tax assets for tax loss carryforwards in the Consolidated Statement of Financial Position. SFAS 123(R) requires that the excess tax deductions be recognized as additional paid-in capital only if that deduction reduces taxes payable as a result of a realized cash benefit from the deduction. For the three months ended March 31, 2006, we did not recognize excess tax deductions of \$0.1 million as additional paid-in capital, as the deductions have not resulted in a reduction of taxes payable due to our tax loss carryforwards. Also, prior to the adoption

of SFAS 123(R), any cash tax benefits realized from tax deductions for share-based awards would have been presented as operating cash flows in the Consolidated Statement of Cash Flows. SFAS 123(R) requires the cash flows resulting from realized cash tax benefits to be classified as financing cash flows. The provisions of SFAS 123(R) were recognized prospectively in the Condensed Consolidated Statement of Cash Flows and had no effect for the three months ended March 31, 2006.

**Statement of Financial Accounting Standards 154, Accounting Changes and Error Corrections**

In May 2005, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards 154, "Accounting Changes and Error Corrections a replacement of Accounting Principles Board Opinion No. 20 and Statement of Financial Accounting Standards 3," or SFAS 154. SFAS 154 applies to all voluntary changes in accounting principles and changes required by an accounting pronouncement where no specific transition provisions are included. SFAS 154 requires retrospective application to prior period financial statements of changes in accounting principles, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. Retrospective application is limited to the direct effects of the change. The indirect effects should be recognized beginning in the period of the change. SFAS 154 carries forward the guidance contained in Accounting Principles Board Opinion No. 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimate. However, SFAS 154 redefines restatement as the revision of previously issued financial statements to reflect the correction of an error. The provisions of SFAS 154 were effective for us beginning January 1, 2006. The adoption of SFAS 154 had no impact on our condensed consolidated financial statements.

## INDUSTRY OVERVIEW

### Regulatory Environment

Electricity transmission is the flow of electricity at high voltages from electricity generation resources to local distribution systems. Regulators and public policy makers have seen the need for further investment in the transmission grid. The growth in electricity generation, wholesale power sales and consumption versus transmission investment has resulted in significant transmission constraints across the United States and increased stress on aging equipment. These problems will continue without increased investment in transmission infrastructure. Transmission system investments can also increase system reliability and reduce the frequency of power outages. Such investments can reduce transmission constraints and improve access to lower cost generation resources, resulting in a lower overall cost of delivered electricity for end-use consumers. After the 2003 blackout that affected sections of the northeastern and midwestern United States and Ontario, Canada, the Department of Energy established the Office of Electricity Delivery and Energy Reliability, which is focused on working with reliability experts from the power industry, state governments, and their Canadian counterparts to improve grid reliability and increase investment in the country's electric infrastructure. In addition, the FERC has signaled its desire for substantial new investment in the transmission sector by implementing financial incentives, such as increasing the return on equity for transmission-only companies to a level that is greater than that of traditional utilities.

The FERC has issued orders to promote non-discriminatory transmission access for all transmission customers. In the United States, electricity transmission assets are predominantly owned, operated and maintained by utilities that also own electricity generation and distribution assets, known as vertically integrated utilities. The FERC has recognized that the vertically integrated utility model inhibits the provision of non-discriminatory transmission access and, in order to alleviate this discrimination, the FERC has mandated that all transmission systems over which it has jurisdiction must be operated in a comparable, non-discriminatory manner such that any seller of electricity affiliated with a transmission owner or operator is not provided with preferential treatment. The FERC has also indicated that independent transmission companies can play a prominent role in furthering its policy goals and has encouraged the legal and functional separation of transmission operations from generation and distribution operations.

In 2005, the Energy Policy Act was signed into law. In part, the Energy Policy Act required FERC to implement rules to encourage investment in electricity transmission infrastructure and authorized FERC to implement mandatory transmission reliability standards. In addition, the Energy Policy Act directed the Department of Energy to investigate and designate corridors along which the construction of electricity transmission infrastructure is in the national interest, and authorized FERC to determine siting of transmission facilities in such corridors in certain circumstances.

To implement the Energy Policy Act, the FERC has proposed transmission pricing reforms designed to provide incentives for and promote needed investment in energy infrastructure. Incentives proposed by the FERC to promote transmission investment include returns on equity sufficient to encourage investment, recovery of transmission-related construction work in progress, allowing hypothetical capital structures to provide flexibility needed to maintain the viability of transmission projects, accelerating recovery of depreciation expense, allowing deferred cost recovery, providing higher returns on equity for joining transmission organizations, recovery of project development costs where projects are canceled due to circumstances outside the utility's control and expensing of pre-commercial operation costs allowing for immediate cash flow. These proposals are the subject of a rulemaking proceeding currently pending before the FERC, in which no final decision has yet been issued.

In addition, the FERC has established rules related to the establishment of an Electric Reliability Organization, which will provide for mandatory and enforceable rules related to transmission reliability.

We anticipate we will assess our transmission systems against standards implemented by that organization. We also expect the FERC and/or the U.S. Department of Energy to finalize rules under which *ITCTransmission* and METC may qualify for assistance in siting of such infrastructure. Finally, the Energy Policy Act repealed the Public Utility Holding Company Act of 1935. It also subjected utility holding companies to regulations of the FERC related to access to books and records, and amended Section 203 of the FPA to provide explicit authority for the FERC to review mergers and consolidations involving utility holding companies, and acquisitions of securities by holding companies, in certain circumstances.

### **Federal Regulation**

As electricity transmission companies, each of *ITCTransmission* and METC is regulated by FERC. The FERC is an independent regulatory commission within the Department of Energy that regulates, among other things, the interstate transmission and certain wholesale sales of natural gas, the transmission of oil and oil products by pipeline, and the transmission and wholesale sale of electricity in interstate commerce. The FERC also administers accounting and financial reporting regulations and standards of conduct for the companies it regulates. In 1996, in order to facilitate open access transmission for participants in wholesale power markets, the FERC issued Order No. 888. The open access policy promulgated by the FERC in Order No. 888 was upheld in a United States Supreme Court decision issued on March 4, 2002. To facilitate open access, among other things, Order No. 888 encouraged investor owned utilities to cede operational control over their transmission systems to Independent System Operators, or ISOs, which are not-for-profit entities.

As an alternative to ceding operating control of their transmission assets to ISOs, certain investor owned utilities began to promote the formation of for-profit transmission companies, which would assume control of the operation of the grid. In December 1999, the FERC issued Order No. 2000, which strongly encouraged utilities to voluntarily transfer operational control of their transmission systems to Regional Transmission Organizations, or RTOs. RTOs, as envisioned in Order No. 2000, would assume many of the functions of an ISO, but the FERC permitted greater flexibility with regard to the organization and structure of RTOs than it had for ISOs. RTOs could accommodate the inclusion of independently owned, for-profit companies that own transmission assets within their operating structure. Independent ownership would facilitate not only the independent operation of the transmission systems but also the formation of companies with a greater financial interest in maintaining and augmenting the capacity and reliability of those systems.

MISO was formed in 1996 as a voluntary association of electricity transmission owners consistent with the principles in FERC Order No. 888. Later, in response to Order 2000, MISO evolved into a FERC-approved RTO with an open architecture framework capable of accommodating a variety of business models including independently owned, for-profit transmission companies. MISO is responsible for coordinating the operation of the wholesale electricity transmission system and ensuring fair, non-discriminatory access to the transmission grid.

### **State Regulation**

The MPSC does not have jurisdiction to regulate *ITCTransmission's* or METC's rates or terms and conditions of service, but it has jurisdiction over siting of new transmission lines. Pursuant to Michigan Public Acts 197 and 198 of 2004, *ITCTransmission* and METC each has the right as an independent transmission company to condemn property in the State of Michigan for the purpose of building new transmission facilities.

*ITCTransmission* and METC are also subject to the regulatory oversight of the Michigan Department of Environmental Quality for compliance with all environmental standards and regulations.

## RATE SETTING

### Attachment O Rate Setting

Attachment O is a FERC-approved cost of service formula rate template that is completed annually by most transmission owning members of MISO, including both *ITCTransmission* and METC. Rates are set annually under Attachment O and are in effect for the one year period beginning June 1 of each year. For the purpose of determining rates for the period from June 1, 2005 through May 31, 2006, *ITCTransmission's* Attachment O and METC's Attachment O primarily used selected financial and operating data as reported on the FERC Form No. 1s filed by these companies as of and for the year ended December 31, 2004 and their respective network loads for 2004. As a result, the Attachment O rate has been based on data collected during the year ended five months prior to implementation of an updated Attachment O rate. To the extent that actual conditions during the 12-month period during which that rate is in place vary from the data on which the Attachment O rate was based, *ITCTransmission* and METC recover more or less than their respective revenue requirements for that period. *ITCTransmission* has filed in FERC Docket No. ER06-1006 for authorization to base its Attachment O rate on a projection of its revenue requirement, rather than on historical data from FERC Form No. 1.

Rates derived using Attachment O are posted on the MISO Open Access Same-Time Information System on June 1 of each calendar year. The information used to complete the Attachment O template is subject to verification by MISO. By completing the Attachment O template on an annual basis, we are able to adjust our transmission rates to reflect operational data and financial performance experienced in the prior calendar year, including the amount of network load on our transmission system, operating expenses and capital expenditures in respect of additions to property, plant and equipment when placed in service. Because Attachment O is a FERC-approved formula rate, no further action or FERC filings are required for the calculated rates to go into effect, although the rate is subject to legal challenge at the FERC.

Attachment O will be used by *ITCTransmission* and METC to calculate their respective annual revenue requirements until and unless it is determined by the FERC to be unjust and unreasonable or another mechanism is determined by the FERC to be just and reasonable.

The following three steps illustrate *ITCTransmission's* and METC's rate setting methodology:

#### Step One Establish Rate Base and Calculate Allowed Return

Rate base is calculated at December 31 each year and consists primarily of in-service property, plant and equipment, net of accumulated depreciation. Property, plant and equipment additions for completed projects are added to rate base on an annual basis.

*ITCTransmission's* rate base also includes an accumulated deferred income tax adjustment, a regulatory asset approved for recovery by the FERC at the time of ITC Holdings' acquisition of Predecessor *ITCTransmission* from DTE Energy, and an amount known as the revenue deferral made up of the difference between the revenue *ITCTransmission* would have collected under Attachment O and the actual revenue *ITCTransmission* received during the rate freeze based on the frozen rate, as well as other items. METC's rate base also includes an accumulated deferred income tax adjustment,

which is a regulatory asset approved for recovery by the FERC at the time of MTH's acquisition of METC from Consumers Energy and an amount comprised of the deferral of the revenue requirement plus carrying charges associated with the plant investment made by METC from 2001 through 2005 when METC was subject to a rate freeze.

