

ITC Holdings Corp.
Form 10-Q/A
February 01, 2007

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

**FORM 10-Q/A
Amendment No. 1**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2006**
OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
Commission File Number: 001-32576**

ITC HOLDINGS CORP.
(Exact Name of Registrant as Specified in Its Charter)

Michigan
(State or Other Jurisdiction of
Incorporation or Organization)

32-0058047
(I.R.S. Employer Identification No.)

39500 Orchard Hill Place, Suite 200
Novi, Michigan 48375
(Address Of Principal Executive Offices, Including Zip Code)
(248) 374-7100
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated Filer Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

The number of shares of the Registrant's Common Stock, without par value, outstanding as of October 27, 2006 was 42,297,492.

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EXPLANATORY NOTE

As discussed in Note 12 to the condensed consolidated financial statements included herein, ITC Holdings Corp. (the Company) has restated in this Form 10-Q/A the Condensed Consolidated Statements of Financial Position as of September 30, 2006, the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2006, and the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2006 included in the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006 originally filed with the Securities and Exchange Commission (the SEC) on November 2, 2006 (the Form 10-Q). The restatements result from the recognition of a regulatory asset for the deferred income tax provision related to the allowance for equity funds used during construction.

All the information in this Form 10-Q/A is as of November 2, 2006, the date we originally filed our Form 10-Q with the SEC, and does not reflect any subsequent information or events other than the restatement discussed in Note 12 to the condensed consolidated financial statements appearing in this Form 10-Q/A. For the convenience of the reader, this Form 10-Q/A sets forth the originally filed Form 10-Q in its entirety. However, the following items have been amended solely as a result of, and to reflect, the restatement, and no other information in the Form 10-Q is amended hereby as a result of the restatement:

Part I, Item 1, Financial Statements

Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations

Part I, Item 4, Controls and Procedures

Part II, Item 6, Exhibits

In accordance with applicable SEC rules, this Form 10-Q/A includes updated certifications from our Chief Executive Officer and Chief Financial Officer as Exhibits 31.3, 31.4 and 32.1.

ITC Holdings Corp.
Form 10-Q/A for the Quarterly Period Ended September 30, 2006
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DEFINITIONS

Unless otherwise noted or the context requires, all references in this report 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;

We, our and us are references to ITC Holdings, together with all of its subsidiaries (not including, after the October 10, 2006 consummation of ITC Holdings' acquisition, the indirect ownership interest in Michigan Electric Transmission Company, LLC as discussed in Note 3 of the Notes of the Condensed Consolidated Financial Statements. However, we, our and us includes Michigan Electric Transmission Company, LLC for the risks and uncertainties listed in Part I Item 2. under Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995 and the Risk Factors listed in Part II Item 1A.);

FERC are references to the Federal Energy Regulatory Commission;

MISO are references to the Midwest Independent Transmission System Operator, Inc. a FERC-approved Regional Transmission Organization, which has responsibility for the oversight and coordination of transmission service for a substantial portion of the midwestern United States and Manitoba, Canada, and of which ITC*Transmission* and Michigan Electric Transmission Company, LLC are members;

MW are references to megawatts (one megawatt equaling 1,000,000 watts); and

KW are references to kilowatts (one kilowatt equaling 1,000 watts).

