

ITC Holdings Corp.  
Form 10-Q  
April 24, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q  
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934  
For the Quarterly Period Ended March 31, 2013

OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

Commission File Number: 001-32576

ITC HOLDINGS CORP.

(Exact Name of Registrant as Specified in Its Charter)

Michigan

(State or Other Jurisdiction of Incorporation or  
Organization)

27175 Energy Way

Novi, MI 48377

(Address Of Principal Executive Offices, Including Zip Code)

(248) 946-3000

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller Reporting Company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares of the Registrant's Common Stock, without par value, outstanding as of April 19, 2013 was 52,332,830.

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DEFINITIONS

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

ITC Holdings Corp. and its subsidiaries

“ITC Great Plains” are references to ITC Great Plains, LLC, a wholly-owned subsidiary of ITC Grid Development, LLC;

“ITC Grid Development” are references to ITC Grid Development, LLC, a wholly-owned subsidiary of ITC Holdings;

“Green Power Express” are references to Green Power Express LP, an indirect wholly-owned subsidiary of ITC Holdings;

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

“ITC Midwest” are references to ITC Midwest LLC, a wholly-owned subsidiary of ITC Holdings;

“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;

“MISO Regulated Operating Subsidiaries” are references to ITC Transmission, METC and ITC Midwest together;

“MTH” are references to Michigan Transco Holdings, LLC, the sole member of METC and an indirect wholly-owned subsidiary of ITC Holdings;

“Regulated Operating Subsidiaries” are references to ITC Transmission, METC, ITC Midwest and ITC Great Plains together; and

“We,” “our” and “us” are references to ITC Holdings together with all of its subsidiaries.

Other definitions

“Consumers Energy” are references to Consumers Energy Company, a wholly-owned subsidiary of CMS Energy Corporation;

“Detroit Edison” are references to The Detroit Edison Company, a wholly-owned subsidiary of DTE Energy Company;

“Entergy” are references to Entergy Corporation;

“Entergy Transaction” are references to the transaction whereby the electric transmission business of Entergy will be separated and subsequently merged with a wholly-owned subsidiary of ITC Holdings;

“FERC” are references to the Federal Energy Regulatory Commission;

“FPA” are references to the Federal Power Act;

“IP&L” are references to Interstate Power and Light Company, an Alliant Energy Corporation subsidiary;

“ITC Holdings’ annual report on Form 10-K” are references to the annual report on Form 10-K filed on March 1, 2013;

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

“kW” are references to kilowatts (one kilowatt equaling 1,000 watts);

“MISO” are references to the Midwest Independent Transmission System Operator, Inc., a FERC-approved RTO which oversees the operation of the bulk power transmission system for a substantial portion of the Midwestern United States and Manitoba, Canada, and of which ITC Transmission, METC and ITC Midwest are members;

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

“NERC” are references to the North American Electric Reliability Corporation;

“RTO” are references to Regional Transmission Organizations; and

“SPP” are references to Southwest Power Pool, Inc., a FERC-approved RTO which oversees the operation of the bulk power transmission system for a substantial portion of the South Central United States, and of which ITC Great Plains is a member.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## ITC HOLDINGS CORP. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(in thousands, except share data)	March 31, 2013	December 31, 2012
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$67,582	\$26,187
Accounts receivable	78,412	72,192
Inventory	37,092	37,357
Deferred income taxes	21,094	23,014
Regulatory assets — revenue accruals, including accrued interest	6,310	7,489
Prepaid assets	18,367	29,235
Other	5,179	2,752
Total current assets	234,036	198,226
Property, plant and equipment (net of accumulated depreciation and amortization of \$1,289,769 and \$1,269,810, respectively)	4,317,746	4,134,579
Other assets		
Goodwill	950,163	950,163
Intangible assets (net of accumulated amortization of \$19,188 and \$18,397, respectively)	47,701	48,492
Regulatory assets — revenue accruals, including accrued interest	14,594	2,719
Other regulatory assets	181,797	180,378
Deferred financing fees (net of accumulated amortization of \$18,742 and \$17,838, respectively)	18,721	19,293
Other	30,729	30,959
Total other assets	1,243,705	1,232,004
<b>TOTAL ASSETS</b>	<b>\$5,795,487</b>	<b>\$5,564,809</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$109,646	\$123,022
Accrued payroll	10,174	20,740
Accrued interest	44,722	44,708
Accrued taxes	23,221	28,117
Regulatory liabilities — revenue deferrals, including accrued interest	47,736	53,763
Refundable deposits from generators for transmission network upgrades	30,083	40,745
Debt maturing within one year	901,962	651,929
Other	38,408	40,287
Total current liabilities	1,205,952	1,003,311
Accrued pension and postretirement liabilities	55,349	53,243
Deferred income taxes	484,577	460,072
Regulatory liabilities — revenue deferrals, including accrued interest	33,479	28,613
Regulatory liabilities — accrued asset removal costs	74,549	75,477
Refundable deposits from generators for transmission network upgrades	6,019	7,623
Other	23,088	26,317
Long-term debt	2,458,881	2,495,298
Commitments and contingent liabilities (Note 10)		
<b>STOCKHOLDERS' EQUITY</b>		

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Common stock, without par value, 100,000,000 shares authorized, 52,317,093 and 52,248,514 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	995,509	989,334	
Retained earnings	474,026	443,569	
Accumulated other comprehensive loss	(15,942	) (18,048	)
Total stockholders' equity	1,453,593	1,414,855	
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$5,795,487</b>	<b>\$5,564,809</b>	
See notes to condensed consolidated financial statements (unaudited).			

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## ITC HOLDINGS CORP. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three months ended	
	March 31,	
(in thousands, except per share data)	2013	2012
OPERATING REVENUES	\$217,304	\$196,713
OPERATING EXPENSES		
Operation and maintenance	24,513	28,712
General and administrative	34,926	23,009
Depreciation and amortization	28,486	25,011
Taxes other than income taxes	16,670	14,280
Other operating (income) and expense — net	(172	) (193
Total operating expenses	104,423	90,819
OPERATING INCOME	112,881	105,894
OTHER EXPENSES (INCOME)		
Interest expense	39,063	37,910
Allowance for equity funds used during construction	(8,733	) (5,624
Other income	(236	) (306
Other expense	1,037	831
Total other expenses (income)	31,131	32,811
INCOME BEFORE INCOME TAXES	81,750	73,083
INCOME TAX PROVISION	31,560	27,032
NET INCOME	\$50,190	\$46,051
Basic earnings per common share	\$0.96	\$0.90
Diluted earnings per common share	\$0.95	\$0.88
Dividends declared per common share	\$0.3775	\$0.3525
See notes to condensed consolidated financial statements (unaudited).		

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## ITC HOLDINGS CORP. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three months ended	
	March 31,	
(in thousands)	2013	2012
NET INCOME	\$50,190	\$46,051
OTHER COMPREHENSIVE INCOME		
Amortization of interest rate lock cash flow hedges (net of tax of \$10 and \$9, respectively)	14	15
Unrealized gain on interest rate swaps relating to interest rate cash flow hedges (net of tax of \$1,365 and \$1,803, respectively)	2,092	2,812
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX	2,106	2,827
TOTAL COMPREHENSIVE INCOME	\$52,296	\$48,878

See notes to condensed consolidated financial statements (unaudited).

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## ITC HOLDINGS CORP. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)	Three months ended March 31,	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$50,190	\$46,051
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	28,486	25,011
Recognition, refund and collection of revenue accruals and deferrals — including accrued interest	(11,857	) (16,779
Deferred income tax expense	21,329	16,191
Allowance for equity funds used during construction	(8,733	) (5,624
Other	3,992	2,974
Changes in assets and liabilities, exclusive of changes shown separately:		
Accounts receivable	(4,341	) 1,232
Inventory	265	1,771
Prepaid and other current assets	10,857	(4,421
Accounts payable	(5,193	) (4,840
Accrued payroll	(7,040	) (6,726
Accrued interest	14	(19,448
Accrued taxes	(4,896	) (6,505
Other current liabilities	(839	) (3,641
Other non-current assets and liabilities, net	(266	) 4,429
Net cash provided by operating activities	71,968	29,675
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditures for property, plant and equipment	(214,111	) (224,079
Other	(103	) (50
Net cash used in investing activities	(214,214	) (224,129
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of long-term debt	—	100,000
Borrowings under revolving credit agreements	369,500	342,250
Borrowings under term loan credit agreements	250,000	—
Repayments of revolving credit agreements	(406,000	) (268,500
Issuance of common stock	2,632	1,050
Dividends on common and restricted stock	(19,733	) (18,101
Refundable deposits from generators for transmission network upgrades	8,058	9,636
Repayment of refundable deposits from generators for transmission network upgrades	(20,325	) (5,661
Other	(491	) (1,512
Net cash provided by financing activities	183,641	159,162
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	41,395	(35,292
<b>CASH AND CASH EQUIVALENTS — Beginning of period</b>	26,187	58,344
<b>CASH AND CASH EQUIVALENTS — End of period</b>	\$67,582	\$23,052
See notes to condensed consolidated financial statements (unaudited).		



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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 1. GENERAL

These condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements as of and for the year ended December 31, 2012 included in ITC Holdings' annual report on Form 10-K for such period.

The accompanying condensed consolidated financial statements have been prepared using accounting principles generally accepted in the United States of America ("GAAP") and with the instructions to Form 10-Q and Rule 10-01 of Securities and Exchange Commission ("SEC") Regulation S-X as they apply to interim financial information.

Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. These accounting principles require us to use estimates and assumptions that impact the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results may differ from our estimates.

The condensed consolidated financial statements are unaudited, but in our opinion include all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the results for the interim period. The interim financial results are not necessarily indicative of results that may be expected for any other interim period or the fiscal year.

## Supplementary Cash Flows Information

(in thousands)	Three months ended	
	March 31, 2013	2012
Supplementary cash flows information:		
Interest paid (net of interest capitalized)	\$38,144	\$56,262
Income taxes paid	1,100	9,324
Supplementary non-cash investing and financing activities:		
Additions to property, plant and equipment (a)	\$79,933	\$78,252
Allowance for equity funds used during construction	8,733	5,624

(a) Amounts consist of current liabilities for construction labor and materials that have not been included in investing activities. These amounts have not been paid for as of March 31, 2013 or 2012, respectively, but have been or will be included as a cash outflow from investing activities for expenditures for property, plant and equipment when paid.