Rate base is multiplied by the transmission company's weighted average cost of capital to determine the allowed return on rate base. The weighted average cost of capital is calculated using the actual capital structure of the transmission company, the pre-tax cost of the debt portion of our respective operating subsidiary's capital structure and, in the case of *ITCTransmission*, a FERC-approved 13.88% return on the actual equity portion of its capital structure and, in the case of METC, a FERC-authorized 13.38% return on the actual equity portion of METC's capital structure.

*Step Two Calculate Revenue Requirement*

The gross revenue requirement is calculated beginning with the allowed return on rate base, as calculated in Step One above and adding recoverable operating expenses, including depreciation and amortization and taxes and, in the case of METC, deducting scheduling, system control and dispatch expenses.

*Step Three Calculate Transmission Rate*

After calculating the gross revenue requirement in Step Two above, each of *ITCTransmission* and METC is required to reduce the gross revenue requirement for certain revenues, other than network revenues, such as point-to-point and rental revenues, which it generated during the prior year. This net amount represents revenues to be recovered from network customers through transmission rates. This transmission rate is calculated by dividing the net revenue requirement by the prior year's annual network load.

***ITCTransmission Rate Setting***

In its February 20, 2003 order, the FERC accepted *ITCTransmission's* proposed return of 13.88% on the actual equity portion of its capital structure. *ITCTransmission's* proposal to use its actual capital structure, targeting 60% equity and 40% debt, was also accepted by the FERC. Since Attachment O is a FERC-approved rate formula, no FERC rate filing is required to put the calculated rates into effect.

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*Illustration of Attachment O Rate Setting.* Set forth below is a simplified illustration of the calculation of ITCTransmission's monthly network and point-to-point rates under the Attachment O rate setting mechanism for the period from June 1, 2006 through May 31, 2007, based primarily upon ITCTransmission's 2005 FERC Form No. 1 data.

Line	Attachment O Items	Instructions	Amount
1	Rate Base (as of December 31, 2005)		\$ 612,146,488
2	Multiply by Weighted Average Cost of Capital relying on data from the 2005 FERC Form No. 1(1)		10.49%
3	Allowed Return on Rate Base	(Line 1 × Line 2)	\$ 64,214,167
4	Recoverable Operating Expenses		\$ 65,259,540
5	Taxes and Depreciation and Amortization		\$ 85,925,477
6	Allowed Return on Rate Base	(Line 3)	\$ 64,214,167
7	Gross Revenue Requirement	(Line 4 + Line 5 + Line 6)	\$ 215,399,184
8	Less Revenue Credits		\$ 22,116,799
9	Net Revenue Requirement	(Line 7 - Line 8)	\$ 193,282,385
10	Divide by 2005 Network Load (in kW)		9,238,083
11	Annual Network and P-T-P Transmission Rate	(Line 9 divided by Line 10)	\$ 20.922
12	Monthly Network and P-T-P Transmission Rate (\$/kW per month)	(Line 11 divided by 12)	\$ 1.744

(1) The weighted average cost of capital for purposes of this illustration is calculated as follows:

	Percentage of ITCTransmission's Total Capitalization		Cost of Capital		Weighted Average Cost of Capital
Debt	39.94	x	5.40%	(Pre-tax)=	2.15%
Equity	60.06	x	13.88%	(After tax)=	8.34%
	100.00				10.49%

### METC Rate Setting

#### *Ratemaking History*

In connection with the acquisition of METC by MTH in May 2002, METC, MTH and Consumers Energy submitted a joint application to the FERC seeking authorization for the acquisition of METC and its transmission facilities by MTH and for the FERC's authorization to charge a fixed rate of \$0.98 per kW/month for network and point-to-point transmission services and \$0.056 per kW/month for scheduling, system control and dispatch service charges for the period from May 1, 2002 through December 31, 2005. METC and its then owners agreed to freeze METC's transmission rates for network and point-to-point transmission services at \$0.98 per kW/month during this period as an accommodation to Consumers Energy, which was subject to a retail rate freeze from the MPSC through December 31, 2005.

In addition to the authorized rate freeze, METC sought FERC authority to:

- (1) defer recovery, until after December 31, 2005, of depreciation and a return on investment in new transmission facilities incurred during the period from January 1, 2001 through December 31, 2005, to be amortized over a five-year period beginning January 1, 2006;





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- (2) create a regulatory asset equal to the amount of accumulated deferred income tax, or ADIT adder, included on METC's balance sheet on May 1, 2002, to be amortized over a 20-year period beginning January 1, 2006; and
- (3) defer recovery of, until after December 31, 2005, the carrying costs on the amounts stated in (1) and (2) accrued annually from January 1, 2001 through December 31, 2005.

By order dated February 13, 2002, and subsequent order on rehearing dated March 29, 2002, the FERC authorized the proposed fixed transmission rates effective on the closing of the sale of METC by Consumers Energy on May 1, 2002, and authorized the proposed rate freeze and deferrals through December 31, 2004, subject to METC becoming a transmission owner within MISO. By order dated May 28, 2004, the FERC authorized METC to extend the authorized rate freeze and deferrals through December 31, 2005, as requested in the initial application.

On September 12, 2003, METC filed for authorization to calculate its overall rate of return on the deferrals authorized by the FERC in its February 2002 and March 2002 orders using a 13.88% rate of return on the actual equity portion of METC's deemed capital structure of 50% debt and 50% equity through December 31, 2004 and METC's actual capital structure for the year ended December 31, 2005, and METC's actual cost of debt. By order dated November 17, 2003, the FERC authorized the requested return on equity and capital structure for use in calculating METC's authorized deferrals.

### *Recent Rate Case*

On December 30, 2005, the FERC authorized METC to charge rates based on the application of the formula rate contained in Attachment O beginning on January 1, 2006, subject to specified adjustments. The FERC's rate order authorized METC to set rates for network and point-to-point transmission customers by using data reported annually in METC's FERC Form No. 1, subject to:

adjustments to METC's net revenue requirements calculation to include a regulatory asset equal to the authorized deferrals of amounts not included in rate base during the period from January 1, 2001 through December 31, 2005, including an estimated amount for these deferrals for 2005;

adjustments to METC's equity account balance to remove goodwill resulting from a December 2003 sale of partnership interests in MTH; and

the inclusion of an allowance for income taxes attributable to MTH's equity interest holders.

The FERC's December 2005 rate order also authorized METC to earn a return of 13.38% on the actual equity portion of its actual capital structure in calculating the Attachment O formula rates. In addition, the rate order permitted METC, along with MISO and other members of MISO, to request in a separate future FERC proceeding an additional 50 basis point return on the equity portion of its capital structure based on participation in MISO as a FERC-approved RTO. If approved, this request would permit METC to use a 13.88% rate of return on the actual equity portion of its capital structure. In addition, consistent with a recent policy statement and other orders applicable to partnerships and other pass-through entities, the FERC authorized METC to include in rates an allowance for income taxes attributable to METC's owners as a result of utility income from METC, computed in accordance with the methodology provided in Attachment O. Finally, METC was authorized to charge the same MISO system-wide rate for scheduling, system control and dispatching services as determined by a separate MISO formula.

The FERC's December 2005 rate order set certain issues for hearing, including:

the need for a mechanism to avoid over-collection of amounts deferred during the period from January 1, 2001 through December 31, 2005;

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the adequacy of information used to calculate those deferrals;

the reasonableness of fees for services provided by Trans-Elect that are included in the calculation of METC's rate base;

the proper calculation of the adjustment to METC's equity account balance resulting from the December 2003 sale of partnership interests; and

the need for additional information regarding expenses associated with METC's operation and maintenance of facilities that are jointly owned with others.

A hearing was scheduled for the third quarter of 2006; however, the proceedings have been suspended until September 1, 2006, pending the consummation of ITC Holdings' acquisition of the indirect ownership interests in METC. A final decision by the FERC is expected in 2007.

In addition to the FERC's rulings on the issues set for further hearing in the December 2005 rate order, the December 2005 rate order itself is, and any subsequent orders regarding METC's rates are, as is the case with any FERC order, subject to further rehearing requests at the FERC and judicial review in a United States Court of Appeals. In particular, Consumers Energy and the MPSC have filed requests for rehearing of the FERC's December 2005 rate order with respect to the following issues:

- (1) the justness and reasonableness of METC's authorized rate of return of 13.38% on the equity portion of its capital structure, including whether METC provided sufficient evidence to support that rate and whether the FERC's use of findings that were made in prior proceedings is permissible;
- (2) the authorization permitting METC to begin, as of January 1, 2006, to recover through the Attachment O formula rate amounts previously deferred during the period from January 1, 2001 through December 31, 2005, instead of delaying recovery of those deferred amounts until June 1, 2006 when Attachment O rates are to be reset using data inputs from 2005; and
- (3) the accounting information that METC should be required to maintain to allow any necessary future adjustments to its equity account balance to remove goodwill resulting from any future transaction, such as the December 2003 sale of partnership interests.

The FERC has not yet acted on the foregoing rehearing requests.

METC also sought clarification or rehearing of the December 2005 rate order regarding the effective date of implementation of any future FERC order authorizing an additional 50 basis points in METC's rate of return on the equity portion of its capital structure based on its membership in MISO, which METC argues should be effective as of January 1, 2006.

If the FERC finds as a result of the hearing referenced above, as part of a settlement among the parties approved by the FERC or as a result of a subsequent rehearing or appeal that the components or calculations used in setting METC's current rates should be modified, METC would be required to refund to its customers, with interest, the difference between the revenue collected under the current rates and the rates calculated using the modified components and calculations. Any required refund would be payable to affected customers within a limited period of time, typically between 30 and 45 days.

### ***Current Ratemaking***

The FERC has authorized METC to use the specified formula rate contained in Attachment O.

