

# ITC HOLDINGS CORP.

## FORM 10-K (Annual Report)

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**Form 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2014

OR

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

Commission File Number: 001-32576

**ITC HOLDINGS CORP.**

(Exact Name of Registrant as Specified in Its Charter)

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

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

**27175 Energy Way**  
**Novi, Michigan 48377**  
(Address Of Principal Executive Offices, Including Zip Code)  
**(248) 946-3000**

(Registrant's Telephone Number, Including Area Code)

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common stock, without par value	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. Yes  No

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 (§ 232.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information, statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 aggregate market value of the registrant's common stock held by non-affiliates on June 30, 2014 was approximately \$5.6 billion, based on the closing sale price as reported on the New York Stock Exchange. For purposes of this computation, all executive officers, directors and 10% beneficial owners of the registrant are assumed to be affiliates. Such determination should not be deemed an admission that such officers, directors and beneficial owners are, in fact, affiliates of the registrant.

The number of shares of the Registrant's Common Stock, without par value, outstanding as of February 20, 2015 was 155,196,031.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's definitive Proxy Statement for the Registrant's 2015 Annual Meeting of Shareholders (the "Proxy Statement") filed pursuant to Regulation 14A are incorporated by reference in Part III of this Form 10-K.



**ITC Holdings Corp.**  
**Form 10-K for the Fiscal Year Ended December 31, 2014**  
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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;
- “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;
- “ITCTransmission” 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 ITCTransmission, 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 ITCTransmission, 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;
- “DTE Electric” are references to DTE Electric Company, a wholly-owned subsidiary of DTE Energy;
- “DTE Energy” are references to DTE Energy Company;
- “Energy Transaction” are references to the transaction whereby the electric transmission business of Energy Corporation was to be separated and subsequently merged with a wholly-owned subsidiary of ITC Holdings. The proposed transaction was terminated in December 2013;
- “FPA” are references to the Federal Power Act;
- “FERC” are references to the Federal Energy Regulatory Commission;
- “ICC” are references to the Illinois Commerce Commission;
- “IP&L” are references to Interstate Power and Light Company, an Alliant Energy Corporation subsidiary;
- “ISO” are references to Independent System Operators;
- “IUB” are references to the Iowa Utilities Board;
- “KCC” are references to the Kansas Corporation Commission;
- “kV” are references to kilovolts (one kilovolt equaling 1,000 volts);
- “kW” are references to kilowatts (one kilowatt equaling 1,000 watts);
- “LIBOR” are references to the London Interbank Offered Rate;
- “MISO” are references to the Midcontinent Independent 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 ITCTransmission, METC and ITC Midwest are members;

- “MOPSC” are references to the Missouri Public Service Commission;
- “MPSC” are references to the Michigan Public Service Commission;
- “MPUC” are references to the Minnesota Public Utilities Commission;
- “MW” are references to megawatts (one megawatt equaling 1,000,000 watts);
- “NERC” are references to the North American Electric Reliability Corporation;
- “NOLs” are references to net operating loss carryforwards for income taxes;
- “OCC” are references to Oklahoma Corporation Commission;
- “PSCW” are references to the Public Service Commission of Wisconsin;
- “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.

#### **EXPLANATORY NOTE**

The share and per share data in this Form 10-K reflect the three-for-one stock split that occurred on February 28, 2014.

## PART I

### ITEM 1. **BUSINESS.**

#### **Overview**

Our business consists primarily of the electric transmission operations of our Regulated Operating Subsidiaries. In 2002, ITC Holdings was incorporated in the State of Michigan for the purpose of acquiring ITCTransmission. ITCTransmission was originally formed in 2001 as a subsidiary of DTE Electric, an electric utility subsidiary of DTE Energy, and was acquired in 2003 by ITC Holdings. METC was originally formed in 2001 as a subsidiary of Consumers Energy, an electric and gas utility subsidiary of CMS Energy Corporation, and was acquired in 2006 by ITC Holdings. ITC Midwest was formed in 2007 by ITC Holdings to acquire the transmission assets of IP&L in December 2007. ITC Great Plains was formed in 2006 by ITC Holdings and became a FERC-jurisdictional entity in 2009. 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 allow new generating resources to interconnect 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 to enhance competitive wholesale electricity markets.