## 2. RECENT ACCOUNTING PRONOUNCEMENTS

## Presentation of Comprehensive Income

The guidance set forth by the Financial Accounting Standards Board ("FASB") has been updated for the presentation of comprehensive income in financial statements. Under this guidance, we are required to (1) disclose the changes in accumulated other comprehensive income ("AOCI") by component and (2) disclose the effects on the line items of net income of significant amounts reclassified out of AOCI. We adopted this guidance as of January 1, 2013. For the three months ended March 31, 2013, the requirements under (1) above are presented in the condensed consolidated statements of comprehensive income, however, there were no significant amounts reclassified out of AOCI that would require disclosure.

## Balance Sheet Offsetting Requirements

The FASB has created new disclosure requirements regarding the nature of an entity's rights of offset and related arrangements associated with its financial instruments and derivative instruments. The guidance requires entities to disclose, at a minimum, the following information in tabular format, separately for assets and liabilities: (a) the gross amounts of those recognized assets and those recognized liabilities; (b) the amounts offset to determine the net amounts presented in the statement of financial position; (c) the net amounts presented in the statement of financial position; (d) the amounts subject to an enforceable master netting arrangement or similar agreement; and (e) the net amount after deducting the amounts in (d) from the amounts in (c). We adopted this guidance as of January 1, 2013. As of March 31, 2013, we did not have any material assets and liabilities that are subject to the new disclosure

requirements.

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3. REGULATORY MATTERS

ITC Great Plains

As of March 31, 2013, we have recorded a total of \$14.1 million of regulatory assets for start-up and development expenses incurred by ITC Great Plains, which include certain costs incurred for the Kansas Electric Transmission Authority (“KETA”) Project and the Kansas V-Plan Project prior to construction. Based on ITC Great Plains’ FERC application under which authority to recognize these regulatory assets was sought and the related FERC order, ITC Great Plains will be required to make an additional filing with the FERC under Section 205 of the FPA in order to recover these start-up, development and pre-construction expenses in future rates. If FERC authorization to recover these costs is received, ITC Great Plains will include the balance of the regulatory assets in its rate base and will amortize them over a 10-year period beginning at the later of the project in-service date or the FERC authorization date. The amortization expense will be recovered through ITC Great Plains’ cost-based formula rate template beginning in the period in which amortization begins.

Order on Formula Rate Protocols

On May 17, 2012, the FERC issued an order pursuant to Section 206 of the FPA to determine whether the formula rate protocols under the MISO Tariff are sufficient to ensure just and reasonable rates. The MISO Regulated Operating Subsidiaries were named in the order. We do not expect the resolution of this proceeding and its ultimate impact on our MISO Regulated Operating Subsidiaries’ formula rates will be material to our results of operations, cash flows or financial condition.

Complaint of IP&L

On September 14, 2012, IP&L filed a complaint with the FERC against ITC Midwest’s reimbursement policy under Section 206 of the Federal Power Act. The complaint challenges ITC Midwest’s FERC approved reimbursement policy for network upgrades to qualifying generators. IP&L requests that the FERC (1) investigate the justness and reasonableness of ITC Midwest’s Attachment FF policy; (2) establish a refund effective date of September 14, 2012; and (3) establish hearing procedures. On October 4, 2012, ITC Midwest filed an answer to the complaint with the FERC outlining the reasons ITC Midwest’s Attachment FF provision remains just and reasonable and requesting dismissal of the complaint.

Cost-Based Formula Rates with True-Up Mechanism

The transmission rates at our Regulated Operating Subsidiaries are set annually, using the FERC-approved formula rates, and the rates remain in effect for a one-year period. By completing their formula rate templates on an annual basis, our Regulated Operating Subsidiaries are able to adjust their transmission rates to reflect changing operational data and financial performance, including the amount of network load on their transmission systems (for our MISO Regulated Operating Subsidiaries), operating expenses and additions to property, plant and equipment when placed in service, among other items. The FERC-approved formula rates do not require further action or FERC filings for the calculated joint zone rates to go into effect, although the rates are subject to legal challenge at the FERC. Our Regulated Operating Subsidiaries will continue to use formula rates to calculate their respective annual revenue requirements unless the FERC determines the rates to be unjust and unreasonable or another mechanism is determined by the FERC to be just and reasonable.

Our cost-based formula rate templates include a true-up mechanism, whereby our Regulated Operating Subsidiaries compare their actual revenue requirements to their billed revenues for each year to determine any over- or under-collection of revenue requirements. The over- or under-collection typically results from differences between the projected revenue requirement used to establish the billing rate and actual revenue requirement at each of our Regulated Operating Subsidiaries, or from differences between actual and projected monthly peak loads at our MISO Regulated Operating Subsidiaries. Revenue is recognized for services provided during each reporting period based on actual revenue requirements calculated using the formula rate templates. Our Regulated Operating Subsidiaries accrue or defer revenues to the extent that the actual revenue requirement for the reporting period is higher or lower, respectively, than the amounts billed relating to that reporting period. The amount of accrued or deferred revenues is reflected in customer bills within two years under the provisions of the formula rate templates.



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The current and non-current regulatory assets are recorded on the balance sheet in regulatory assets revenue accruals, including accrued interest. The current and non-current regulatory liabilities are recorded in regulatory liabilities revenue deferrals, including accrued interest. The changes in regulatory assets and liabilities (net) associated with our Regulated Operating Subsidiaries' formula rate revenue accruals and deferrals, including accrued interest, were as follows during the three months ended March 31, 2013:

(in thousands)	Total
Balance as of December 31, 2012	\$(72,168 )
Net refund of 2011 revenue deferrals and accruals, including accrued interest	11,766
Net revenue accrual for the three months ended March 31, 2013	687
Net accrued interest payable for the three months ended March 31, 2013	(596 )
Balance as of March 31, 2013	\$(60,311 )

Regulatory assets and liabilities associated with our Regulated Operating Subsidiaries' formula rate revenue accruals and deferrals are recorded in our condensed consolidated statement of financial position as follows:

(in thousands)	Total
Current assets	\$6,310
Non-current assets	14,594
Current liabilities	(47,736 )
Non-current liabilities	(33,479 )
Balance as of March 31, 2013	\$(60,311 )

#### 4. INTANGIBLE ASSETS

We have recorded intangible assets as a result of the METC acquisition in 2006. The carrying value of these assets was \$39.5 million (net of accumulated amortization of \$18.9 million) as of March 31, 2013.

We have also recorded intangible assets for payments made by ITC Great Plains to certain transmission owners to acquire rights which are required under the SPP tariff to designate ITC Great Plains to build, own and operate projects within the SPP region, including the KETA Project and the Kansas V-Plan Project. The carrying amount of these intangible assets was \$8.2 million (net of accumulated amortization of \$0.3 million) as of March 31, 2013.

During the three months ended March 31, 2013 and 2012, we recognized \$0.8 million of amortization expense of our intangible assets. For each of the next five years, we expect the annual amortization of our intangible assets that have been recorded as of March 31, 2013 to be \$3.2 million per year.

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## 5. DEBT

## Derivative Instruments and Hedging Activities

We use derivative financial instruments, including interest rate swap contracts, to manage our exposure to fluctuations in interest rates. The use of these financial instruments mitigates exposure to these risks and the variability of our operating results. We are not a party to leveraged derivatives and do not enter into derivative financial instruments for trading or speculative purposes. The interest rate swaps listed below manage interest rate risk associated with the forecasted future issuances of fixed-rate debt related to (1) the expected refinancing of the \$267.0 million ITC Holdings 5.25% Senior Notes, due July 15, 2013, prior to its maturity and (2) the expected financing required to repay the \$200.0 million and \$250.0 million borrowed under the existing ITC Holdings unsecured, unguaranteed term loan credit agreements, due August 23, 2013 and December 31, 2013, respectively, prior to their maturity:

Interest Rate Swaps	Notional Amount	Fixed Rate	Original Term	Effective Date
(amounts in millions)				
September 2010 swap	\$50.0	3.60%	10 years	July 2013
March 2011 swaps	50.0	4.45%	10 years	July 2013
May 2011 swap	25.0	4.20%	10 years	July 2013
August 2011 swaps	50.0	3.80%	10 years	July 2013
November 2012 swap	25.0	2.60%	30 years	June 2013
December 2012 swap	25.0	2.58%	30 years	June 2013
February 2013 swap	25.0	2.98%	30 years	June 2013
February 2013 swap	25.0	2.93%	30 years	June 2013
Total	\$275.0			

The 10 year term interest rate swaps call for ITC Holdings to receive interest quarterly at a variable rate equal to LIBOR and to pay interest semi-annually at various fixed rates effective for the 10-year period beginning July 15, 2013 after the agreements have been terminated. The agreements include a mandatory early termination provision and will be terminated no later than the effective date of the interest rate swaps of July 15, 2013. The 30 year term interest rate swaps call for ITC Holdings to receive interest quarterly at a variable rate equal to LIBOR and to pay interest semi-annually at various fixed rates effective for the 30-year period beginning June 15, 2013 after the agreements have been terminated. The agreements include a mandatory early termination provision and will be terminated no later than the effective date of the interest rate swaps of July 15, 2013 and June 15, 2013 for the 10- and 30-year swaps, respectively. The interest rate swaps have been determined to be highly effective at offsetting changes in the fair value of the forecasted interest cash flows associated with the expected debt issuance attributable to changes in benchmark interest rates from the trade date of the interest rate swaps to the issuance date of the debt obligation. In April 2013, we entered into additional interest rate swap contracts with terms that are comparable to the interest rate swaps described above, consisting of an additional \$75.0 million notional amount of 10-year term interest rate swaps with a weighted average fixed rate of 3.37% and \$125.0 million notional amount of 30-year term interest rate swaps with a weighted average fixed rate of 2.82%.

As of March 31, 2013, there has been no material ineffectiveness recorded in the condensed consolidated statement of operations. The interest rate swaps qualify for hedge accounting treatment, whereby any gain or loss recognized from the trade date to the effective date for the effective portion of the hedge is recorded net of tax in accumulated other comprehensive income. These amounts will be accumulated and amortized as a component of interest expense over the life of the forecasted debt. As of March 31, 2013, the fair value of the derivative instruments was an asset of \$5.1 million recorded to other current assets and a liability of \$30.5 million recorded to other current liabilities. None of the interest rate swaps contain credit-risk-related contingent features. Refer to Note 9 for additional fair value information. ITC Holdings

On August 23, 2012, ITC Holdings entered into a new unsecured, unguaranteed term loan credit agreement (“2012 Term Loan”), under which ITC Holdings had borrowed \$200.0 million as of March 31, 2013 and as of December 31, 2012. On February 15, 2013, ITC Holdings entered into a new unsecured, unguaranteed term loan credit agreement with a borrowing capacity of \$250.0 million (“2013 Term Loan”), under which ITC Holdings borrowed \$250.0 million

as of March 31, 2013. The proceeds from each term loan were used for general corporate purposes, including the repayment of borrowings under the ITC Holdings' revolving credit agreement. The 2012 Term Loan and the 2013 Term Loan are scheduled to mature on August 23, 2013 and December 31, 2013, respectively. The weighted-average interest rate on the borrowings outstanding under the term loans was 1.2% at March 31, 2013.