Pursuant to the FERC's December 2005 rate order, METC's new rates based on Attachment O, specifically \$1.567 per kW/month charge for network and point-to-point transmission service, became effective as of January 1, 2006, subject to refund as a result of proceedings currently pending before



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the FERC or subsequent judicial review. This rate was based on financial data and load information for the year ended December 31, 2004, and was charged for service on the METC transmission system for the period from January 1, 2006 through May 31, 2006. METC's billed rate became \$1.524 per kW/month on June 1, 2006 and will be charged for service on the METC transmission system for the period from June 1, 2006 through May 31, 2007. Subject to further FERC orders modifying the December 2005 rate order or Attachment O, for the purpose of determining rates for the period from June 1, 2006 through May 31, 2007, MISO will use selected financial and operating data and network load for 2005 reported on METC's FERC Form No. 1 as of and for the year ended December 31, 2005.

To the extent that actual conditions, including load, vary from the data on which the Attachment O formula rate is based, METC may recover more or less than its revenue requirement for that period. By completing the Attachment O template on an annual basis, METC is able to adjust its transmission rates to reflect the operational data and financial performance experienced in the prior calendar year, including the amount of network load on its transmission system, operating expenses and transmission plant additions.

Rates for the provision of scheduling, system control and dispatch services and for ancillary services are not calculated under Attachment O, but are calculated pursuant to separate FERC-approved schedules.

*Illustration of Attachment O Rate Setting.* Set forth below is a simplified illustration of the calculation of METC's monthly network and point-to-point rates under the Attachment O formula rate for the period from June 1, 2006 through May 31, 2007, based primarily upon METC's 2005 FERC Form No. 1 data.

Line	Attachment O Items	Instructions	Amount
1	Rate Base (as of December 31, 2005)(1)		\$ 396,132,571
2	Multiply by Weighted Average Cost of Capital relying on data from the 2005 FERC Form No. 1		9.95%
3	Allowed Return on Rate Base	(Line 1 × Line 2)	\$ 39,415,191
4	Recoverable Operating Expenses		\$ 41,983,985
5	Taxes and Depreciation and Amortization		\$ 59,543,481
6	Allowed Return on Rate Base	(Line 3)	\$ 39,415,191
7	Gross Revenue Requirement	(Line 4 + Line 5 + Line 6)	\$ 140,942,657
8	Less Revenue Credits		\$ 10,830,288
9	Net Revenue Requirement	(Line 7 - Line 8)	\$ 130,112,369
10	Divide by 2005 Network Load (in kW)		7,116,500
11	Annual Network and P-T-P Transmission Rate	(Line 9 divided by Line 10)	\$ 18.283
12	Monthly Network and P-T-P Transmission Rate (\$/kW per month)	(Line 11 divided by 12)	\$ 1.524

(1) The weighted average cost of capital for purposes of this illustration is calculated as follows:

	Percentage of METC's Total Capitalization		Cost of Capital	Weighted Average Cost of Capital
Debt	46.17	x	5.95% (Pre-tax) =	2.75%
Equity	53.83	x	13.38% (After tax) =	7.20%
	100.00			9.95%

## BUSINESS

### Overview

Through our operating subsidiaries, *ITCTransmission* and METC, we are the only publicly traded company engaged exclusively in the transmission of electricity in the United States and the largest independent transmission company in the country based on transmission load served. Our business strategy is to operate, maintain and invest in our transmission infrastructure in order to enhance system integrity and reliability and to reduce transmission constraints. By pursuing this strategy, we seek to reduce the overall cost of delivered energy for end-use consumers by providing them with access to electricity from the lowest cost electricity generation sources. *ITCTransmission* and METC operate contiguous, fully-regulated, high-voltage systems that transmit electricity to local electricity distribution facilities from generating stations throughout Michigan and surrounding areas. The local distribution facilities connected to our systems serve an area comprising substantially all of the lower peninsula of Michigan, which had a population of approximately 9.8 million people at December 31, 2005.

As transmission utilities with rates regulated by the FERC, our subsidiaries earn revenues through fees charged for the use of their electricity transmission systems by our customers, which include investor-owned utilities, municipalities, co-operatives, power marketers and alternative energy suppliers. As independent transmission companies, our subsidiaries are subject to rate regulation only by the FERC. The rates charged by our subsidiaries are established using a formulaic cost-of-service model and re-calculated annually, allowing for the recovery of expenses and income taxes and a return of and on invested capital.

### Background

In 1996, FERC issued Order No. 888, which directed utilities to file open access transmission tariffs allowing the open use of their transmission lines by others on a non-discriminatory basis. In 2000, the State of Michigan enacted legislation to permit unbundled retail electric service and, in part, required major electric utilities, such as Detroit Edison and Consumers Energy, to join an RTO or divest their transmission facilities. In addition, the FERC also issued Order No. 2000 that year regarding the formation and operation of RTOs. Following and concurrent with these regulatory developments, Detroit Edison and Consumers Energy each divested its high voltage electric transmission system, resulting in the formation of *ITCTransmission* and METC.

Effective June 1, 2001, Detroit Edison transferred its transmission assets to Predecessor *ITCTransmission*, a wholly owned subsidiary of DTE Energy. On February 20, 2003, the FERC approved the sale of *ITCTransmission* by DTE Energy to ITC Holdings and the transaction closed on February 28, 2003. After an accelerated transition period order by the FERC during which Detroit Edison performed certain service-related functions for *ITCTransmission*, on April 8, 2004, *ITCTransmission* became an independently operated electricity transmission company.

With respect to METC, effective April 1, 2001, Consumers Energy transferred its transmission assets to its subsidiary known as METC. On February 13, 2002, the FERC approved the sale of METC to MTH and the transaction closed on May 1, 2002. Consumers Energy currently provides certain service-related functions to METC, but the provision of those services by Consumers Energy is expected to terminate in May, 2007.

### The METC Acquisition

On May 11, 2006, ITC Holdings entered into an agreement to acquire all of the indirect ownership interests in METC, *ITCTransmission's* neighboring transmission system, for an aggregate purchase price of approximately \$555.6 million plus the assumption of approximately \$304.7 million of MTH and METC debt and certain liabilities (net of \$6.2 million of cash and cash equivalents), which we, MTH or METC will assume, repay, redeem or refinance in connection with the acquisition. METC's service area covers approximately two-thirds of Michigan's lower peninsula and is contiguous with *ITCTransmission's* service area with nine interconnection points.

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We believe that ITC Holdings' acquisition of all of the indirect ownership interests in METC will provide significant operating and financial benefits through the common ownership of complementary transmission utilities, including:

earnings growth through the creation of opportunities for additional capital projects between the two systems to further our goals of improving reliability and reducing congestion;

enhanced ability to plan and coordinate transmission projects across our systems;

a larger platform for further consolidation of independent transmission assets through the creation of the tenth largest transmission load serving entity in the country;

more efficient operation of the transmission systems, which generate cost savings that will benefit end-use consumers; and

diversification of our customers located in our service territories.

Concurrently with ITC Holdings' acquisition of all of the indirect ownership interests in METC and concurrently with this offering, ITC Holdings will issue approximately \$460.0 million of senior notes and METC will issue approximately \$155.0 million of METC Mortgage Bonds. We expect to use the net proceeds from this offering, together with the net proceeds from the senior notes and the METC Mortgage Bonds private placements, and shares of our common stock with an approximate value of \$70.0 million, to finance the purchase price of METC, assume, repay, redeem or refinance approximately \$304.7 million of MTH and METC debt and certain liabilities (net of \$6.2 million of cash and cash equivalents) and pay related fees and expenses. The consummation of this offering and the private placements of the senior notes and the METC Mortgage Bonds are conditioned upon the closing of the acquisition. The acquisition is subject to customary closing conditions.

### **Business Strengths**

Our strategy is aligned with the FERC's policy objective to promote needed investment in transmission infrastructure in order to enhance competition in wholesale power markets, improve reliability and reduce system constraints to decrease the overall cost of delivered electricity. As a result, we believe that our business combines operational excellence, growth through prudent capital investment and predictability resulting from a formulaic rate setting system. Our business strengths include:

#### *Operational excellence*

We are committed to operating, maintaining, planning and investing in our transmission systems to improve performance and reliability and lower the delivered cost of energy to end-use consumers.

Our goal is to provide best-in-class system performance. We participate in benchmarking studies conducted by independent consultants in order to measure our operational performance against that of other electricity transmission owning companies. Our goal is not only to outperform other electricity transmission systems in the measures that we believe are important, but also to operate the most reliable, highest performing system possible. *ITC Transmission* is a top-quartile performer in key reliability measures such as outages and system availability.

We strive to provide cost-effective service. This is supported by our competitive bid process for major capital projects and by our business model whereby we outsource non-core functions to optimize the productivity of our workforce.

#### *Growth*

We will prudently invest in our systems to lower the delivered cost of energy to end-use consumers.

*Significant Prudent Investment Opportunities in our Transmission Systems.* Prudent capital investment will expand our rate base and earnings potential. Under the Attachment O rate setting



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mechanism, capital investment drives increases in rate base and revenues. Our forecasted capital investment plan to invest approximately \$1.6 billion from 2005 to 2011 includes projects needed to:

rebuild existing property, plant and equipment;

accommodate changes in regional population growth and related load requirements, wholesale markets and generation interconnections in Michigan and across the region; and

maintain reliable regional transmission systems that allow efficient access to generation resources.

We will also seek to identify opportunities in addition to those included in our current capital investment forecast resulting from coordinated regional transmission planning across the lower peninsula of Michigan.

*Pursue Opportunities to Acquire Other Complementary Transmission Systems.* As in the case of the METC acquisition, we continually consider and intend to pursue opportunities to acquire complementary transmission systems in order to expand our existing service territories. Subject to applicable regulatory limitations, we will seek to identify attractive transmission systems and apply our business model and operating expertise across these systems to improve reliability and deliver lower energy costs to end-use customers. We believe we are well positioned to capitalize on these opportunities given our experienced management team, our relationships with our financial sponsors and the ability to use our publicly traded common stock as acquisition consideration.

### ***Predictability***

We believe that the following elements make our performance more predictable than other regulated businesses:

formulaic rate setting mechanism;

no rate hearings required to adjust rates; and

rates adjusted annually to reflect recent capital investment.

The formulaic nature of our rate setting mechanism enables us to generate predictable revenues since the rates we charge are determined annually using actual historical data, or, if authorized by FERC, projected data for the current year. Our rate setting process is approved by the FERC, and administered and confirmed by MISO pursuant to Attachment O, which significantly streamlines our rate determination procedures and substantially reduces the delay between the incurrence and recovery of costs through rates. By contrast, most regulated investor-owned utilities endeavor to recover their investments and expenses through rates set by state commissions or the FERC in contested proceedings. These proceedings can be adversarial and protracted and may delay recovery of costs for years with an uncertain outcome.