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	September 30, 2006 (as restated, see Note 12)	December 31, 2005
ASSETS		
Current assets		
Cash and cash equivalents	\$ 8,016	\$ 24,591
Accounts receivable	22,341	19,661
Inventory	22,627	19,431
Deferred income taxes	9,442	6,732
Other	7,860	2,188
Total current assets	70,286	72,603
Property, plant and equipment (net of accumulated depreciation and amortization of \$411,571 and \$414,852, respectively)	721,204	603,609
Other assets		
Goodwill	174,256	174,256
Regulatory assets- acquisition adjustment	49,744	52,017
Other regulatory assets	8,443	6,120
Deferred financing fees (net of accumulated amortization of \$3,455 and \$2,564, respectively)	6,835	5,629
Other	13,160	2,405
Total other assets	252,438	240,427
TOTAL ASSETS	\$ 1,043,928	\$ 916,639
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	\$ 27,857	\$ 27,618
Accrued payroll	3,325	3,889
Accrued interest	5,204	10,485
Accrued taxes	3,940	7,378
Other	7,447	3,288
Total current liabilities	47,773	52,658
Accrued pension liability	6,100	5,168
Accrued postretirement liability	3,414	2,299
Deferred compensation liability	929	530
Deferred income taxes	40,500	21,334
Regulatory liabilities	62,878	45,644
Asset retirement obligation	4,947	4,725
Deferred payables	2,444	3,665

Long-term debt	604,904	517,315
STOCKHOLDERS EQUITY		
Common stock, without par value, 100,000,000 shares authorized, 33,370,460 and 33,228,638 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively	254,622	251,681
Retained earnings	14,779	11,792
Accumulated other comprehensive income (loss)	638	(172)
Total stockholders equity	270,039	263,301
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 1,043,928	\$ 916,639

See notes to condensed consolidated financial statements (unaudited).

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CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)***(in thousands, except share and per share data)*

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2006	2005	2006	2005
	(as restated, see Note 12)		(as restated, see Note 12)	
OPERATING REVENUES	\$ 63,004	\$ 66,047	\$ 150,548	\$ 159,225
OPERATING EXPENSES				
Operation and maintenance	5,542	14,891	19,317	31,282
General and administrative	9,827	6,723	25,292	16,734
Depreciation and amortization	9,259	8,435	27,213	24,607
Taxes other than income taxes	5,409	2,104	15,739	10,223
Termination of management agreements		6,725		6,725
Total operating expenses	30,037	38,878	87,561	89,571
OPERATING INCOME	32,967	27,169	62,987	69,654
OTHER EXPENSES (INCOME)				
Interest expense	8,506	7,006	23,640	21,014
Allowance for equity funds used during construction	(1,250)	(707)	(2,610)	(2,178)
Other income	(47)	(220)	(488)	(688)
Other expense	256	223	408	481
Total other expenses (income)	7,465	6,302	20,950	18,629
INCOME BEFORE INCOME TAXES	25,502	20,867	42,037	51,025
INCOME TAX PROVISION	6,553	7,374	12,436	18,046
INCOME BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	18,949	13,493	29,601	32,979
CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE (NET OF TAX OF \$16) (NOTE 2)			29	
NET INCOME	\$ 18,949	\$ 13,493	\$ 29,630	\$ 32,979
Basic earnings per share	\$ 0.57	\$ 0.42	\$ 0.90	\$ 1.07
Diluted earnings per share	\$ 0.55	\$ 0.40	\$ 0.87	\$ 1.03
Weighted-average basic shares	33,023,187	32,095,482	33,005,068	30,932,887
Weighted-average diluted shares	34,386,991	33,375,482	34,081,968	32,132,161
Dividends declared per common share	\$ 0.2750	\$ 0.2625	\$ 0.8000	\$ 0.2625

See notes to condensed consolidated financial statements (unaudited).