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## ITC Midwest

On April 4, 2013, ITC Midwest issued \$100.0 million aggregate principal amount of 4.09% First Mortgage Bonds, Series F, due 2043. The proceeds from the issuance were used to refinance existing indebtedness, partially fund capital expenditures and for general corporate purposes. All of ITC Midwest's First Mortgage Bonds are issued under its First Mortgage and Deed of Trust, and therefore have the benefit of a first mortgage lien on substantially all of ITC Midwest's property.

## Revolving Credit Agreements

At March 31, 2013, ITC Holdings and its Regulated Operating Subsidiaries had the following unsecured revolving credit facilities available, each of which bears interest at a variable rate based on the prime rate or LIBOR (subject to adjustment based on credit rating):

(amounts in millions)	Total Available Capacity	Outstanding Balance (a)	Unused Capacity	Weighted-Average Interest Rate on Outstanding Balance	Commitment Fee Rate (b)	Original Term	Date of Maturity
Revolving Credit Agreements:							
ITC Holdings	\$200.0	\$—	\$200.0	n/a	0.25	% 5 years	May 2016
ITCTransmission	100.0	2.5	97.5	1.4%	0.125	% 5 years	May 2016
METC	100.0	31.3	68.7	1.3%	0.125	% 5 years	May 2016
ITC Midwest	175.0	146.2	28.8	1.2%	0.10	% 5 years	May 2017
ITC Great Plains	150.0	111.3	38.7	2.0%	0.30	% 4 years	February 2015
Total	\$725.0	\$291.3	\$433.7				

(a) Included within long-term debt.

(b) Calculation based on the average daily unused commitments, subject to adjustment based on the borrower's credit rating.

## Covenants

Our debt instruments contain numerous financial and operating covenants that place significant restrictions on certain transactions, such as incurring additional indebtedness, engaging in sale and lease-back transactions, creating liens or other encumbrances, entering into mergers, consolidations, liquidations or dissolutions, creating or acquiring subsidiaries, selling or otherwise disposing of all or substantially all of our assets and paying dividends. In addition, the covenants require us to meet certain financial ratios, such as maintaining certain debt to capitalization ratios and maintaining certain interest coverage ratios. We are currently in compliance with all debt covenants.

## 6. STOCKHOLDERS' EQUITY

## ITC Holdings Sales Agency Financing Agreement

On July 27, 2011, ITC Holdings entered into a Sales Agency Financing Agreement with Deutsche Bank Securities Inc. as sales agent (the "SAFA"). Under the terms of the SAFA, ITC Holdings may issue and sell shares of common stock, without par value, from time to time, up to an aggregate sales proceeds amount of \$250.0 million. The SAFA terminates in July 2014, although the agreements relating to the Entergy Transaction generally prohibit us from issuing shares under the SAFA until approximately two years after the closing except under certain limited circumstances. The shares of common stock may be offered in one or more selling periods. Any shares of common stock sold under the SAFA will be offered at market prices prevailing at the time of sale. Moreover, ITC Holdings will specify to the sales agent (i) the aggregate selling price of the shares of common stock to be sold during each selling period, and (ii) the minimum price below which sales may not be made. ITC Holdings will pay a commission equal to a mutually agreed upon rate with its agent, not to exceed 2% of the sales price of all shares of common stock sold through its agent under the SAFA, plus expenses. The shares we would issue under the SAFA have been registered under ITC Holdings' shelf registration statement on Form S-3 (File No. 333-187994) filed on April 18, 2013 with the SEC. No shares have been issued under the SAFA.





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## 7. EARNINGS PER SHARE

We report both basic and diluted earnings per share. Our restricted stock and deferred stock units contain rights to receive nonforfeitable dividends and thus, are participating securities requiring the two-class method of computing earnings per share. A reconciliation of both calculations for the three months ended March 31, 2013 and 2012 is presented in the following table:

(in thousands, except share, per share data and percentages)	Three months ended	
	March 31, 2013	2012
Numerator:		
Net income	\$50,190	\$46,051
Less: dividends declared — common shares and restricted shares	(19,733 )	(18,101 )
Undistributed earnings	30,457	27,950
Percentage allocated to common shares (a)	99.0 %	98.6 %
Undistributed earnings — common shares	30,152	27,559
Add: dividends declared — common shares	19,537	17,851
Numerator for basic and diluted earnings per common share	\$49,689	\$45,410
Denominator:		
Denominator for basic earnings per common share — weighted-average common shares	51,756,765	50,636,200
Incremental shares for stock options and employee stock purchase plan	378,406	768,834
Denominator for diluted earnings per common share — adjusted weighted-average shares and assumed conversion	52,135,171	51,405,034
Per common share net income:		
Basic	\$0.96	\$0.90
Diluted	\$0.95	\$0.88
<hr/>		
(a) Weighted-average common shares outstanding	51,756,765	50,636,200
Weighted-average restricted shares (participating securities)	519,996	709,091
Total	52,276,761	51,345,291
Percentage allocated to common shares	99.0 %	98.6 %

The incremental shares for stock options and the employee stock purchase plan (“stock options and ESPP shares”) are included in the diluted earnings per share calculation using the treasury stock method, unless the effect of including them would be anti-dilutive. The outstanding stock options and ESPP shares as of March 31, 2013 and 2012 and the anti-dilutive stock options and ESPP shares excluded from the diluted earnings per share calculations for the three months ended March 31, 2013 and 2012 were as follows:

	2013	2012
Outstanding stock options and ESPP shares	1,549,860	2,066,083
Anti-dilutive stock options and ESPP shares	356,730	214,993

## 8. RETIREMENT BENEFITS AND ASSETS HELD IN TRUST

## Retirement Plan Benefits

We have a qualified retirement plan for eligible employees, comprised of a traditional final average pay plan and a cash balance plan. The traditional final average pay plan is noncontributory, covers select employees, and provides retirement benefits based on the employees’ years of benefit service, average final compensation and age at retirement. The cash balance plan is also noncontributory, covers substantially all employees, and provides retirement benefits based on eligible compensation and interest credits. While we are obligated to fund the retirement plan by contributing the minimum amount required by the Employee Retirement Income Security Act of 1974, as amended, it is our practice to contribute the maximum allowable amount as defined by section 404 of the Internal Revenue Code. We expect to contribute up to \$6.9 million to the defined benefit retirement plan in 2013.

We also have two supplemental nonqualified, noncontributory, retirement benefit plans for selected management employees. The plans provide for benefits that supplement those provided by our other retirement plans. We expect to

contribute up to \$0.6 million to these supplemental nonqualified, noncontributory, retirement benefit plans in 2013.

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Net pension cost includes the following components:

(in thousands)	Three months ended March 31,	
	2013	2012
Service cost	\$1,315	\$1,040
Interest cost	763	647
Expected return on plan assets	(717	) (570
Amortization of prior service cost	(10	) (10
Amortization of unrecognized loss	679	868
Net pension cost	\$2,030	\$1,975

## Other Postretirement Benefits

We provide certain postretirement health care, dental, and life insurance benefits for employees who may become eligible for these benefits. We expect to contribute up to \$3.8 million to the postretirement benefit plan in 2013.

Net postretirement cost includes the following components:

(in thousands)	Three months ended March 31,	
	2013	2012
Service cost	\$1,443	\$1,358
Interest cost	390	388
Expected return on plan assets	(353	) (254
Amortization of prior service cost	—	31
Amortization of unrecognized loss	55	134
Net postretirement cost	\$1,535	\$1,657

## Defined Contribution Plan

We also sponsor a defined contribution retirement savings plan. Participation in this plan is available to substantially all employees. We match employee contributions up to certain predefined limits based upon eligible compensation and the employee's contribution rate. The cost of this plan was \$1.7 million and \$1.3 million for the three months ended March 31, 2013 and 2012, respectively.

## 9. FAIR VALUE MEASUREMENTS

The measurement of fair value is based on a three-tier hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Our assets and liabilities measured at fair value subject to the three-tier hierarchy at March 31, 2013, were as follows:

(in thousands)	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets measured on a recurring basis:			
Cash and cash equivalents — cash equivalents	\$35,935	\$30,243	\$—
Mutual funds — fixed income securities	21,113	—	—
Mutual funds — equity securities	1,766	—	—
Interest rate swap derivatives	—	5,142	—
Financial liabilities measured on a recurring basis:			
Interest rate swap derivatives	—	(30,468	) —
Total	\$58,814	\$4,917	\$—



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Our assets and liabilities measured at fair value subject to the three-tier hierarchy at December 31, 2012, were as follows:

(in thousands)	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets measured on a recurring basis:			
Cash and cash equivalents — cash equivalents	\$13,127	\$10,037	\$—
Mutual funds — fixed income securities	21,332	—	—
Mutual funds — equity securities	1,612	—	—
Interest rate swap derivatives	—	2,725	—
Financial liabilities measured on a recurring basis:			
Interest rate swap derivatives	—	(31,507)	) —
Total	\$36,071	\$(18,745)	) \$—

As of March 31, 2013 and December 31, 2012, we held certain assets and liabilities that are required to be measured at fair value on a recurring basis.

The assets consist of investments recorded within cash and cash equivalents and other long-term assets, including investments held in a trust associated with our supplemental nonqualified, noncontributory, retirement benefit plans for selected management employees that are classified as trading securities. Our Level 1 investments included in cash equivalents consist of money market mutual funds and common and collective trusts that are administered similar to money market funds recorded at cost plus accrued interest to approximate fair value. Our mutual funds consist primarily of publicly traded mutual funds for which market prices are readily available. Changes in the observed trading prices and liquidity of money market funds are monitored as additional support for determining fair value, and losses are recorded in earnings if fair value falls below recorded cost. The cash and cash equivalents that are classified as a Level 2 investment consist of deposits held with financial institutions that are then invested by the financial institution in money market mutual funds and common and collective trusts that are administered similar to money market funds. The underlying money market funds and common and collective trusts are recorded at cost plus accrued interest.

The assets and liabilities related to derivatives consist of interest rate swaps discussed in Note 5. The fair value of our interest rate swap derivatives as of March 31, 2013 and December 31, 2012 is determined based on a discounted cash flow method using LIBOR swap rates which are observable at commonly quoted intervals.