In addition, we believe that the following strengths, when combined with our growth strategy and predictable performance, provide us with an opportunity for growth:

*Supportive Regulatory Environment for Independent Transmission Companies.* The FERC has allowed independent transmission system owners to earn incentive rates of return to encourage the separation of transmission systems from the generation and sale of electricity and to facilitate greater investment in transmission infrastructure. The FERC currently allows ITC<sup>Transmission</sup> and METC to collect in their rates a 13.88% and a 13.38%, respectively, return on the actual equity portion of their respective capital structures.

*Lower Risk, Less Contentious Capital Investment Largely Focused On Rebuilding and Upgrading Existing Transmission Equipment.* A significant portion of our organic growth strategy has very low execution risk as a large majority of it is based on upgrading or replacing existing equipment, rather than building new transmission lines requiring new right-of-way requirements.





*Minimal Commodity and Energy Demand Risk.* Our network revenues are a product of our regulated transmission rate and the monthly peak network load that is connected to our transmission system. Peak network load varies with weather and the general demand for electricity. Our rates are adjusted annually to incorporate any changes in network load. If loads are reduced as a result of cool summer weather or from any other cause in a calendar year, our rates would increase effective the following June 1, assuming all other conditions remained equal. We operate transmission systems and, accordingly, are not directly impacted by electricity commodity pricing or price volatility.

*Attractive Service Territories.* We are the only transmission systems in our service territories, which include a concentration of industrial end-use consumers, such as automobile manufacturers and suppliers. Many of these industrial consumers employ advanced manufacturing techniques that require reliable delivery of electricity. These consumers are receptive to transmission infrastructure projects, as the cost of lost productivity resulting from poor reliability may far exceed the cost of reliability enhancements. Our service territories also include residential and other end-use consumers in a densely populated urban area. These characteristics have provided us with greater operating and capital expenditure efficiencies compared to more geographically dispersed transmission systems.

*Lack of Competition.* The introduction of deregulation to foster competition among power industry participants is not expected to have any negative impact on independent operators of transmission systems. Our transmission systems are the primary means in our service territories to transmit electricity from generators to distribution facilities that ultimately provide electricity to end-use consumers.

*Experienced Management Team.* Our management team identified the business opportunity for the formation of *ITCTransmission* and the acquisition of METC. They have worked over the past decade with state and federal regulators to understand their policy objectives and to contribute to the development of the current policy framework for independent transmission companies.

## **Our Operations**

Our operations are conducted through *ITCTransmission* and METC in Michigan. We have no ownership of or financial interest in electricity generation or distribution assets, allowing us to focus exclusively on the transmission of electricity and investment in transmission infrastructure. As transmission-only companies, *ITCTransmission* and METC function as conduits, moving power from generators to local distribution systems either entirely through their own systems or in conjunction with neighboring transmission systems. Detroit Edison, Consumers Energy and other third parties then transmit power through these local distribution systems to end-use consumers. The transmission of electricity by *ITCTransmission* and METC is a central function to the provision of electricity to residential, commercial and industrial end-use consumers.

Our primary operating responsibilities include maintaining, improving and expanding our transmission systems to meet our customers' ongoing needs, scheduling outages on transmission system elements to allow for maintenance and construction, balancing electricity generation and demand, maintaining appropriate system voltages and monitoring flows over transmission lines and other facilities to ensure physical limits are not exceeded.

Our operating subsidiaries' assets include over 8,000 circuit miles of high-voltage lines, 235 stations and substations, approximately 61,000 transmission towers and poles and 14 external interconnections, which connect our transmission lines to generation resources, distribution facilities and neighboring transmission systems. There are also nine interconnections between *ITCTransmission* and METC. The rate base of our operating subsidiaries, which is comprised primarily of transmission property, plant and equipment, was in excess of \$1.0 billion as of December 31, 2005.

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We are committed to investing capital in our transmission systems to improve reliability and lower the delivered cost of energy to end-use consumers. By prudently investing capital in our transmission systems, we believe we will enhance our earnings growth as we continue to earn a regulated return on our expanding rate base. For the period from January 1, 2004 through December 31, 2005, *ITCTransmission* and METC invested \$199.3 million and \$65.0 million, respectively, in property, plant and equipment. We expect investments by *ITCTransmission* and METC in property, plant and equipment in 2006 to be at least \$160.0 million. *ITCTransmission* and METC have invested \$34.8 million and \$15.1 million, respectively, in property, plant and equipment during the three months ended March 31, 2006.

Over the seven-year period from January 1, 2005 through December 31, 2011, we anticipate that *ITCTransmission* and METC will invest approximately \$1.6 billion to rebuild and upgrade existing equipment, relieve congestion and provide access to the lowest cost generation sources. Our forecasted investment in property, plant and equipment in 2007 for *ITCTransmission* and METC is estimated to be \$160.0 million to \$190.0 million in total. The actual timing and amounts of capital investment are dependent upon the timing of the closing of the acquisition, the timing of completing the joint planning process for the two systems and our ability to procure equipment with long lead times for production that has not yet been ordered. The amounts could also vary for the reasons described in footnote (c) to the table below. The remaining forecasted investment in property, plant and equipment for 2008 through 2011 for *ITCTransmission* and METC is estimated to be \$1.1 billion in total.

Property, plant and equipment additions in excess of depreciation and amortization expense result in an expansion of the rate base of our operating subsidiaries when these additions are placed in service. The table below presents the historical capital investment of our operating subsidiaries and our forecasts for capital investment for the remainder of 2006.

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(a) Amount represents additions to property, plant and equipment. Additions to property, plant and equipment differ from cash expenditures for property, plant and equipment in any period primarily due to differences in construction labor and materials costs incurred compared to cash paid for those costs and services during that period.

(b) Amount represents depreciation and amortization expense. ITC Holdings' acquisition of all of the indirect ownership interests in METC will be accounted for using the purchase method of accounting. The application of the purchase method of accounting for the acquisition is expected to result in the recognition of an intangible asset relating to recoverable amounts that were deferred under METC's rate freeze to reflect its fair market value, which is expected to result in additional amortization expense of approximately \$14.0 million on an annual basis recognized on a straight-line method from the date of closing of the acquisition through May 31, 2011.

- (c) Approximate amount that ITC*Transmission* and METC expect to invest in additions to property, plant and equipment. Investments in property, plant and equipment could vary due to, among other things, the impact of weather conditions, union strikes, labor shortages, material and equipment prices and availability, our ability to obtain financing for such expenditures, if necessary, limitations on the amount of construction that can be undertaken on our systems at any one time or regulatory approvals for reasons relating to environmental, siting or regional planning issues or as a result of legal proceedings and variances between estimated and actual costs of construction contracts awarded. The allocation of our budgeted investments among ITC*Transmission*'s and METC's transmission systems remains contingent on our assessment of market conditions and opportunities and other factors. Therefore, future investments in ITC*Transmission*'s or METC's transmission system may be higher or lower than currently planned, or may be allocated differently between ITC*Transmission* and METC.

Substantially all of our revenues for the year ended December 31, 2005 were derived from providing transmission service. Detroit Edison and Consumers Energy accounted for approximately 50.5% and 25.0%, respectively, of our pro forma operating revenues for the year ended December 31, 2005. We generated pro forma operating revenues, net income and adjusted EBITDA of \$311.3 million, \$ million and million, respectively, for the year ended December 31, 2005. ITC Holdings and Subsidiaries generated operating revenues, net income and adjusted EBITDA of \$205.3 million, \$34.7 million and \$112.1 million, respectively, for the year ended December 31, 2005. ITC Holdings and Subsidiaries generated operating revenues, net income and adjusted EBITDA of \$39.1 million, \$2.7 million and \$19.8 million, respectively, for the three months ended March 31, 2006. We generated pro forma operating revenues, net income and adjusted EBITDA of \$71.4 million, \$ million and \$ million, respectively, for the three months ended March 31, 2006. See "Summary Summary Historical and Pro Forma Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP Financial Measures" for the definition of adjusted EBITDA, which is a non-GAAP measure, and a discussion of its usefulness as a measure of our overall financial and operating performance and a reconciliation of net income to adjusted EBITDA.

#### ***ITCTransmission's Operations***

The operations performed by ITC*Transmission* fall into the following categories:

- asset planning;
- engineering, design and construction;
- maintenance; and
- real time operations.

#### ***Asset Planning***

Asset Planning uses detailed system models and long-term load forecasts to develop ITC*Transmission*'s system expansion capital plan. The expansion plan identifies projects that address potential future reliability issues and/or produce economic savings for customers by eliminating constraints.

ITC*Transmission* works closely with MISO in the development of ITC*Transmission*'s annual system expansion capital plan by performing technical evaluations and detailed studies. As the regional planning authority, MISO reviews regional system improvement projects by its members, including ITC*Transmission*.

#### ***Engineering, Design and Construction***

ITC*Transmission*'s engineering, design and construction group is responsible for design, creating equipment specifications, developing maintenance plans and project engineering for capital, operation and maintenance work. ITC*Transmission* works with outside contractors to perform some of its engineering and design and all of its construction, but retains internal technical experts that have experience with respect to the key elements of the transmission system such as substations, lines, equipment and protective relaying systems. This internal expertise allows

ITC *Transmission* to effectively manage outside contractors.

***Maintenance***

ITCTransmission develops and tracks the preventive maintenance plan to promote a safe and reliable system. By performing preventative maintenance on its assets, ITCTransmission can minimize the need for reactive maintenance, resulting in improved reliability. ITCTransmission contracts with Utility Lines Construction, which is a division of Asplundh Tree Expert Co., to perform the bulk of its maintenance. The agreements provide ITCTransmission with access to an experienced and scalable workforce with knowledge of the ITCTransmission system at an established rate for the five-year period ending August 28, 2008.

***Real Time Operations***

*Joint Control Area Operator.* Under the functional control of MISO, ITCTransmission and METC operate their electricity transmission systems as a combined control area under the MECS Control Area Agreement. The operation is performed at the Michigan Electric Power Coordination Center, or MEPCC, where employees of ITCTransmission and METC jointly perform the functions as the control area operator which include balancing loads and generation in order to ensure a supply of electricity to customers, maintaining voltage, coordinating the use of ITCTransmission and METC transmission facilities and monitoring the flow on critical facilities to avoid exceeding operating security limits.