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)***(in thousands)*

	Nine months ended September 30,	
	2006	2005
	(as restated, see Note 12)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 29,630	\$ 32,979
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	27,213	24,607
Amortization of deferred financing fees and discount on long term debt	990	1,030
Stock-based compensation expense	2,212	1,084
Deferred income taxes	16,456	17,910
Other long-term liabilities	2,445	(1,204)
Amortization of regulatory assets	1,450	1,450
Other regulatory assets	(3,772)	
Allowance for equity funds used during construction	(2,610)	(2,178)
Other	(3,942)	(1,567)
Changes in current assets and liabilities, exclusive of changes shown separately (Note 1)	(27,062)	(44,390)
Net cash provided by operating activities	43,010	29,721
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(117,422)	(87,294)
Insurance proceeds on property, plant and equipment		4,900
METC acquisition costs	(624)	
Other		334
Net cash used in investing activities	(118,046)	(82,060)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of long-term debt	99,890	
Repayments of long-term debt		(46)
Borrowings under revolving credit facilities	91,600	65,500
Repayments of revolving credit facilities	(104,000)	(40,500)
Dividends paid	(26,648)	(8,713)
Debt issuance costs	(2,328)	(672)
Issuance of common stock	403	54,062
Common stock issuance costs	(456)	(1,649)
Net cash provided by financing activities	58,461	67,982
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	(16,575)	15,643
CASH AND CASH EQUIVALENTS Beginning of period	24,591	14,074
CASH AND CASH EQUIVALENTS End of period	\$ 8,016	\$ 29,717

See notes to condensed consolidated financial statements (unaudited).

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These condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements as of and for the period ended December 31, 2005 included in ITC Holdings Form 10-K.

The accompanying condensed consolidated financial statements have been prepared using accounting principles generally accepted in the United States of America, or GAAP, and with the instructions for Form 10-Q and Rule 10-01 of SEC Regulation S-X as they apply to interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These accounting principles require us to use estimates and assumptions that impact the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results may differ from our estimates.

The condensed consolidated financial statements are unaudited, but in our opinion include all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the results for the interim period. The interim financial results are not necessarily indicative of results that may be expected for any other interim period or the fiscal year. Our revenues are dependent on monthly peak loads and regulated transmission rates. Electric transmission is generally a seasonal business because demand for electricity largely depends on weather conditions. Revenues and operating income are higher in the summer months when cooling demand is high.

Condensed Consolidated Statements of Cash Flows

<i>(in thousands)</i>	Nine months ended September 30,	
	2006	2005
Change in current assets and liabilities, exclusive of changes shown separately:		
Accounts receivable	\$ (2,680)	\$ (9,900)
Inventory	(3,196)	(5,579)
Other current assets	(5,672)	(2,512)
Accounts payable	(4,125)	3,885
Accrued interest	(5,281)	(5,262)
Accrued taxes	(3,438)	(7,541)
Point-to-point revenue due to customers	(631)	(12,903)
Other current liabilities	(2,039)	(4,578)
 Total change in current assets and liabilities	 \$ (27,062)	 \$ (44,390)
Supplementary cash flows information:		
Interest paid (excluding interest capitalized)	\$ 26,482	\$ 23,797
Federal income taxes paid for alternative minimum tax	336	135
Supplementary noncash investing activities:		
Additions to property, plant and equipment (a)	\$ 18,643	\$ 16,543

(a) Amounts consist of current liabilities for construction labor and materials that were not included in cash flows from investing activities in the

periods presented. These amounts had not been paid for as of September 30, 2006 and 2005, respectively, but will be or have been included as a cash outflow from investing activities for expenditures for property, plant and equipment when paid.

2. 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.

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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 nine months ended September 30, 2006. We were not required to adjust prior year amounts upon adopting SFAS 123(R) using the modified prospective method.

We recorded a cumulative effect of a change in accounting principle of less than \$0.1 million of income net of tax, resulting from a change in our accounting 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 nine months ended September 30, 2006, we did not recognize excess tax deductions of \$0.3 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 nine months ended September 30, 2006.

Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes

Financial Accounting Standards Board Interpretation No. 48 Accounting for Uncertainty in Income Taxes, or FIN 48, is an interpretation of Statement of Financial Accounting Standards 109, Accounting for Income Taxes, or SFAS 109, and clarifies the accounting for uncertainty within the income taxes recognized by an enterprise. FIN 48 prescribes a recognition threshold and a measurement attribute for tax positions taken or expected to be taken in a tax return that may not be sustainable. The provisions of FIN 48 are effective for us beginning January 1, 2007, and we do not expect that it will have a material effect on our consolidated financial statements.

