ITC Holdings Corp.
Form 424B4
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Registration Nos. 333-135137 and 333-137787

PROSPECTUS

11,250,000 Shares

Common Stock

We are selling 6,580,987 shares of our common stock and the selling stockholder is selling 4,669,013 shares of our common stock. We will not receive any proceeds from the sale of our common stock by the selling stockholder.

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 October 3, 2006 was $31.91 per share.

Investing in our common stock involves risks. See "Risk Factors" beginning on page 19.

	Per Share	Total
Public offering price	$ 31.910	$ 358,987,500
Underwriting discounts and commissions	$ 1.436	$ 16,155,000
Proceeds to ITC Holdings Corp. (before expenses)	$ 30.474	$ 200,548,998
Proceeds to the selling stockholder (before expenses)	$ 30.474	$ 142,283,502

The selling stockholder has granted the underwriters a 30-day option to purchase up to an additional 1,687,500 shares of our common stock 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.

Credit Suisse, on behalf of the underwriters, expects to deliver the shares on or about October 10, 2006.

LEHMAN BROTHERS **CREDIT SUISSE**

MORGAN STANLEY

A.G. EDWARDS

October 4, 2006

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ABOUT THIS PROSPECTUS

You should rely only on the information contained in this prospectus. We, the selling stockholder 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 and the selling stockholder 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, repayments of MTH's and certain of METC's debt 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;

"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);

the "FERC" are references to the Federal Energy Regulatory Commission;

"kV" are references to kilovolts (one kilovolt equaling 1,000 volts);

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

"kW" are references to kilowatts (one kilowatt equaling 1,000 watts); and

"selling stockholder" are references to International Transmission Holdings Limited Partnership, a Michigan limited partnership, or the IT Holdings Partnership.

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.

Our Business

Overview

Through our operating subsidiaries, ITC*Transmission* and METC, we are the only publicly traded company engaged exclusively in the transmission of electricity in the United States. We are also the largest independent electric transmission company and the tenth largest electric 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. ITC*Transmission* 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 actual 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 ITC*Transmission* 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, 236 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 ITC*Transmission* 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, ITC*Transmission* and METC invested $199.3 million and $65.0 million, respectively, in property, plant and equipment. We expect investments by ITC*Transmission* and METC in property, plant and equipment in 2006 to be approximately $145.0 million and $50.0 million, respectively. ITC*Transmission* and METC have invested $73.4 million and $35.5 million, respectively, in property, plant and equipment during the six months ended June 30, 2006.

Over the seven-year period from January 1, 2005 through December 31, 2011, we anticipate that ITC*Transmission* 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 ITC*Transmission* and METC is estimated to be between approximately $205.0 million to $215.0 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 completion of 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 ITC*Transmission* and METC is estimated to be between $1.0 billion and $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 2006.

(in thousands)

(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 $13.7 million on an annual basis recognized on a straight-line method from the date of closing of the acquisition through May 31, 2011. See the discussion of this item in Note 6 to the notes to MTH and METC's audited historical consolidated financial statements for the year ended December 31, 2005 included elsewhere in this prospectus. This item represents the portion of METC's regulatory asset that is not recorded in METC's GAAP financial statements.

(c)

Estimated 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 between 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 50.7% and 25.2%, 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 $118.9 million, respectively, for the year ended December 31, 2005. ITC Holdings and Subsidiaries generated operating revenues, net income and adjusted EBITDA of $87.5 million, $10.7 million and $48.3 million, respectively, for the six months ended June 30, 2006. We generated pro forma operating revenues, net income and adjusted EBITDA of $311.3 million, $31.6 million and $165.5 million, respectively, for the year ended December 31, 2005. We generated pro forma operating revenues, net income and adjusted EBITDA of $154.8 million, $13.5 million and $86.2 million, respectively, for the six months ended June 30, 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 in each of which a different transmission service rate is charged. The rates of our utility subsidiaries are determined using a FERC-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 financial information primarily from a transmission provider's FERC Form No. 1 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, among other items. These annual adjustments occur under Attachment O without the need to file a rate case at the FERC.

ITC*Transmission*'s FERC-approved rate 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 period which began June 1, 2006 increased to $1.744 per kW/month. The network transmission rate of $2.099 per kW/month, which will be effective for ITC*Transmission* beginning on January 1, 2007, is based on ITC*Transmission*'s implementation of a forward-looking Attachment O as described below, which consists of forecasted information for the upcoming year.

On July 14, 2006, the FERC authorized ITC*Transmission* to modify the implementation of its Attachment O formula rate so that, beginning January 1, 2007, ITC*Transmission* will recover expenses and will earn a return on and recover investments in transmission on a current rather than a historical basis. ITC*Transmission*'s current rate-setting method for network transmission rates primarily uses historical data to establish a rate. As a result of the FERC authorization, ITC*Transmission* will be allowed to collect revenues based on its current expenses and capital investments, which is expected to result in higher revenues and cash flows in the initial years after implementation. During periods of capital expansion and increasing rate base, ITC*Transmission* will recover the costs of these capital investments on a more timely basis than it would under the current Attachment O method. ITC*Transmission*'s authorization to implement a forward-looking Attachment O does not affect METC's ratemaking regardless of whether the acquisition is consummated.

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 FERC 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 FERC 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 among participants in an independent industry benchmarking study in key reliability measures such as average circuit momentary outages and average circuit sustained outages.

- 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 improve reliability and 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 and engaging in the development of new transmission systems outside our existing service territories.

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.

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 $555.6 million plus approximately $311.7 million of MTH and METC debt and certain liabilities (net of $4.5 million of cash and cash equivalents) based on June 30, 2006 balances, which we, MTH or METC will assume, repay or redeem 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. On September 21, 2006, the FERC granted an order conditionally approving ITC Holdings' acquisition of METC as further described under "The Transactions."

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 electric transmission company in the country based on transmission load served;

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 $510.0 million aggregate principal amount of senior notes in a private placement. 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 a value of $70.0 million to Macquarie Essential Assets Partnership, a current owner of indirect ownership interests in METC, as consideration for the acquisition. In addition, we, MTH or METC expect to assume, repay or redeem outstanding debt and certain liabilities (net of $4.5 million of cash and cash equivalents) based on June 30, 2006 balances in the amount of approximately $311.7 million at MTH and METC, repay the outstanding balances under ITC Holdings' revolving credit facility and pay related fees and expenses. The consummation of this offering and the senior notes private placement are conditioned upon the closing of the acquisition. The acquisition is also subject to customary closing conditions and those described under "The Transactions."

The following table shows the expected sources and uses of capital from our planned financings in connection with the acquisition and related transactions based primarily on information as of June 30, 2006:

Sources	**(in millions)**
Liabilities:	
Assumed METC Notes(1)	175.0
Assumed METC interest bearing obligations	29.7
ITC Holdings' issuance of senior notes(2)	510.0
Total	714.7
Equity:	
Net proceeds to us from this offering	198.5
Shares of our common stock to be issued to Macquarie Essential Assets Partnership	70.0
Total	268.5
Total Sources	**$ 983.2**
Uses	
Enterprise purchase price:	
Equity purchase price	$ 555.6
MTH Notes(3)	90.0
METC Notes(1)	175.0
METC revolving credit facility	15.5
METC interest bearing obligations	29.7
Trans-Elect management services agreement termination payment	6.0
Cash and cash equivalents	(4.5)
Total enterprise purchase price	867.3
Repayment of ITC Holdings revolving credit facility	50.0
MTH Notes redemption costs(4)	5.9
Estimated fees, expenses and other(5)	60.0
Total Uses	**$ 983.2**

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

(2) The senior notes will be issued in a private placement 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.

(3) MTH's outstanding $90.0 million aggregate principal amount of 6.05% Senior Secured Notes due 2015, or the MTH Notes.

(4) Consists of the payment of estimated "make-whole" premiums in connection with the redemption or repayment of all of the outstanding MTH Notes as of September 21, 2006.

(5) Consists of costs and expenses associated with the redemption or repayment of all of the outstanding MTH Notes (other than the payment of "make-whole" premiums), fees and expenses incurred in connection with this offering and the private placement of ITC Holdings' senior notes, as well as other costs and expenses associated with the transactions described under "The Transactions." Also consists of remaining cash of $43.1 million to be used for general corporate purposes.

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."

Recent Developments

New Subsidiaries

In July 2006, ITC Holdings formed two new subsidiaries ITC Grid Development, LLC and ITC Great Plains, LLC. As an extension of our existing strategy, ITC Grid Development was formed to focus on bringing improvements to the U.S. electricity transmission system by partnering with entities in regions where we believe significant investment is needed to improve reliability and address local energy needs. ITC Great Plains, which has opened an office in Topeka, Kansas, was formed to focus on transmission improvements in Kansas and the Great Plains region. In Kansas, and in other states or regions where we may engage in operations through our two new subsidiaries, we expect to partner with local experts, such as firms that specialize in design and engineering, and other entities in order to achieve our mission of enhancing the U.S. transmission grid and providing a framework for lower electric energy costs. These subsidiaries are working to identify, and are expected to eventually undertake, projects consisting of upgrades to existing electricity transmission systems, as well as the construction of new electricity transmission systems or portions of systems. We expect to pursue only development opportunities that are consistent with ITC*Transmission*'s business model, such as those that are anticipated to result in the creation of a FERC-regulated entity using formula-based rates.

Earnings and Other Guidance

On August 10, 2006, we announced that we expect that ITC Holdings and Subsidiaries will have total net income of between $31.0 million and $34.0 million for the year ending December 31, 2006 and diluted earnings per share of between $0.97 and $0.99 for the same period, which does not include any impact from MTH and METC. In addition, we announced that we expect ITC Holdings and Subsidiaries on a pro forma basis, including MTH and METC, will have diluted earnings per share of between $1.50 and $1.60, which includes $13.7 million of pre-tax non-cash amortization ($8.9 million after-tax) of an intangible asset recognized as a result of the acquisition, for the year ending December 31, 2007. Our forecasted amount of adjusted EBITDA, without including any impact for MTH and METC, is expected to be between $112.0 million and $117.0 million for the year ending December 31, 2006 and between $141.0 million and $147.0 million for the year ending December 31, 2007, and is expected to be between $235.0 million and $241.0 million for the year ending December 31, 2007 including the impact of MTH and METC. For more information and limitations of this prospective financial information and a reconciliation of estimated net income to estimated adjusted EBITDA, see "Management's Discussion and Analysis of Financial Condition and Results of Operations Prospective Financial Information."

Dividend

On August 16, 2006, our board of directors declared a quarterly cash dividend of $0.275 per share on our common stock, which was paid on September 15, 2006 to stockholders of record on September 1, 2006, which was an increase from the quarterly cash dividend of $0.2625 per share on our common stock that we paid for each of the first and second quarters of 2006. We intend to grow dividends on our common stock by approximately 2% to 4% per year, subject to board approval and availability of funds.

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*, METC or its other subsidiaries. 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.

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. 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."

(1) 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 2,205,419 shares of our common stock to be issued to Macquarie Essential Assets Partnership, or MEAP, in connection with ITC Holdings' acquisition of the indirect ownership interests in METC, assuming a price per share of $31.74, which is the average closing share price for the 18 trading days ended October 3, 2006. The actual number of shares of common stock issued to MEAP will be based on the average closing share price of our common stock for the 20 trading days ending October 5, 2006. Also may include shares of our common stock held by employees, amounts of which we are unable to determine.

(3) Includes the issuance of 6,580,987 shares of our common stock by us and the sale of 4,669,013 shares of our common stock by the selling stockholder in this offering. This assumes the underwriters do not exercise their over-allotment option.

(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	33,370,460
Shares of common stock offered by ITC Holdings Corp.	6,580,987
Shares of common stock offered by the selling stockholder	4,669,013
Shares of common stock outstanding after this offering	42,156,866
Use of proceeds	We estimate that our net proceeds from this offering, after deducting underwriting discounts and commissions and estimated offering expenses, will be approximately $198.5 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 a value of $70.0 million to MEAP, a current owner of indirect ownership interests in METC, as consideration for ITC Holdings' acquisition of all of the indirect ownership interests in METC as described under "The Transactions."
	We will not receive any of the proceeds from the sale of shares of our common stock by the selling stockholder in this offering.
Dividend policy	We paid a quarterly cash dividend of $0.275 per share on our common stock on September 15, 2006. We paid a quarterly cash dividend of $0.2625 per share on our common stock for each of the first and second quarters 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 33,370,460 shares outstanding as of October 3, 2006, the issuance by us of 6,580,987 shares of our common stock in this offering and the issuance by us of 2,205,419 shares of our common stock to MEAP, assuming a price per share of $31.74, which is the average closing share price for the 18 trading days ended October 3, 2006. The actual number of shares of common stock issued to MEAP will be based on the average closing share price of our common stock for the 20 trading days ending October 5, 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 4,667,253 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 1,900,417 shares of common stock issuable upon the exercise of outstanding stock options at an exercise price of $7.48 per share, 1,145,143 of which were vested as of the date of this prospectus, 695,178 shares of common stock issuable upon the exercise of outstanding stock options at an exercise price of $23.00 per share, 161,561 of which were vested as of the date of this prospectus, and 192,301 shares of common stock issuable on the exercise of outstanding stock options at an exercise price of $33.00 per share, none of which was vested as of the date of this prospectus; and

that 2,205,419 shares of common stock are issued to MEAP concurrently with the consummation of this offering, as described under "The Transactions," assuming a price per share of $31.74, which is the average closing share price for the 18 trading days ended October 3, 2006. The actual number of shares of common stock issued to MEAP will be based on the average closing share price of our common stock for the 20 trading days ending October 5, 2006.

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 June 30, 2006 and for the six months ended June 30, 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 six months ended June 30, 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 June 30, 2006 and for the six months ended June 30, 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 six months ended June 30, 2006 and the year ended December 31, 2005 and to MTH and METC's audited and unaudited historical consolidated financial statements for the six months ended June 30, 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 6,580,987 shares of our common stock in this offering;
- the issuance of 2,205,419 shares of our common stock to MEAP;
- the private placement of $510.0 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 repayments which we expect to occur concurrently with or shortly after this offering:

- the make-whole redemption or repayment of $90.0 million aggregate principal amount of MTH Notes;
- the repayment of approximately $15.5 million outstanding as of June 30, 2006 under METC's $35.0 million revolving credit facility; and
- the repayment of approximately $50.0 million outstanding as of June 30, 2006 under ITC Holdings' revolving credit facility,

all as described under "The Transactions."

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 acquisition and debt repayments, the number of shares of our common stock to be issued to MEAP, the interest rates applicable to 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 MEAP, the private placement of ITC Holdings' senior notes, the acquisition of all of the indirect ownership interests in METC, the termination of a management services agreement or any of the transactions associated with debt repayments 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.