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 "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations — Cost-Based Formula Rates with True-Up Mechanism."

#### **Development of Business**

We are actively developing transmission infrastructure required to meet reliability needs and energy policy objectives. Our long-term growth plan includes continued investment in current transmission systems, generator interconnections and our ongoing development projects. Refer to "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Investment and Operating Results Trends" for additional details about our long-term capital investment program totaling \$4.5 billion for the period 2014 through 2018 of which \$794.0 million has been invested through December 31, 2014 . Refer to the discussion of risks associated with our strategic development opportunities in "Item 1A Risk Factors."

#### ***Current Transmission Systems***

We expect to invest approximately \$2.2 billion from 2014 through 2018 at our Regulated Operating Subsidiaries in order to maintain and replace the current transmission infrastructure, enhance system integrity and reliability and accommodate load growth.

#### ***Regional Infrastructure***

We expect to invest approximately \$1.2 billion from 2014 through 2018 to develop and build regional transmission infrastructure to address system needs.

Included in this amount are the portions of the four North Central Multi-Value Projects ("MVPs") approved by MISO in December 2011 that we will build, own and operate as well as the Thumb Loop Project. The four MVPs are located in south central Minnesota, northern and southeast Iowa, southwest Wisconsin, and northeast Missouri and will be constructed by ITC Midwest. We currently estimate we will invest approximately \$800 million in our portions of these four MVPs from 2014 through 2018. 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 Michigan. We estimate ITCTransmission will invest a total of approximately \$510 million in the project which is currently anticipated to be completed in 2015. Through December 31, 2014 , ITCTransmission has invested \$465.8 million in the Thumb Loop Project.

Based on the anticipated growth of generating resources, we also foresee the need to construct additional transmission facilities that will provide interconnection opportunities for generating facilities. These investments may include, but are not limited to the backbone transmission network, transmission for renewable resources and transmission for interconnection of other generating facilities.

### ***Development Projects***

We expect to invest approximately \$1.1 billion from 2014 through 2018 to construct various development projects, or portions thereof, that are expected to result from the competitive process established pursuant to FERC Order No. 1000 (“Order 1000”) described below and through other initiatives to upgrade the existing transmission grid and regional transmission facilities, primarily to improve overall grid reliability, reduce transmission constraints, enhance competitive markets and facilitate interconnections of new generating resources, including wind generation and other renewable resources necessary to achieve state and federal policy goals. Additionally, we may pursue other non-traditional transmission investment opportunities not described above.

### **Segments**

We have one reportable segment consisting of our Regulated Operating Subsidiaries. Additionally, we have other subsidiaries focused primarily on business development activities and a holding company whose activities include corporate debt and equity financings and general corporate activities. A more detailed discussion of our reportable segment, including financial information about the segment, is included in Note 18 to the consolidated financial statements.

### **Operations**

As transmission-only companies, our Regulated Operating Subsidiaries function as conduits, allowing for power from generators to be transmitted to local distribution systems either entirely through their own systems or in conjunction with neighboring transmission systems. Third parties then transmit power through these local distribution systems to end-use consumers. The transmission of electricity by our Regulated Operating Subsidiaries is a central function to the provision of electricity to residential, commercial and industrial end-use consumers. The operations performed by our Regulated Operating Subsidiaries fall into the following categories:

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

### ***Asset Planning***

The Asset Planning group uses detailed system models and load forecasts to develop our system expansion capital plans. Expansion capital plans identify projects that would address potential future reliability issues and/or produce economic savings for customers by eliminating constraints.

The Asset Planning group works closely with MISO and SPP in the development of our system expansion capital plans by performing technical evaluations and detailed studies. As the regional planning authorities, MISO and SPP approve regional system improvement plans which include projects to be constructed by their members, including our Regulated Operating Subsidiaries.

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

The Engineering, Design and Construction group is responsible for design, equipment specifications, maintenance plans and project engineering for capital, operation and maintenance work. We work with outside contractors to perform various aspects of our engineering, design and construction, but retain internal technical experts who have experience with respect to the key elements of the transmission system such as substations, lines, equipment and protective relaying systems.