Statement of Financial Accounting Standards 157, Fair Value Measurements

Statement of Financial Accounting Standards 157 Fair Value Measurements, or SFAS 157, clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures on fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We have not determined the impact the adoption of this statement will have on our consolidated financial statements.

Statement of Financial Accounting Standards 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)

Statement of Financial Accounting Standards 158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R), or SFAS 158, requires the recognition of the funded status of a defined benefit plan in the statement of financial position, requires that changes in the funded status be recognized through comprehensive income, changes the measurement date for defined benefit plan assets and obligations to the entity's fiscal year-end and expands disclosures. The recognition and disclosures under SFAS 158 are required as of the end of the fiscal year ending after December 15, 2006 while the new measurement date is effective for fiscal years ending after December 15, 2008. We are in the process of evaluating the impact of SFAS 158 on our consolidated financial statements.

3. ACQUISITION OF MICHIGAN ELECTRIC TRANSMISSION COMPANY, LLC

On May 11, 2006, ITC Holdings entered into a purchase agreement with TE Power Opportunities Investors, L.P., Mich 1400 LLC, MEAP US Holdings Ltd., Macquarie Essential Assets Partnership, or 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, on October 10, 2006, ITC Holdings acquired indirect ownership of all the partnership interests in Michigan Transco Holdings, Limited Partnership, or MTH, the sole member of Michigan Electric

Transmission Company, LLC, or METC, which we refer to as the Acquisition. Under the terms of the purchase agreement, the former indirect owners of the MTH partnership interests, whom we refer to as the selling shareholders,

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received approximately \$484.0 million in cash and 2,195,045 shares of our common stock were issued to MEAP. In addition, we, MTH or METC have assumed or repaid approximately \$308.5 million of MTH and METC debt and certain liabilities (net of \$0.1 million of cash) based on balances as of October 10, 2006 before any repayments occurring after the Acquisition. Also as part of the Acquisition, ITC Holdings acquired METC GP Holdings, Inc., the sole member of MTH's general partner.

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.

Financing of the Acquisition

Issuance of ITC Holdings' Common Stock On October 10, 2006, ITC Holdings completed an equity offering of its common stock pursuant to a registration statement on Form S-1, as amended (File No. 333-135137). ITC Holdings sold 6,580,987 newly-issued shares of common stock through the offering, which resulted in proceeds of \$200.5 million (net of underwriting discount of \$9.5 million), before issuance costs estimated at \$2.1 million. The proceeds from this offering were used to partially finance the Acquisition. International Transmission Holdings Limited Partnership, or IT Holdings Partnership, our largest shareholder, sold 6,356,513 shares of common shares through the offering, from which sale ITC Holdings received no proceeds.

As of September 30, 2006, \$2.0 million has been incurred for professional services, primarily legal and accounting fees, in connection with the offering and was recorded in other long-term assets. We have \$1.6 million recorded in other current liabilities for the amounts that had not been paid as of September 30, 2006.

Issuance of the ITC Holdings' Senior Notes On October 10, 2006, ITC Holdings issued \$255.0 million aggregate principal amount of its 5.875% Senior Notes due 2016, or the 2016 Senior Notes, and \$255.0 million aggregate principal amount of its 6.375% Senior Notes due 2036, or the 2036 Senior Notes and, together with the 2016 Senior Notes, the Senior Notes, in a private placement in reliance on exemptions from registration under the Securities Act of 1933. The proceeds from the issuance of the Senior Notes were partially used to finance the Acquisition.

The Senior Notes were issued under ITC Holdings' Indenture, or the Senior Notes Original Indenture, dated as of July 16, 2003, between The Bank of New York Trust Company, N.A. (as successor to BNY Midwest Trust Company), or the Senior Notes Trustee, as supplemented by the Second Supplemental Indenture thereto, dated as of October 10, 2006, between ITC Holdings and the Senior Notes Trustee, or the Senior Notes Second Supplemental Indenture and, together with the Senior Notes Original Indenture, or the Senior Notes Indenture. The Senior Notes are unsecured.