ITC Holdings and Subsidiaries

	Pro Forma Six Months Ended June 30, 2006	Six Months Ended June 30		Pro Forma Year Ended December 31, 2005	Year Ended December 31,	
		2006	2005		2005	2004
	(in thousands, except share and per share data)					
Statement of operations data:						
Operating revenues(a)	$ 154,756	$ 87,544	$ 93,178	$ 311,324	$ 205,274	$ 126,449
Operating expenses:						
Operation and maintenance	31,226	13,775	16,391	89,728	48,310	24,552
General and administrative	22,853	15,465	10,011	35,943	25,198	24,412
Depreciation and amortization	35,523	17,954	16,172	43,771	33,197	29,480
Taxes other than income taxes	14,314	10,330	8,119	21,451	13,982	20,840
Termination of management agreements				6,725	6,725	
Total operating expenses	103,916	57,524	50,693	197,618	127,412	99,284
Operating income	50,840	30,020	42,485	113,706	77,862	27,165
Other expenses (income):						
Interest expense	36,983	15,134	14,008	68,493	28,128	25,585
Allowance for equity funds used during construction	(2,177)	(1,360)	(1,471)	(3,744)	(2,790)	(1,691)
Loss on extinguishment of debt				1,308		
Gain on sale of assets, net	(5,031)					
Other income	(686)	(550)	(468)	(1,913)	(1,700)	(1,289)
Other expense	814	261	258	615	615	283
Total other expenses (income)	29,903	13,485	12,327	64,759	24,253	22,888
Income before income taxes	20,937	16,535	30,158	48,947	53,609	4,277
Income tax provision	7,423	5,883	10,672	17,307	18,938	1,669
Income before cumulative effect of a change in accounting principle(b)	$ 13,514	10,652	19,486	$ 31,640	34,671	2,608
Cumulative effect of a change in accounting principle		29				
Net income		$ 10,681	$ 19,486		$ 34,671	$ 2,608
Earnings per share data:(c)						
Basic earnings per share:						
Earnings per share	$ 0.32	$ 0.32	$ 0.64	$ 0.79	$ 1.10	$ 0.09
Weighted average shares	41,782,264	32,995,858	30,341,967	40,241,471	31,455,065	30,183,886
Diluted earnings per share:						
Earnings per share	$ 0.32	$ 0.31	$ 0.62	$ 0.76	$ 1.06	$ 0.08
Weighted average shares	42,758,381	33,971,975	31,262,592	41,516,248	32,729,842	30,899,548

	MTH and METC			
	Six Months Ended June 30,		Year Ended December 31,	
	2006	2005	2005	2004
	(in thousands)			
Statement of operations data:				
Operating revenues(d)	$ 67,779	$ 47,525	$ 107,752	$ 101,459
Operating expenses:				
Operation and maintenance	18,500	20,699	43,951	42,462
General and administrative	6,928	4,370	9,945	8,388
Depreciation and amortization	10,710	5,023	10,574	9,996
Taxes other than income taxes	3,962	3,371	7,438	7,066
Total operating expenses	40,100	33,463	71,908	67,912
Operating income	27,679	14,062	35,844	33,547
Other expenses (income):				
Interest expense	8,733	6,349	14,118	13,081
Allowance for equity funds used during construction	(817)	(562)	(954)	(493)
Gain on sale of assets, net	(5,031)			
Other income	(136)	(73)	(213)	(108)
Other expense	553			
Total other expenses (income)	3,302	5,714	12,951	12,480
Net income	$ 24,377	$ 8,348	$ 22,893	$ 21,067

	ITC Holdings and Subsidiaries	
	As of June 30, 2006	
	Pro Forma	Actual
	(in thousands)	
Balance sheet data:		
Cash and cash equivalents	$ 90,310	$ 46,604
Working capital	93,706	47,570
Property, plant and equipment net	1,022,833	661,126
Total assets	2,006,179	1,010,379
Total debt:		
ITC Holdings	776,163	316,163
ITC*Transmission*	284,808	284,808
METC	175,000	
Total	1,235,971	600,971
Total stockholders' equity	526,113	258,357

	MTH and METC
	As of June 30, 2006

		MTH and METC
		(in thousands)
Balance sheet data:		
Cash and cash equivalents	$	4,540
Working capital (deficit)		(9,114)
Property, plant and equipment net		361,707
Total assets		544,316
Total debt:		
MTH		90,000
METC(e)		190,500
Total		280,500
Partners' capital		209,258

	ITC Holdings and Subsidiaries					
	Pro Forma Six Months Ended June 30, 2006	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005	Pro Forma Year Ended December 31, 2005	Year Ended December 31, 2005	Year Ended December 31, 2004
	(in thousands)					
Other data:						
Adjusted EBITDA(f)	$ 86,235	$ 48,263	$ 58,867	$ 165,500	$ 118,869	$ 57,651
Capital expenditures	99,677	66,077	61,928	155,689	118,586	76,779

	MTH and METC			
	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005	Year Ended December 31, 2005	Year Ended December 31, 2004
	(in thousands)			
Other data:				
Adjusted EBITDA(f)	$ 37,972	$ 19,158	$ 46,631	$ 43,651
Capital expenditures	33,600	19,689	37,103	26,142

	2006		2005		2004		2003	
	ITC*Transmission*	METC	ITC*Transmission*	METC	ITC*Transmission*	METC	ITC*Transmission*	METC
Operating data:								
Network Transmission Rate (per kW/month)(a)(d):								
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	6,080	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	6,156	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	7,550	7,678	5,889	8,718	6,294	7,017	5,682
June	9,752	7,169	12,108	8,971	11,114	7,832	11,266	8,228
July	12,392	9,237	11,822	8,758	11,344	8,241	10,225	7,213
August	12,745	9,469	12,308	9,229	10,877	8,031	11,617	8,788
September	8,415		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	85,398	105,809	81,227	101,699	79,869

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

(b) For the pro forma periods presented, this amount represents pro forma net income and not income before cumulative effect of a change in accounting principle.

(c) Earnings per share is calculated by dividing net income by the weighted average shares outstanding.

(d) During the years ended December 31, 2005, 2004 and 2003, METC's billed transmission rate was frozen at $0.98 per kW/month. Beginning January 1, 2006, METC's billed transmission rates were set using the Attachment O formula mechanism.

(e) Includes $15.5 million outstanding under METC's revolving credit facility.

(f) 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 considered a substitute for net income, operating income 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 our 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 and value of 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.

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

	ITC Holdings and Subsidiaries					
	Pro Forma Six Months Ended June 30, 2006	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005	Pro Forma Year Ended December 31, 2005	Year Ended December 31, 2005	Year Ended December 31, 2004
	(in thousands)					
Net income	$ 13,514	$ 10,681	$ 19,486	$ 31,640	$ 34,671	$ 2,608
Income taxes	7,423	5,883	10,672	17,307	18,938	1,669
Allowance for equity funds used during construction	(2,177)	(1,360)	(1,471)	(3,744)	(2,790)	(1,691)
Interest expense	36,983	15,134	14,008	68,493	28,128	25,585
Loss on extinguishment of debt				1,308		
Termination of management agreements				6,725	6,725	
Gain on sale of assets, net	(5,031)					
Cumulative effect of a change in accounting principle		(29)				
Depreciation and amortization	35,523	17,954	16,172	43,771	33,197	29,480
Adjusted EBITDA	$ 86,235	$ 48,263	$ 58,867	$ 165,500	$ 118,869	$ 57,651

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

	MTH and METC			
	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005	Year Ended December 31, 2005	Year Ended December 31, 2004
	(in thousands)			
Net income	$ 24,377	$ 8,348	$ 22,893	$ 21,067
Income taxes				
Allowance for equity funds used during construction	(817)	(562)	(954)	(493)
Interest expense	8,733	6,349	14,118	13,081
Gain on sale of assets, net	(5,031)			
Depreciation and amortization	10,710	5,023	10,574	9,996
Adjusted EBITDA	$ 37,972	$ 19,158	$ 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 ITC*Transmission*, METC or its other 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 ITC*Transmission,* ownership interests of its other subsidiaries, 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. ITC Holdings' material cash inflows are only from dividends and other payments received from time to time from ITC*Transmission*, METC or its other subsidiaries and the proceeds raised from the sale of debt and equity securities. ITC Holdings may not be able to access cash generated by ITC*Transmission* or METC or any other subsidiaries in order to fulfill cash commitments or to pay dividends to stockholders. The ability of ITC*Transmission* and METC to make dividend and other payments to ITC Holdings is subject to the availability of funds after taking into account ITC*Transmission*'s and METC's respective funding requirements, the terms of ITC*Transmission*'s and METC's respective indebtedness, the regulations of the FERC under the Federal Power Act, or the FPA, and applicable state laws. Each of ITC*Transmission*, METC and each other subsidiary, 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 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.

Consumers Energy Company, or Consumers Energy, the Michigan Public Service Commission, or the MPSC, and METC filed requests for rehearing on matters not set for further hearing by the FERC in the December 2005 order. On August 22, 2006, the FERC issued an order denying these rehearing requests, except that the FERC required METC to maintain certain accounting records related to pushdown accounting of goodwill. The issues addressed in the August 22, 2006 order on rehearing remain subject to judicial review in a United States Court of Appeals.

With respect to issues set for hearing in the December 2005 rate order, following a recent suspension of the schedule due to the pending acquisition of METC by ITC Holdings, the FERC trial staff filed testimony in the case on September 15, 2006. Intervenors and METC are scheduled to file rebuttal testimony in October and November 2006, respectively. A hearing is scheduled for December 2006 and a proposed decision by the Administrative Law Judge is scheduled to be issued on March 27, 2007, with a final decision by the FERC to be issued thereafter. 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 rates used beginning January 1, 2006 and June 1, 2006 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 30 days. This could materially and adversely affect our results of operations, cash flows and financial condition. We cannot predict whether refunds will result, or estimate the amount of refunds that may result from the determinations to be made on the issues set for hearing. In the event of adverse determinations on all matters set for hearing, we estimate that the maximum potential refund amount relating to 2006 revenues could be approximately $23.0 million. Additional refund amounts also would result for periods subsequent to 2006 through the date of the FERC's determination. An adverse determination on any of these matters would also affect components used in determining the rate to be charged to customers in METC's service territory in periods subsequent to the determination.

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 ITC**Transmission'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.***

ITC*Transmission* and METC provide transmission service under rates regulated by the FERC. The FERC has approved ITC*Transmission*'s and METC's use of the rate setting formula under Attachment O, but it has not expressly approved the amount of ITC*Transmission*'s or METC's actual capital and operating expenditures to be used in that formula. In addition, all aspects of ITC*Transmission*'s or METC's rates approved by the FERC, including the Attachment O rate mechanism, ITC*Transmission*'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 ITC*Transmission* 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 ITC*Transmission*'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. In addition, the FERC's order approving our acquisition of METC is conditioned upon ITC*Transmission* and METC not recovering acquisition-related costs in their rates unless a separate informational filing is submitted to the FERC. The informational filing, which could be challenged by interested parties, would need to identify those costs and show that such costs are outweighed by the benefits of the acquisition. Determinations by ITC*Transmission* or METC that expenses included in Attachment O for recovery are not acquisition-related costs are also subject to challenge by interested parties at the FERC. If challenged at the FERC and ITC*Transmission* or METC fail to show that costs included for recovery are not acquisition-related, this also could result in lowered rates and/or refunds of amounts collected. Such events could have an adverse effect on our business, financial condition, results of operations and cash flows.

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

Each of ITC*Transmission*'s and METC's rate base is determined in part by additions to property, plant and equipment when placed in service. ITC*Transmission* and METC expect to invest approximately $145.0 million and $50.0 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 ITC*Transmission*'s or METC's capital investments 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, ITC*Transmission* or METC will have a lower than anticipated rate base thus causing its revenue requirement and future earnings to be potentially lower than anticipated.

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

Each of ITC*Transmission* 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 ITC*Transmission* and METC must also seek approval by the FERC under Section 204 of the FPA for issuances of its securities.

In addition, we are subject to local regulations relating to, among other things, regional planning and siting. If we fail to comply with these local regulations, we may incur liabilities for such failure.

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 ITC*Transmission* and METC to calculate their respective annual revenue requirements, will be used by ITC*Transmission* 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 ITC*Transmission* 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 ITC*Transmission* and METC, particularly if rates for delivered electricity increase substantially.

Each of ITC*Transmission* 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. ITC*Transmission* and METC cannot predict whether, and to what extent, ITC*Transmission* 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 ITC**Transmission's** ***or METC's transmission system is lower than expected, our revenues would be reduced.***

If the network load on either ITC*Transmission*'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 ITC*Transmission*'s or METC's formula rate mechanism.

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

Demand for electricity varies significantly with weather conditions. As a result, ITC*Transmission* and METC's overall revenues and net income typically fluctuate substantially on a seasonal basis, thereby impacting ITC*Transmission*'s, METC's and our operating results. In general, ITC*Transmission*'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 ITC**Transmission** ***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 ITC*****Transmission's** ***and METC's and our debt obligations.***

ITC*Transmission* 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 ITC*Transmission*'s total operating revenues for the year ended December 31, 2005 and are expected to constitute the majority of ITC*Transmission*'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/stable 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 ITC*Transmission*'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. 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 ITC**Transmission's** ***and METC's customers, or Detroit Edison's and Consumers Energy's customers, which in turn may reduce our revenues.***

The business of ITC*Transmission*'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 ITC*Transmission'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.

ITC*Transmission *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*Transmission* has an ownership interest or at which ITC*Transmission* 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*Transmission*'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.

In addition, METC may incur costs relating to the termination of contracts for engineering and other services performed on behalf of METC prior to the acquisition. METC may choose not to utilize these services following consummation of ITC Holdings' acquisition of METC. We are in the process of identifying such contracts, and METC has received demands from one of its vendors for aggregate termination payments of up to approximately $4.0 million. Any such termination payments made by METC may have an adverse impact on our financial position, results of operations and cash flows.

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.

MTH's independent accountants identified a material weakness in its internal control over financial reporting and we cannot assure you that the accounting staff at MTH has the technical resources and expertise to account for and disclose more complex items.

In performing the audit of MTH's financial statements as of and for the year ended December 31, 2005, MTH's independent accountants noted a matter involving MTH's internal control over financial reporting that MTH's independent accountants consider to be a material weakness. MTH's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

MTH's independent accountants noted as a material weakness that the accounting staff at MTH requires additional technical resources and expertise to properly account for and disclose more complex items. MTH's independent accountants also noted that MTH's principal accountant left the company in the second quarter of 2006, which has further reduced the expertise of MTH's accounting function and level of institutional knowledge. Finally, MTH's independent accountants noted that MTH does not have formal policies and procedures for identifying, researching and ensuring compliance with new accounting pronouncements.

MTH had begun the process of hiring additional accounting and related staff; however, this process was halted in light of the announcement of the acquisition of METC by ITC Holdings. After the acquisition, we expect that ITC Holdings' accounting and other personnel with the required expertise will address the material weakness identified by MTH's independent accountants, and MTH and METC are expected to be subject to ITC Holdings' system of internal control. However, given the material weakness in MTH's internal control over financial reporting described above, there is a risk that MTH has not prevented or detected material misstatements or irregularities in its historical financial statements.

Risks Related to Our Capital Structure and Leverage

The ability of stockholders of ITC Holdings other than the IT Holdings Partnership, to influence our management and policies will be limited as a result of the ownership of our common stock by the IT Holdings Partnership.

After the consummation of this offering and the transactions described under "The Transactions," the IT Holdings Partnership will own 31.0% of our common stock, as compared to 53.3% as of June 30, 2006. Even though the IT Holdings Partnership will own less than 50% of our common stock, it will continue to be our largest single stockholder. The ability of our stockholders, other than the IT Holdings Partnership, to influence our management and policies will continue to be 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 $510.0 million of senior notes and the other transactions described under "The Transactions," we expect to have approximately $1.2 billion of consolidated indebtedness.