We also held non-financial assets that are required to be measured at fair value on a non-recurring basis. These consist of goodwill and intangible assets. We did not record any impairment charges on long-lived assets and no other significant events occurred requiring non-financial assets and liabilities to be measured at fair value (subsequent to initial recognition) during the three months ended March 31, 2013. For additional information on our goodwill and intangible assets, please refer to the notes to the consolidated financial statements as of and for the year ended December 31, 2012 included in our Form 10-K for such period and to Note 4 of this Form 10-Q.

#### Fair Value of Financial Assets and Liabilities

##### Fixed Rate Debt

Based on the borrowing rates obtained from third party lending institutions currently available for bank loans with similar terms and average maturities from active markets, the fair value of our consolidated long-term debt and debt maturing within one year, excluding revolving and term loan credit agreements, was \$3,034.8 million and \$3,072.9 million at March 31, 2013 and December 31, 2012, respectively. These fair values represent Level 2 under the three-tier hierarchy described above. The total book value of our consolidated long-term debt and debt maturing within one year, excluding revolving and term loan credit agreements, was \$2,619.5 million and \$2,619.4 million at March 31, 2013 and December 31, 2012, respectively.

##### Revolving and Term Loan Credit Agreements

At March 31, 2013 and December 31, 2012, we had a consolidated total of \$741.3 million and \$527.8 million, respectively, outstanding under our revolving and term loan credit agreements, which are variable rate loans. The fair value of these loans approximates book value based on the borrowing rates currently available for variable rate loans obtained from third party lending institutions. These fair values represent Level 2 under the three-tier hierarchy described above.

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10. COMMITMENTS AND CONTINGENT LIABILITIES

Environmental Matters

Our Regulated Operating Subsidiaries' 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 our Regulated Operating Subsidiaries. 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. Although environmental requirements generally have become more stringent and compliance with those requirements more expensive, we are not aware of any specific developments that would increase our Regulated Operating Subsidiaries' costs for such compliance in a manner that would be expected to have a material adverse effect on our results of operations, financial position or liquidity.

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

Some properties in which our Regulated Operating Subsidiaries have an ownership interest or at which they operate are, and others are suspected of being, affected by environmental contamination. Our Regulated Operating Subsidiaries are not aware of any pending or threatened claims against them with respect to environmental contamination, or of any investigation or remediation of contamination at any properties, that entail costs likely to materially affect them. Some facilities and properties are located near environmentally sensitive areas such as wetlands.

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 electric transmission and distribution lines. While our Regulated Operating Subsidiaries do not believe that a causal link between electromagnetic field exposure and injury has been generally established and accepted in the scientific community, if such a relationship is established or accepted, the liabilities and costs imposed on our business could be significant. We are not aware of any pending or threatened claims against our Regulated Operating Subsidiaries for bodily injury, disease or other damages allegedly related to exposure to electromagnetic fields and electric transmission and distribution lines that entail costs likely to have a material adverse effect on our results of operations, financial position or liquidity.

Litigation

We are involved in certain legal proceedings before various courts, governmental agencies and mediation panels concerning matters arising in the ordinary course of business. These proceedings include certain contract disputes, regulatory matters and pending judicial matters. We cannot predict the final disposition of such proceedings. We regularly review legal matters and record provisions for claims that are considered probable of loss. The resolution of pending proceedings is not expected to have a material effect on our operations or consolidated financial statements in the period in which they are resolved.



Michigan Sales and Use Tax Audit

The Michigan Department of Treasury conducted a sales and use tax audit of ITCTransmission for the audit period April 1, 2005 through June 30, 2008 and has denied ITCTransmission's use of the industrial processing exemption from use tax it has taken beginning January 1, 2007. ITCTransmission has certain administrative and judicial appeal rights.

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ITCTransmission believes that its utilization of the industrial processing exemption is appropriate and intends to defend itself against the denial of such exemption. However, it is reasonably possible that the assessment of additional use tax could be sustained after all administrative appeals and litigation have been exhausted.

The amount of use tax liability associated with the exemptions taken by ITCTransmission through March 31, 2013 is estimated to be approximately \$15.6 million, which includes approximately \$3.7 million assessed for the audit period April 1, 2005 through June 30, 2008, including interest. In the event it becomes appropriate to record additional use tax liability relating to this matter, ITCTransmission would record the additional use tax primarily as an increase to the cost of property, plant and equipment, as the majority of purchases for which the exemption was taken relate to equipment purchases associated with capital projects. METC has also taken the industrial processing exemption, estimated to be approximately \$11.0 million for periods still subject to audit since 2006. These higher use tax expenses would be passed on to ITCTransmission's and METC's customers as the amounts are included as components of net revenue requirements and resulting rates.

### FERC Audit of ITC Midwest

Certain staff of the FERC ("FERC audit staff") have conducted an audit of ITC Midwest's compliance with certain of the FERC's regulations and the conditions established in the 2007 FERC order approving the acquisition of the transmission assets of Interstate Power and Light Company by ITC Midwest. In 2011, the FERC issued an order that identified certain findings and recommendations of FERC audit staff relating to specific aspects of the accounting treatment for the acquisition that requires adjustments to ITC Midwest's annual revenue requirement calculations and corresponding refunds. In 2012, ITC Midwest filed a refund report with the FERC which included adjustments to ITC Midwest's annual revenue requirement calculations and corresponding refunds. On January 30, 2013, the FERC accepted ITC Midwest's refund report which included the amount expected to be refunded in 2014.

ITCTransmission and METC have applied an accounting treatment for their respective acquisitions similar to ITC Midwest, and on February 1, 2013, voluntarily filed compliance plans with FERC to address the findings raised with respect to the ITC Midwest audit, which includes the amount expected to be refunded in 2014.

As a result of the FERC order, ITC Midwest, ITCTransmission and METC have recorded an aggregate estimated liability for the refund and related interest of \$12.8 million as of March 31, 2013 in the condensed consolidated statements of financial position. The refund amounts are limited to 2010 and earlier periods. The ITCTransmission and METC compliance plans and refund reports remain subject to FERC acceptance, however, we do not believe the ultimate resolution of this matter will differ materially from the estimates recorded during 2012.

### ITC Midwest Project Commitment

In the Minnesota regulatory proceeding to approve ITC Midwest's December 2007 acquisition of the transmission assets of IP&L, ITC Midwest agreed to build a certain project in Iowa, the 345 kV Salem-Hazelton line, and made a commitment to use commercially reasonable best efforts to complete the project prior to December 31, 2011. In the event ITC Midwest is found to have failed to meet this commitment, the allowed 12.38% rate of return on the actual equity portion of its capital structure would be reduced to 10.39% until such time as ITC Midwest completes the project, and ITC Midwest would refund with interest any amounts collected since the close date of the transaction that exceeded what would have been collected if the 10.39% return on equity had been used. Certain regulatory approvals were needed from the Iowa Utilities Board ("IUB") before construction of the project could commence, but due to the IUB's case schedule, these approvals were not received until the second quarter of 2011. As a result of the delay in the receipt of the necessary regulatory approvals, the project was not completed by December 31, 2011. The Minnesota Public Utilities Commission is monitoring the status of the project, and ITC Midwest is providing it with periodic status updates about the project and other information about transmission system conditions, as requested in a May 15, 2012 Order. We believe we used commercially reasonable best efforts to meet the December 31, 2011 deadline and will continue to pursue completion of the project using our commercially reasonable best efforts. Therefore, we believe the likelihood of any material effect from this matter is remote.

## 11. ENTERGY TRANSACTION

As of December 4, 2011, Entergy and ITC Holdings executed definitive agreements (as subsequently amended, the "transaction agreements") under which Entergy will divest and then merge its electric transmission business with a

wholly-owned subsidiary of ITC Holdings (“Entergy Transaction”). Entergy’s electric transmission business consists of approximately 15,400 miles of interconnected transmission lines at voltages of 69 kV and above and associated substations across its utility service territory in the Mid-South.

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The terms of the transaction agreements call for Entergy to divest its electric transmission business to a newly-formed entity, Mid South TransCo LLC (“Mid South TransCo”), and Mid South TransCo’s subsidiaries, and distribute the equity interests in Mid South TransCo to Entergy’s shareholders in the form of a tax-free spin-off. Mid South TransCo will then merge with a newly-created merger subsidiary of ITC Holdings in an all-stock, Reverse Morris Trust transaction, and will survive the merger as a wholly-owned subsidiary of ITC Holdings. Prior to the merger, we expect to effectuate a recapitalization, which may take the form of a one-time special dividend to ITC Holdings’ pre-merger shareholders, a repurchase of ITC Holdings common stock from its shareholders, or a combination of a special dividend and share repurchase. The merger will result in shareholders of Entergy receiving approximately 50.1% of the shares of pro forma ITC Holdings in exchange for their shares of Mid South TransCo, with existing shareholders of ITC Holdings owning the remaining approximately 49.9% of the combined company. In addition, Entergy will receive gross cash proceeds of \$1.775 billion from indebtedness that will be incurred by Mid South TransCo and its subsidiaries prior to the merger and assumed under the acquisition. On April 16, 2013, ITC Holdings received the necessary shareholder approvals to consummate the merger. Completion of the transaction is expected in 2013 subject to the satisfaction of certain closing conditions, including the receipt of necessary approvals of Entergy’s retail regulators and the FERC.

For the three months ended March 31, 2013 and 2012, we expensed external legal, advisory and financial services fees of \$8.7 million and \$2.4 million, respectively, and certain internal labor and related costs of approximately \$2.3 million and \$1.5 million, respectively, related to the Entergy Transaction recorded primarily within general and administrative expenses. The external and internal costs related to the Entergy Transaction are not included as components of revenue requirement at our Regulated Operating Subsidiaries as they were incurred at ITC Holdings. Per the transaction agreements, prior to completion of the Entergy Transaction, there are certain restrictions on our ability to pay dividends other than those paid in the ordinary course of business with record dates and payment dates consistent with our past practice and, if elected, a one-time special dividend to ITC Holdings’ pre-merger shareholders in accordance with the transaction agreements. Management does not expect the restrictions to have an impact on our ability to pay dividends at the current level in the foreseeable future.