*System Operations.* As part of day-to-day operations in ITCTransmission's operations control room located in Novi, Michigan, transmission system coordinators analyze system conditions at all times, allowing them to react quickly to changing conditions. Transmission system coordinators must also work with maintenance and construction crews in the field to ensure the safe and reliable operation of the grid. A key component of this work involves scheduling outages on system elements to allow crews to safely perform maintenance and construction while maintaining reliability for our customers.

***METC's Operations***

The operations performed by METC fall into the categories of asset management and planning and transmission operations.

***Asset Management and Planning***

METC's asset management and planning department is responsible for planning, expanding and maintaining METC's transmission system, through a seamless, integrated process of design, construction and maintenance. This department consists of the following groups:

transmission planning;

transmission assets; and

protection and performance.

***Transmission Operations***

Transmission system real-time operation is accomplished by managing electric power flows on the system through the control activities performed within a specified control area, and by monitoring the actual status of the physical equipment in an operations center. Electric power flows on METC's system are controlled through MEPCC while physical equipment monitoring is currently performed by Consumers Energy's employees pursuant to the services contract with Consumers Energy at its transmission operations center.

In preparation for the termination of METC's services contract with Consumers Energy, METC is developing a separate real-time operations organization. The project includes building a new operations and control center in Caledonia, Michigan along with the installation of new computer systems,

procedures and staffing additions. Major functions of the new operations and control center include monitoring the physical status and condition of system equipment, conducting equipment switching activities, scheduling maintenance outages, performing system condition analysis, emergency planning and outage restoration. We expect the new operations and control center, which will house METC's mechanical, electrical and computer systems and approximately 50 staff members, to be fully operational by the end of April 2007, by which time, METC expects to transition responsibility for day-to-day operations from Consumers Energy to either METC personnel or third parties with whom METC has contracted to provide these services.

## Operating Contracts

### *ITCTransmission*

Detroit Edison operates the electricity distribution system to which *ITCTransmission's* transmission system connects. A set of three operating contracts sets forth terms and conditions related to Detroit Edison and *ITCTransmission's* ongoing working relationship. These contracts include the following:

*Master Operating Agreement.* The Master Operating Agreement, or MOA, governs the primary day-to-day operational responsibilities of *ITCTransmission* and Detroit Edison and will remain in effect until terminated by mutual agreement of the parties (subject to any required FERC approvals) unless earlier terminated pursuant to its terms. The MOA identifies the control area coordination services that *ITCTransmission* is obligated to provide to Detroit Edison. The MOA also requires Detroit Edison to provide certain generation-based support services to *ITCTransmission*.

*Generator Interconnection and Operation Agreement.* Detroit Edison and *ITCTransmission* entered into the Generator Interconnection and Operation Agreement, or GIOA, in order to establish, re-establish and maintain the direct electricity interconnection of Detroit Edison's electricity generating assets with *ITCTransmission's* transmission system for the purposes of transmitting electric power from and to the electricity generating facilities. Unless otherwise terminated by mutual agreement of the parties (subject to any required FERC approvals), the GIOA will remain in effect until Detroit Edison elects to terminate the agreement with respect to a particular unit or until a particular unit ceases commercial operation.

*Coordination and Interconnection Agreement.* The Coordination and Interconnection Agreement, or CIA, governs the rights, obligations and responsibilities of *ITCTransmission* and Detroit Edison regarding, among other things, the operation and interconnection of Detroit Edison's distribution system and *ITCTransmission's* transmission system, and the construction of new facilities or modification of existing facilities. Additionally, the CIA allocates costs for operation of supervisory, communications and metering equipment. The CIA will remain in effect until terminated by mutual agreement of the parties (subject to any required FERC approvals).

### *METC*

METC is party to a number of operating contracts that govern the operations and maintenance of its transmission system. These contracts include the following:

*Amended and Restated Easement Agreement.* The easement agreement, dated as of April 29, 2002 and as further supplemented, is between METC and Consumers Energy. Under the easement agreement, Consumers Energy provides METC with an easement to the land, which we refer to as premises, on which METC's transmission towers, poles, lines and other transmission facilities used to transmit electricity at voltages of at least 120 kV are located, which we refer to collectively as the facilities. Consumers Energy retained for itself the rights to, and the value of activities associated with, all other uses of the premises and the facilities covered by the easement agreement, such as for distribution of electricity, fiber optics, telecommunications, gas pipelines and agricultural uses.

Accordingly, METC is not permitted to use the premises or the facilities covered by the easement agreement for any purposes other than to provide electric transmission and related services, to inspect, maintain, repair, replace and remove electric transmission lines and to alter, improve, relocate and construct additional electric transmission lines. The easement is further subject to the rights of any third parties that had rights to use or occupy the premises or the facilities prior to April 1, 2001 in a manner not inconsistent with METC's permitted uses.

METC pays Consumers Energy annual rent of approximately \$10.0 million, in equal quarterly installments, for the easement and related rights under the easement agreement. Although METC and Consumers Energy share the use of the premises and the facilities covered by the easement agreement, METC pays the entire amount of any rentals, property taxes, inspection fees and other amounts required to be paid to third parties with respect to any use, occupancy, operations or other activities on the premises or the facilities and is responsible for the maintenance of the premises and the facilities at its expense. METC also must maintain commercial general liability insurance protecting METC and Consumers Energy against claims for personal injury, death or property damage occurring on the premises or the facilities and pay for all insurance premiums. METC is also responsible for patrolling the premises and the facilities by air at its expense at least annually and to notify Consumers Energy of any unauthorized uses or encroachments discovered. METC indemnifies Consumers Energy for all liabilities arising from the facilities covered by the easement agreement.

METC must notify Consumers Energy before altering, improving, relocating or constructing additional transmission lines on the facilities covered by the easement agreement. Consumers Energy may respond by notifying METC of reasonable work and design restrictions and precautions that are needed to avoid endangering existing distribution facilities, pipelines or communications lines, in which case METC must comply with these restrictions and precautions. METC has the right at its own expense to require Consumers Energy to remove and relocate these facilities, but Consumers Energy may require payment in advance or the provision of reasonable security for payment by METC prior to removing or relocating these facilities, and Consumers Energy need not commence any relocation work until an alternative right-of-way satisfactory to Consumers Energy is obtained at METC's expense.

The term of the easement agreement runs through 2050 and is subject to 10 automatic 50-year renewals after that time unless METC provides one year's notice of its election not to renew the term. Consumers Energy may terminate the easement agreement 30 days after giving notice of a failure by METC to pay its quarterly installment if METC does not cure the non-payment within the 30-day notice period. At the end of the term or upon any earlier termination of the easement agreement, the easement and related rights terminate and revert to Consumers Energy.

*Amended and Restated Operating Agreement.* The operating agreement, dated as of April 29, 2002, is between METC and Consumers Energy. Under the operating agreement, METC agrees to operate its transmission system to provide all transmission customers with safe, efficient, reliable and non-discriminatory transmission service pursuant to its tariff. Among other things, METC is responsible under the operating agreement for maintaining and operating its transmission system, providing Consumers Energy with information and access to its transmission system and related books and records and administering and performing the duties of control area operator (that is, the entity exercising operational control over the transmission system). Consumers Energy has a corresponding obligation to provide METC with access to its books and records. Consumers Energy must cooperate with METC as METC performs its duties as control area operator, including by providing reactive supply and voltage control from generation sources or other ancillary services and reducing load.

*Amended and Restated Services Contract.* The services contract, dated as of April 29, 2002, is between METC and Consumers Energy. Under the services contract, Consumers Energy provides contract services, under METC's direction, for METC's transmission assets for an initial five-year period. The services contract provides METC with labor for the following:



operating, maintenance and inspection work;

demand work;

major maintenance programs;

capital work at METC's request;

system control and system optimization; and

spare parts inventory management.

Under the services contract, METC paid Consumers Energy, excluding amounts for capital work, approximately \$21.1 million and \$19.7 million for the years ended December 31, 2005 and 2004, respectively, and expects to pay Consumers Energy approximately \$19.9 million for the year ending December 31, 2006. Payments are made in monthly installments. METC pays Consumers Energy for the other services at escalating fixed annual fees or agreed-upon rates.

The services contract limits Consumers Energy's total liability arising out of its performance under the services contract to \$1 million. The parties also agreed to maintain certain insurance coverage under the services contract. Any disputes between the parties under the services contract will be brought to the administrative committee established under the operating agreement.

By its terms, the services contract is in effect through April 29, 2007. After that time, the services contract renews automatically every three years unless notice is given by either party at least 365 days prior to the expiration of the then-current term. In addition, any services may be removed from the services contract after the initial five-year term upon 365 days' notice by either party.

METC gave Consumers Energy written notice of termination of the system control and system optimization portions of the services contract on November 2, 2004. METC gave Consumers Energy written notice of termination of the remainder of the services provided by Consumers Energy under the services contract on February 6, 2006. Each of these notices is effective in May 2007. METC has already solicited bids for services such as capital work, inventory management and forestry work, and METC plans to solicit competitive bids in 2006 for the remainder of the services provided by Consumers Energy under the services contract. METC will contract with qualified parties who can provide these services starting in May 2007 under the most attractive terms.

*Amended and Restated Purchase and Sale Agreement for Ancillary Services.* The ancillary services agreement, dated as of April 29, 2002 and effective May 1, 2002, is between METC and Consumers Energy. Since METC does not own any generating facilities, it must procure ancillary services from third party suppliers, such as Consumers Energy. Currently, under the ancillary services agreement, METC pays Consumers Energy for providing capacity to METC. METC must furnish Consumers Energy with forecasts of its requirements in connection with the provision of services under the ancillary services agreement. METC is not precluded from procuring these ancillary services from third party suppliers when available.

*Amended and Restated Distribution-Transmission Interconnection Agreement.* The distribution agreement, dated April 29, 2002, is between METC and Consumers Energy. The distribution agreement provides for the interconnection of Consumers Energy's distribution system with METC's transmission system and defines the continuing rights, responsibilities and obligations of the parties with respect to the use of certain of their own and the other party's properties, assets and facilities. METC agrees to provide Consumers Energy interconnection service at agreed-upon interconnection points, and the parties have mutual responsibility for maintaining voltage and compensating for reactive power losses resulting from their respective services.

*Amended and Restated Generator Interconnection Agreement.* The generator interconnection agreement, dated as of April 29, 2002, is between METC and Consumers Energy. The generator

interconnection agreement specifies the terms and conditions under which Consumers Energy and METC maintain the interconnection of Consumers Energy's generation resources and METC's transmission assets.