As of June 30, 2006, ITC*Transmission* had outstanding $185.0 million of 4.45% First Mortgage Bonds, Series A, due July 15, 2013 and $100.0 million of 6.125% First Mortgage Bonds, Series C, due March 31, 2036 and ITC Holdings had outstanding $267.0 million of 5.25% Senior Notes due July 15, 2013. Additionally, at June 30, 2006, we had total revolving credit facility commitments at ITC*Transmission* and ITC Holdings of $75.0 million and $50.0 million, respectively, with $50.0 million drawn at ITC Holdings. There are no amounts outstanding under ITC*Transmission*'s revolving credit facility as of June 30, 2006. ITC Holdings expects to repay $50.0 million of outstanding balances under its revolving credit facility concurrently with this offering and the acquisition.

As of June 30, 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 $15.5 million was drawn as of June 30, 2006. We expect that MTH will redeem or repay all of the outstanding MTH Notes and that METC will repay its revolving credit facility concurrently with or shortly after 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 ITC*Transmission* 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, secured notes, 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;
- make capital expenditures at METC prior to the final determination of METC's rate case, other than capital expenditures that METC reasonably believes are necessary to comply with its obligations as a regulated transmission company; and
- pay dividends or make distributions on ITC Holdings' and ITC*Transmission*'s capital stock.

The revolving credit facilities and the METC Notes 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.

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.

This offering will cause us to undergo an "ownership change" for purposes of Section 382 of the Internal Revenue Code which will limit the amount of our net operating loss carryforwards that we may use to reduce our tax liability in a given period.

As of December 31, 2005, we had net operating loss carryforwards, or NOLs, of $71.1 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, or the Code, 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. This offering will cause us to experience an ownership change.

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, the METC Notes, METC's revolving credit facility and the IT 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 and its other subsidiaries, 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" to include 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, our directors and executive officers and the selling stockholder 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 Credit Suisse Securities (USA) LLC.

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 under the 2003 Stock Purchase and Option Plan, generally these employee stockholders 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 who have received 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.

ITC Holdings has received from all management stockholders with "piggyback" registration rights an agreement to waive their "piggyback" registration rights in this offering. In exchange for these waivers, we expect to provide these management stockholders the right to sell, pursuant to a registration statement on Form S-8, at any time after the consummation of this offering, all or any portion of the same number of shares of ITC Holdings' common stock that those management stockholders could have disposed of by exercising their "piggyback" registration rights. The right of officers to sell shares of ITC Holdings' common stock following this offering would arise 90 days after the date of this prospectus due to lock-up restrictions associated with this offering. Approximately 541,331 shares of our common stock held by management stockholders, including shares subject to exercisable options, will become eligible for sale pursuant to the waivers described above. Of those shares, approximately 272,656 shares of our common stock will be freely tradable immediately after the consummation of this offering and approximately 268,676 shares of our common stock will be freely tradable after the expiration of the 90-day lock-up.

Management stockholder's agreements do not apply to grants under the 2006 Long Term Incentive Plan. The compensation committee of our board of directors may approve restrictions on shares granted under that plan. On August 16, 2006, the compensation committee approved grants of shares of restricted stock that vest on August 16, 2011 and options to purchase shares of our common stock which vest 20% per year over a five-year period from the date of the grant.

After this offering and the issuance of shares with a value of $70.0 million to MEAP, we expect to have approximately 42,156,866 shares of common stock outstanding. Of those shares, 26,029,210 shares, including the 11,250,000 shares to be sold in this offering, will be freely tradable. Included among those shares are 33,432 shares owned by Mr. Cyrulewski, whose employment with us terminated on August 31, 2006. Mr. Cyrulewski also holds options to purchase 117,012 shares of our common stock. Approximately 167,846 shares subject to options held by our employees will be eligible for resale immediately after this offering and approximately 350,054 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 16,127,656 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. See "Shares Eligible for Future Sale."

In addition, as of the date of this prospectus, 4,667,253 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 2,787,896 shares issuable upon the exercise of outstanding stock options, of which 1,306,704 were vested as of the date of this prospectus. 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, prospective financial information, 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. Forward-looking statements in this prospectus include, but are not limited to, statements relating to expectations relating to our new subsidiaries, our earnings and other guidance and our expected dividend growth set forth under "Summary Recent Developments" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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 ITC*Transmission* 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 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 ITC*Transmission*'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, results of operations and cash flows;

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

- ITC*Transmission*'s and METC's operating results fluctuate on a seasonal and quarterly basis and point-to-point revenues received by ITC*Transmission* 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;

- ITC*Transmission* and METC depend on their primary customers for a substantial portion of their revenues;

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

- ITC*Transmission*'s and METC's actual capital investments may be lower than planned, which would decrease ITC*Transmission* and METC's expected rate base;

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

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

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- 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 the 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. Forward-looking statements 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. 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, MEAP 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 $867.3 million, which excludes fees and expenses, and 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 a value of $70.0 million will be issued to MEAP. The number of shares of our common stock to be delivered to MEAP 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 or redeem approximately $311.7 million of MTH and METC debt and certain liabilities (net of $4.5 million of cash and cash equivalents) based on June 30, 2006 balances. 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 NOL usage 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 without any material limitation or condition.

These conditions have been met. The FERC approved ITC Holdings' acquisition of METC under Section 203 of the FPA and granted the FPA Section 204 approval on September 21, 2006. The FERC's Section 203 order contained the condition that neither ITC*Transmission* nor METC may recover acquisition-related costs without first making an informational filing at the FERC showing that any acquisition-related costs proposed to be recovered are outweighed by the benefits of the acquisition. It has been ITC Holdings' intention that its subsidiaries would not recover acquisition-related costs from customers.

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. to own all of the general partnership interests of MTH; 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 "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 or redemption of approximately $311.7 million of MTH and METC debt and certain liabilities (net of $4.5 million of cash and cash equivalents) based on June 30, 2006 balances, together with fees and expenses related to these transactions, with the net proceeds from:

- ITC Holdings' issuance of $510.0 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 a value of $70.0 million.

Assumption, Repayment and Redemption of Debt at MTH, METC and ITC Holdings

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

- redeem or repay $90.0 million aggregate principal amount of the MTH Notes, resulting in "make-whole" premium costs of approximately $5.9 million, based on assumptions and market data as of September 21, 2006;
- assume $175.0 million aggregate principal amount of the METC Notes;
- repay approximately $15.5 million outstanding as of June 30, 2006 under METC's $35.0 million revolving credit facility;
- assume $29.7 million of long-term interest bearing obligations at METC, including the current portion of interest bearing obligations of $5.8 million as of June 30, 2006; and
- repay approximately $50.0 million outstanding as of June 30, 2006 under ITC Holdings' revolving credit facility.

In addition, after the acquisition, METC may elect to refinance the METC Notes through redemption and the issuance of new mortgage bonds.

For more information, see "Description of Our Indebtedness."

USE OF PROCEEDS

We estimate that net proceeds to us from the sale of shares of common stock by us in this offering, after deducting estimated underwriting discounts and commissions and estimated offering expenses, will be approximately $198.5 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 a value of $70.0 million to MEAP, a current owner of indirect ownership interests in METC, as consideration for the acquisition of all of the indirect ownership interests in METC as described under "The Transactions."

We will not receive any of the proceeds from the sale of shares of our common stock by the selling stockholder in this offering.

PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY

Our common stock has traded on the 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.

	High	Low	Dividends
2006			
October 1, 2006 October 3, 2006	$ 32.07	$ 31.01	$
Quarter ended September 30, 2006	$ 34.50	$ 26.39	$ 0.2750
Quarter ended June 30, 2006	$ 27.31	$ 24.50	$ 0.2625
Quarter ended March 31, 2006	$ 29.10	$ 25.29	$ 0.2625
2005			
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 price of our common stock, as reported by the NYSE, on October 3, 2006 was $31.91 per share. As of June 30, 2006, there were 223 holders of record of our common stock.

Dividend Policy

On August 16, 2006, our board of directors declared a quarterly cash dividend of $0.275 per share of our common stock, which was paid on September 15, 2006 to stockholders of record on September 1, 2006. We paid a $0.2625 per share quarterly cash 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 and we intend to grow dividends on our common stock by approximately 2% to 4% per year. 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 ITC*Transmission* 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 ITC*Transmission* 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 ITC*Transmission* 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 ITC*Transmission* 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, ITC*Transmission*, 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 facility, ITC*Transmission*'s revolving credit facility and METC's revolving credit facility 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 June 30, 2006 on an actual basis and on an as adjusted basis after giving effect to:

- the issue and sale by us of 6,580,987 shares of our common stock in this offering, resulting in net proceeds of $198.5 million after deducting underwriting discounts and commissions and estimated offering expenses;
- the issuance of 2,205,419 shares of our common stock to MEAP, assuming a price per share of $31.74, which is the average closing share price for the 18 trading days ended October 3, 2006;
- the private placement of $510.0 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 the assumption, repayment and redemption of debt at MTH, METC and ITC Holdings, generally referred to as "debt repayments" in the capitalization table below, which we expect to occur concurrently with or shortly after this offering:

- the make-whole redemption or repayment of $90.0 million aggregate principal amount of the MTH Notes;
- the repayment of approximately $15.5 million outstanding as of June 30, 2006 under METC's $35.0 million revolving credit facility; and
- the repayment of approximately $50.0 million outstanding as of June 30, 2006 under ITC Holdings' revolving credit facility,

all as described under "The Transactions."

You should read the information in this table in conjunction with "The Transactions," "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 historical consolidated historical financial statements and the notes to those statements, all included elsewhere in this prospectus.

	As of June 30, 2006		
	Actual	As adjusted for acquisition	As adjusted for acquisition and debt repayments
	(in thousands, except share data)		
Cash and cash equivalents	$ 46,604	$ 251,665	$ 90,310
Long-term debt:			
ITC Holdings 5.25% Senior Notes due July 15, 2013	$ 266,163	$ 266,163	$ 266,163
ITC Holdings Senior Notes (a)		510,000	510,000
ITC Holdings' revolving credit facility	50,000	50,000	
ITC*Transmission* 4.45% First Mortgage Bonds, Series A, due July 15, 2013	184,917	184,917	184,917
ITC*Transmission* 6.125% First Mortgage Bonds, Series C, due March 31, 2036	99,891	99,891	99,891
MTH Notes(b)		95,855	
METC Notes		175,000	175,000
METC's revolving credit facility(c)		15,500	
Total long-term debt	$ 600,971	$ 1,397,326	$ 1,235,971
Stockholders' equity:			
Common stock, without par value, 100,000,000 shares authorized, 33,301,308 shares issued and outstanding and 42,087,714 shares as adjusted	$ 253,522	$ 522,011	$ 522,011
Retained earnings	5,007	5,007	4,274
Accumulated other comprehensive loss	(172)	(172)	(172)
Total stockholders' equity	$ 258,357	$ 526,846	$ 526,113
Total long-term debt and stockholders' equity	$ 859,328	$ 1,924,172	$ 1,762,084

(a) The ITC Holdings senior notes will be issued in a private placement 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) Includes a $5.9 million acquisition related fair value adjustment to the MTH Notes based on market assumptions as of September 21, 2006.

(c) METC's revolving credit facility was reclassified from current liabilities to long-term debt based on ITC Holdings' policy to classify revolving credit facilities that have an original maturity of greater than one year as long-term debt. In connection with the acquisition, we expect that METC will repay its revolving credit facility.

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 ITC*Transmission* as of the dates and for the periods indicated. The term "Predecessor ITC*Transmission*" refers to the ITC*Transmission* 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 ITC*Transmission* prior to the acquisition.

The selected historical condensed consolidated financial data presented on the following pages for ITC Holdings and Subsidiaries as of June 30, 2006 and for the six months ended June 30, 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 six months ended June 30, 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 and 2004 and for the years ended December 31, 2005 and 2004, and the period from February 28, 2003 through December 31, 2003, and Predecessor ITC*Transmission*'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 ITC Holdings and Subsidiaries as of December 31, 2003 have been derived from our audited consolidated financial statements not included in this prospectus. The selected financial data presented on the following pages for Predecessor ITC*Transmission* 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 ITC*Transmission* not included in this prospectus. Neither Predecessor ITC*Transmission*'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 ITC*Transmission* 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 ITC*Transmission*.

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

Our selected consolidated financial data presented below should be read together with Predecessor ITC*Transmission*'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.

	ITC Holdings and Subsidiaries					Predecessor ITC*Transmission*		
	Six Months Ended June 30,		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)	$ 87,544	$ 93,178	$ 205,274	$ 126,449	$ 102,362	$ 20,936	$ 137,535	$ 63,664
Operating expenses								
Operation and maintenance	13,775	16,391	48,310	24,552	22,902	5,675	34,699	22,566
General and administrative	15,465	10,011	25,198	24,412	26,342			
Depreciation and amortization	17,954	16,172	33,197	29,480	21,463	3,665	21,996	12,481
Taxes other than income taxes	10,330	8,119	13,982	20,840	11,499	4,298	15,776	8,875
Termination of management agreements			6,725					
Total operating expenses	57,524	50,693	127,412	99,284	82,206	13,638	72,471	43,922
Operating income	30,020	42,485	77,862	27,165	20,156	7,298	65,064	19,742
Other expenses (income)								
Interest expense	15,134	14,008	28,128	25,585	21,630		58	12
Allowance for equity funds used during construction	(1,360)	(1,471)	(2,790)	(1,691)	(322)			
Loss on extinguishment of debt					11,378			
Other income	(550)	(468)	(1,700)	(1,289)	(197)	(147)	(1,720)	(1,120)
Other expense	261	258	615	283	27	45	245	551
Total other expenses (income)	13,485	12,327	24,253	22,888	32,516	(102)	(1,417)	(557)
Income (loss) before income taxes	16,535	30,158	53,609	4,277	(12,360)	7,400	66,481	20,299
Income tax provision (benefit)	5,883	10,672	18,938	1,669	(4,306)	3,915	23,268	7,105
Income before cumulative effect of a change in accounting principle	10,652	19,486	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)	$ 10,681	$ 19,486	$ 34,671	$ 2,608	$ (8,054)	$ 3,485	$ 43,213	$ 13,194
Basic earnings (loss) per share	$ 0.32	$ 0.64	$ 1.10	$ 0.09	$ (0.27)	n/a	n/a	n/a

	ITC Holdings and Subsidiaries					Predecessor ITC*Transmission*		
Diluted earnings (loss) per share	$ 0.31	$ 0.62	$ 1.06	$ 0.08	$ (0.27)	n/a	n/a	n/a
Weighted-average basic shares	32,995,858	30,341,967	31,455,065	30,183,886	29,339,394	n/a	n/a	n/a
Weighted-average diluted shares	33,971,975	31,262,592	32,729,842	30,899,548	29,339,394	n/a	n/a	n/a
Dividends or distributions declared per share	$ 0.5250	$	$ 0.525	$	$ 0.897	n/a	n/a	n/a

	ITC Holdings and Subsidiaries					Predecessor ITC*Transmission*	
	Six Months Ended June 30,		As of December 31,			As of December 31,	
	2006	2005	2005	2004	2003	2002	2001
	(in thousands)						
Balance Sheet Data:							
Cash and cash equivalents	$ 46,604	$ 2,186	$ 24,591	$ 14,074	$ 8,139	$	$ 8
Working capital (deficit)	47,570	(2,138)	19,945	(27,117)	(17,633)	46,041	(2,573)
Property, plant and equipment net	661,126	563,370	603,609	513,684	459,393	434,539	441,035
Total assets	1,010,379	868,148	916,639	808,847	751,657	634,785	514,927
Total Debt:							
ITC Holdings	316,163	280,544	266,104	273,485	265,866		
ITC*Transmission*	284,808	239,505	251,211	209,945	184,887		
Total	600,971	520,049	517,315	483,430	450,753		
Total stockholders'/member's equity(c)	258,357	216,800	263,301	196,602	191,246	382,790	339,577

	ITC Holdings and Subsidiaries					Predecessor ITC*Transmission*		
	Six Months Ended June 30,		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)							
Cash Flow Data:								
Capital expenditures	$ 66,077	$ 61,928	$ 118,586	$ 76,779	$ 26,805	$ 5,616	$ 15,360	$ 22,322

(a) ITC*Transmission*'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) ITC*Transmission*'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 consolidated 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 6,580,987 shares of our common stock in this offering, resulting in net proceeds of $198.5 million after deducting underwriting discounts and commissions and estimated offering expenses;
- the issuance of 2,205,419 shares of our common stock to MEAP, assuming a price per share of $31.74, which is the average closing share price for the 18 trading days ended October 3, 2006;
- the private placement of $510.0 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 the assumption, repayment and redemption of debt at MTH, METC and ITC Holdings, generally referred to as "debt repayments" in the unaudited pro forma condensed consolidated financial information presented below, which we expect to occur concurrently with or shortly after this offering:

- the make-whole redemption or repayment of $90.0 million aggregate principal amount of MTH Notes;
- the repayment of approximately $15.5 million outstanding as of June 30, 2006 under METC's $35.0 million revolving credit facility; and
- the repayment of approximately $50.0 million outstanding as of June 30, 2006 under ITC Holdings' revolving credit facility,

all as described under "The Transactions."