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## 12. SEGMENT INFORMATION

We identify reportable segments based on the criteria set forth by the FASB regarding disclosures about segments of an enterprise, including the regulatory environment of our subsidiaries and the business activities performed to earn revenues and incur expenses. The following tables show our financial information by reportable segment:

	Three months ended	
OPERATING REVENUES:	March 31,	
(in thousands)	2013	2012
Regulated Operating Subsidiaries	\$217,379	\$196,733
ITC Holdings and other	152	152
Intercompany eliminations	(227	) (172 )
Total Operating Revenues	\$217,304	\$196,713
	Three months ended	
INCOME BEFORE INCOME TAXES:	March 31,	
(in thousands)	2013	2012
Regulated Operating Subsidiaries	\$119,260	\$100,924
ITC Holdings and other	(37,510	) (27,841 )
Total Income Before Income Taxes	\$81,750	\$73,083
	Three months ended	
NET INCOME:	March 31,	
(in thousands)	2013	2012
Regulated Operating Subsidiaries	\$73,756	\$62,475
ITC Holdings and other	50,190	46,051
Intercompany eliminations	(73,756	) (62,475 )
Total Net Income	\$50,190	\$46,051
	March 31,	
TOTAL ASSETS:	December	
(in thousands)	2013	31,
Regulated Operating Subsidiaries	\$5,536,371	2012
ITC Holdings and other	3,500,265	\$5,440,401
Reconciliations / Intercompany Eliminations (a)	(3,241,149	) (3,127,639 )
Total Assets	\$5,795,487	\$5,564,809

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Reconciliation of total assets results primarily from differences in the netting of deferred tax assets and liabilities at (a) our Regulated Operating Subsidiaries as compared to the classification in our condensed consolidated statements of financial position.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Our reports, filings and other public announcements contain certain statements that describe our management's beliefs concerning future business conditions, plans and prospects, growth opportunities and the outlook for our business and the electric transmission industry based upon information currently available. Such statements are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. Wherever possible, we have identified these forward-looking statements by words such as "will," "may," "anticipates," "believes," "intends," "estimates," "expects," "projects" and similar phrases. These forward-looking statements are based upon assumptions our management believes are reasonable. Such forward-looking statements are subject to risks and uncertainties which could cause our actual results, performance and achievements to differ materially from those expressed in, or implied by, these statements, including, among others, the risks and uncertainties listed in Item 1A Risk Factors of our Form 10-K for the fiscal year ended December 31, 2012, and the following:

Certain elements of our Regulated Operating Subsidiaries' 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. We have also made certain commitments to federal and state regulators with respect to, among other things, our rates in connection with acquisitions that could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our Regulated Operating Subsidiaries' actual capital expenditures may be lower than planned, which would decrease expected rate base and therefore our expected revenues and earnings. In addition, we expect to invest in strategic development opportunities to improve the efficiency and reliability of the transmission grid, but we cannot assure you that we will be able to initiate or complete any of these investments.

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.

Changes in federal energy laws, regulations or policies could impact our business, financial condition, results of operations and cash flows.

If amounts billed for transmission service for our Regulated Operating Subsidiaries' transmission systems are lower than expected, or our actual revenue requirements are higher than expected, the timing of collection of our revenues would be delayed.

Each of our MISO Regulated Operating Subsidiaries 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 could have a material adverse effect on our business, financial condition, results of operations and cash flows.

A significant amount of the land on which our Regulated Operating Subsidiaries' assets are located is subject to easements, mineral rights and other similar encumbrances. As a result, our Regulated Operating Subsidiaries must comply with the provisions of various easements, mineral rights and other similar encumbrances, which may adversely impact their ability to complete construction projects in a timely manner.

Our Regulated Operating Subsidiaries contract with third parties to provide services for certain aspects of their businesses. If any of these agreements are terminated, our Regulated Operating Subsidiaries may face a shortage of labor or replacement contractors to provide the services formerly provided by these third parties.

Hazards associated with high-voltage electricity transmission may result in suspension of our Regulated Operating Subsidiaries' operations or the imposition of civil or criminal penalties.

Our Regulated Operating Subsidiaries are subject to environmental regulations and to laws that can give rise to substantial liabilities from environmental contamination.

Our Regulated Operating Subsidiaries are subject to various regulatory requirements, including reliability standards; contract filing requirements; reporting, recordkeeping and accounting requirements; and transaction approval requirements. Violations of these requirements, whether intentional or unintentional, may result in penalties that, under some circumstances, could have a material adverse effect on our business, financial condition, results of operations and cash flows.



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

ITC Holdings is a holding company with no operations, and unless we receive dividends or other payments from our subsidiaries, we may be unable to pay dividends and fulfill our other cash obligations.

We are highly leveraged and our dependence on debt may limit our ability to fulfill our debt obligations and/or to obtain additional financing.

Certain provisions in our debt instruments limit our financial flexibility.

Adverse changes in our credit ratings may negatively affect us.

Provisions in our Articles of Incorporation and bylaws, Michigan corporate law and our debt agreements may impede efforts by our shareholders to change the direction or management of our company.

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

- We may be unable to satisfy the conditions or obtain the approvals required to complete the Entergy Transaction or such approvals may contain material restrictions or conditions.

If completed, the Entergy Transaction may not be successful or achieve its anticipated benefits.

The merger agreement contains provisions that may discourage other companies from trying to acquire us.

- Failure to complete the Entergy Transaction could adversely affect the market price of ITC Holdings common stock as well as our business, financial condition, results of operations and cash flows.

Investors holding shares of ITC Holdings common stock immediately prior to the completion of the Entergy

Transaction will, in the aggregate, have a significantly reduced ownership and voting interest in us after the Entergy Transaction and will exercise less influence over management.

After the completion of the merger, sales of ITC Holdings common stock may negatively affect its market price.

We are required to abide by potentially significant restrictions which could limit our ability to undertake certain corporate actions (such as the issuance of ITC Holdings common stock or the undertaking of a merger or consolidation) that otherwise could be advantageous.

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 report 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. Except as required by law, we undertake no obligation to publicly update any of our forward-looking or other statements, whether as a result of new information, future events, or otherwise.

OVERVIEW

Through our Regulated Operating Subsidiaries, we operate high-voltage systems in Michigan's Lower Peninsula and portions of Iowa, Minnesota, Illinois, Missouri, Kansas and Oklahoma that transmit electricity from generating stations to local distribution facilities connected to our systems. Our business strategy is to operate, maintain and invest in transmission infrastructure in order to enhance system integrity and reliability, to reduce transmission constraints and to upgrade the transmission networks to support new generating resources interconnecting to our transmission systems. We also are pursuing development projects not within our existing systems, which are also intended to improve overall grid reliability, reduce transmission constraints and facilitate interconnections of new generating resources, as well as enhance competitive wholesale electricity markets.



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As electric transmission utilities with rates regulated by the FERC, our Regulated Operating Subsidiaries earn revenues through tariff rates charged for the use of their electric transmission systems by our customers, which include investor-owned utilities, municipalities, cooperatives, power marketers and alternative energy suppliers. As independent transmission companies, our Regulated Operating Subsidiaries are subject to rate regulation only by the FERC. The rates charged by our Regulated Operating Subsidiaries are established using cost-based formula rate templates as discussed in Note 3 to the condensed consolidated financial statements under “— Cost-Based Formula Rates with True-Up Mechanism.”

Our Regulated Operating Subsidiaries’ primary operating responsibilities include maintaining, improving and expanding their transmission systems to meet their customers’ ongoing needs, scheduling outages on system elements to allow for maintenance and construction, 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 electric transmission service over our Regulated Operating Subsidiaries’ transmission systems to investor-owned utilities such as Detroit Edison, Consumers Energy and IP&L, 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 our transmission systems.

Significant recent matters that influenced our financial position and results of operations and cash flows for the three months ended March 31, 2013 or may affect future results include:

Our capital investment of \$212.0 million at our Regulated Operating Subsidiaries for the three months ended March 31, 2013, resulting primarily from our focus on improving system reliability, increasing system capacity and upgrading the transmission network to support new generating resources;

- Debt issuances and borrowings under our revolving and term loan credit agreements in 2013 and 2012 to fund capital investment at our Regulated Operating Subsidiaries, resulting in higher interest expense;

Debt maturing within one year of \$902.0 million and the resulting additional financing required; and

The proposed transaction with Entergy in which Entergy will divest and merge its electric transmission business with a wholly-owned subsidiary of ITC Holdings (“Entergy Transaction”) as discussed below under “Capital Project Updates and Other Recent Developments.” For the three months ended March 31, 2013, we expensed external legal, advisory and financial services fees of \$8.7 million and certain internal labor costs of approximately \$2.3 million, related to the Entergy Transaction recorded within general and administrative expenses. Certain amounts of the external costs are not expected to be deductible for income tax purposes. The external and internal costs related to the Entergy Transaction are not included as components of revenue requirement as they were incurred at ITC Holdings. The transaction fees are expected to continue to be significant until the transaction is consummated. Completion of the transaction is anticipated to occur in 2013.

These items are discussed in more detail throughout Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Capital Project Updates and Other Recent Developments

Thumb Loop Project

The Thumb Loop Project is located in ITCTransmission’s region and consists of a 140-mile, double-circuit 345 kV transmission line and related substations that will serve as the backbone of the transmission system needed to accommodate future wind development projects in the Michigan counties of Tuscola, Huron, Sanilac and St. Clair. Construction activities commenced for the Thumb Loop Project in 2012. Through March 31, 2013, ITCTransmission has invested \$213.1 million in the Thumb Loop Project. We estimate ITCTransmission will invest a total of approximately \$510 million to complete construction of the project.

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### ITC Great Plains

#### Kansas V-Plan Project

The Kansas V-Plan Project is a 200-mile long transmission line that will run between Spearville and Wichita, Kansas. ITC Great Plains is responsible for constructing an approximately 120-mile portion of the project from Spearville to Medicine Lodge, Kansas. ITC Great Plains commenced construction during 2012, and through March 31, 2013, ITC Great Plains has invested \$70.3 million in the Kansas V-Plan Project. We estimate that ITC Great Plains will invest a total of approximately \$300 million to complete construction of its portion of the project.

#### Regulatory Assets

As of March 31, 2013, we have recorded a total of \$14.1 million of regulatory assets for start-up and development expenses incurred by ITC Great Plains, which include certain costs incurred for the Kansas Electric Transmission Authority (“KETA”) Project and the Kansas V-Plan Project prior to construction. Based on ITC Great Plains’ FERC application under which authority to recognize these regulatory assets was sought and the related FERC order, ITC Great Plains will be required to make an additional filing with the FERC under Section 205 of the FPA in order to recover these start-up, development and pre-construction expenses in future rates.

#### Development Bonuses

During the first quarter of 2013, we recognized general and administrative expenses of \$1.4 million for bonuses for the successful completion of certain milestones relating to projects at ITC Great Plains. It is reasonably possible that future development-related bonuses may be authorized and awarded for these or other development projects.