Interest on the Senior Notes is payable semi-annually in arrears on March 30 and September 30 of each year, commencing on March 30, 2007 at a fixed rate of 5.875% per annum, in the case of the 2016 Senior Notes, and a rate of 6.375% per annum, in the case of the 2036 Senior Notes. ITC Holdings may redeem the Senior Notes at any time, in whole or in part, at a Make Whole Price equal to the greater of (1) the principal amount of the Senior Notes being redeemed and (2) the sum of the present values of the remaining scheduled principal and interest payments on the Senior Notes discounted to the redemption date at the Adjusted Treasury Rate (as defined in the Senior Notes Indenture), plus, in each case, accrued and unpaid interest on the Senior Notes to, but not including, the redemption date. The principal amount of the 2016 Senior Notes is payable on September 30, 2016 and the principal amount of the 2036 Senior Notes is payable on September 30, 2036.

The Senior Notes and the Senior Notes Indenture restrict ITC Holdings and its subsidiaries' ability to engage in sale and lease-back transactions and, in certain circumstances, to incur liens. The Senior Notes and the Senior Notes Indenture contain customary events of default, including, without limitation, failure to pay principal on any Indenture Security (as defined in the Senior Notes Indenture) when due; failure to pay interest on any Indenture Security for 30 days after becoming due; and failure to comply with certain covenants and warranties contained in the Senior Notes Indenture for a period of 60 days after written notice from the Senior Notes Trustee or the holders of 25% of the aggregate principal amount of Indenture Securities then outstanding. If an Event of Default (as defined in the Senior Notes Indenture) occurs and is continuing, the trustee or the Senior Notes Holders (as defined in the Senior Notes Indenture) of not less than 25% in aggregate principal amount of the Indenture Securities outstanding may declare the principal amount of all the Indenture Securities to be due and payable immediately.

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As of September 30, 2006, \$0.9 million has been incurred for professional services, primarily legal and accounting fees, in connection with the issuance of the Senior Notes and was recorded in other long-term assets. We have \$0.7 million recorded in other current liabilities for the amounts that had not been paid as of September 30, 2006.

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The unaudited pro forma financial information for the three and nine months ended September 30, 2006 and 2005 are prepared as if the Acquisition had occurred at the beginning of each respective period. The unaudited pro forma financial information are based upon available information and assumptions that management believes are reasonable. The unaudited pro forma financial information have been compiled from historical financial statements and other information from the historical consolidated financial statements of ITC Holdings and Subsidiaries and MTH and METC, but do not purport to represent what our consolidated results of operations would have been had the Acquisition occurred on the dates indicated, or to project our consolidated financial performance for any future period. The unaudited pro forma financial information presented below give effect to the following transactions associated with the Acquisition:

Elimination of revenue and operating expense that resulted from transactions between ITC Holdings and Subsidiaries and MTH and METC;

Additional depreciation and amortization expense for the periods presented based on an identified intangible asset acquired with a finite life. Based on the authorized recovery of these amounts, the amortization does not begin until January 1, 2006, therefore, there would have been no effect on depreciation and amortization expense for the three and nine months ended September 30, 2005;

Increase in interest expense for the periods presented from the effect of the issuance of the Senior Notes;

Decrease in interest expense for the periods presented from the effect of the repayment or redemption of ITC Holdings revolving credit facility and a portion of MTH and METC's long term debt;

Recognition of a loss on extinguishment of debt for the effect of the redemption of a portion of MTH's long term debt;

Increase in federal income tax expense for the consolidated companies at an assumed rate of 35% based on the income tax provision to be recorded at ITC Holdings relating to MTH and METC after the acquisition;

Issuance and sale by us of 6,580,987 shares of ITC Holdings common stock in a public offering; and

Issuance of 2,195,045 shares of our common stock to MEAP as part of the Acquisition completed on October 10, 2006.