## Properties

### *ITCTransmission*

*ITCTransmission's* transmission facilities are located in southeastern Michigan. Much of *ITCTransmission's* service area is urban, densely populated and industrial. *ITCTransmission* owns the assets of the transmission system that consist of:

approximately 2,700 circuit miles of overhead and underground transmission lines rated at 120 kV to 345 kV;

approximately 17,000 transmission towers and poles;

155 stations and substations which interconnect our transmission facilities, some of which also connect our facilities with generation or distribution facilities owned by others;

other transmission equipment necessary to safely operate the system (e.g., switching stations, breakers and metering equipment);

associated land, rights of way and easements;

certain assets contained in our leased office building in Novi, Michigan, consisting of a transmission operations control room, furniture, fixtures and office equipment; and

MEPCC located near Ann Arbor, Michigan, which provides control area services for all of the electrical systems of *ITCTransmission* and METC.

*ITCTransmission* also has operating lease agreements for office space rental which expire in May 2008.

### *METC*

METC owns a transmission system and the assets associated with that system, including:

approximately 5,400 circuit miles of overhead and underground transmission lines rated at 138 kV to 345 kV;

approximately 44,000 transmission towers and poles;

80 stations and substations; and

other transmission equipment necessary to safely operate the system (e.g., switching stations, breakers and metering equipment).

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METC does not own the majority of the land where its assets are located, but under the provisions of its easement agreement with Consumers Energy, METC has an easement to use the land, rights-of-way, leases and licenses in the land on which its transmission lines are located that are held or controlled by Consumers Energy. See " Operating Contracts METC Amended and Restated Easement Agreement."

### **Seasonality**

Our results of operations are subject to seasonal variations since demand for electricity, and thus transmission load, are largely dependent on weather conditions. Our revenues depend on the monthly peak loads and regulated transmission rates. Our revenues and operating income are typically higher in the summer months when cooling demand and network load are higher. However, a particularly warm

or cool summer may increase or reduce demand for electricity below that expected, causing an increase or decrease in our revenues from the same period of the previous year.

### **Principal Customers**

*ITCTransmission* does not generally bill, or collect from, users of its system directly and, accordingly, does not actually have direct customers. However, for purposes of this prospectus, we have referred to users of *ITCTransmission's* system as "customers." Detroit Edison and Consumers Energy, accounted for approximately 50.5% and 25.0%, respectively, of our pro forma revenues for the year ended December 31, 2005. *ITCTransmission's* system is the only transmission system that directly interconnects with Detroit Edison's distribution network. *ITCTransmission's* remaining revenues were generated from providing service to other entities such as alternative electricity suppliers, power marketers and other wholesale customers that provide electricity to end-use consumers and from transaction-based capacity reservations on *ITCTransmission's* transmission system. METC's system is the only transmission system that directly interconnects with Consumers Energy's distribution network. METC's remaining revenues were generated from providing service to other entities such as alternative electricity suppliers, power marketers and other wholesale customers that provide electricity to end-use consumers and from transaction-based capacity reservations on METC's transmission system.

### **Billing**

MISO is generally responsible for billing and collection for transmission services and administers the transmission tariff in the MISO service territory. As the billing agent for *ITCTransmission*, MISO bills Detroit Edison and other *ITCTransmission* customers on a monthly basis and collects fees for the use of *ITCTransmission's* transmission system. However, under an agreement between METC and MISO, METC directly bills and collects from network customers, including Consumers Energy, on a monthly basis. This agreement will terminate at the request of either party on three months' notice or if METC chooses to perform independent billing under certain provisions of the agreement among MISO and its members. MISO has implemented strict credit policies for its members, which include customers using *ITCTransmission's* and METC's transmission systems. In general, if these customers do not maintain their investment grade credit rating or have a history of late payments, MISO may require them to provide MISO with a letter of credit or a cash deposit equal to the highest monthly invoiced amount over the previous 12 months.

### **Competition**

*ITCTransmission* is the only transmission system in its service area and, therefore, effectively has no competitors. METC is currently the only transmission system in its service territory and, therefore, effectively has no competitors.

### **Employees**

As of March 31, 2006, ITC Holdings and *ITCTransmission* had 151 employees. As of March 31, 2006, METC had 88 employees. Pursuant to the services contract with Consumers Energy, METC is provided with labor for, among other things, operating, maintenance, inspection and system control work. However, METC has given Consumers Energy notice of termination of services under the services contract and METC expects to hire its own employees or contract with third parties to provide the services currently provided by Consumers Energy employees. METC's human resources services are provided pursuant to an agreement with an outside consulting firm.

We consider our relations with our employees to be good.

## Environmental Matters

Each of *ITCTransmission* and METC's operations are subject to federal, state, and local environmental laws and regulations, which impose limitations on the discharge of pollutants into the environment, establish standards for the management, treatment, storage, transportation and disposal of hazardous materials and of solid and hazardous wastes, and impose obligations to investigate and remediate contamination in certain circumstances. Liabilities to investigate or remediate contamination, as well as other liabilities concerning hazardous materials or contamination, such as claims for personal injury or property damage, may arise at many locations, including formerly owned or operated properties and sites where wastes have been treated or disposed of, as well as at properties currently owned or operated by *ITCTransmission* or METC. Such liabilities may arise even where the contamination does not result from noncompliance with applicable environmental laws. Under a number of environmental laws, such liabilities may also be joint and several, meaning that a party can be held responsible for more than its share of the liability involved, or even the entire share. Environmental requirements generally have become more stringent and compliance with those requirements more expensive. We are not aware of any specific developments that would increase *ITCTransmission* or METC's costs for such compliance in a manner that would be expected to have a material adverse effect on our results of operations, financial position or liquidity.

Each of *ITCTransmission* and METC's assets and operations also involve the use of materials classified as hazardous, toxic or otherwise dangerous. Many of the properties *ITCTransmission* and METC own or operate have been used for many years, and include older facilities and equipment that may be more likely than newer ones to contain or be made from such materials. Some of these properties include aboveground or underground storage tanks and associated piping. Some of them also include large electrical equipment filled with mineral oil, which may contain or previously have contained polychlorinated biphenyls (PCBs). Each of *ITCTransmission* and METC's facilities and equipment are often situated close to or on property owned by others so that, if they are the source of contamination, other's property may be affected. For example, aboveground and underground transmission lines sometimes traverse properties that *ITCTransmission* or METC do not own, and, at some of *ITCTransmission* or METC's transmission stations, transmission assets (owned or operated by *ITCTransmission* or METC) and distribution assets (owned or operated by *ITCTransmission* or METC's transmission customer) are commingled.

Some properties in which either *ITCTransmission* or METC has an ownership interest or at which either *ITCTransmission* or METC operates are, and others are suspected of being, affected by environmental contamination. Neither *ITCTransmission* nor METC is aware of any claims pending or threatened against either *ITCTransmission* or METC with respect to environmental contamination, or of any investigation or remediation of contamination at any properties, that entail costs likely to materially affect it. Some facilities and properties are located near environmentally sensitive areas such as wetlands and habitats of endangered or threatened species.

Claims have been made or threatened against electric utilities for bodily injury, disease or other damages allegedly related to exposure to electromagnetic fields associated with electricity transmission and distribution lines. While neither *ITCTransmission* nor METC believes that a causal link between electromagnetic field exposure and injury has been generally established and accepted in the scientific community, if such a relationship is established or accepted, the liabilities and costs imposed on our business could be significant. We are not aware of any claims pending or threatened against either *ITCTransmission* or METC for bodily injury, disease or other damages allegedly related to exposure to electromagnetic fields and electricity transmission and distribution lines that entail costs likely to have a material adverse effect on our results of operations, financial position or liquidity.

## Litigation

Various claims and legal proceedings generally incidental to the normal course of business are pending against us. Management intends to vigorously defend all lawsuits. The ultimate outcome of these lawsuits is not expected to have a material adverse effect on our results of operations, financial position or liquidity.

## MANAGEMENT

## Directors and Executive Officers

Set forth below are the names, ages and titles of the directors and executive officers of ITC Holdings as of May 31, 2006.

Name	Age	Position
Lewis M. Eisenberg	63	Director
Joseph L. Welch	57	Director, President, Chief Executive Officer and Treasurer
Edward G. Jepsen	62	Director
Lee C. Stewart	57	Director
Daniel J. Oginsky	33	Vice President, General Counsel and Secretary
Edward M. Rahill	52	Senior Vice President Finance and Chief Financial Officer
Richard A. Schultz	62	Senior Vice President Planning
Linda H. Blair	36	Senior Vice President Business Strategy
Jim D. Cyrulewski	60	Vice President Operations Policy
Joseph R. Dudak	59	Vice President Major Contracts and Special Projects
Larry Bruneel	50	Vice President Federal Affairs
Jon E. Jipping	40	Senior Vice President Engineering

**Lewis M. Eisenberg.** Mr. Eisenberg became a Director of our company in February 2003. He is the sole member of Ironhill Transmission, LLC, the general partner of the IT Holdings Partnership. From April 1995 to December 2001, he was the Chairman of the Board of Commissioners of the Port Authority of New York and New Jersey. From December 2001 to April 2003, Mr. Eisenberg served as a director of the Lower Manhattan Development Corporation for which he chaired the Victims' Families and Transportation Advisory Councils. Mr. Eisenberg is co-founder and co-chairman of Granite Capital International Group, an investment management company. Prior to co-founding Granite Capital, Mr. Eisenberg was a general partner of Goldman, Sachs & Co. from 1976 to 1989, for three of those years as co-head of its equity division.

Mr. Eisenberg graduated from Dartmouth College in 1964 and received an MBA from Cornell University in 1966.

**Joseph L. Welch.** Mr. Welch has been a Director and the President, Chief Executive Officer and Treasurer of our company since its inception in 2003. As its founder, Mr. Welch had overall responsibility for our company's vision, foundation and transformation into the first independently owned and operated electricity transmission company in the United States. Mr. Welch worked for Detroit Edison and subsidiaries of DTE Energy from 1971 to 2003. During that time, he held positions of increasing responsibility in the electricity transmission, distribution, rates, load research, marketing and pricing areas, as well as regulatory affairs that included the development and implementation of regulatory strategies.

Mr. Welch has a Bachelor of Science degree in Electrical Engineering from the University of Kansas and is a Licensed Professional Engineer in the State of Michigan.