The unaudited pro forma condensed consolidated statement of financial position was prepared as if the acquisition and the debt repayments had occurred on June 30, 2006. The unaudited pro forma condensed consolidated statement of income for the six months ended June 30, 2006 and the year ended December 31, 2005 was prepared as if the acquisition and the debt repayments 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 repayments, the number of shares of our common stock to be issued to MEAP, the interest rates applicable to 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. 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 repayments 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 June 30, 2006

	ITC Holdings and Subsidiaries (Historical)	MTH and METC (Historical)	Acquisition-related pro forma adjustments	Pro forma consolidated for acquisition	Debt repayments pro forma adjustments	Pro forma consolidated for acquisition and debt repayments
			(in thousands)			
Assets						
Current assets:						
Cash and cash equivalents	$ 46,604	$ 4,540	$ 200,521 (1)	$ 251,665	$ (161,355)(1)	$ 90,310
Restricted cash		4,380		4,380		4,380
Accounts receivable	24,164	14,275	(904)(2)	37,535		37,535
Inventory	24,284	5,845		30,129		30,129
Deferred income taxes	9,288			9,288		9,288
Other	2,476	1,248		3,724		3,724
Total current assets	106,816	30,288	199,617	336,721	(161,355)	175,366
Property, plant and equipment, net	661,126	361,707		1,022,833		1,022,833
Other assets:						
Goodwill	174,256	82,044	344,429 (3)	600,729		600,729
Intangible asset			67,447 (3)	67,447		67,447
Regulatory assets-acquisition adjustment	50,502			50,502		50,502
Other regulatory assets	5,154	64,778		69,932		69,932
Deferred financing fees, net	7,087	4,328	4,815 (4)	16,230	(1,128)(4)	15,102
Other	5,438	1,171	(2,341)(5)	4,268		4,268
Total other assets	242,437	152,321	414,350	809,108	(1,128)	807,980
Total Assets	$ 1,010,379	$ 544,316	$ 613,967	$ 2,168,662	$ (162,483)	$ 2,006,179
Liabilities and stockholders' equity						
Current liabilities:						
Accounts payable	$ 31,490	$ 10,169	$ (904)(2)	$ 40,755		$ 40,755
Accrued payroll	2,167	928		3,095		3,095
Accrued interest	11,874	8		11,882		11,882
Accrued taxes	9,552	4,346		13,898		13,898
Current portion of long-term interest bearing obligations		5,832		5,832		5,832
Revolving credit facility		15,500	(15,500)(6)			
Other	4,163	2,619	(584)(5)	6,198		6,198
Total current liabilities	59,246	39,402	(16,988)	81,660		81,660
Accrued pension liability	5,322			5,322		5,322
Accrued postretirement liability	3,042			3,042		3,042
	756			756		756

	ITC Holdings and Subsidiaries (Historical)	MTH and METC (Historical)	Acquisition-related pro forma adjustments	Pro forma consolidated for acquisition	Debt repayments pro forma adjustments	Pro forma consolidated for acquisition and debt repayments
Deferred compensation liability						
Deferred income taxes	29,586		40,369 (7)	69,955	(395)(8)	69,560
Regulatory liabilities	45,782	4,880		50,662		50,662
Asset retirement obligation	4,873	963		5,836		5,836
Deferred payables	2,444			2,444		2,444
Long-term debt	600,971	265,000	531,355 (6)	1,397,326	(161,355)(6)	1,235,971
Other long-term interest bearing obligations		23,917		23,917		23,917
Other		896		896		896
Stockholders' equity						
Common stock	253,522		268,489 (9)	522,011		522,011
Partners' capital		209,258	(209,258)(3)			
Retained earnings	5,007			5,007	(733)(8)	4,274
Accumulated other comprehensive loss	(172)			(172)		(172)
Total stockholders' equity	258,357	209,258	59,231	526,846	(733)	526,113
Total liabilities and stockholders' equity	$ 1,010,379	$ 544,316	$ 613,967	$ 2,168,662	$ (162,483)	$ 2,006,179

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

Unaudited Pro Forma Condensed Consolidated Statements of Operations for the Six Months Ended June 30, 2006

	ITC Holdings and Subsidiaries (Historical)	MTH and METC (Historical)	Acquisition-related pro forma adjustments	Pro forma consolidated for acquisition	Debt repayments pro forma adjustments	Pro forma consolidated for acquisition and debt repayments
			(in thousands, except share and per share data)			
Operating revenues	$ 87,544	$ 67,779	$ (567)[2]	$ 154,756		$ 154,756
Operating expenses:						
Operation and maintenance	13,775	18,500	(1,049)[2]	31,226		31,226
General and administrative	15,465	6,928	460 [2]	22,853		22,853
Depreciation and amortization	17,954	10,710	6,859 [10]	35,523		35,523
Taxes other than income taxes	10,330	3,962	22 [2]	14,314		14,314
Total operating expenses	57,524	40,100	6,292	103,916		103,916
Operating income	30,020	27,679	(6,859)	50,840		50,840
Other expenses (income):						
Interest expense	15,134	8,733	16,414 [11]	40,281	$ (3,298)[11]	36,983
Allowance for equity funds used during construction	(1,360)	(817)		(2,177)		(2,177)
Gain on sale of assets		(5,031)		(5,031)		(5,031)
Other income	(550)	(136)		(686)		(686)
Other expense	261	553		814		814
Total other expenses (income)	13,485	3,302	16,414	33,201	(3,298)	29,903
Income before income taxes	16,535	24,377	(23,273)	17,639	3,298	20,937
Income tax provision	5,883		386 [12]	6,269	1,154 [12]	7,423
Net income	$ 10,652	$ 24,377	$ (23,659)	$ 11,370	$ 2,144	$ 13,514
Basic earnings per share	$ 0.32					$ 0.32
Diluted earnings per share	$ 0.31					$ 0.32
	32,995,858		8,786,406 [9]			41,782,264

	ITC Holdings and Subsidiaries (Historical)	MTH and METC (Historical)	Acquisition-related pro forma adjustments	Pro forma consolidated for acquisition	Debt repayments pro forma adjustments	Pro forma consolidated for acquisition and debt repayments
Weighted-average basic shares						
Weighted-average diluted shares	33,971,975		8,786,406 (9)			42,758,381

(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 repayments pro forma adjustments	Pro forma consolidated for acquisition and debt repayments
	(in thousands, except share and per share data)					
Operating revenues	$ 205,274	$ 107,752	$ (1,702)[2]	$ 311,324		$ 311,324
Operating expenses:						
Operation and maintenance	48,310	43,951	(2,533)[2]	89,728		89,728
General and administrative	25,198	9,945	800 [2]	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 [2]	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
Operating income	77,862	35,844		113,706		113,706
Other expenses (income):						
Interest expense	28,128	14,118	32,828 [11]	75,074	$ (6,581)[11]	68,493
Allowance for equity funds used during construction	(2,790)	(954)		(3,744)		(3,744)
Loss on extinguishment of debt					1,308[8]	1,308
Other income	(1,700)	(213)		(1,913)		(1,913)
Other expense	615			615		615
Total other expenses (income)	24,253	12,951	32,828	70,032	(5,273)	64,759
Income before income taxes	53,609	22,893	(32,828)	43,674	5,273	48,947
Income tax provision	18,938		(3,477)[12]	15,461	1,846 [12]	17,307
Net income	$ 34,671	$ 22,893	$ (29,351)	$ 28,213	$ 3,427	$ 31,640
Basic earnings per share	$ 1.10					$ 0.79
Diluted earnings per share	$ 1.06					$ 0.76
	31,455,065		8,786,406 [9]			40,241,471

	ITC Holdings and Subsidiaries (Historical)	MTH and METC (Historical)	Acquisition-related pro forma adjustments		Pro forma consolidated for acquisition	Debt repayments pro forma adjustments	Pro forma consolidated for acquisition and debt repayments
Weighted-average basic shares							
Weighted-average diluted shares	32,729,842		8,786,406	(9)			41,516,248

(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 six months ended June 30, 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 earnings per share

The pro forma consolidated earnings 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 earnings per share for the six months ended June 30, 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 $34.3 million in connection with the acquisition and the debt repayments. 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 will be recorded as debt issuance costs and amortized to interest expense over the term of the notes. The costs and fees incurred in connection with the redemption or repayment 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.

Pro forma adjustments

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

(1) The acquisition-related pro forma adjustments give effect to cash sources and uses from this offering, the issuance of our common stock with a value of $70.0 million to MEAP, the private placement of $510.0 million aggregate principal amount of ITC Holdings' 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:

		(in thousands)
Cash sources:		
Proceeds from this offering net of underwriter fees and discounts(9)	$	200,549
Proceeds from the issuance of $510.0 million aggregate principal amount of ITC Holdings' senior notes(6),(11)		510,000
Total cash sources	$	710,549
Cash uses:		
Cash outlay by ITC Holdings for the acquisition of all of the indirect ownership interests in METC(3)	$	(485,600)
Remaining cash outlay for direct acquisition fees(3),(5)		(11,576)
Cash outlay for the termination of the MSA(3)		(6,000)
Remaining cash outlay for other costs associated with this offering of shares of our common stock(5),(9)		(2,037)
Cash outlay for debt issuance fees for $510.0 million aggregate principal amount of notes in the concurrent offering(4),(11)		(4,815)
Total cash uses		(510,028)
Acquisition-related pro forma adjustment to cash, net as of June 30, 2006	$	200,521

The debt repayment pro forma adjustment gives effect to cash uses from the redemption or repayment of the MTH Notes and repayment of METC's revolving credit facility. The debt repayment pro forma adjustment also gives effect to the repayment of the outstanding balance of ITC Holdings' revolving credit facility as of June 30, 2006.

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

		(in thousands)
Cash uses:		
Repayment of METC's revolving credit facility(6),(11)	$	(15,500)
Repayment of the MTH Notes(6),(11)		(90,000)
Repayment of ITC Holdings' revolving credit facility(6),(11)		(50,000)
Cash outlay for MTH Notes redemption/repayment(6)		(5,855)
Total cash uses		(161,355)
Debt repayment pro forma adjustment to cash, net as of June 30, 2006	$	(161,355)

(2)

The 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) The acquisition-related pro forma adjustments give effect to the application of the purchase method of accounting as of June 30, 2006 where (a) assets and liabilities acquired have been adjusted to their estimated fair values, (b) MTH and METC's historical equity of $209.3 million and the goodwill of $82.0 million have been eliminated and (c) the aggregate purchase price, including $485.6 million in cash and shares of our common stock with a value of $70.0 million to be issued to MEAP, has been allocated.

We have identified an intangible asset in the acquisition that is equivalent to the portion of the regulatory asset recorded on METC's FERC financial statements that was 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. Refer to the discussion of this item in Note 6 of the notes to MTH and METC's audited historical consolidated financial statements for the year ended December 31, 2005 included elsewhere in this prospectus. The FERC has approved the recovery of this item 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.

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

		(in thousands)
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),(5)		12,110
Aggregate purchase price		567,710
Less: net book value of MTH and METC assets acquired and liabilities assumed		127,214
Excess of purchase price over net book value of assets acquired	$	440,496
Acquisition-related adjustments to goodwill:		
Deferred taxes recognized for MTH and METC upon consummation of the acquisition(7)		40,369
Termination of the MSA(1)		6,000
Liabilities assumed for the relocation of METC employees(5)		1,200
Fair value adjustment of the MTH Notes(6)		5,855
Identified intangible assets(10)		(67,447)
Total acquisition-related adjustment to goodwill, net as of June 30, 2006		(14,023)
Total acquisition-related goodwill	$	426,473
Elimination of MTH and METC goodwill		(82,044)
Total pro forma adjustments to goodwill as of June 30, 2006	$	344,429

(4)

The acquisition-related pro forma adjustment gives effect to the deferred costs and fees incurred in connection with the concurrent offering of $510.0 million aggregate principal amount of ITC Holdings' senior notes.

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

		(in thousands)
Debt issuance costs for the concurrent offering of $510.0 million aggregate principal amount of ITC Holdings' senior notes(1),(11)	$	4,815
Acquisition-related pro forma adjustment to debt issuance costs as of June 30, 2006	$	4,815

The debt repayment pro forma adjustment gives effect to eliminating any unamortized debt issuance cost associated with the MTH Notes.

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

		(in thousands)
MTH Notes (original debt issuance costs)(8),(11)		(1,128)
Debt repayment pro forma adjustment to debt issuance costs as of June 30, 2006	$	(1,128)

(5)

The acquisition-related pro forma adjustments give effect to the reclassification of direct acquisition fees and offering costs incurred as of June 30, 2006 to goodwill and equity, respectively. The acquisition-related pro forma adjustments also give effect to the settlement of the unpaid portion of these direct acquisition fees and offering costs incurred through June 30, 2006 and the recognition of liabilities assumed in connection with the relocation of METC employees.