### ***Maintenance***

We develop and track preventive maintenance plans to promote safe and reliable systems. By performing preventive maintenance on our assets, we can minimize the need for reactive maintenance, resulting in improved reliability. Our Regulated Operating Subsidiaries contract with Utility Lines Construction Services, Inc. (“ULCS”),



which is a division of Asplundh Tree Expert Co., to perform the majority of their maintenance. The agreement with ULCS provides us with access to an experienced and scalable workforce with knowledge of our system at an established rate.

### ***Real Time Operations***

*System Operations* — From our operations facility in Novi, Michigan, transmission system operators continuously monitor the performance of the transmission systems of our Regulated Operating Subsidiaries, using software and communication systems to perform analysis to plan for contingencies and maintain security and reliability following any unplanned events on the system. Transmission system operators are also responsible for the switching and protective tagging function, taking equipment in and out of service to ensure capital construction projects and maintenance programs can be completed safely and reliably.

*Local Balancing Authority Operator* — Under the functional control of MISO, ITCTransmission and METC operate their electric transmission systems as a combined Local Balancing Authority (“LBA”) area, known as the Michigan Electric Coordinated Systems (“MECS”). From our operations facility in Novi, Michigan, our employees perform the LBA functions as outlined in MISO’s Balancing Authority Agreement. These functions include actual interchange data administration and verification and MECS LBA area emergency procedure implementation and coordination. ITC Midwest and ITC Great Plains are not responsible for LBA functions for their respective assets.

### **Operating Contracts**

Our Regulated Operating Subsidiaries have various operating contracts, including numerous interconnection agreements with generation and transmission providers that address terms and conditions of interconnection. The following significant agreements exist at our Regulated Operating Subsidiaries:

#### ***ITCTransmission***

DTE Electric operates the electric distribution system to which ITCTransmission’s transmission system connects. A set of three operating contracts sets forth the terms and conditions related to DTE Electric’s and ITCTransmission’s ongoing working relationship. These contracts include the following:

*Master Operating Agreement.* The Master Operating Agreement (the “MOA”), dated as of February 28, 2003, governs the primary day-to-day operational responsibilities of ITCTransmission and DTE Electric and will remain in effect until terminated by mutual agreement of the parties (subject to any required FERC approvals) unless earlier terminated pursuant to its terms. The MOA identifies the control area coordination services that ITCTransmission is obligated to provide to DTE Electric. The MOA also requires DTE Electric to provide certain generation-based support services to ITCTransmission.

*Generator Interconnection and Operation Agreement.* DTE Electric and ITCTransmission entered into the Generator Interconnection and Operation Agreement (the “GIOA”), dated as of February 28, 2003, in order to establish, re-establish and maintain the direct electricity interconnection of DTE Electric’s electricity generating assets with ITCTransmission’s transmission system for the purposes of transmitting electric power from and to the electricity generating facilities. Unless otherwise terminated by mutual agreement of the parties (subject to any required FERC approvals), the GIOA will remain in effect until DTE Electric elects to terminate the agreement with respect to a particular unit or until a particular unit ceases commercial operation.

*Coordination and Interconnection Agreement.* The Coordination and Interconnection Agreement (the “CIA”), dated as of February 28, 2003, governs the rights, obligations and responsibilities of ITCTransmission and DTE Electric regarding, among other things, the operation and interconnection of DTE Electric’s distribution system and ITCTransmission’s transmission system, and the construction of new facilities or modification of existing facilities. Additionally, the CIA allocates costs for operation of supervisory, communications and metering equipment. The CIA will remain in effect until terminated by mutual agreement of the parties (subject to any required FERC approvals).

#### ***METC***

Consumers Energy operates the electric distribution system to which METC’s transmission system connects. METC is a party to a number of operating contracts with Consumers Energy that govern the operations and maintenance of its transmission system. These contracts include the following:

*Amended and Restated Easement Agreement.* Under the Amended and Restated Easement Agreement (the “Easement Agreement”), dated as of April 29, 2002 and as further supplemented, Consumers Energy provides METC with an easement to the land, which we refer to as premises, on which a majority of METC’s transmission towers, poles, lines and other transmission facilities used to transmit electricity at voltages of at least 120 kV are located, which we refer to collectively as the facilities. Consumers Energy retained for itself the rights to, and the value of activities associated with, all other uses of the premises and the facilities covered by the Easement Agreement, such as for distribution of electricity, fiber optics, telecommunications, gas pipelines and agricultural uses. Accordingly, METC is not permitted to use the premises or the facilities covered by the Easement Agreement for any purposes other than to provide electric transmission and related services, to inspect, maintain, repair, replace and remove electric transmission facilities and to alter, improve, relocate and construct additional electric transmission facilities. The easement is further subject to the rights of any third parties that had rights to use or occupy the premises or the facilities prior to April 1, 2001 in a manner not inconsistent with METC’s permitted uses.