(In thousands, except per share data)	Unaudited pro forma financial information for the three months ended September 30, 2006		Unaudited pro forma financial information for the nine months ended September 30, 2006	
	(as restated) 2006	2005	(as restated) 2006	2005
Operating revenues	\$ 104,136	\$ 100,613	\$ 258,891	\$ 240,435
Income before cumulative effect of a change in accounting principle	\$ 22,109	\$ 15,503	\$ 35,575	\$ 31,921
Net income	\$ 22,109	\$ 15,503	\$ 35,604	\$ 31,921
Basic earnings per share	\$ 0.53	\$ 0.38	\$ 0.85	\$ 0.80
Diluted earnings per share	\$ 0.51	\$ 0.37	\$ 0.83	\$ 0.78

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Attachment O is a FERC-approved cost of service formula rate template that is completed annually by most transmission owning members of MISO, including *ITCTransmission*. The network transmission rate for the period from June 1, 2006 through December 31, 2006 for *ITCTransmission* is \$1.744 per kW/month compared to \$1.594 per kW/month from June 1, 2005 through May 31, 2006 and \$1.587 per kW/month from January 1, 2005 through May 31, 2005.

Forward-Looking Attachment O

On July 14, 2006, the FERC authorized *ITCTransmission* to modify the implementation of its Attachment O formula rate so that, beginning January 1, 2007, *ITCTransmission* will recover expenses and will earn a return on and recover investments in transmission on a current rather than a lagging basis. *ITCTransmission*'s rate-setting method for network transmission rates in effect through December 31, 2006 primarily uses historical FERC Form No. 1 data to establish a rate.

Under the forward-looking Attachment O formula, no later than September 1 of each year beginning in 2006, *ITCTransmission* will use forecasted expenses, additions to in-service property, plant and equipment, point-to-point revenues, network load and other items for the following calendar year to determine rates for service on *ITCTransmission*'s system from January 1 to December 31 of the following year. The forward-looking Attachment O formula includes a true-up mechanism, whereby *ITCTransmission* compares its actual revenue requirement to its billed revenues for each year. In the event billed revenues in a given year are more or less than actual revenue requirement, which is calculated primarily using that year's FERC Form No. 1, *ITCTransmission* will refund or collect additional revenues, with interest, such that customers pay only the amounts that correspond to *ITCTransmission*'s actual revenue requirement.

The *ITCTransmission* network transmission rate to be billed for the period from January 1, 2007 through December 31, 2007 will be \$2.099 per kW/month.

Revenue Deferral

ITCTransmission's network transmission rates were fixed at \$1.075 per kW/month from February 28, 2003 through December 31, 2004, or the Freeze Period. The difference between the revenue *ITCTransmission* would have been entitled to collect under Attachment O and the actual revenue *ITCTransmission* received based on the fixed transmission rate in effect during the Freeze Period, or the Revenue Deferral, is recognized as revenue when billed. The cumulative Revenue Deferral at December 31, 2004, which was the end of the Freeze Period, was \$59.7 million (\$38.8 million net of tax). At the end of each year, the cumulative Revenue Deferral, net of taxes, is included in rate base on Attachment O to determine *ITCTransmission*'s annual revenue requirement. The Revenue Deferral is included ratably in rates over the five-year period that began June 1, 2006. The Revenue Deferral and related taxes are not reflected as an asset or liability in the consolidated financial statements because the Revenue Deferral does not meet the criteria to be recorded as a regulatory asset or liability in accordance with Statement of Financial Accounting Standards 71, Accounting for the Effects of Certain Types of Regulation.

Point-to-Point Revenues

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. For the nine months ended September 30, 2006 and 2005, we recognized \$3.4 million and \$17.6 million, respectively, of point-to-point revenues, which are included in operating revenues. The following matters relate to point-to-point revenues and have impacted our consolidated financial statements in recent periods:

Refunds The rates approved by the FERC in connection with ITC Holdings' acquisition of Predecessor *ITCTransmission* from DTE Energy Company, or DTE Energy, included a departure from the Attachment O formula with respect to the 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 ITC Holdings' acquisition of Predecessor *ITCTransmission* from DTE Energy, *ITCTransmission* 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

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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 transmission rates.