**Edward G. Jepsen.** Mr. Jepsen, an independent business consultant, became a Director of our company in July 2005. Mr. Jepsen currently serves as a director of the Amphenol Corporation and as a director and chair of the audit committees of the boards of directors of TRC Companies, Inc. and Gerber Scientific, Inc. Mr. Jepsen is a non-officer Advisor of the Amphenol Corporation, a publicly traded manufacturer of electrical, electronic and fiber optic connectors, interconnect systems and cable, where he served as Executive Vice President and Chief Financial Officer from 1989 to 2004. Prior to joining the Amphenol Corporation, Mr. Jepsen worked at Price Waterhouse LLP from 1969 to 1988, ultimately attaining the position of partner.

Mr. Jepsen graduated from Antioch College in 1966 and received an MBA from the Harvard Business School in 1968.

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**Lee C. Stewart.** Mr. Stewart, an independent financial consultant, became a Director of our company in August 2005. Mr. Stewart currently serves as a director of Glatfelter, Marsulex, Inc., and AEP Industries, Inc. Mr. Stewart is chair of the audit committee at AEP Industries, Inc. and is a member of the audit committee at Marsulex, Inc. Mr. Stewart also is on the advisory board of Daniel Stewart & Co. Previously, Mr. Stewart was Executive Vice President and Chief Financial Officer of Foamex International, Inc., a publicly traded manufacturer of flexible polyurethane and advanced polymer foam products, in 2001 and was Vice President responsible for all areas of Treasury at Union Carbide Corp., a chemicals and polymers company, from 1996 to 2001.

Mr. Stewart earned an undergraduate degree in Economics from the University of Pennsylvania-Wharton in 1971 and a Masters in International Management from the American Graduate School in 1973.

**Daniel J. Oginsky.** Mr. Oginsky is Vice President, General Counsel and Secretary. Mr. Oginsky's official appointment to those positions was effective on December 27, 2004 but his employment with us began on October 20, 2004. As Vice President and General Counsel, Mr. Oginsky is responsible for the legal affairs of our company and manages our legal department. From June 2002 until joining us, Mr. Oginsky was an attorney with Dykema Gossett PLLC in Lansing, Michigan. At Dykema Gossett, Mr. Oginsky represented ITC*Transmission* and other energy clients, as well as telecommunications clients, on regulatory, administrative litigation, transactional, property tax and legislative matters. Mr. Oginsky practiced state regulatory law at Dickinson Wright PLLC in Lansing, Michigan from August 2001 to May 2002. From 1999 to 2001, Mr. Oginsky was an attorney with Sutherland Asbill & Brennan LLP in Washington, D.C. At Sutherland Asbill & Brennan, Mr. Oginsky focused on the FERC and state electric and natural gas matters on behalf of various energy clients.

Mr. Oginsky earned his Bachelor of Arts degree, with honors, from Michigan State University (James Madison College) in East Lansing, Michigan. He earned his Juris Doctor degree, with honors, from George Washington University Law School in Washington, D.C. Mr. Oginsky is a licensed attorney in Michigan and Washington, D.C.

**Edward M. Rahill.** Mr. Rahill is Senior Vice President Finance and Chief Financial Officer, and has responsibility for financial operations and reporting, including Treasury Management, Accounting, Tax and the Financial Planning and Analysis functions for our company. Mr. Rahill was Vice-President Finance and Chief Financial Officer since 2003 until being named Senior Vice-President in February 2006. Prior to his current position, Mr. Rahill headed the Planning and Corporate Development functions for DTE Energy and its subsidiaries. He joined DTE Energy in 1999 as the Manager of Mergers, Acquisitions and Alliances. Mr. Rahill has over 22 years of experience in finance and accounting. Prior to joining DTE, Mr. Rahill led the Corporate Development Function for Equitable Resources. He has also held various finance and accounting positions with Bell & Howell, Atlantic Richfield and Carborundum Corporation.

Mr. Rahill earned an undergraduate degree from the University of Notre Dame and an MBA in Finance and a Masters Certification in Economics from State University of New York at Buffalo.

**Richard A. Schultz.** Mr. Schultz is Senior Vice President Planning, and is responsible for transmission planning and system optimization for ITC*Transmission*. Mr. Schultz was Vice-President Asset Planning since 2003 until being named Senior Vice President in February 2006. Over the years, Mr. Schultz held a variety of positions with leading companies, including Florida Power and Light and Midland Cogeneration Venture. From 2000 to 2003, Mr. Schultz was Director for Restructuring/Regulation in the Transmission Organization at Detroit Edison. He began his career in 1968 with Detroit Edison.

Mr. Schultz is a graduate of the University of Michigan with a Bachelor of Science degree in Electrical Engineering. He is a Registered Professional Engineer in the States of Michigan and Florida.

**Linda H. Blair.** Ms. Blair is Senior Vice President Business Strategy and is responsible for managing Regulatory Affairs, Policy Development, Internal and External Communications, Community Affairs and Human Resource functions. Ms. Blair was Vice President Business Strategy since March 2003 until being named Senior Vice President in February 2006. From 2001 through February 2003, Ms. Blair was the Manager of Transmission Policy and Business Planning at *ITCTransmission* when it was a subsidiary of DTE Energy. Prior to this time, Ms. Blair was the Supervisor of Regulatory Relations within Detroit Edison's Regulatory Affairs organization from 1999 to 2000. In this position, her responsibilities included the development and management of all regulatory relations and communications activities with the Michigan Public Service Commission, or MPSC, and the FERC. Ms. Blair joined Detroit Edison in 1994.

Ms. Blair earned both her MBA and a Bachelor of Science degree in Public Affairs Management from Michigan State University.

**Jim D. Cyrulewski.** In February 2006, Mr. Cyrulewski was named Vice President Operations Policy. He is responsible for the development of operating policy strategies and advocacy before the North American Electric Reliability Council, Reliability First Council, Midwest ISO and other industry organizations dealing with reliability matters. Previously, he was Vice President Asset Performance for *ITCTransmission* since March 2003. In that role, he was responsible for *ITCTransmission's* real-time operation of transmission facilities including its Novi Operation Control Room. From 1999 to 2003, Mr. Cyrulewski worked for DTE Energy and its subsidiaries as Manager of the MEPCC. From 1997 to 1999, he was Detroit Edison's Director of Power Delivery Transactions-Transmission and was responsible for development and administration of the Detroit Edison Open Access Transmission Tariff and Michigan Electric Coordinated Systems Joint Open Access Transmission Tariff. During his 30-year career at Detroit Edison, he also held positions in generation engineering, planning, engineering research, power-supply transactions and worked on the Fermi 1, Fermi 2 and St. Clair power plants, as well as the Atomic Power Development Authority.

Mr. Cyrulewski has a Masters of Engineering and Bachelor of Science degrees in Engineering from the University of Detroit and is a Registered Professional Engineer in the State of Michigan.

**Joseph R. Dudak.** In February 2006, Mr. Dudak was named Vice President Major Contracts and Special Projects. In that position, he is responsible for negotiating significant contracts for *ITCTransmission* and also for developing and implementing major transmission projects, both in and outside of the *ITCTransmission* service territory. Previously, he was Vice President Resource and Asset Management for *ITCTransmission*. In that role, he was responsible for managing suppliers and services related to the company's capital and maintenance projects. From April 2001 to April 2003, Mr. Dudak was a management consultant to energy, utility and manufacturing clients, a business he pursued after his early retirement from National Steel Corporation in 2001. While at National Steel from 1970 to 2001, he held various executive and management positions in energy and environmental affairs, purchasing, strategic sourcing, transportation, special projects and asset sales. Throughout his career, Mr. Dudak has served as an active large industrial customer advocate in the utility regulatory and legislative arenas in Washington, D.C., Minnesota, Illinois, Indiana, and especially in Michigan, in both natural gas and electricity matters, including restructuring. Mr. Dudak led the industrial group, the Association of Businesses Advocating Tariff Equity, as Chairperson for 10 years.

Mr. Dudak holds a Bachelor of Science degree in Mechanical Engineering Technology from Western Michigan University, an MBA from Robert Morris University, and a lifetime Certified Purchasing Management certification.

**Larry Bruneel.** Mr. Bruneel has been Vice President Federal Affairs since 2003. Located in *ITCTransmission's* Washington, D.C. office, Mr. Bruneel is primarily responsible for the development of federal regulatory strategies and advocacy before the U.S. Congress and federal agencies, including the FERC. Mr. Bruneel has more than 20 years of experience in federal energy policy issues, most recently



focusing on issues affecting electric utilities. From 1997 until joining *ITCTransmission* in 2003, he was the Assistant Vice President for Federal Policy at We-Energies, a combined gas and electric utility company subsidiary of the Wisconsin Energy Corporation. From 1993 to 1997, Mr. Bruneel served as Technical Advisor to Commissioner Vicky A. Bailey at the FERC and from 1991 to 1993, he was an Industry Policy Analyst at the U.S. Department of Energy.

Mr. Bruneel received a Bachelor of Science degree in Engineering Arts from Michigan State University. He went on to receive a Masters of Science degree in Science, Technology and Values from Rensselaer Polytechnic Institute with a specialty in energy policy.

**Jon E. Jipping.** Mr. Jipping is Senior Vice President Engineering and is responsible for transmission system design, maintenance, project engineering, and supply chain management. Mr. Jipping was appointed Vice President Engineering in 2005 and was named Senior Vice President in February 2006. Prior to joining *ITCTransmission* in 2003, Mr. Jipping was Manager of Business Systems & Applications in Detroit Edison's Service Center Organization, responsible for implementation and management of business applications across the distribution business unit. Mr. Jipping joined Detroit Edison in 1990 and has held various positions of increasing responsibility in Transmission Operations and Transmission Planning, including serving as Principal Engineer and Manager of Transmission Planning during the sale of *ITCTransmission*.

Mr. Jipping earned a Bachelor of Science degree in Electrical Engineering from Calvin College and a Masters of Science degree in Electrical Engineering, concentrating in power systems, from Michigan Technological University. He is a Registered Professional Engineer in the State of Michigan.

## Board of Directors

### *Composition*

Our board of directors currently consists of four directors.

The board of directors intends to expand the size of the board of directors to add an additional independent director to the board in order to comply with applicable NYSE listing requirements. The nominating and governance committee is in the process of identifying candidates with the desired qualifications and expects the process to be completed during or prior to July 2006. When a suitable candidate is found, the board expects that the candidate would be added to the board at that time in accordance with our Bylaws. In addition, the new independent director will replace Mr. Welch on our audit committee in order to comply with the requirement that our audit committee be fully independent.