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

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

The term of the Easement Agreement runs through December 31, 2050 and is subject to 10 automatic 50-year renewals after that time unless METC provides one year’s notice of its election not to renew the term. Consumers Energy may terminate the Easement Agreement 30 days after giving notice of a failure by METC to pay its quarterly installment if METC does not cure the non-payment within the 30-day notice period. At the end of the term or upon any earlier termination of the Easement Agreement, the easement and related rights terminate and the transmission facilities revert to Consumers Energy.

*Amended and Restated Operating Agreement.* Under the Amended and Restated Operating Agreement (the “Operating Agreement”), dated as of April 29, 2002, METC agrees to operate its transmission system to provide all transmission customers with safe, efficient, reliable and nondiscriminatory transmission service pursuant to its tariff. Among other things, METC is responsible under the Operating Agreement for maintaining and operating its transmission system, providing Consumers Energy with information and access to its transmission system and related books and records, administering and performing the duties of control area operator (that is, the entity exercising operational control over the transmission system) and, if requested by Consumers Energy, building connection facilities necessary to permit interaction with new distribution facilities built by Consumers Energy. Consumers Energy has corresponding obligations to provide METC with access to its books and records and to build distribution facilities necessary to provide adequate and reliable transmission services to wholesale customers. Consumers Energy must cooperate with METC as METC performs its duties as control area operator, including by providing reactive supply and voltage control from generation sources or other ancillary services and reducing load. The Operating Agreement is effective through 2050 and is subject to 10 automatic 50-year renewals after that time, unless METC provides one year’s notice of its election not to renew.

*Amended and Restated Purchase and Sale Agreement for Ancillary Services.* The Amended and Restated Purchase and Sale Agreement for Ancillary Services (the “Ancillary Services Agreement”) is dated as of April 29, 2002. Since METC does not own any generating facilities, it must procure ancillary services from third party suppliers, such as Consumers Energy. Currently, under the Ancillary Services Agreement, METC pays Consumers Energy for providing certain generation based services necessary to support the reliable operation of the bulk power grid, such as voltage support and generation capability and capacity to balance loads and generation. METC is not precluded from procuring these ancillary services from third party suppliers when available. The Ancillary Services Agreement is subject to rolling one-year renewals starting May 1, 2003, unless terminated by either METC or Consumers Energy with six months prior written notice.

*Amended and Restated Distribution-Transmission Interconnection Agreement.* The Amended and Restated Distribution-Transmission Interconnection Agreement (the “DT Interconnection Agreement”), dated April 1, 2001 and amended and restated as of March 1, 2013, provides for the interconnection of Consumers Energy’s distribution system with METC’s transmission system and defines the continuing rights, responsibilities and obligations of the parties with respect to the use of certain of their own and the other party’s properties, assets and facilities. METC agrees to provide Consumers Energy interconnection service at agreed-upon interconnection points, and the parties have mutual responsibility for maintaining voltage and compensating for reactive power losses resulting from their respective services. The DT Interconnection Agreement is effective so long as any interconnection point is connected to METC, unless it is terminated earlier by mutual agreement of METC and Consumers Energy.

*Amended and Restated Generator Interconnection Agreement.* The Amended and Restated Generator Interconnection Agreement (the “Generator Interconnection Agreement”), dated as of April 29, 2002 and amended as of May 2, 2014, specifies the terms and conditions under which Consumers Energy and METC maintain the interconnection of Consumers Energy’s generation resources and METC’s transmission assets. The Generator Interconnection Agreement is effective either until it is replaced by any MISO-required contract, or until mutually agreed by METC and Consumers Energy to terminate, but not later than the date that all listed generators cease commercial operation.