		(in thousands)
Direct acquisition costs incurred through June 30, 2006(1),(3)	$	(1,121)
Offering costs incurred through June 30, 2006(1),(9)		(1,220)
Acquisition-related pro forma adjustment to other assets as of June 30, 2006	$	(2,341)
Liabilities assumed for the relocation of METC employees(3)	$	1,200
Direct acquisition costs incurred but not paid as of June 30, 2006(1),(3)		(587)
Offering costs incurred but not paid as of June 30, 2006(1),(9)		(1,197)
Acquisition-related pro forma adjustment to other current liabilities as of June 30, 2006	$	(584)

(6)

The acquisition-related pro forma adjustments give effect to the issuance of $510.0 million aggregate principal amount of notes in the concurrent offering and give effect to the purchase method of accounting, where the MTH Notes are recorded at fair value at June 30, 2006. The acquisition-related pro forma adjustments also give effect to the reclassification of METC's revolving credit facility from current liabilities to long-term debt. It is ITC Holdings' policy to classify revolving credit facilities that have an original maturity greater than one year as long-term debt.

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

		(in thousands)
Issuance of $510.0 million aggregate principal amount of notes in the concurrent offering(1),(11)	$	510,000
Reclassify METC's revolving credit facility from current liabilities to long-term debt(1),(11)		15,500
Fair value adjustment of the MTH Notes (3)		5,855
Acquisition-related pro forma adjustments to long-term debt as of June 30, 2006	$	531,355

		(in thousands)
Reclassify METC's revolving credit facility from current liabilities to long-term debt	$	(15,500)
Acquisition-related pro forma adjustments to METC's revolving credit facility as of June 30, 2006	$	(15,500)

The debt repayment pro forma adjustments give effect to the redemption or repayment of the MTH Notes and the repayment of METC's revolving credit facility. The debt repayment pro forma adjustments also give effect to the repayment of the outstanding balance of ITC Holdings' revolving credit facility as of June 30, 2006.

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

	(in thousands)
Repayment of the MTH Notes(1),(11)	(90,000)
Repayment of ITC Holdings' revolving credit facility(1),(11)	(50,000)
Repayment of METC's revolving credit facility(1),(11)	(15,500)
Cash outlay for MTH redemption/repayment fees(1)	(5,855)
MTH and METC debt repayment pro forma adjustments to long-term debt as of June 30, 2006	(161,355)

(7)

The 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 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, the partnership's earnings will be taxed as part of the ITC Holdings consolidated group, resulting in deferred federal income taxes and net operating loss carryforwards. The pro forma adjustments include the recognition of deferred taxes associated with the termination of the MSA as described under "The Transactions."

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

		(in thousands)
METC non-current net deferred tax liabilities	$	57,869
MTH and METC net operating loss carryforwards acquired deferred tax asset		(17,500)
Acquisition-related pro forma adjustments to net deferred tax liabilities as of June 30, 2006(3)	$	40,369

(8)

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

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

		(in thousands, except tax rate)
MTH Notes (original debt issuance costs) as of June 30, 2006(4)	$	1,128
Statutory tax rate		35%
Debt repayment pro forma adjustment for net deferred income taxes as of June 30, 2006	$	395
Debt repayment pro forma adjustment for retained earnings as of June 30, 2006	$	733
MTH Notes (original debt issuance costs) as of January 1, 2005	$	1,308

		(in thousands, except tax rate)
Debt repayment pro forma adjustment for loss on repayment of debt for the year ended December 31, 2005	$	1,308

(9)

The acquisition-related pro forma adjustments reflect 6,580,987 shares of our common stock to be issued in this offering and 2,205,419 shares of our common stock to be issued to MEAP. The number of shares of our common stock to be issued to MEAP is based on a price per share of $31.74, which is the average closing share price for the 18 trading days ended October 3, 2006. The actual number of shares of common stock issued to MEAP will be based on the average closing share price of our common stock for the 20 trading days ending October 5, 2006.

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

	Shares	Total
	(in thousands, except share data)	
Public offering price	6,580,987	$ 209,999
Less: underwriters discounts and commissions		(9,450)
Proceeds from this offering, net of underwriter fees and discounts(1)		200,549
Less: other offering fees(1),(5)		(2,060)
Proceeds from this offering, net of underwriter fees and discounts and other offering fees		198,489
Assumed shares and value of our common stock to be issued to MEAP(3)	2,205,419	70,000
Acquisition-related pro forma adjustment to basic shares for the six months ended June 30, 2006, basic and diluted shares for the year ended December 31, 2005, and to common stock, net as of June 30, 2006	8,786,406	$ 268,489

(10)

The 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 six months ended June 30, 2006
		(in thousands)	
Intangible assets(3)	$ 67,447	through May 31, 2011	$ 6,859

(11)

The 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 $510.0 million aggregate principal amount of ITC Holdings' senior notes at a weighted average assumed interest rate of 6.37% based on current interest rates. A 10% increase or decrease in the weighted average assumed interest rate for

the $510.0 million aggregate principal amount of notes in the private placement would increase or decrease the acquisition-related pro forma adjustment to interest expense for the six months ended June 30, 2006 and the year ended December 31, 2005 by approximately $1.6 million and $3.3 million, respectively.

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

				Acquisition-related pro forma increase to interest expense	
	Principal balance	**Deferred financing costs**	**Weighted average assumed interest rate**	**For the six months ended June 30, 2006**	**For the year ended December 31, 2005**
	(in thousands, except interest rate)				
$510.0 million aggregate principal amount of ITC Holdings' senior notes(1),(4),(6)	$ 510,000	4,815	6.37%	$ 16,414	$ 32,828

The debt repayment 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 associated with the MTH Notes, which are being repaid or redeemed and METC's revolving credit facility and ITC Holdings' revolving credit facility which are being repaid.

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

	Principal balance	**Deferred financing costs of regulatory asset**	**Assumed interest rate**	**For the six months ended June 30, 2006**	**For the year ended December 31, 2005**
	(in thousands, except interest rates and years)				
Redemption/repayment of MTH Notes(1),(4),(6)	(90,000)	(1,128)	6.05%	(2,783)	(5,565)
Repayment of METC's revolving credit facility(1),(6)	(15,500)	n/a	various	(343)	(462)
Repayment of ITC Holdings' revolving credit facility(1),(6)	(50,000)	n/a	various	(172)	(554)
Debt repayment pro forma adjustments to interest expense, net				$ (3,298)	$ (6,581)

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(12)

The 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 six months ended June 30, 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 six months ended June 30, 2006	For the year ended December 31, 2005
	(in thousands, except tax rates)	
MTH and METC net income (historical)	$ 24,377	$ 22,893
Total effect on income before taxes from acquisition pro forma adjustments	(23,273)	(32,828)
Total pro forma effect on income before taxes	1,104	(9,935)
Statutory tax rate	35%	35%
Acquisition-related pro forma adjustments to income tax provision	$ 386	$ (3,477)

The debt repayment pro forma adjustments give effect to the income tax effect of all debt repayment pro forma adjustments that affected net income before taxes for the periods presented at an assumed rate of 35% for the six months ended June 30, 2006 and the year ended December 31, 2005.

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

	For the six months ended June 30, 2006	For the year ended December 31, 2005
	(in thousands, except tax rates)	
Total effect on income before taxes from the debt repayment pro forma adjustments	$ 3,298	$ 5,273
Statutory tax rate	35%	35%
Debt repayment pro forma adjustments to income tax provision	$ 1,154	$ 1,846

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 ITC*Transmission*, 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.

ITC*Transmission* is the first independently owned and operated electricity transmission company in the United States. ITC*Transmission* 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. ITC*Transmission* 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. ITC*Transmission*'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.

Without giving effect to the consummation of the acquisition, significant items that influenced our financial position and result of operations for the six months ended June 30, 2006 and that may affect future results are:

- Capital investment of $73.4 million resulting from our focus on improving system reliability;
- Lower revenues and cash flows due to lower point-to-point revenues of $7.7 million;
- Higher interest expense due to 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 facility, to partially fund our capital expenditure program and for general corporate purposes; and
- FERC approval of our request to implement forward-looking Attachment O for rates beginning January 1, 2007.

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 $867.3 million before expenses. 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 or redeem approximately $311.7 million of MTH and METC debt and certain liabilities (net of $4.5 million of cash and cash equivalents) based on June 30, 2006 balances. The total purchase price payable to the selling shareholders upon consummation of the acquisition is $555.6 million, consisting of approximately $485.6 million in cash and shares of our common stock with a value of $70.0 million to be issued to MEAP. 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.

Forward-Looking Attachment O

On July 14, 2006, the FERC authorized ITC*Transmission* to modify the implementation of its Attachment O formula rate so that, beginning January 1, 2007, ITC*Transmission* will recover expenses and will earn a return on and recover investments in transmission on a current rather than a lagging basis. As a result, ITC*Transmission* will be allowed to collect revenues based on its current expenses and capital investments, which is expected to result in higher revenues and cash flows in the initial years after implementation. In periods of capital expansion and increasing rate base, ITC*Transmission* will recover the costs of these capital investments on a more timely basis than under the current Attachment O method. ITC*Transmission'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 this forward-looking Attachment O formula, no later than September 1 of each year beginning in 2006, ITC*Transmission* 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 the ITC*Transmission* system from January 1 to December 31 of the following year. The forward-looking Attachment O formula includes a true-up mechanism, whereby ITC*Transmission* 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 its actual revenue requirement, which is calculated primarily using that year's FERC Form No. 1, ITC*Transmission* will refund or collect additional revenues, with interest, such that customers pay only the amounts that correspond to ITC*Transmission's* actual revenue requirement.

ITC*Transmission*'s authorization to implement a forward-looking Attachment O does not change METC's ratemaking regardless of whether the acquisition is consummated. METC will continue to apply Attachment O using historical data unless and until the FERC authorizes METC to use different data inputs.

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.

ITC Grid Development, LLC and ITC Great Plains, LLC Company

In July 2006, ITC Holdings formed two new subsidiaries ITC Grid Development, LLC and ITC Great Plains, LLC. As an extension of our existing strategy, ITC Grid Development was formed to focus on bringing improvements to the U.S. electricity transmission infrastructure by partnering with entities in regions where we believe significant investment is needed to improve reliability and address local energy needs. ITC Great Plains, which has opened an office in Topeka, Kansas, was formed to focus on opportunities for transmission investment in Kansas and the Great Plains region. In Kansas, and in other states or regions where we may engage in operations through our two new subsidiaries, we expect to partner with local experts, such as firms that specialize in design and engineering, and other entities in order to achieve our objectives of enhancing the U.S. transmission grid and providing the framework for lower electric energy costs. These subsidiaries are working to identify and are expected to eventually undertake projects consisting of upgrades to existing electricity transmission systems as well as the construction of new electricity transmission systems or portions of systems. We expect to pursue only development opportunities that are consistent with ITC*Transmission*'s business model, such as those that are anticipated to result in the creation of a FERC-regulated entity using formula-based rates. We currently anticipate incurring approximately $3.8 million in expenses at ITC Grid Development, LLC and ITC Great Plains, LLC in 2007. We do not currently have any commitments that would result in additional expenses being incurred if we elect to discontinue these activities.

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, the 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 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, the 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. The FERC has not yet acted on the rehearing requests filed in December 2005. We had previously reserved an estimated 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. In the second quarter of 2006, we reduced operating revenues by $0.1 million to reserve 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 established 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, 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 revenues and through-and-out revenues are both accounted for as point-to-point revenues.

From December 1, 2004 through June 30, 2006, we recorded $2.5 million of SECA revenues 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 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 have 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 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, the 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 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, the FERC 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.

Michigan Public Power Agency Receivable and Revenues

The Michigan Public Power Agency, or MPPA, has an ownership interest in ITC*Transmission*'s Greenwood-St. Clair-Jewell-Stephens Transmission Line and Monroe-Wayne-Coventry-Majestic Transmission Line. Under an Ownership and Operating Agreement between MPPA and ITC*Transmission,* ITC*Transmission* 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 had $4.5 million of accounts receivable as of June 30, 2006 for amounts billed to MPPA under the Ownership and Operating Agreement for the period from March 2003 through June 30, 2006 for which MPPA has not remitted any payment to us. ITC*Transmission* 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 ITC*Transmission* 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 June 30, 2006 resulting in a net amount of accounts receivable from MPPA of $3.6 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 ITC*Transmission* breached a 2003 letter agreement by not previously executing a revenue distribution agreement, under which MPPA would receive revenue from MISO through ITC*Transmission*. MPPA has contended previously that amounts it owes to ITC*Transmission* under the Ownership and Operating Agreement are set off by revenue MPPA would have received from MISO if ITC*Transmission* 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 ITC*Transmission* is improperly retaining MPPA revenue, totaling $2.5 million at June 30, 2006, which MISO has remitted to ITC*Transmission* 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 $4.5 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 ITC*Transmission*'s personal property at December 31, 2003 rather than the valuation tables approved by the State of Michigan Tax Commission, or STC. ITC*Transmission* filed tax appeals for December 31, 2003 tax assessments with various municipalities, which were the basis for 2004 property tax expense. ITC*Transmission* 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, ITC*Transmission* 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, ITC*Transmission* reached settlements with the municipalities for the 2004 tax statements and the settlements were approved by the MTT in the third quarter of 2005. Through June 30, 2006, we have paid $2.0 million 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.

The December 31, 2005 tax assessments received from the municipalities were the basis for 2006 property taxes and used the STC-approved valuation tables for personal property taxes. Property tax expense accrued relating to 2006 is based on estimated total annual liability of $19.0 million.

Trends and Seasonality

The tariff rate for ITC*Transmission* for the period from January 1, 2007 through December 31, 2007 is $2.099 per kw/month, which is an increase from the current tariff rate. The increase is partially a result of the implementation of forward-looking Attachment O, which will allow ITC*Transmission* to recover its expenses and investments in transmission on a current rather than a lagging basis. Additionally, we expect a general trend of moderate growth in the tariff rate for ITC*Transmission* 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 December 31, 2006 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 ITC*Transmission*'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. ITC*Transmission* 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 ITC*Transmission*'s system, which in turn reduces the delivered cost of energy to end-use customers.

For the seven-year period from January 1, 2005 through December 31, 2011, based on our planning studies, we see needs within the ITC*Transmission* 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 ITC*Transmission* system. We expect METC to invest approximately $600.0 million in its system over the same seven-year period.

In 2005, ITC*Transmission* completed the first year of this capital investment program, and invested $117.8 million in property, plant and equipment. For the six months ended June 30, 2006, we invested $73.4 million in property, plant and equipment. We expect ITC*Transmission*'s total investments in property, plant and equipment in 2006 to be approximately $145.0 million based on projects currently planned or being considered, and we expect total investments in property, plant and equipment in 2007 to be approximately $190.0 million based on projects currently planned or being considered. We expect that investments in property, plant and equipment at METC in 2007 will be between $15.0 million and $25.0 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 ITC*Transmission*'s or METC's 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 a range of $140.0 million to $150.0 million of property, plant and equipment additions to be placed in service for ITC*Transmission* in 2006 and added to rate base.

(a) Estimated amount that ITC*Transmission* 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 the 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. Under the Attachment O formula rate currently in effect for ITC*Transmission* through December 31, 2006, to the extent that actual conditions during 2006 vary from the data on which the Attachment O rate is based, ITC*Transmission* will earn more or less revenue during 2006 and therefore will recover more or less than its revenue requirement. Beginning January 1, 2007, ITC*Transmission* will use a forward-looking Attachment O formula, under which forecasted expenses, additions to in-service property, plant and equipment, point-to-point revenues and other items for each calendar year will be used to determine that year's revenue requirement. The projected revenue requirement and projected network load will be used to establish the rate for that year, and a true-up adjustment will be included so that after incorporating the true-up adjustment, ITC*Transmission* will recover its actual revenue requirement relating to any given year.