#### North Central Region Development

In 2009, we announced the Green Power Express project, which consisted of transmission line segments that would facilitate the movement of power from the Dakotas, Minnesota and Iowa to Midwest load centers that demand energy. After the announcement of the Green Power Express project, MISO undertook its Regional Generation Outlet Study (“RGOS”) to promote investments in new regional transmission infrastructure and implemented its Multi-Value Project (“MVP”) cost allocation methodology. MISO’s RGOS and MVP processes provide a channel for the Green Power Express project, or its underlying segments, to move forward through the planning approval process as MVPs. In December 2011, MISO approved the first portfolio of MVPs identified through the RGOS which includes portions of four MVPs that we intend to build, own and operate. The four MVPs are located in south central Minnesota, portions of Iowa, southwest Wisconsin, and northeast Missouri.

We continue to explore other opportunities to advance segments of our Green Power Express project, or similar RGOS projects, through the MISO MVP process.

#### Entergy Transaction

As of December 4, 2011, Entergy and ITC Holdings executed definitive agreements (as subsequently amended, the “transaction agreements”) under which Entergy will divest and then merge its electric transmission business with a wholly-owned subsidiary of ITC Holdings. Entergy’s electric transmission business consists of approximately 15,400 miles of interconnected transmission lines at voltages of 69 kV and above and associated substations across its utility service territory in the mid-south.

The Entergy Transaction would expand our network across the entire middle of the continental United States from the Great Lakes to the Gulf Coast. It will approximately double our asset base, add sizable new markets to our operating and development portfolio, and diversify and enhance growth prospects through an expanded footprint.

The terms of the transaction agreements call for Entergy to divest its electric transmission business to a newly-formed entity, Mid South TransCo LLC (“Mid South TransCo”), and Mid South TransCo’s subsidiaries, and distribute the equity interests in Mid South TransCo to Entergy’s shareholders in the form of a tax-free spin-off. Mid South TransCo will then merge with a newly-created merger subsidiary of ITC Holdings in an all-stock, Reverse Morris Trust transaction, and will survive the merger as a wholly owned subsidiary of ITC Holdings. Prior to the merger, we expect to effectuate a recapitalization which will not exceed \$700 million and which may take the form of a one-time special dividend to ITC Holdings’ pre-merger shareholders, a repurchase of ITC Holdings common stock from its shareholders, or a combination of a special dividend and share repurchase. The merger will result in shareholders of Entergy receiving approximately 50.1% of the shares of pro forma



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ITC Holdings in exchange for their shares of Mid South TransCo, with existing shareholders of ITC Holdings owning the remaining approximately 49.9% of the combined company. In addition, Entergy will receive gross cash proceeds of \$1.775 billion from indebtedness that will be incurred by Mid South TransCo and its subsidiaries prior to the merger. This indebtedness will be assumed by us upon completion of the transaction.

On April 16, 2013, ITC Holdings received the necessary shareholder approvals to consummate the merger.

Completion of the Entergy Transaction is expected in 2013 subject to the satisfaction of certain closing conditions, including receipt of the necessary approvals of Entergy's retail regulators and the FERC. There can be no assurance the Entergy Transaction will be consummated. See "Item 1A Risk Factors — We may be unable to satisfy the conditions or obtain the approvals required to complete the Entergy Transaction or such approvals may contain material restrictions or conditions" of our Form 10-K for the fiscal year ended December 31, 2012.

Per the transaction agreements, prior to completion of the Entergy Transaction, there are certain restrictions on our ability to pay dividends other than those paid in the ordinary course of business with record dates and payment dates consistent with our past practice and, if elected, a one-time special dividend to ITC Holdings' pre-merger shareholders in accordance with the transaction agreements. Management does not expect the restrictions to have an impact on our ability to pay dividends at the current level in the foreseeable future.

**Cost-Based Formula Rates with True-Up Mechanism**

Our Regulated Operating Subsidiaries calculate their revenue requirements using cost-based formula rate templates and are effective without the need to file rate cases with the FERC, although the rates are subject to legal challenge at the FERC. Under these formula rate templates, our Regulated Operating Subsidiaries recover expenses and earn a return on and recover investments in property, plant and equipment on a current rather than a lagging basis. The formula rate templates utilize forecasted expenses, property, plant and equipment, point-to-point revenues, network load at our MISO Regulated Operating Subsidiaries and other items for the upcoming calendar year to establish projected revenue requirements for each of our Regulated Operating Subsidiaries that are used as the basis for billing for service on their systems from January 1 to December 31 of that year. Our cost-based formula rate templates include a true-up mechanism, whereby our Regulated Operating Subsidiaries compare their actual revenue requirements to their billed revenues for each year to determine any over- or under-collection of revenue. The over- or under-collection typically results from differences between the projected revenue requirement used as the basis for billing and actual revenue requirement at each of our Regulated Operating Subsidiaries, or from differences between actual and projected monthly peak loads at our MISO Regulated Operating Subsidiaries. In the event billed revenues in a given year are more or less than actual revenue requirements, which are calculated primarily using information from that year's FERC Form No. 1, our Regulated Operating Subsidiaries will refund or collect additional revenues, with interest, within a two-year period such that customers pay only the amounts that correspond to actual revenue requirements for that given period. This annual true-up ensures that our Regulated Operating Subsidiaries recover their allowed costs and earn their allowed returns.

**Revenue Accruals — Effects of Monthly Peak Loads**

For our MISO Regulated Operating Subsidiaries, monthly peak loads are used for billing network revenues, which currently is the largest component of our operating revenues. One of the primary factors that impacts the revenue accrual/deferral at our MISO Regulated Operating Subsidiaries is actual monthly peak loads experienced as compared to those forecasted in establishing the annual network transmission rate. Under their formula rates that contain a true-up mechanism, our Regulated Operating Subsidiaries accrue or defer revenues to the extent that their actual revenue requirement for the reporting period is higher or lower, respectively, than the amounts billed relating to that reporting period. For example, to the extent that amounts billed are less than the revenue requirement for a reporting period, a revenue accrual is recorded for the difference. To the extent that amounts billed are more than the revenue requirement for a reporting period, a revenue deferral is recorded for the difference. Although monthly peak loads do not impact operating revenues recognized, network load affects the timing of our cash flows from transmission service. The monthly peak load of our MISO Regulated Operating Subsidiaries is affected by many variables, but is generally impacted by weather and economic conditions and is seasonally shaped with higher load in the summer months when cooling demand is higher.



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The following table sets forth the monthly peak loads during the last three calendar years.

Monthly Peak Load (in MW) (a)

	2013		2012			2011			ITC Midwest		
	ITC Midwest	MISO	ITC Midwest	MISO	Transmission	ITC Midwest	MISO	Transmission	ITC Midwest	MISO	Transmission
January	7,593	6,178	2,790	7,264	6,145	2,789	7,326	6,045	2,777		
February	7,141	5,848	2,677	6,919	5,754	2,592	7,261	6,058	2,854		
March	6,817	5,551	2,542	6,941	5,708	2,443	6,946	5,715	2,520		
April				6,403	5,259	2,296	6,483	5,416	2,458		
May				8,947	6,459	2,700	10,119	7,239	2,773		
June				11,652	8,738	3,388	11,488	8,231	3,403		
July				12,180	9,354	3,636	12,321	9,389	3,621		
August				11,081	8,508	3,445	11,158	8,538	3,614		
September				9,094	7,346	3,411	11,288	7,966	3,466		
October				6,626	5,429	2,487	6,642	5,479	2,559		
November				7,024	5,953	2,680	7,101	6,061	2,556		
December				7,226	5,891	2,682	7,206	6,071	2,734		
Total	21,551	17,577	8,009	101,357	80,544	34,549	105,339	82,208	35,335		

(a) Our MISO Regulated Operating Subsidiaries are each part of a joint rate zone. The load data presented is for all transmission owners in the respective joint rate zone and is used for billing network revenues. Each of our MISO Regulated Operating Subsidiaries makes up the most significant portion of the rates or revenue requirement billed to network load within their respective joint rate zone.

#### Capital Investment and Operating Results Trends

We expect a general trend of increases in revenues and earnings for our Regulated Operating Subsidiaries over the long term. The primary factor that is expected to continue to increase our actual revenue requirements in future years is our anticipated capital investment in excess of depreciation as a result of our Regulated Operating Subsidiaries' long-term capital investment programs to improve reliability, increase system capacity and upgrade the transmission network to support new generating resources, as well as the Entergy Transaction. In addition, our capital investment efforts relating to development initiatives are based on establishing an ongoing pipeline of projects that will position us for long-term growth. Investments in property, plant and equipment, when placed in service upon completion of a capital project, are added to the rate base of our Regulated Operating Subsidiaries.

Our Regulated Operating Subsidiaries strive for high reliability of their systems and to improve system accessibility for all generation resources. Effective June 2007, the FERC approved mandatory adoption of certain reliability standards and approved enforcement actions for violators, including fines of up to \$1.0 million per day. The NERC was assigned the responsibility of developing and enforcing these mandatory reliability standards. We continually assess our transmission systems against standards established by the NERC, as well as the standards of applicable regional entities under the NERC that have been delegated certain authority for the purpose of proposing and enforcing reliability standards. We believe we meet the applicable standards in all material respects, although further investment in our transmission systems and an increase in maintenance activities will likely be needed to maintain compliance, improve reliability and address any new standards that may be promulgated.

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We also assess our transmission systems against our own planning criteria that are filed annually with the FERC. Based on our planning studies, we see needs to make capital investments to (1) rebuild existing property, plant and equipment; (2) upgrade the system to address demographic changes that have impacted transmission load and the changing role that transmission plays in meeting the needs of the wholesale market, including accommodating the siting of new generation or to increase import capacity to meet changes in peak electrical demand; (3) relieve congestion in the transmission systems; and (4) achieve state and federal policy goals, such as renewable generation portfolio standards. The following table shows our expected and actual capital investment for each of the Regulated Operating Subsidiaries and our development initiatives:

(in millions)	Long-term Capital Investment Program	Actual Capital Investment for the three months ended	Forecasted Capital Investment for the year ending
Source of Investment	2012-2016 (a)	March 31, 2013 (b)	December 31, 2013 (a)
ITC Transmission	\$739	\$53.4	\$200 — 230
METC	581	32.3	160 — 180
ITC Midwest	1,128	92.2	270 — 300
ITC Great Plains (c)	343	34.1	130 — 150
Development (d)	1,390	—	—
Total	\$4,181	\$212.0	\$760 — 860

The current long-term capital investment program does not include anticipated expenditures related to the Entergy (a) Transaction or in the subsidiaries of Mid South TransCo post-closing. The investments in property, plant and equipment would be expected to increase significantly upon closing of that transaction.

Capital investment amounts differ from cash expenditures for property, plant and equipment included in our condensed consolidated statements of cash flows due in part to differences in construction costs incurred compared (b) to cash paid during that period, as well as payments for major equipment inventory that are included in cash expenditures but not included in capital investment until transferred to construction work in progress, among other factors.