### **ITC Midwest**

IP&L operates the electric distribution system to which ITC Midwest’s transmission system connects. ITC Midwest is a party to a number of operating contracts with IP&L that govern the operations and maintenance of its transmission system. These contracts include the following:

*Distribution-Transmission Interconnection Agreement.* The Distribution-Transmission Interconnection Agreement (the “DTIA”), dated as of December 17, 2007, governs the rights, responsibilities and obligations of ITC Midwest and IP&L, with respect to the use of certain of their own and the other parties’ property, assets and facilities and the construction of new facilities or modification of existing facilities. Additionally, the DTIA sets forth the terms pursuant to which the equipment and facilities and the interconnection equipment of IP&L will continue to connect ITC Midwest’s facilities through which ITC Midwest provides transmission service under the MISO Transmission and Energy Markets Tariff. The DTIA will remain in effect until terminated by mutual agreement by the parties (subject to any required FERC approvals) or as long as any interconnection point of IP&L is connected to ITC Midwest’s facilities, unless modified by written agreement of the parties.

*Large Generator Interconnection Agreement.* ITC Midwest, IP&L and MISO entered into the Large Generator Interconnection Agreement (the “LGIA”), dated as of December 20, 2007 and amended as of August 6, 2013, in order to establish, re-establish and maintain the direct electricity interconnection of IP&L’s electricity generating assets with ITC Midwest’s transmission system for the purposes of transmitting electric power from and to the electricity generating facilities. The LGIA will remain in effect until terminated by ITC Midwest or until IP&L elects to terminate the agreement if a particular unit ceases commercial operation for three consecutive years.

*Operations Services Agreement For 34.5 kV Transmission Facilities.* ITC Midwest and IP&L entered into the Operations Services Agreement for 34.5 kV Transmission Facilities (the “OSA”), effective as of January 1, 2011, under which IP&L performs certain operations functions for ITC Midwest’s 34.5 kV transmission system on behalf of ITC Midwest. The OSA provides that when ITC Midwest upgrades 34.5 kV facilities to higher operating voltages it may notify IP&L of the change and the OSA is no longer applicable to those facilities. The

OSA will remain in full force and effect until December 31, 2015 and will extend automatically from year to year thereafter until terminated by either party upon not less than one year prior written notice to the other party.

### **ITC Great Plains**

*Amended and Restated Maintenance Agreement.* Mid-Kansas Electric Company LLC (“Mid-Kansas”) and ITC Great Plains have entered into a Maintenance Agreement (the “Mid-Kansas Agreement”), dated as of August 24, 2010, and amended June 20, 2013, pursuant to which Mid-Kansas has agreed to perform various field operations and maintenance services related to certain ITC Great Plains facilities. The Mid-Kansas Agreement has an initial term of 10 years and automatic 10-year renewals unless terminated (1) due to a breach by the non-terminating party following notice and failure to cure, (2) by mutual consent of the parties, or (3) by ITC Great Plains under certain limited circumstances. Services must continue to be provided for at least six months subsequent to the termination date in any case.

*Maintenance Agreement.* Midwest Energy, Inc. (“Midwest Energy”) and ITC Great Plains entered into a maintenance agreement (the “Midwest Energy Agreement”) dated as of June 25, 2012, pursuant to which Midwest Energy agreed to perform various field operations and maintenance service related to certain ITC Great Plains facilities. The Midwest Energy Agreement had an initial term of three years with automatic three-year renewals unless terminated (1) due to a material breach by the non-terminating party following notice and failure to cure or (2) by mutual consent of the parties. In December 2014, ITC Great Plains and Midwest Energy mutually agreed to terminate the Midwest Energy Agreement. Services will continue to be provided through the effective termination date of June 24, 2015.

### **Regulatory Environment**

Many regulators and public policy makers support the need for further investment in the transmission grid. The growth in electricity generation, wholesale power sales and consumption combined with historically inadequate transmission investment have resulted in significant transmission constraints across the United States and increased stress on aging equipment. These problems will continue without increased investment in transmission infrastructure. Transmission system investments can also increase system reliability and reduce the frequency of power outages. Such investments can reduce transmission constraints and improve access to lower cost generation resources, resulting in a lower overall cost of delivered electricity for end-use consumers. After the 2003 blackout that affected sections of the Northeastern and Midwestern United States and Ontario, Canada, the Department of Energy (the “DOE”) established the Office of Electric Transmission and Distribution (now the Office of Electricity Delivery and Energy Reliability), focused on working with reliability experts from the power industry, state governments and their Canadian counterparts to improve grid reliability and increase investment in the country’s electric infrastructure. In addition, the FERC has signaled its desire for substantial new investment in the transmission sector by implementing various financial and other incentives.