Our point-to-point revenue for the year ending December 31, 2006 will be negatively impacted by the elimination of certain types 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 $15.0 million to $17.0 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 six months ended June 30, 2006 was up 0.5% compared to the corresponding totals for the six months ended June 30, 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	9,752	12,108	11,114	11,266	11,067
July	12,392	11,822	11,344	10,225	11,423
August	12,745	12,308	10,877	11,617	11,438
September	8,415	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.

Prospective Financial Information

Our management has prepared the prospective financial information set forth below to present total net income, diluted earnings per share and adjusted EBITDA for the year ending December 31, 2006 and diluted earnings per share and adjusted EBITDA for the year ending December 31, 2007. The accompanying prospective financial information is forward-looking and was not prepared with a view toward public disclosure or with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of our management, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best of management's knowledge and belief, the expected course of action and our expected future financial performance. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this prospectus are cautioned not to place undue reliance on the prospective financial information.

Neither our independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

We intend to make full and prompt disclosure of material facts when we know or have reason to know that previously disclosed projections no longer have a reasonable basis.

Earnings and Other Guidance

On August 10, 2006, we announced that we expect that ITC Holdings and Subsidiaries will have total net income of between $31.0 million and $34.0 million for the year ending December 31, 2006 and diluted earnings per share of between $0.97 and $0.99 for the same period, which does not include any impact from MTH and METC. In addition, we announced that we expect ITC Holdings and Subsidiaries on a pro forma basis, including MTH and METC, will have diluted earnings per share of between $1.50 and $1.60, which includes $13.7 million of pre-tax non-cash amortization ($8.9 million after-tax) of an intangible asset recognized as a result of the acquisition, for the year ending December 31, 2007. Our forecasted amount of adjusted EBITDA, without including any impact for MTH and METC, is expected to be between $112.0 million and $117.0 million for the year ending December 31, 2006 and between $141.0 million and $147.0 million for the year ending December 31, 2007, and is expected to be between $235.0 million and $241.0 million for the year ending December 31, 2007, including the impact of MTH and METC.

Significant Assumptions

The significant assumptions and considerations used to prepare the 2006 and 2007 earnings guidance are as follows:

Year ending December 31, 2006

The impact of the acquisition of MTH and METC is not included in the forecasted net income of $31.0 million to $34.0 million or the forecasted diluted earnings per share of $0.97 to $0.99 for 2006. Given the uncertainty on the timing of closing of the acquisition and the seasonality of METC's revenues, we cannot accurately forecast the impact from MTH and METC in 2006.

Net income

Operating revenues of $110.3 million for the second half of 2006 based primarily on the following:

Network revenues at ITC*Transmission* of $102.9 million for the second half of 2006, based on a projected network load of approximately 58,500 MW for the second half of 2006, which is consistent with historical amounts and takes into account the seasonal nature of our network load, and based on our network rate of $1.744 per kW/month; and

Point-to-point revenues at ITC*Transmission* of $2.7 million for the second half of 2006, which is consistent with the amounts earned during the first half of 2006;

Total operating expenses of $61.7 million at ITC*Transmission* and ITC Holdings for the second half of 2006. This is based primarily on anticipated staffing levels, management's expectation of maintenance activities, and estimates for property tax assessments and depreciation expense; and

Interest expense relating to long-term debt in the amount of $15.5 million (net of an allowance for borrowed funds used during construction of $0.8 million) for the second half of 2006 at ITC*Transmission* and ITC Holdings, based on expected average debt outstanding of $604.1 million and a weighted average interest rate of 5.3%. This does not include any of the debt to be issued in connection with the acquisition of MTH and METC.

Diluted earnings per share

Diluted earnings per share is calculated using weighted-average diluted shares outstanding for the year ending December 31, 2006 of approximately 34.1 million shares, which does not include the shares to be issued by us in this offering and the other shares to be issued as consideration for the METC acquisition as described in "The Transactions."

Year Ending December 31, 2007

Net income

ITC*Transmission*

Operating revenues of $248.6 million for ITC*Transmission*, based primarily on our forecasted net revenue requirement under forward-looking Attachment O of $235.5 million for the year ending December 31, 2007. Forecasted net revenue requirement consists of a forecasted allowed return on rate base of $79.9 million, recoverable operating expenses of $129.4 million and income taxes of $33.4 million, partially offset by revenue credits of $7.2 million. See "Rate Setting" for a description of allowed return on rate base, recoverable operating expenses, income taxes, revenue credits and our forward-looking Attachment O. Under forward-looking Attachment O, which contains a true-up provision, we will recognize revenues based on our actual revenue requirement at each reporting date, regardless of the amounts billed or collected using network load;

Total operating expenses of $129.6 million at ITC*Transmission*. This is based primarily on anticipated staffing levels, management's expectation of maintenance activities, and estimates for property tax assessments and depreciation expense; and

Interest expense relating to long-term debt in the amount of $14.6 million (net of an allowance for borrowed funds used during construction of $1.5 million), based on expected average debt outstanding of $311.3 million and a weighted average interest rate of 5.2%.

METC

Operating revenues of $161.3 million, based on an estimated average network rate of $1.654 per kW/month and a projected network load of approximately 86,000 MW, which is consistent with historical amounts. We have not included any potential refunds or rate impacts as a result of METC's rate case as described under "Rate Setting METC Rate Setting Recent Rate Case," as we cannot predict the ultimate outcome of this matter;

Total operating expenses of $103.4 million. This is based primarily on anticipated staffing levels, management's expectation of maintenance activities, and estimates for property tax assessments and depreciation expense; and

Interest expense relating to long-term debt in the amount of $10.1 million (net of an allowance for borrowed funds used during construction of $1.0 million), based on an expected average debt outstanding of $170.4 million and a weighted average interest rate of 5.7%.

ITC Holdings and other subsidiaries

Total operating expenses of $6.8 million. This includes development expenses of $3.8 million for ITC Grid Development, LLC and ITC Great Plains, LLC; and

Interest expense relating to long-term debt in the amount of $47.5 million, based on an expected average debt outstanding of $793.6 million and a weighted average interest rate of 6.0%.

Diluted earnings per share

Diluted earnings per share is calculated using weighted-average diluted shares outstanding for the year ending December 31, 2007 of approximately 43.5 million shares, which includes the shares to be issued by us in this offering and the other shares to be issued as consideration for the METC acquisition as described in "The Transactions."

The assumptions above are based upon an assumption that there will be no material change in the following matters, and thus they will have no impact on net income:

There will not be any material change in the electricity transmission industry or in market, regulatory and general economic conditions that would affect net income.

We will not undertake any extraordinary transactions or incur any unforeseen contingencies that would affect net income.

There will be no material nonperformance or credit-related defaults by suppliers, customers or vendors.

While we believe that these assumptions are reasonable based upon management's current expectations concerning future events, they are inherently uncertain and are subject to significant business, economic and regulatory risks and uncertainties, including those described under "Risk Factors" and "Forward-Looking Statements," that could cause actual results to differ materially from our prospective financial information. If our assumptions are not realized, the actual net income that we generate could be substantially less than that currently expected, in which event the market price of our common stock may decline materially.

Reconciliation of Estimated Net Income to Estimated Adjusted EBITDA

We arrived at our estimate of adjusted EBITDA, without including any impact for MTH or METC, for the year ending December 31, 2006, using our total estimated net income of between $31.0 million and $34.0 million and adding between $17.0 million and $18.0 million of estimated income taxes, $37.0 million of estimated depreciation and amortization and between $31.0 million and

$32.0 million of interest expense and subtracting $4.0 million of estimated allowance for equity funds used during construction. We arrived at our estimate of adjusted EBITDA, without including any impact for MTH or METC, for the year ending December 31, 2007, using our total estimated net income of between $52.0 million and $55.0 million and adding between $28.0 million and $30.0 million of estimated income taxes, between $30.0 million and $31.0 million of estimated depreciation and amortization and $37.0 million of interest expense and subtracting $6.0 million of estimated allowance for equity funds used during construction. We arrived at our estimate of adjusted EBITDA, including the impact of MTH and METC, for the year ending December 31, 2007, using our total estimated net income of between $65.0 million and $70.0 million and adding between $36.0 million and $37.0 million of estimated income taxes, $66.0 million of estimated depreciation and amortization and $77.0 million of interest expense and subtracting $9.0 million of estimated allowance for equity funds used during construction. See " 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.

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 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 our 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.

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 ITC*Transmission*'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 ITC*Transmission*'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

ITC*Transmission*'s revenue deferral resulted from the difference between the revenue ITC*Transmission* would have collected under Attachment O and the actual revenue ITC*Transmission* 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 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 occurred when we began 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 ITC*Transmission* 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 ITC*Transmission* 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 ITC*Transmission*. 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 ITC*Transmission* 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 ITC*Transmission*'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 ITC*Transmission*'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 ITC*Transmission*'s transmission system. MISO is responsible for billing and collection of transmission services in the MISO service territory. MISO, as the billing agent for ITC*Transmission*, collects fees for the use of ITC*Transmission*'s transmission system, invoicing Detroit Edison and other ITC*Transmission* customers on a monthly basis. MISO has implemented credit policies for its members, which include ITC*Transmission*'s customers.

Network Revenues are generated from fees charged to network customers for their use of ITC*Transmission*'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 ITC*Transmission*'s operating revenues were derived from the provision of network service. ITC*Transmission*'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 kWs 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 ITC*Transmission* in addition to overhead and other fees. Subsequent to February 28, 2003 and through April 2004, ITC*Transmission* 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 ITC*Transmission*. ITC*Transmission* 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, ITC*Transmission*'s SLA Activities were jointly managed by ITC*Transmission* and Detroit Edison and therefore ITC*Transmission* 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, ITC*Transmission* 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 ITC*Transmission*'s cost structure through August 28, 2008. Additionally, the new operating agreements allow ITC*Transmission* 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 ITC*Transmission*'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 ITC*Transmission* 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 due July 15, 2013 and ITC*Transmission*'s $185.0 million of 4.45% First Mortgage Bonds, Series A, due July 15, 2013. ITC Holdings and ITC*Transmission* also have revolving credit facilities, with the interest and facility fees being recorded to interest expense. 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, ITC*Transmission* issued $100.0 million of 6.125% First Mortgage Bonds, Series C, due March 31, 2036, 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 ITC*Transmission* (currently 13.88%).

Results of Operations

The financial information presented in this prospectus includes results of operations for predecessor ITC*Transmission* 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 ITC*Transmission* 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.

Results of Operations for the Six Months Ended June 30, 2006 Compared to the Six Months Ended June 30, 2005

	Six months ended June 30, 2006	Six months ended June 30, 2005	Increase (Decrease)	Percentage Increase (Decrease)
	(in thousands)			
Operating revenues	$ 87,544	$ 93,178	$ (5,634)	(6.0)%
Operating expenses:				
Operation and maintenance	13,775	16,391	(2,616)	(16.0)%
General and administrative	15,465	10,011	5,454	54.5%
Depreciation and amortization	17,954	16,172	1,782	11.0%
Taxes other than income taxes	10,330	8,119	2,211	27.2%
Total operating expenses	57,524	50,693	6,831	13.5%
Operating income	30,020	42,485	(12,465)	(29.3)%
Other expenses (income):				
Interest expense	15,134	14,008	1,126	8.0%
Allowance for equity funds used during construction	(1,360)	(1,471)	111	(7.5)%
Other income	(550)	(468)	(82)	17.5%
Other expense	261	258	3	1.2%
Total other expenses (income)	13,485	12,327	1,158	9.4%
Income before income taxes	16,535	30,158	(13,623)	(45.2)%
Income tax provision	5,883	10,672	(4,789)	(44.9)%
Income before cumulative effect of a change in accounting principle	10,652	19,486	(8,834)	(45.3)%
Cumulative effect of a change in accounting principle	29		29	n/a
Net income	$ 10,681	$ 19,486	$ (8,805)	(45.2)%

Operating Revenues

The following table sets forth the components of and changes in operating revenues for the six months ended June 30:

	2006 Amount	2006 Percentage	2005 Amount	2005 Percentage	Increase (Decrease)	Percentage Increase (Decrease)
	(in thousands)					
Network	$ 81,583	93.2%	$ 79,474	85.3%	$ 2,109	2.7%
Point-to-point	2,112	2.4%	9,836	10.5%	(7,724)	(78.5)%

	2006		2005			
Scheduling, control and dispatch	2,983	3.4%	2,955	3.2%	28	0.9%
Other	866	1.0%	913	1.0%	(47)	(5.1)%
Total	$ 87,544	100.0%	$ 93,178	100.0%	$ (5,634)	(6.0)%

Network revenue increased by $1.6 million due to the increases in the rate used for network revenues from $1.587 kW/month in January through May of 2005 and $1.594 kW/month in June 2005 through May of 2006 compared to $1.594 kW/month in January through May of 2006 and $1.744 kW/month in June 2006. Network revenues also increased by $0.5 million due to an increase of 0.5% in the total monthly peak loads for the six months ended June 30, 2006 compared to the same period in 2005.

Point-to-point revenues decreased $3.3 million due to lower utilization of the Michigan-Ontario Independent Electric System Operator interface, $1.8 million due to the elimination of the Sub-Regional Rate Adjustment in October 2005, $0.5 million due to a decrease in SECA revenues, $0.4 million for a reserve recorded for previously recognized SECA revenues during the second quarter of 2006 described in Note 4 of the notes to ITC Holdings and Subsidiaries' unaudited condensed consolidated financial statements as of June 30, 2006 under " Long Term Pricing" and $0.7 million due to additional refunds recognized for redirected transmission service revenue as discussed in Note 4 of the notes to ITC Holdings and Subsidiaries' unaudited condensed consolidated financial statements as of June 30, 2006. In addition, a $2.5 million decrease resulted from reduced demand for long-term point-to-point reservations because of the emergence of the MISO energy market in 2005. These decreases were partially offset by $1.6 million of point-to-point revenue reserved during the six months ended June 30, 2005 for amounts collected by MISO and held in escrow relating to the Elimination of Transmission Rate Discount matter described in Note 4 of the notes to ITC Holdings and Subsidiaries' unaudited condensed consolidated financial statements as of June 30, 2006. There were no such amounts for the six months ended June 30, 2006.

Operating Expenses

Operation and maintenance expenses

Operation and maintenance expenses for the six months ended June 30, 2006 decreased primarily due to the acceleration of multi-year, planned maintenance activities in 2005. The decrease in 2006 was primarily due to decreases in tower painting of $2.2 million, equipment inspections of $1.1 million for towers, breakers and other equipment and $0.7 million in system-wide maintenance on transmission structures. These decreases were partially offset by increases of $0.5 million due to additional maintenance of underground transmission lines and $0.5 million due to additional costs for transmission system monitoring and control.