(c) ITC Great Plains' investment program includes the Kansas V-Plan Project that is under construction.

(d) The long-term capital investment program includes expenditures to construct various development projects such as our portions of the four MISO MVPs.

Investments in property, plant and equipment could vary due to, among other things, the impact of actual loads, forecasted loads, regional economic conditions, 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, regulatory approvals for reasons relating to rate construct, environmental, siting, regional planning, cost recovery or other issues or as a result of legal proceedings and variances between estimated and actual costs of construction contracts awarded. In addition, investments in transmission network upgrades for generator interconnection projects could change from prior estimates significantly due to changes in the MISO queue for generation projects, the generator's potential failure to meet the various criteria of Attachment FF of the MISO tariff for the project to qualify as a refundable network upgrade, and other factors beyond our control.

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## RESULTS OF OPERATIONS

## Results of Operations and Variances

(in thousands)	Three months ended		Increase (decrease)	Percentage increase (decrease)	
	March 31, 2013	2012			
OPERATING REVENUES	\$217,304	\$196,713	\$20,591	10.5	%
OPERATING EXPENSES					
Operation and maintenance	24,513	28,712	(4,199)	(14.6)	)%
General and administrative	34,926	23,009	11,917	51.8	%
Depreciation and amortization	28,486	25,011	3,475	13.9	%
Taxes other than income taxes	16,670	14,280	2,390	16.7	%
Other operating (income) and expenses — net	(172)	(193)	21	(10.9)	)%
Total operating expenses	104,423	90,819	13,604	15.0	%
OPERATING INCOME	112,881	105,894	6,987	6.6	%
OTHER EXPENSES (INCOME)					
Interest expense	39,063	37,910	1,153	3.0	%
Allowance for equity funds used during construction	(8,733)	(5,624)	(3,109)	55.3	%
Other income	(236)	(306)	70	(22.9)	)%
Other expense	1,037	831	206	24.8	%
Total other expenses (income)	31,131	32,811	(1,680)	(5.1)	)%
INCOME BEFORE INCOME TAXES	81,750	73,083	8,667	11.9	%
INCOME TAX PROVISION	31,560	27,032	4,528	16.8	%
NET INCOME	\$50,190	\$46,051	\$4,139	9.0	%

## Operating Revenues

Three months ended March 31, 2013 compared to three months ended March 31, 2012

The following table sets forth the components of and changes in operating revenues:

(in thousands)	2013		2012		Increase (decrease)	Percentage increase (decrease)	
	Amount	Percentage	Amount	Percentage			
Network revenues	\$171,285	78.8 %	\$163,156	82.9 %	\$8,129	5.0	%
Regional cost sharing revenues	37,469	17.2 %	25,476	13.0 %	11,993	47.1	%
Point-to-point	4,369	2.0 %	4,125	2.1 %	244	5.9	%
Scheduling, control and dispatch	2,988	1.4 %	3,375	1.7 %	(387)	(11.5)	)%
Other	1,193	0.6 %	581	0.3 %	612	105.3	%
Total	\$217,304	100.0 %	\$196,713	100.0 %	\$20,591	10.5	%

Network revenues increased due primarily to higher revenue requirements at our Regulated Operating Subsidiaries during the three months ended March 31, 2013 as compared to the same period in 2012. Higher net revenue requirements were due primarily to higher rate bases associated with higher balances of property, plant and equipment in-service and higher recoverable expenses due to higher operating expenses.

Regional cost sharing revenues increased due primarily to additional capital projects that have been identified by MISO as eligible for regional cost sharing and these projects being placed in-service. We expect to continue to receive regional cost sharing revenues and the amounts could increase in the near future, including revenues associated with projects that have been or are expected to be approved for regional cost sharing.



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Operating revenues for the three months ended March 31, 2013 include the network revenue, regional cost sharing and scheduling, control and dispatch revenue accruals (deferrals) as calculated below:

Line	Item	ITC Transmission	METC	ITC Midwest	ITC Great Plains	Total net revenue accrual
	(in thousands)					
1	Estimated net revenue requirement (a)	\$ 59,082	\$50,865	\$59,932	\$ 1,406	
2	Network revenues billed (b)	51,914	46,473	63,910	1,434	
3	Network revenue accruals (deferrals) (line 1 — line 2)	7,168	4,392	(3,978 )	(28 )	
4	Regional cost sharing revenue accruals (deferrals) (c)	(3,695 )	(1,038 )	401	(2,011 )	
5	Scheduling, control and dispatch revenue deferrals (d)	(198 )	(214 )	(112 )	—	
6	Total net revenue accruals (deferrals) (line 3 + line 4 + line 5)	\$ 3,275	\$3,140	\$(3,689 )	\$(2,039 )	\$687

The calculation of net revenue requirement for our Regulated Operating Subsidiaries is described in our Form 10-K for the year ended December 31, 2012 under “Item 7 Management’s Discussion and Analysis of Financial Condition (a) and Results of Operations — Cost-Based Formula Rates with True-Up Mechanism — Revenue Requirement Calculation.” The amount is estimated for each reporting period until such time as FERC Form No. 1’s are completed for our Regulated Operating Subsidiaries.

Network revenues billed at our MISO Regulated Operating Subsidiaries are calculated based on the joint zone monthly network peak load multiplied by their effective monthly network rates for 2013 of \$2.147 per kW/month, \$2.5263 per kW/month and \$7.805 per kW/month applicable to ITC Transmission, METC and ITC Midwest, (b) respectively, adjusted for the actual number of days in the month less amounts recovered or refunded associated with our MISO Regulated Operating Subsidiaries 2011 true-up adjustments. The rates for 2013 include amounts for the collection and refund of the 2011 revenue accruals and deferrals and related accrued interest and the revenues billed in 2013 associated with the 2011 revenue accruals and deferrals are not included in these amounts.

Regional cost sharing revenues are subject to a separate true-up mechanism whereby our Regulated Operating (c) Subsidiaries accrue or defer revenues for any over- or under-recovery. The related revenue accruals or deferrals associated with regional cost sharing revenues are included in the regional cost sharing revenue amounts.

Beginning in 2013, a significant portion of our MISO Regulated Operating Subsidiaries’ scheduling, control and dispatch revenues are subject to a separate true-up mechanism whereby our MISO Regulated Operating (d) Subsidiaries accrue or defer revenues for any over- or under-recovery. The related revenue accruals or deferrals associated with the MISO Regulated Operating Subsidiaries’ scheduling, control and dispatch revenues are included in the scheduling, control and dispatch revenue amounts.

#### Operating Expenses

##### Operation and maintenance expenses

Three months ended March 31, 2013 compared to three months ended March 31, 2012

Operation and maintenance expenses decreased by \$3.3 million due to increased cost efficiencies associated primarily with substation and transmission line maintenance and \$1.0 million for lower vegetation management requirements.

##### General and administrative expenses

Three months ended March 31, 2013 compared to three months ended March 31, 2012

General and administrative expenses increased due to external legal, advisory and consulting services for the Entergy Transaction of \$5.9 million, higher compensation-related expenses of \$3.7 million primarily due to personnel increases and increases in bonuses earned in 2013 such as those described above under “Capital Project Updates and Other Recent Developments — Development Bonus” and an increase in other professional services such as legal,

advisory and financial services fees of \$1.4 million.

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Depreciation and amortization expenses

Three months ended March 31, 2013 compared to three months ended March 31, 2012

Depreciation and amortization expenses increased due primarily to a higher depreciable base resulting from property, plant and equipment additions.

Taxes other than income taxes

Three months ended March 31, 2013 compared to three months ended March 31, 2012

Taxes other than income taxes increased due to higher property tax expenses due primarily to our Regulated Operating Subsidiaries' 2012 capital additions, which are included in the assessments for 2013 personal property taxes.

Other Expenses (Income)

Three months ended March 31, 2013 compared to three months ended March 31, 2012

Interest expense increased due primarily to additional interest expense associated with higher borrowing levels under our revolving credit agreements and term loan credit agreement.

Allowance for Equity Funds Used During Construction ("AFUDC equity") increased due primarily to higher capital expenditures during the period.

Income Tax Provision

Three months ended March 31, 2013 compared to three months ended March 31, 2012

Our effective tax rates for the three months ended March 31, 2013 and 2012 were 38.6% and 37.0%, respectively. Our effective tax rate exceeded our 35% statutory federal income tax rate due primarily to state income taxes, offset by the tax effects of AFUDC equity which reduced the effective tax rate. The amount of income tax expense relating to AFUDC equity was recognized as a regulatory asset and not included in the income tax provision. We recorded a state income tax provision of \$2.9 million (net of federal deductibility) during the three months ended March 31, 2013, compared to a state income tax provision of \$2.4 million (net of federal deductibility) for the three months ended March 31, 2012.

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 agreements (described in Note 5 to the condensed consolidated financial statements). In addition, we may from time to time secure debt and equity funding in the capital markets, although we can provide no assurance that we will be able to obtain financing on favorable terms or at all. We expect that our capital requirements will arise principally from our need to:

- Fund capital expenditures at our Regulated Operating Subsidiaries and, following the close of the Entergy transaction, capital expenditures at the subsidiaries of Mid South TransCo. Our plans with regard to property, plant and equipment investments are described in detail above under "— Capital Investment and Operating Results Trends."
- Fund business development expenses and related capital expenditures. We are pursuing development activities for transmission projects which will continue to result in the incurrence of development expenses and could result in significant capital expenditures.
- Fund working capital requirements.
- Fund our debt service requirements. We expect our interest payments to increase each year as a result of additional debt we expect to incur to fund our capital expenditures.
- Fund dividends or any recapitalization associated with the Entergy transaction to holders of our common stock.
- Fund contributions to our retirement plans, as described in Note 8 to the condensed consolidated financial statements. We expect to contribute up to \$11.3 million to these plans in 2013. The impact of the growth in the number of participants in our retirement benefit plans and changes in the requirements of the Pension Protection Act may require contributions to our retirement plans to be higher than we have experienced in the past.

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In addition to the expected capital requirements above, any adverse determinations relating to the contingencies described in Note 10 to the condensed consolidated financial statements would result in additional capital requirements.

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 revolving and term loan credit agreements and our cash and cash equivalents as needed to meet our short-term cash requirements. As described in Note 5 to the condensed consolidated financial statements, in 2013, we entered into a term loan credit agreement for \$250.0 million at ITC Holdings. As of March 31, 2013, we had consolidated indebtedness under our revolving and term loan credit agreements of \$741.3 million, with unused capacity under the agreements of \$433.7 million.