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

The FERC requires compliance with certain reliability standards by transmission owners and may take enforcement actions for violations, including fines of up to \$1.0 million per day. NERC is responsible for developing and enforcing these mandatory reliability standards. We continually assess our transmission systems against standards established by NERC, as well as the standards of applicable regional entities under NERC that have been delegated certain authority for the purpose of proposing and enforcing reliability standards. Finally, utility holding companies are subject to FERC regulations related to access to books and records and the requirement of the FERC to review and approve mergers and consolidations involving utility assets and utility holding companies in certain circumstances.

## **Federal Regulation**

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

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

Order 1000 amends certain existing transmission planning and cost allocation requirements to ensure that FERC-jurisdictional services are provided at just and reasonable rates and on a basis that is just and reasonable and not unduly discriminatory or preferential. With respect to transmission planning, Order 1000: (1) requires that each public utility transmission provider participate in a regional transmission planning process that produces a regional transmission plan; (2) requires that each public utility transmission provider amend its Open Access Transmission Tariff to describe procedures that provide for the consideration of transmission needs driven by public policy requirements in the local and regional transmission planning processes; (3) removes a federal right of first refusal for certain new transmission facilities from FERC-approved tariffs and agreements; and (4) improves coordination between neighboring transmission planning regions for new interregional transmission facilities. MISO and SPP have made multiple compliance filings with the FERC to implement these requirements. Certain of the new provisions relating to the requirements described above have been approved but others remain under review by the FERC.

Order 1000 could potentially lead to greater competition for certain future transmission projects, including within our current operating areas. We are currently exploring opportunities resulting from Order 1000 within MISO and SPP as well as other RTOs.

### ***Revenue Requirement Calculations and Cost Sharing for Projects with Regional Benefits***

The cost based formula rates used by our Regulated Operating Subsidiaries continue to evolve to include revenue requirement calculations for various types of projects. Network revenues continue to be the largest component of revenues recovered through our formula rates. However, regional cost sharing revenues are growing as a result of projects that have been identified by MISO or SPP as having regional benefits, and therefore eligible for regional cost recovery under their tariffs. Separate calculations of revenue requirement are performed for projects that have been approved for regional cost sharing and these separate calculations impact only which parties ultimately pay for the transmission services related to these projects and do not impact our financial results.

We have projects that are eligible for regional cost sharing under the MISO tariff, such as certain network upgrade projects, and the MVPs, including the Thumb Loop Project. Additionally, certain projects at ITC Great Plains are eligible for recovery through a region-wide charge in the SPP tariff including the Kansas V-Plan Project. Certain of these projects are described in more detail in "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Project Updates and Other Recent Developments."



## **State Regulation**

The regulatory agencies in the states where our Regulated Operating Subsidiaries' assets are located do not have jurisdiction over rates or terms and conditions of service. However, they typically have jurisdiction over siting of transmission facilities and related matters as described below. Additionally, we are subject to the regulatory oversight of various state environmental quality departments for compliance with any state environmental standards and regulations.

### **ITCTransmission and METC**

#### *Michigan*

The MPSC has jurisdiction over the siting of certain transmission facilities. Additionally, ITCTransmission and METC have the right as independent transmission companies to condemn property in the state of Michigan for the purposes of building or maintaining transmission facilities.

ITCTransmission and METC are also subject to the regulatory oversight of the Michigan Department of Environmental Quality, the Michigan Department of Natural Resources and certain local authorities for compliance with all environmental standards and regulations.

### **ITC Midwest**

#### *Iowa*

The IUB has the power of supervision over the construction, operation and maintenance of transmission facilities in Iowa by any entity, which includes the power to issue franchises. Iowa law further provides that any entity granted a franchise by the IUB is vested with the power of condemnation in Iowa to the extent the IUB approves and deems necessary for public use. A city has the power, pursuant to Iowa law, to grant a franchise to erect, maintain and operate transmission facilities within the city, which franchise may regulate the conditions required and manner of use of the streets and public grounds of the city and may confer the power to appropriate and condemn private property.