### *Committees*

Our board of directors currently has an audit committee, a compensation committee and a nominating and corporate governance committee.

*Audit Committee.* The current members of the audit committee are Mr. Jepsen, Mr. Stewart and Mr. Welch, with Mr. Jepsen serving as Chair. The board has determined that Mr. Jepsen is an "audit committee financial expert" as that term is defined under SEC rules and that all members of the audit committee satisfy all other qualifications for audit committee members set forth in applicable NYSE rules.

Our audit committee is responsible for (1) selecting our independent public accountants, (2) approving the overall scope of the audit, (3) assisting the board in monitoring the integrity of our financial statements, the independent public accountant's qualifications and independence, the performance of the independent public accountants and our internal audit function and our compliance with legal and regulatory requirements, (4) annually reviewing a report of the independent public accountants describing our company's internal quality-control procedures and any material issues raised by the most recent internal quality-control review, or peer review, of our company, (5) discussing the annual audited and quarterly financial statements with management and our independent public

accountants, (6) discussing earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies, (7) discussing policies with respect to risk assessment and risk management, (8) meeting separately, periodically, with management, internal auditors and our independent public accountants, (9) reviewing with our independent public accountants any audit problems or difficulties and managements' response, (10) setting clear hiring policies for employees or former employees of our independent public accountants, (11) handling such other matters that are specifically delegated to the audit committee by the board of directors from time to time and (12) reporting regularly to the full board of directors.

Our board of directors has adopted a written charter for the audit committee which is available on our website.

*Compensation Committee.* The current members of the compensation committee, none of whom is an employee, are Mr. Eisenberg, Mr. Jepsen and Mr. Stewart, with Mr. Eisenberg serving as chair. The compensation committee is responsible for (1) reviewing key employee compensation policies, plans and programs, (2) reviewing and approving the compensation of our executive officers, (3) reviewing and approving employment contracts and other similar arrangements between us and our executive officers, (4) reviewing and consulting with the chief executive officer on the selection of officers and evaluation of executive performance and other related matters, (5) administration of stock plans and other incentive compensation plans and (6) such other matters that are specifically delegated to the compensation committee by the board of directors from time to time.

Our board of directors has adopted a written charter for the compensation committee which is available on our website.

*Nominating and Corporate Governance Committee.* The current members of the nominating and corporate governance committee are Mr. Eisenberg, Mr. Jepsen, Mr. Welch and Mr. Stewart, with Mr. Stewart serving as chair. The nominating and corporate governance committee is responsible for (1) developing and recommending criteria for selecting new directors, (2) screening and recommending to the board individuals qualified to become directors, (3) overseeing evaluations of the board, its members and committees of the board of directors and (4) handling such other matters that are specifically delegated to the nominating and governance committee by the board from time to time. In identifying candidates for director, the nominating and corporate governance committee solicits suggestions from incumbent directors, management or others, including shareholders. The committee also may retain the services of a consultant to identify qualified candidates for director, and currently is in the process of retaining such a consultant. The committee reviews all candidates in the same manner. The committee selects candidates to meet with management and conduct an initial interview with the committee. Candidates who the nominating and corporate governance committee believes would be a valuable addition to the board are recommended to the full board for the candidate's election. As stated in the nominating and corporate governance committee's charter, in selecting candidates, the committee will consider all factors it considers appropriate, which may include (1) ensuring that the board of directors, as a whole, is diverse and consists of individuals with various and relevant career experience, technical skill, industry knowledge and experience, financial expertise, local or community ties, or (2) minimum individual qualifications, including strength of character, mature judgment, familiarity with our business and industry, independence of thought and an ability to work collegially.

Our board of directors has adopted a written charter for the nominating and corporate governance committee which is available on our website.

### **2003 Stock Purchase and Option Plan**

The 2003 Stock Purchase and Option Plan, as amended, which has been approved by our stockholders, provides for the granting of equity awards, which consist of the right to purchase shares of common stock, restricted common stock and options to purchase shares of common stock, as well as stock appreciation rights and dividend equivalent rights, for up to an aggregate of 4,014,821 shares of

our common stock. The 2003 Stock Purchase and Option Plan is administered by the compensation committee of our board of directors. The compensation committee has the power to select the recipients of equity awards, although it may delegate to certain officers the authority to grant equity awards and to otherwise act with respect to awards made to participants who are not officers or directors of ITC Holdings, subject to Section 16 of the Securities Exchange Act of 1934. Employees, non-employee directors, consultants and other persons having a relationship with ITC Holdings are eligible to receive awards under the 2003 Stock Purchase and Option Plan.

The compensation committee also has broad power to determine the terms of equity awards and to change such terms in various ways subsequent to grant, but generally may not change such terms in a manner adverse to the grantee without the grantee's consent other than certain adjustments made in good faith in connection with certain corporate events, such as a stock split or other change in the outstanding common stock or a merger or other extraordinary transaction involving ITC Holdings. The board is permitted to amend or terminate the 2003 Stock Purchase and Option Plan at any time without stockholder approval, other than to increase the number of shares available under the 2003 Stock Purchase and Option Plan, to decrease the price of outstanding grants, change the requirements relating to the compensation committee, to extend the term of the 2003 Stock Purchase and Option Plan or in a manner that would be materially adverse to all participants with respect to outstanding grants. No grants may be made under the 2003 Stock Purchase and Option Plan after February 28, 2013.

Options are granted under the 2003 Stock Purchase and Option Plan pursuant to stock option agreements. The purchase price of the shares subject to each currently outstanding option is greater than or equal to the fair market value of the shares on the date of the grant of the option. The options generally vest and become exercisable over the passage of time at the rate of 20% per year over five years, assuming the recipient of the option continues to be employed during such time by ITC Holdings or any of its subsidiaries, and expire on the tenth anniversary of the date of the grant. In addition, the options automatically become exercisable immediately prior to a change of ownership of ITC Holdings (as defined in the 2003 Stock Purchase and Option Plan) as to 100% of the shares subject to the option. The options expire earlier in the event of the termination of the option holder's employment, certain change in ownership events, or a termination of the option pursuant to the Management Stockholder's Agreement.

Restricted stock is also granted under the 2003 Stock Purchase and Option Plan pursuant to restricted stock award agreements. The restricted stock grants generally vest five years after the date of grant, assuming the grantee continues to be employed by ITC Holdings or any of its subsidiaries during such time. Restricted stock becomes 100% vested immediately upon a change of ownership of ITC Holdings (as defined in the 2003 Stock Purchase and Option Plan). In addition, restricted stock will become vested upon termination of the recipient's employment with ITC Holdings if termination is by ITC Holdings without cause or by the recipient for good reason (as such terms are defined in the restricted stock award agreements). However, if the recipient's employment is terminated due to the recipient's death or permanent disability (as defined in the restricted stock award agreements), any unvested restricted stock will only become vested in increments of 20% of such stock in respect of each anniversary of the date of the grant on which the recipient was employed by ITC Holdings prior to his or her death or permanent disability. Certain executive officers have restricted stock award agreements which provide for unvested restricted stock to become 100% vested if the officer's employment is terminated due to death or permanent disability. If the recipient's employment is terminated by ITC Holdings for cause or by the recipient without good reason, any unvested restricted shares will be forfeited.

#### **2006 Long Term Incentive Plan**

Our employees, non-employee directors and consultants are eligible to participate in our 2006 Long Term Incentive Plan, which provides for the granting of incentive awards composed of both cash and equity awards. An aggregate of 1,750,000 shares of our common stock, 1,000,000 shares of which

were transferred from the 2003 Stock Purchase Plan, have been set aside for equity grants under the 2006 Long Term Incentive Plan. Our compensation committee may grant stock options, restricted stock, restricted stock units and performance based awards under the 2006 Long Term Incentive Plan with the terms of each award set forth in a written agreement with the recipient.

Unless otherwise provided in the related grant agreement, if a participant terminates employment or services for any reason prior to the date that an option or stock appreciation right becomes vested, the right to exercise the option or stock appreciation right terminates and all rights cease. If a participant terminates employment or services for any reason, restricted shares are generally forfeited to us (subject to a refund by us of any purchase price paid by the participant). Our compensation committee, however, may provide, in its sole discretion, that restricted stock or restricted stock units will continue after termination of employment or services.

Performance awards expire and are forfeited upon a participant's termination of employment or services for any reason. Our compensation committee, however, in its sole discretion, may provide for a continuation of the award after termination or waive any conditions or restrictions for such awards.

Awards under the 2006 Long Term Incentive Plan are generally subject to special provisions upon the occurrence of a change in control transaction of the kind described in the plan. Under the 2006 Long Term Incentive Plan, our compensation committee may provide in a grant agreement or otherwise that upon a change in control transaction (i) all outstanding options or stock appreciation rights immediately become fully vested and exercisable; (ii) any restriction period on any shares of common stock immediately lapse and the shares become freely transferable; (iii) all performance goals are deemed to have been satisfied and any restrictions on any performance award immediately lapse and the awards become immediately payable; (iv) all performance measures are deemed to have been satisfied for any outstanding annual incentive award, which immediately become payable; or (v) awards may be treated in any other way as determined by our compensation committee. Our compensation committee may also determine that upon a change in control, any outstanding option or stock appreciation right be cancelled in exchange for payment in cash, stock or other property for each vested share in an amount equal to the excess of the fair market value of the consideration to be paid in the change in control transaction over the exercise price. If we merge with another entity and the successor company assumes an award payable in common stock, such awards will not be accelerated as described above as long as the consideration is substantially equal in fair market value to that of the common stock subject to the awards.

#### **Dividend Equivalent Rights Plan**

This plan was adopted by the stockholders of ITC Holdings on August 21, 2003. This plan allowed all employees of ITC Holdings who hold options to purchase shares of ITC Holdings common stock the opportunity to participate in any dividends otherwise payable to ITC Holdings stockholders. Under this plan, ITC Holdings established bookkeeping accounts for each participant, to which cash amounts were credited upon the payment of any cash or non-common stock dividends. For cash dividends, the amount that was credited to each participant's account was equal to the per share dividend amount, multiplied by the number of shares of ITC Holdings common stock that was subject to any unexercised options held by the participant (whether such options are vested or unvested) at the time the dividend was paid. For dividends that were paid in the form of ITC Holdings common stock, the amount that was credited to each participant's account was equal to the per share fair market value