As of March 31, 2013, we have approximately \$902.0 million of debt maturing within one year at ITC Holdings and ITCTransmission. The maturing debt is expected to be refinanced with long-term debt. In addition, for our long-term capital requirements and the funding of the anticipated \$700 million recapitalization in connection with the Entergy Transaction, we expect that we will need to obtain additional debt financing. Certain of our capital projects could be delayed in the event we experience difficulties in accessing capital. We expect to be able to obtain such additional financing for both our short and long-term requirements as needed, in amounts and upon terms that will be reasonably satisfactory to us due to our strong credit ratings and our historical ability to obtain financing.

On April 4, 2013, ITC Midwest issued \$100 million aggregate principal amount of its 4.09% First Mortgage Bonds, Series F, due 2043 under its First Mortgage and Deed of Trust, as supplemented by the Seventh Supplemental Indenture thereto. See Note 5 to the condensed consolidated financial statements.

Credit Ratings

Credit ratings by nationally recognized statistical rating agencies are an important component of our liquidity profile. Credit ratings relate to our ability to issue debt securities and the cost to borrow money, and should not be viewed as an indication of future stock performance or a recommendation to buy, sell, or hold securities. Ratings are subject to revision or withdrawal at any time and each rating should be evaluated independently of any other rating. Our current credit ratings are displayed in the following table. An explanation of these ratings may be obtained from the respective rating agency.

	Issuer	Issuance	Standard and Poor's Ratings Services (a)	Moody's Investor Service, Inc. (b)
ITC Holdings	Senior Unsecured Notes		BBB	Baa2
ITCTransmission	First Mortgage Bonds		A	A1
METC	Senior Secured Notes		A	A1
ITC Midwest	First Mortgage Bonds		A	A1
ITC Great Plains	Unsecured Credit Facility		BBB+	Baa1

(a) On December 19, 2012, Standard and Poor's Financial Services completed their annual review and made no changes to the existing ratings. All of the ratings have a stable outlook.

(b) Moody's Investor Service, Inc. updated their credit opinions on April 15, 2013 and made no changes to the credit ratings. All of the ratings have a stable outlook.

Covenants

Our debt instruments include senior notes, secured notes, first mortgage bonds and revolving credit agreements containing numerous financial and operating covenants that place significant restrictions, which are described in Note 5 to the condensed consolidated financial statements and in our Form 10-K for the fiscal year ended December 31, 2012. As of March 31, 2013, we were in compliance with all debt covenants and in the event of a downgrade in our credit ratings, none of the covenants would be directly impacted, although the borrowing costs under our revolving

credit agreements would increase.

**Cash Flows From Operating Activities**

Net cash provided by operating activities was \$72.0 million and \$29.7 million for the three months ended March 31, 2013 and 2012, respectively. The increase in cash provided by operating activities was due primarily to the timing of interest payments which resulted in a decrease in interest payments (net of interest capitalized) of \$18.1 million, an increase in cash received from operating revenues of \$15.8 million and the timing of tax payments which resulted in lower income taxes paid of \$8.2 million during the three months ended March 31, 2013 compared to the same period in 2012.

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Cash Flows From Investing Activities

Net cash used in investing activities was \$214.2 million and \$224.1 million for the three months ended March 31, 2013 and 2012, respectively. The decrease in cash used in investing activities was due primarily to the timing of payments for investments in property, plant and equipment.

Cash Flows From Financing Activities

Net cash provided by financing activities was \$183.6 million and \$159.2 million for the three months ended March 31, 2013 and 2012, respectively. The increase in cash provided by financing activities was due primarily to the proceeds from a net increase of \$139.8 million in amounts outstanding under our revolving and term loan credit agreements. This increase was partially offset by higher net payments of \$16.2 million associated with refundable deposits for transmission network upgrades and no issuance of long-term debt during the three months ended March 31, 2013 as compared to proceeds of \$100.0 million from the closing of ITC Midwest's 3.50% First Mortgage Bonds, Series E during the same period in 2012.

CONTRACTUAL OBLIGATIONS

Our contractual obligations are described in our Form 10-K for the year ended December 31, 2012. There have been no material changes to that information since December 31, 2012, other than amounts borrowed under our revolving and term loan credit agreements and the issuance on April 4, 2013 of \$100.0 million of 4.09% First Mortgage Bonds, Series F, due January 2043 by ITC Midwest as described in Note 5 to the condensed consolidated financial statements which were not included in the contractual obligations table as of December 31, 2012.

CRITICAL ACCOUNTING POLICIES

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these condensed consolidated 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 condensed consolidated financial statements and disclosures based on varying assumptions, as future events rarely develop exactly as forecasted, and even the best estimates routinely require adjustment. The accounting policies discussed in "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies" in our Form 10-K for the fiscal year ended December 31, 2012 are considered by management to be the most important to an understanding of the consolidated financial statements because of their significance to the portrayal of our financial condition and results of operations or because their application places the most significant demands on management's judgment and estimates about the effect of matters that are inherently uncertain. There have been no material changes to that information during the three months ended March 31, 2013.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 2 to the condensed consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Fixed Rate Debt

Based on the borrowing rates currently available for bank loans with similar terms and average maturities, the fair value of our consolidated long-term debt and debt maturing within one year, excluding revolving and term loan credit agreements, was \$3,034.8 million at March 31, 2013. The total book value of our consolidated long-term debt and debt maturing within one year, excluding revolving and term loan credit agreements, was \$2,619.5 million at March 31, 2013. We performed an analysis calculating the impact of changes in interest rates on the fair value of long-term debt and debt maturing within one year, excluding revolving and term loan credit agreements, at March 31, 2013. An increase in interest rates of 10% (from 7.0% to 7.7%, for example) at March 31, 2013 would decrease the fair value of debt by \$66.0 million, and a decrease in interest rates of 10% at March 31, 2013 would increase the fair value of debt by \$70.7 million at that date.

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Revolving and Term Loan Credit Agreements

At March 31, 2013, we had a consolidated total of \$741.3 million outstanding under our revolving and term loan credit agreements, which are variable rate loans and fair value approximates book value. A 10% increase or decrease in borrowing rates under the revolving credit agreements compared to the weighted average rates in effect at March 31, 2013 would increase or decrease the total interest expense by \$1.0 million, respectively, for an annual period on a constant borrowing level of \$741.3 million.

Derivative Instruments and Hedging Activities

We use derivative financial instruments, including interest rate swap contracts, to manage our exposure to fluctuations in interest rates. The use of these financial instruments mitigates exposure to these risks and the variability of our operating results. We are not a party to leveraged derivatives and do not enter into derivative financial instruments for trading or speculative purposes. The interest rate swaps manage interest rate risk associated with the forecasted future issuance of fixed-rate debt related to (1) the expected refinancing of the \$267.0 million ITC Holdings 5.25% Senior Notes, due July 15, 2013, prior to its maturity and (2) the expected financing required to repay the \$200.0 million and \$250.0 million borrowed under the existing ITC Holdings unsecured, unguaranteed term loan credit agreements, due August 23, 2013 and December 31, 2013, respectively, prior to their maturity.

Other

As described in our Form 10-K for the fiscal year ended December 31, 2012, we are subject to commodity price risk from market price fluctuations, and to credit risk primarily with Detroit Edison, Consumers Energy and IP&L, our primary customers. There have been no material changes in these risks during the three months ended March 31, 2013.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that material information required to be disclosed in our reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, with a company have been detected.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective, at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the three months ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

For information regarding risk factors affecting us, see "Item 1A Risk Factors" of our Form 10-K for the fiscal year ended December 31, 2012. There have been no material changes to the risk factors set forth therein.

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ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth the repurchases of common stock for the quarter ended March 31, 2013:

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program (b)	Maximum Number or Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (b)
January 2013	1,956	\$78.57	—	—
February 2013	812	81.21	—	—
March 2013	420	86.42	—	—
Total	3,188	\$80.28	—	—

(a) Shares acquired were delivered to us by employees as payment of tax withholding obligations due to us upon the vesting of restricted stock.

(b) We do not have a publicly announced share repurchase plan.



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ITEM 6. EXHIBITS

The following exhibits are filed as part of this report (unless otherwise noted to be previously filed, and therefore incorporated herein by reference). Our SEC file number is 001-32576.

Exhibit No.	Description of Document
2.5	Amendment No. 2 to the Merger Agreement, dated as of January 28, 2013, among Entergy Corporation, Mid South TransCo LLC, ITC Holdings Corp. and ITC Midsouth LLC (formerly known as Ibis Transaction Subsidiary LLC) (filed with Registrant's Form 8-K on January 31, 2013)
4.32	Seventh Supplemental Indenture, dated as of March 18, 2013, between ITC Midwest LLC and The Bank of New York Mellon Trust Company, N.A. (as successor to The Bank of New York Trust Company, N.A.), as trustee (filed with Registrant's Form 8-K filed on April 8, 2013)
10.113	Employment Agreement between ITC Holdings Corp. and Cameron M. Bready, dated as of December 21, 2012 (filed with Registrant's Form 8-K on January 23, 2013)
10.114	Term Loan Credit Agreement, dated February 15, 2013, among Registrant, various financial institutions from time to time parties hereto, Wells Fargo Bank, National Association, as administrative agent for the Lenders, Bank of America, N.A., as documentation agent, Deutsche Bank Securities, Inc. and Morgan Stanley Senior Funding, Inc., as co-syndication agents and Wells Fargo Securities, LLC, Deutsche Bank Securities, Inc., Merrill Lynch, Pierce, Fenner & Smith Inc. and Morgan Stanley Senior Funding, Inc. as joint lead arrangers and joint bookrunners (filed with Registrant's Form 8-K on February 19, 2013)
10.116	First Amendment, dated April 9, 2013, to Revolving Credit Agreement, dated as of February 16, 2011, among ITC Great Plains, LLC, as the Borrower, Various Financial Institutions and Other Persons from Time to Time Parties Thereto, as the Lenders, Credit Suisse AG, and Cayman Islands Branch, as Administrative Agent (filed with Registrant's Form 8-K filed on April 12, 2013)
10.117	Amendment and Restatement of the April 1, 2001 Distribution-Transmission Interconnection Agreement by and between Michigan Electric Transmission Company, LLC as Transmission Provider and Consumers Energy Company as Local Distribution Company, effective March 1, 2013
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Database

101.LAB XBRL Taxonomy Extension Label Linkbase

101.PRE XBRL Taxonomy Extension Presentation Linkbase

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: April 24, 2013

ITC HOLDINGS CORP.

By: /s/ Joseph L. Welch  
Joseph L. Welch  
President and Chief Executive Officer  
(duly authorized officer)

By: /s/ Cameron M. Bready  
Cameron M. Bready  
Executive Vice President and Chief Financial Officer  
(principal financial officer and principal accounting officer)