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. ITC*Transmission* 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 September 2005, MISO completed the refund calculations and ITC*Transmission* refunded \$0.5 million relating to redirected transmission service, which was recorded as a reduction in operating revenues in the three and nine months ended September 30, 2005.

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, ITC*Transmission* 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. We had previously reserved an estimate for the 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. In May 2006, ITC*Transmission* refunded \$1.3 million relating to redirected services through January 2005. As of September 30, 2006, we have reserved \$0.1 million for estimated refunds of redirected transmission services revenue received subsequent to January 2005.

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 until March 31, 2006 as a transitional pricing mechanism. Prior to December 1, 2004, ITC*Transmission* 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 September 30, 2006, we recorded \$2.5 million of gross 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 were subject to refund as described in the FERC order and this matter was litigated in a contested hearing before the FERC that concluded on May 18, 2006. An initial decision was issued by the Administrative Law Judge presiding over the hearings on August 10, 2006, which generally indicated that the SECA revenues resulted from unfair, unjust and preferential rates. The judge's decision is subject to FERC's final ruling on the matter, which could differ from the initial decision. Notwithstanding the judge's initial decision, ITC*Transmission* and other transmission owners who collected SECA revenues are participating in settlement discussions with certain counterparties that paid the SECA amounts. Based on the ongoing settlement discussions, we reserved \$0.4 million in the second quarter of 2006 for our estimate of the amount to be refunded to the counterparties that are participating in settlement discussions. For the counterparties who are not participating in the settlement discussions, we are not able to estimate whether any refunds of amounts earned by ITC*Transmission* will result from this hearing or whether this matter will otherwise be settled, but we do not expect the amounts to be material. We have not accrued any refund amounts relating to these nonparticipating counterparties.

Elimination of Transmission Rate Discount Several energy marketers filed a complaint against MISO in February 2005 in FERC Docket No. EL05-66 asserting that MISO improperly eliminated a rate discount that had

previously been effective for transmission service at the Michigan-Ontario Independent Electric System Operator interface. Subsequent to the date the complaint was filed, MISO held amounts in escrow that it had collected for the difference between the discounted tariff rate and the full tariff rate. Through June 30, 2005, we had recorded revenues based only on the amounts collected by MISO and remitted to ITC*Transmission*. These amounts did not include the amounts held in escrow by MISO of \$1.6 million as of June 30, 2005. On July 5, 2005, in Docket No. EL05-66, FERC denied the complaint filed by the energy marketers against MISO. The amounts held in escrow of \$1.6 million as of June 30, 2005 were recognized as operating revenues in the third quarter of 2005. Several complainants have sought rehearing at the FERC of the July 5, 2005 order and in December 2005, the FERC denied the rehearing requests. In January 2006, several complainants sought rehearing of the December 2005 order denying rehearing. Subsequently in February 2006, FERC

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denied the rehearing request. These complainants filed a petition for review of the July 2005 and December 2005 orders at the U.S. Court of Appeals.

Regulatory Liabilities

Regulatory Liabilities - Accrued Asset Removal Costs- Non-Legal At December 31, 2005 we had recorded \$42.7 million for accrued asset removal costs for which we do not have a legal obligation to retire the asset. The portion of depreciation expense related to non-legal asset removal costs is added to this regulatory liability and non-legal removal expenditures incurred are charged to this regulatory liability. During the third quarter of 2006, we reviewed our assumptions used in recording the estimate for this regulatory liability, and we recorded an adjustment of approximately \$17.2 million to bring the September 30, 2006 balance to \$60.0 million for non-legal accrued asset removal costs. The adjustment also increased property, plant and equipment (net of accumulated depreciation and amortization) by approximately \$17.2 million.