General and administrative expenses

General and administrative expenses increased $2.6 million due to higher compensation and benefits expenses primarily resulting from personnel additions for administrative functions needed to support our increased level of corporate activities, $0.3 million due to higher professional advisory and consulting services, $0.6 million due to higher insurance premiums, $0.7 million due to expenses associated with July 2005 option awards, $0.7 million due to expenses under the special bonus plans, $0.2 million due to higher information technology support costs and $0.4 million due to a reduction of general and administrative expenses capitalized to property, plant and equipment. General and administrative expenses also increased $0.2 million due to costs associated with ITC Holdings' transfer agent and compensation of our board of directors incurred in 2006 following our initial public offering in July 2005. These increases were partially offset by a decrease in management expenses of $0.7 million due to the termination of certain management agreements in 2005 following our initial public offering.

Depreciation and amortization expenses

Depreciation and amortization expenses increased in the six months ended June 30, 2006 due to a higher depreciable asset base as a result of property, plant and equipment additions during 2006 and 2005.

Taxes other than income taxes

Taxes other than income taxes increased due to higher property tax expenses of $1.3 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 $0.8 million due to Michigan Single Business Tax expenses.

Other Expenses (Income)

Interest expense increased in the six months ended June 30, 2006 primarily due to the issuance of ITC*Transmission's* $100.0 million 6.125% First Mortgage Bonds, Series C, due March 31, 2036 on March 28, 2006. The increase was partially offset by lower borrowing levels under our revolving credit facilities during the six months ended June 30, 2006 compared to the same period in 2005.

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 *Transmission*
	Year Ended December 31,								
	2005	2004	Increase (Decrease)	Percentage Increase (Decrease)	2003 Pro Forma Period (Unaudited)	Increase (Decrease)	Percentage Increase (Decrease)	Period From February 28, 2003 (Date of Acquisition) Through December 31, 2003	Two-Month Period Ended February 28, 2003
	(in thousands)								
Operating revenues	$ 205,274	$ 126,449	$ 78,825	62.3%	$ 123,298	$ 3,151	2.6%	$ 102,362	$ 20,936
Operating expenses									
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
Operating income	77,862	27,165	50,697	186.6%	27,454	(289)	(1.1)%	20,156	7,298
Other expenses (income):									
Interest expense	28,128	25,585	2,543	9.9%	21,630	3,955	18.3%	21,630	
Allowance for equity funds used during 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)
Income (loss) before income taxes	53,609	4,277	49,332	1153.4%	(4,960)	9,237	n/a	(12,360)	7,400
Income tax provision (benefit)	18,938	1,669	17,269	1034.7%	(391)	2,060	n/a	(4,306)	3,915
Net income (loss)	$ 34,671	$ 2,608	$ 32,063	1229.4%	$ (4,569)	$ 7,177	n/a	$ (8,054)	$ 3,485

					ITC Holdings and Subsidiaries			

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			
	Amount	**Percentage**	**Amount**	**Percentage**	**Increase (Decrease)**	**Percentage Increase (Decrease)**
	(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)%
Total	$ 205,274	100%	$ 126,449	100%	$ 78,825	62.3%

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 ITC*Transmission* 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 ITC*Transmission* 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 ITC*Transmission*'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 ITC*Transmission*'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 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 using STC-approved property valuation tables, numerous municipalities used their own higher valuation tables in assessing the value of ITC*Transmission*'s personal property at December 31, 2003. The municipalities, however, used the STC-approved valuation tables in assessing the value of ITC*Transmission*'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 STC 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 ITC*Transmission*'s higher property tax values as of December 31, 2003, which were the basis for 2004 property taxes. In accordance with Michigan law, ITC*Transmission*'s real property tax values were uncapped as a result of the change in ownership of ITC*Transmission*'s assets. Additionally, numerous municipalities had applied their own higher valuation tables in assessing the value of ITC*Transmission*'s personal property at December 31, 2003, rather than using the valuation tables approved by the STC, 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 during 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.

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 during 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. ITC*Transmission* invested $73.4 million in additional property, plant and equipment in the six months ended June 30, 2006 and invested $117.8 million in additional property, plant and equipment in 2005 and we expect the level of capital investment at ITC*Transmission* to be approximately $145.0 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 six months ended June 30, 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;

- fund distributions to holders of our common stock. On August 16, 2006, our board of directors declared a quarterly cash dividend of $0.275 per share of our common stock, which was paid on September 15, 2006 to stockholders of record on September 1, 2006. We paid dividends of $17.5 million, consisting of two quarterly cash dividends of $0.2625 per share, in both March and June 2006. We paid dividends of $17.4 million, consisting of two quarterly dividends of $0.2625 per share, in September and December 2005. Our 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;" and

- fund the acquisition and other transactions described under "The Transactions."

In the second quarter of 2006, we funded $1.8 million to our pension retirement plan. In August 2006, we funded $3.6 million to our supplemental pension retirement benefit plans.

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 ITC*Transmission*'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.

We expect to incur development expenses of approximately $3.8 million in 2007 at ITC Grid Development, LLC and ITC Great Plains, LLC, our new subsidiaries described under " Recent Developments."

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, ITC*Transmission* 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 stockholder.

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 ITC*Transmission* 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 ITC*Transmission* from DTE Energy were refinanced. ITC Holdings issued $267.0 million of its 5.25% Senior Notes due July 15, 2013 and ITC*Transmission* issued $185.0 million of its 4.45% First Mortgage Bonds, Series A, due July 15, 2013. The ITC Holdings 5.25% Senior Notes and ITC*Transmission* 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.

ITC*Transmission* is a party to a $75.0 million revolving credit facility with a syndicate of lenders that matures on March 10, 2010. Borrowings under ITC*Transmission*'s revolving credit facility bear interest, at ITC*Transmission*'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 ITC*Transmission*'s First Mortgage Bonds from time to time. ITC*Transmission*'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.

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 5.25% 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 $510.0 million of senior notes. In addition, concurrently with or shortly after the acquisition, we expect that METC will repay amounts outstanding under its $35.0 million revolving credit facility. In addition, upon or shortly after the consummation of ITC Holdings' acquisition of the indirect ownership interests in METC, we expect MTH to redeem or repay $90.0 million of the MTH Notes. For a more detailed description of the MTH Notes, see "Description of Our Indebtedness MTH and METC Debt."

Following ITC Holdings' acquisition of the indirect ownership interests in METC, we may refinance the existing revolving credit facilities at ITC Holdings, ITC*Transmission* and METC for the purpose of replacing them with revolving credit facilities on more competitive terms.

The following table summarizes cash flows for the periods indicated:

	ITC Holdings and Subsidiaries					ITC Holdings and Subsidiaries	Predecessor ITC*Transmission*
	Six Months Ended June 30,		Year Ended December 31,				
	2006	2005	2005	2004	2003 Pro Forma Period (Unaudited)	Period From February 28, 2003 (Date of Acquisition) Through December 31, 2003	Two-Month Period Ended February 28, 2003
	(in thousands)						
Cash Flows from Operating Activities							
Net income (loss)	$ 10,681	$ 19,486	$ 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	17,954	16,172	33,197	29,480	25,128	21,463	3,665
Loss on extinguishment of debt					11,378	11,378	
Deferred income taxes	5,696	10,581	17,473	1,435	(5,133)	(4,306)	(827)
Other	2,063	634	1,217	2,485	13,731	13,731	
Changes in current assets and liabilities	(12,140)	(32,533)	(24,884)	13,638	(17,644)	18,664	(36,308)
Net cash provided by (used in) operating activities	24,254	14,340	61,674	49,646	22,891	52,876	(29,985)
Cash Flows from Investing Activities							
Expenditures for property, plant and equipment	(66,077)	(61,928)	(118,586)	(76,779)	(32,421)	(26,805)	(5,616)
Acquisition of ITC*Transmission* and related costs					(634,004)	(634,004)	
Change in affiliated note receivable					72,355		72,355
METC acquisition costs	(534)						
Other		296	5,650	308	(1,988)	(2,000)	12
Net cash provided by (used in) investing activities	(66,611)	(61,632)	(112,936)	(76,471)	(596,058)	(662,809)	66,751
Cash Flows from Financing Activities							
Net borrowing/repayment of long-term debt	99,890	(46)	(46)	46	456,593	456,593	
Net borrowings/repayments under revolving credit facilities	(16,300)	36,600	33,800	32,500			
Dividends and distributions on common stock	(17,470)		(17,433)		(27,095)	(27,095)	
Acquisition-related debt issuance costs					(20,878)	(20,878)	
Issuance/repurchase of common stock net	304		53,383	1,020	218,675	218,675	
Common stock issuance costs	(23)	(477)	(7,083)				
Cash effect of assets and liabilities transferred to DTE Energy					(36,766)		(36,766)
Other	(2,031)	(673)	(842)	(806)	(9,223)	(9,223)	
Net cash provided by (used in) financing activities	64,370	35,404	61,779	32,760	581,306	618,072	(36,766)
Net Increase in Cash and Cash Equivalents	22,013	(11,888)	10,517	5,935	8,139	8,139	

						ITC Holdings and Subsidiaries	
Cash and Cash Equivalents Beginning of period	24,591	14,074	14,074	8,139			
Cash and Cash Equivalents End of period	$ 46,604	$ 2,186	$ 24,591	$ 14,074	$ 8,139	$ 8,139	$

Cash Flows From Operating Activities

Six Months Ended June 30, 2006 compared to Six Months Ended June 30, 2005

Net cash provided by operating activities was $24.3 million and $14.3 million for the six months ended June 30, 2006 and 2005, respectively. The increase in cash provided by operating cash flows was primarily due to the refund to customers of $12.7 million of 2004 point-to-point revenues paid during the first quarter of 2005 compared to the refund to customers of $1.3 million of redirected transmission service point-to-point revenues during the six months ended June 30, 2006.

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 ITC*Transmission* 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 ITC*Transmission* from DTE Energy.

Cash Flows From Investing Activities

Six Months Ended June 30, 2006 compared to Six Months Ended June 30, 2005

Net cash used in investing activities was $66.6 million and $61.6 million for the six months ended June 30, 2006 and 2005, respectively. The increase in cash used in investing activities was primarily due to higher levels of capital additions for property, plant and equipment in 2006 partially offset by the timing of payments for these additions.

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 ITC*Transmission* 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 ITC*Transmission*.

Cash Flows From Financing Activities

Six Months Ended June 30, 2006 compared to Six Months Ended June 30, 2005

Net cash provided by financing activities was $64.4 million and $35.4 million for the six months ended June 30, 2006 and 2005, respectively. This increase was due primarily to the net increase in borrowing activities, which included proceeds from ITC*Transmission*'s $100.0 million ($99.9 million net of discount) mortgage bond offering on March 28, 2006 that were primarily used to repay amounts that were outstanding under ITC*Transmission*'s revolving credit facility of $70.0 million. The net increase in borrowing activities was partially offset by dividends paid during the six months ended June 30, 2006 of $17.5 million.

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.

ITC*Transmission* 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 ITC*Transmission* from DTE Energy were refinanced through the issuance of the ITC Holdings 5.25% Senior Notes due July 15, 2013 and the ITC*Transmission* 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 ITC*Transmission* and DTE Energy settled intercompany balances that resulted in cash outflows of $36.8 million.

Contractual Obligations

During the six months ended June 30, 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 ITC*Transmission*'s 6.125% First Mortgage Bonds, Series C, due March 31, 2036 in March 2006. The following table details our contractual obligations as of December 31, 2005:

	Total	Less than 1 Year	1 3 Years	4 5 Years	More than 5 Years
			(in thousands)		
Long-term debt:					
ITC*Transmission* 4.45% First Mortgage Bonds, Series A, due July 15, 2013	$ 185,000	$	$	$	$ 185,000
ITC*Transmission* revolving credit facility	66,300		66,300		
ITC Holdings 5.25% Senior Notes due July 15, 2013	267,000				267,000
Interest payments:					
ITC*Transmission* 4.45% First Mortgage Bonds, Series A, due July 15, 2013	62,111	8,233	24,698	16,465	12,715
ITC Holdings 5.25% Senior Notes due July 15, 2013	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			
Total obligations	$ 742,608	$ 69,099	$ 142,645	$ 44,500	$ 486,364

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 ITC*Transmission* 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 contributed $1.8 million to our pension retirement plan and $3.6 million to our supplemental pension retirement plans 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

ITC*Transmission* 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 ITC*Transmission* 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 June 30, 2006, ITC Holdings had $50.0 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 $0.3 million for an annual period on a constant borrowing level of $50.0 million.

Based on the borrowing rates currently available for bank loans with similar terms and average maturities, the fair value of ITC*Transmission*'s 4.45% First Mortgage Bonds, Series A, due July 15, 2013, ITC*Transmission*'s 6.125% First Mortgage Bonds, Series C, due March 31, 2036 and ITC Holdings' 5.25% Senior Notes due July 15, 2013 was $511.8 million at June 30, 2006. The total book value of ITC*Transmission*'s 4.45% First Mortgage Bonds, Series A, due July 15, 2013, ITC*Transmission*'s 6.125% First Mortgage Bonds, Series C, due March 31, 2036 and ITC Holdings' 5.25% Senior Notes due July 15, 2013 was $551.0 million at June 30, 2006. We performed an analysis calculating the impact of changes in interest rates on the fair value of long-term debt at June 30, 2006. An increase in interest rates of 10% at June 30, 2006 would decrease the fair value of debt by $23.2 million, and a decrease in interest rates of 10% at June 30, 2006 would increase the fair value of debt by $25.0 million.

At December 31, 2005, ITC*Transmission* 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 ITC*Transmission*'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 ITC*Transmission*'s 4.45% First Mortgage Bonds, Series A, due July 15, 2013 and ITC Holdings' 5.25% Senior Notes due July 15, 2013 was $435.2 million at December 31, 2005. The total book value of ITC*Transmission*'s 4.45% First Mortgage Bonds, Series A, due July 15, 2013 and ITC Holdings' 5.25% Senior Notes due July 15, 2013 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 ITC*Transmission* 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 ITC*Transmission* which could negatively impact our business. MISO, as ITC*Transmission*'s billing agent, bills Detroit Edison and other ITC*Transmission* customers on a monthly basis and collects fees for the use of ITC*Transmission*'s transmission system. MISO has implemented strict credit policies for its members, which include customers using ITC*Transmission*'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 six months ended June 30, 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 six months ended June 30, 2006. We did not 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 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 six months ended June 30, 2006, we did not recognize excess tax deductions of $0.2 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 six months ended June 30, 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 provisions of SFAS 154 had no impact on our condensed consolidated financial statements for the six months ended June 30, 2006.

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

Financial Accounting Standards Board Interpretations 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" 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 FIN 48 will have a material effect on our 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, on July 20, 2006 the FERC adopted a new rule, effective September 29, 2006, that is designed to provide incentives for and promote needed investment in energy infrastructure. The incentives 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 incentives may be utilized by a utility upon further approval from the FERC.

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 that the FERC will implement rules under which it may authorize siting for construction of transmission facilities within areas designated as national interest electric corridors by the Secretary of the U.S. Department of Energy and ITC*Transmission* and METC may seek authorization to site transmission facilities pursuant to such rules. 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 ITC*Transmission* 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 ITC*Transmission*'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, ITC*Transmission* 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.

ITC*Transmission* 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 ITC*Transmission* and METC. Rates are set annually under Attachment O and remain in effect for a one year period. Rates derived using Attachment O are posted on the MISO Open Access Same-Time Information System each 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 changing operational data and financial performance, 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 ITC*Transmission* 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.