5. LONG TERM DEBT**First Mortgage Bonds Series C**

On March 28, 2006, ITC*Transmission* issued \$100.0 million of 6.125% First Mortgage Bonds, Series C, or the Series C Bonds. The Series C Bonds were issued under ITC*Transmission*'s First Mortgage and Deed of Trust, or the First Mortgage and Deed of Trust, dated as of July 15, 2003, between The Bank of New York Trust Company, N.A. (as successor to BNY Midwest Trust Company), as trustee, or the Series C Trustee, as supplemented by the Third Supplemental Indenture thereto, dated as of March 28, 2006, between ITC*Transmission* and the Series C Trustee, or the Third Supplemental Indenture, and, together with the First Mortgage and Deed of Trust, the Series C Indenture. The Series C Bonds are secured by a first mortgage lien on substantially all of ITC*Transmission*'s real and tangible personal property equally with all other securities previously issued or issued in the future under the First Mortgage and Deed of Trust, with such exceptions as are described in, and such releases as are permitted by, the Series C Indenture.

Interest on the Series C Bonds is payable semi-annually in arrears on March 31 and September 30 of each year, commencing on September 30, 2006 at a fixed rate of 6.125% per annum. ITC*Transmission* may redeem the Series C Bonds at any time, in whole or in part, at a "Make Whole Price" equal to the greater of (1) 100% of the principal amount of the Series C Bonds being redeemed and (2) the sum of the present values of the remaining scheduled principal and interest payments on the Series C Bonds discounted to the redemption date at the Adjusted Treasury Rate (as defined in the Series C Indenture), plus, in each case, accrued and unpaid interest on the Series C Bonds to, but not including, the redemption date. The principal amount is payable in a lump sum on March 31, 2036.

The Series C Bonds and the Series C Indenture contain customary events of default, including, without limitation, failure to pay principal on any Indenture Security (as defined in the Series C Indenture) when due; failure to pay interest on any Indenture Security for 30 days after becoming due; and failure to comply with certain covenants and warranties contained in the Series C Indenture for a period of 60 days after written notice from the trustee or the holders of 25% of the aggregate principal amount of Indenture Securities (as defined in the Series C Indenture) then outstanding. If an Event of Default (as defined in the Series C Indenture) occurs and is continuing, the Series C Trustee or the Series C Holders (as defined in the Series C Indenture) of not less than 25% in aggregate principal amount of the Indenture Securities outstanding may declare the principal amount of all the Indenture Securities to be due and payable immediately. There are no financial covenants under the Series C Bonds.

Revolving Credit Facilities and First Mortgage Bonds Series B

On March 24, 2006, ITC*Transmission* entered into Amendment No. 1, or the ITC*Transmission* Amendment, to the First Amended and Restated Revolving Credit Agreement, dated January 19, 2005. The ITC*Transmission* Amendment extended the revolving credit maturity date under the First Amended and Restated Revolving Credit Agreement from March 19, 2007 to March 10, 2010. On March 24, 2006, ITC*Transmission* also entered into a Second Amendment to Second Supplemental Indenture that extended the maturity date of its First Mortgage Bonds, Series B from March 19, 2007 to March 10, 2010. At September 30, 2006, ITC*Transmission* had borrowings of \$4.2 million outstanding under its revolving credit facility and had total commitments under its revolving credit facility of \$75.0 million.

On March 24, 2006, ITC Holdings Corp. entered into Amendment No. 1, or the ITC Holdings Amendment, to the First Amended and Restated Revolving Credit Agreement, dated January 12, 2005. The ITC Holdings Amendment

extended the revolving credit maturity date under the First Amended and Restated Revolving Credit Agreement from March 19, 2007 to March 10, 2010. At

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September 30, 2006, ITC Holdings had borrowings of \$49.7 million outstanding under its revolving credit facility and had total commitments under its revolving credit facility of \$50.0 million.

6. INTEREST RATE LOCK CASH FLOW HEDGES

On September 27, 2006, ITC Holding