ITC*Transmission* Rate Setting

In July 2006, ITC*Transmission* received authorization to calculate its Attachment O rate using a projected test period, rather than a historical test period based on data from FERC Form No. 1. Beginning January 1, 2007, and each year thereafter, the Attachment O rate will be based on forecasted information for that calendar year. In the event there are differences between revenues billed based on the forecasted revenue requirement and ITC*Transmission*'s actual revenue requirement (calculated using actual data from FERC Form No. 1), an adjustment to revenue requirement will be made in a subsequent rate period thereby truing up any differences.

For the purpose of determining rates for the period from June 1, 2006 through December 31, 2006, ITC*Transmission*'s Attachment O primarily used selected financial and operating data as reported on its FERC Form No. 1 filed as of and for the year ended December 31, 2005 and its network loads for 2005. As a result, the Attachment O rate was 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 seven-month period during which that rate is in place vary from the data on which the Attachment O rate was based, ITC*Transmission* may recover more or less than its revenue requirements for that period, with no true-up for any differences.

In its February 20, 2003 Order, the FERC accepted ITC*Transmission*'s proposed return of 13.88% on the actual common equity portion of its capital structure. ITC*Transmission*'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.

The following four steps illustrate ITC*Transmission*'s authorized rate setting methodology under forward-looking Attachment O, which uses a projected revenue requirement:

Step One Establish Projected Rate Base and Calculate Projected Allowed Return

Rate base is projected using the average of the 13 month-end balances for the months beginning with December 31 of the current year and ending with December 31 of the upcoming year and consists primarily of in-service property, plant and equipment, net of accumulated depreciation.

ITC*Transmission*'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 ITC*Transmission* from DTE Energy, and an amount known as the revenue deferral made up of the difference between the revenue ITC*Transmission* would have collected under Attachment O and the actual revenue ITC*Transmission* received during the rate freeze based on the frozen rate, as well as other items.

Projected rate base is multiplied by the projected weighted average cost of capital to determine the projected allowed return on rate base. The weighted average cost of capital is calculated using a projected 13 month average capital structure, the forecasted pre-tax cost of the debt portion of ITC*Transmission*'s capital structure and a FERC-approved 13.88% return on the common equity portion of ITC*Transmission*'s forecasted capital structure.

Step Two Calculate Projected Gross Revenue Requirement

The projected gross revenue requirement is calculated beginning with the projected allowed return on rate base, as calculated in Step One above and adding projected recoverable operating expenses, including depreciation and amortization and taxes.

Step Three Calculate Transmission Rate

After calculating the projected gross revenue requirement in Step Two above, ITC*Transmission* is required to reduce the projected gross revenue requirement for certain revenues, other than network revenues, such as projected point-to-point and rental revenues. This net amount represents projected revenues to be billed to network and point-to-point transmission customers through transmission rates. The monthly transmission rate is calculated by dividing the projected net revenue requirement by the sum of the projected 12 coincident peak network loads.

Step Four Calculate True-up Adjustment

Upon finalizing FERC Form No. 1, the actual transmission revenues billed by ITC*Transmission* for the previous year will be compared to its actual net revenue requirement which is based on amounts from the completed FERC Form No. 1. The difference between the actual revenue billed by ITC*Transmission* and its actual net revenue requirement, referred to as the True-up Adjustment, will be added to the upcoming year's projected net revenue requirement used to determine the upcoming year's rate. For example, the True-up Adjustment relating to 2007 will be calculated in 2008 upon completion of the 2007 FERC Form No. 1 and will be included in the projected net revenue requirement that is used to establish the rate that will be effective commencing January 1, 2009. Interest is also applied to the True-up Adjustment.

Illustration of Attachment O Rate Setting. Set forth below is a simplified illustration of the calculation of ITC*Transmission*'s monthly network and point-to-point rates under the Attachment O rate setting mechanism for the period from January 1, 2007 through December 31, 2007, that will be based primarily upon projections of ITC*Transmission*'s 2007 FERC Form No. 1 data. Amounts below are approximations of the amounts used in the 2007 Attachment O filing.

Line	Attachment O Items	Instructions	Amount	
1	Projected Rate Base (the average of the 13 months ended December 31, 2006 through December 31, 2007)		$	741,676,000
2	Multiply by Projected 13 month Weighted Average Cost of Capital(1)			10.77%
3	Projected Allowed Return on Rate Base	(Line 1 × Line 2)	$	79,878,505
4	Projected Recoverable Operating Expenses for 2007		$	62,713,000
5	Projected Taxes and Depreciation and Amortization for 2007		$	99,915,000
6	Projected Gross Revenue Requirement for 2007	(Line 3 + Line 4 + Line 5)	$	242,506,505
7	Less Projected Revenue Credits for 2007		$	7,238,000
8	Plus/Less True-up Adjustment(2)			n/a
9	Projected Net Revenue Requirement for 2007	(Line 6 Line 7 Line 8)	$	235,268,505
10	Projected 2007 Network Load (in kW)			9,342,000
11	Annual Network and P-T-P Transmission Rate	(Line 9 divided by Line 10)	$	25.184
12	Monthly Network and P-T-P Transmission Rate ($/kW per month)	(Line 11 divided by 12 months)	$	2.099

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

	Percentage of ITC*Transmission*'s Total Capitalization	Cost of Capital			Weighted Average Cost of Capital
Debt	40.00%	6.10%	(Pre-tax)	=	2.44%
Equity	60.00%	13.88%	(After tax)	=	8.33%
	100.00%				10.77%

(2)
The True-up Adjustment will be calculated for the 2007 net revenue requirement as of December 31, 2007 based primarily on information contained in ITC*Transmission*'s FERC Form No. 1 and will be included as a component of the projected net revenue requirement in the 2009 Attachment O rate calculation.

METC Rate Setting

For the purpose of determining rates for the period from June 1, 2006 through May 31, 2007, METC's Attachment O primarily used selected financial and operating data as reported on its FERC Form No. 1 as of and for the year ended December 31, 2005 and its network loads for 2005. 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, METC may recover more or less than its revenue requirement for that period.

The following three steps illustrate METC's authorized rate setting methodology:

Step One Establish Rate Base and Calculate Allowed Return

Rate base consists primarily of in-service property, plant and equipment, net of accumulated depreciation. METC's rate base also includes an accumulated deferred income tax adjustment, 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 depreciation and return on investment in new transmission facilities 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 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, the pre-tax cost of the debt portion of METC's capital structure and a FERC-authorized 13.38% return on the actual common equity portion of METC's capital structure.

Step Two Calculate Gross 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.

Step Three Calculate Transmission Rate

After calculating the gross revenue requirement in Step Two above, METC is required to reduce the gross revenue requirement for certain revenues, other than network revenues, such as certain point-to-point revenues which it generated during the prior year. This net amount represents revenues to be recovered from network and point-to-point transmission customers through transmission rates. The monthly transmission rate is calculated by dividing the net revenue requirement by the sum of the prior year's 12 coincident peak network loads.

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;

(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 Attachment O formula rate beginning 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 common 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 transmission-owning members of MISO, to request in a separate future FERC proceeding an additional 50 basis point return on the common 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 common 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;
- 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.

Consumers Energy, the MPSC and METC filed requests for rehearing on matters not set for further hearing by the FERC in the December 2005 order. On August 22, 2006, the FERC denied rehearing on the justness and reasonableness of METC's authorized rate of return of 13.38% on the common equity portion of METC's capital structure. The FERC also denied rehearing on its 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. The FERC granted rehearing in finding that METC must maintain accounting records sufficient to allow any necessary future adjustments to its equity account balance.

The issues addressed in the August 22, 2006 order on rehearing remain subject to judicial review at the United States Court of Appeals and the FERC's rulings on the issues set for hearing in the December 2005 rate order and any subsequent orders regarding METC's rates are subject to further rehearing requests and judicial review.

With respect to issues set for hearing in the December 2005 rate order, following a recent suspension of the schedule due to the pending acquisition of METC by ITC Holdings, the FERC trial staff filed testimony in the case on September 15, 2006. Intervenors and METC are scheduled to file rebuttal testimony in October and November 2006, respectively. A hearing is scheduled for December 2006 and a proposed decision by the Administrative Law Judge is scheduled to be issued on March 27, 2007, with a final decision by the FERC to be issued thereafter.

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 30 days.

Through the hearing process, we will continue to support the rates METC charged beginning January 1, 2006. We cannot predict whether refunds will result, or estimate the amount of refunds that may result from the determinations to be made on the issues set for hearing. In the event of adverse determinations on all matters set for hearing, we estimate that the maximum potential refund amount relating to 2006 revenues could be approximately $23.0 million. Additional refund amounts also would result for periods subsequent to 2006 through the date of the FERC's determination. An adverse determination on any of these matters would also affect components used in determining the rate to be charged to customers in METC's service territory in periods subsequent to the determination.

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 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, METC 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)		$	396,132,571
2	Multiply by Weighted Average Cost of Capital relying on data from the 2005 FERC Form No. 1(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	Gross Revenue Requirement	(Line 3 + Line 4 + Line 5)	$	140,942,657
7	Less Revenue Credits		$	10,830,288
8	Net Revenue Requirement	(Line 6 Line 7)	$	130,112,369
9	2005 Network Load (in kW)			7,116,500
10	Annual Network and P-T-P Transmission Rate	(Line 8 divided by Line 9)	$	18.283
11	Monthly Network and P-T-P Transmission Rate ($/kW per month)	(Line 10 divided by 12 months)	$	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, ITC*Transmission* and METC, we are the only publicly traded company engaged exclusively in the transmission of electricity in the United States. We are also the largest independent electric transmission company and the tenth largest electric 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. ITC*Transmission* 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 ITC*Transmission* and METC.

Effective June 1, 2001, Detroit Edison transferred its transmission assets to Predecessor ITC*Transmission*, a wholly owned subsidiary of DTE Energy. On February 20, 2003, the FERC approved the sale of ITC*Transmission* 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 ITC*Transmission*, on April 8, 2004, ITC*Transmission* 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, ITC*Transmission*'s neighboring transmission system, for an aggregate purchase price of $555.6 million plus the assumption of approximately $311.7 million of MTH and METC debt and certain liabilities (net of $4.5 million of cash and cash equivalents) based on June 30, 2006 balances, which we, MTH or METC will assume, repay or redeem 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:

- 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 electric transmission company in the country based on transmission load served;
- 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, we expect to issue approximately $510.0 million of senior notes. We expect to use the net proceeds from this offering, together with the net proceeds from the senior notes private placement and shares of our common stock with a value of $70.0 million, to finance the purchase price of METC, assume, repay or redeem approximately $311.7 million of MTH and METC debt and certain liabilities (net of $4.5 million of cash and cash equivalents) based on June 30, 2006 balances, repay the outstanding balances under ITC Holdings' revolving credit facility and pay related fees and expenses. The consummation of this offering and the private placement of the senior notes are conditioned upon the closing of the acquisition. The acquisition is subject to customary closing conditions.

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 among participants in an independent industry benchmarking study in key reliability measures such as average circuit momentary outages and average circuit sustained outages.
- 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 improve reliability and 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

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 or Develop 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. We are also seeking opportunities to develop additional transmission systems. Subject to applicable regulatory limitations, we will seek to identify attractive transmission systems or identify areas in need of new transmission infrastructure and apply our business model and operating expertise across these systems and areas 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, as currently authorized by the FERC for ITC*Transmission*, 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*Transmission* and METC to collect in their rates a 13.88% and a 13.38% 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. Under the historical Attachment O, if loads were reduced as a result of cool summer weather or from any other cause in a calendar year, our rates increased effective the following June 1, assuming all other conditions remained equal. Under forward-looking Attachment O, network load determines the amount of revenues that are billed, but any differences between billed revenues and actual revenue requirement for that year are adjusted for in a subsequent year. 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 ITC*Transmission* 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 ITC*Transmission* 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, ITC*Transmission* 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 ITC*Transmission* 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, 236 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 ITC*Transmission* 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, ITC*Transmission* and METC invested $199.3 million and $65.0 million, respectively, in property, plant and equipment. We expect investments by ITC*Transmission* and METC in property, plant and equipment in 2006 to be approximately $145.0 million and $50.0 million, respectively. ITC*Transmission* and METC have invested $73.4 million and $35.5 million, respectively, in property, plant and equipment during the six months ended June 30, 2006.

Over the seven-year period from January 1, 2005 through December 31, 2011, we anticipate that ITC*Transmission* 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 ITC*Transmission* and METC is estimated to be between approximately $205.0 million to $215.0 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 completion of 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 ITC*Transmission* and METC is estimated to be between $1.0 billion and $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 2006.

(in thousands)

(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 $13.7 million on an annual basis recognized on a straight-line method from the date of closing of the acquisition through May 31, 2011. See the discussion of this item in Note 6 to the notes to MTH and METC's audited historical consolidated financial statements for the year ended December 31, 2005 included elsewhere in this prospectus. This item represents the portion of METC's regulatory asset that is not recorded in METC's GAAP financial statements.

(c)

Estimated 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 between 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 50.7% and 25.2%, respectively, of our pro forma operating 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 $118.9 million, respectively, for the year ended December 31, 2005. ITC Holdings and Subsidiaries generated operating revenues, net income and adjusted EBITDA of $87.5 million, $10.7 million and $48.3 million, respectively, for the six months ended June 30, 2006. We generated pro forma operating revenues, net income and adjusted EBITDA of $311.3 million, $31.6 million and $165.5 million, respectively, for the year ended December 31, 2005. We generated pro forma operating revenues, net income and adjusted EBITDA of $154.8 million, $13.5 million and $86.2 million, respectively, for the six months ended June 30, 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.

ITC*Transmission'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

ITC*Transmission* develops and tracks the preventive maintenance plan to promote a safe and reliable system. By performing preventative maintenance on its assets, ITC*Transmission* can minimize the need for reactive maintenance, resulting in improved reliability. ITC*Transmission* contracts with Utility Lines Construction, which is a division of Asplundh Tree Expert Co., to perform the bulk of its maintenance. The agreements provide ITC*Transmission* with access to an experienced and scalable workforce with knowledge of the ITC*Transmission* 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, ITC*Transmission* 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 ITC*Transmission* 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 ITC*Transmission* 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 ITC*Transmission*'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 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 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

***ITC*Transmission**

Detroit Edison operates the electricity distribution system to which ITC*Transmission*'s transmission system connects. A set of three operating contracts sets forth terms and conditions related to Detroit Edison and ITC*Transmission*'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 ITC*Transmission* 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 ITC*Transmission* is obligated to provide to Detroit Edison. The MOA also requires Detroit Edison to provide certain generation-based support services to ITC*Transmission*.

Generator Interconnection and Operation Agreement. Detroit Edison and ITC*Transmission* 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 ITC*Transmission*'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 ITC*Transmission* and Detroit Edison regarding, among other things, the operation and interconnection of Detroit Edison's distribution system and ITC*Transmission*'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 generally responsible for the maintenance of the premises and the facilities used for electricity transmission 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, administering and performing the duties of control area operator (that is, the entity exercising operational control over the transmission system) and, if requested by Consumers Energy, building connection facilities necessary to permit interaction with new distribution facilities built by Consumers Energy. Consumers Energy has corresponding obligations to provide METC with access to its books and records and to build distribution facilities necessary to provide adequate and reliable transmission services to wholesale customers. 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 Consu