ITC Midwest also is subject to the regulatory oversight of certain state agencies (including the Iowa Department of Natural Resources) and certain local authorities with respect to the issuance of environmental, highway, railroad and similar permits.

#### *Minnesota*

The MPUC has jurisdiction over the construction, siting and routing of new transmission lines or upgrades of existing lines through Minnesota's Certificate of Need and Route Permit Processes. Transmission companies are also required to participate in the State's Biennial Transmission Planning Process and are subject to the state's preventative maintenance requirements. Pursuant to Minnesota law, ITC Midwest has the right as an independent transmission company to condemn property in the State of Minnesota for the purpose of building new transmission facilities.

ITC Midwest is also subject to the regulatory oversight of the Minnesota Pollution Control Agency, the Minnesota Department of Natural Resources, the MPUC in conjunction with the Department of Commerce and certain local authorities for compliance with applicable environmental standards and regulations.

#### *Illinois*

The ICC exercises jurisdiction over siting of new transmission lines through its requirements for Certificates of Public Convenience and Necessity and Right-Of-Way acquisition that apply to construction of new or upgraded facilities.

ITC Midwest also is subject to the regulatory oversight of the Illinois Environmental Protection Agency, the Illinois Department of Natural Resources, the Illinois Pollution Control Board and certain local authorities for compliance with all environmental standards and regulations.

#### *Missouri*

Because ITC Midwest is a "public utility" and an "electrical corporation" under Missouri law, the MOPSC has jurisdiction to determine whether ITC Midwest may operate in such capacity. The MOPSC also exercises jurisdiction

with regard to other non-rate matters affecting this Missouri asset such as transmission substation construction, general safety and the transfer of the franchise or property.

ITC Midwest is also subject to the regulatory oversight of the Missouri Department of Natural Resources for compliance with all environmental standards and regulations relating to this transmission line.

#### *Wisconsin*

ITC Midwest is a “public utility” and independent transmission owner in Wisconsin. The PSCW in a May 2014 order granted ITC Midwest a certificate of authority to transact public utility business in the state. In a separate May 2014 order, the PSCW also recognized ITC Holdings Corp. as a public utility holding company under Wisconsin statutes.

The PSCW exercises jurisdiction over the siting of new transmission lines through the issuance of certificates of authority and certificates of public convenience and necessity. Upon receipt of such certificates for a transmission project, ITC Midwest has condemnation authority as a foreign transmission provider under Wisconsin law. ITC Midwest is also subject to the jurisdiction of certain local and state agencies, including the Wisconsin Department of Natural Resources, relating to environmental and road permits.

#### **ITC Great Plains**

##### *Kansas*

ITC Great Plains is a “public utility” in Kansas and an “electric utility” pursuant to state statutes. The KCC issued an order approving the issuance of a limited certificate of convenience to ITC Great Plains for the purposes of building, owning and operating SPP transmission projects in Kansas. In addition to its certificate of authority, the KCC has jurisdiction over the siting of electric transmission lines.

ITC Great Plains is also subject to the regulatory oversight of the Kansas Department of Health and Environment for compliance with all environmental standards and regulations relating to the construction phase of any transmission line.

##### *Oklahoma*

ITC Great Plains has approval from the OCC to operate in Oklahoma, pursuant to Oklahoma Statutes as an electric public utility providing only transmission services. The OCC does not exercise jurisdiction over the siting of any transmission lines.

ITC Great Plains may be subject to the regulatory oversight of Oklahoma Department of Environmental Quality for compliance with environmental standards and regulations relating to construction of proposed transmission lines.

#### **Sources of Revenue**

See “Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Operating Revenues” for a discussion of our principal sources of revenue.

#### **Seasonality**

The cost-based formula rates with a true-up mechanism in effect for all our Regulated Operating Subsidiaries, as discussed in “Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations — Cost-Based Formula Rates with True-Up Mechanism,” mitigate the seasonality of net income for our Regulated Operating Subsidiaries. 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. For example, to the extent that amounts billed are less than our revenue requirement for a reporting period, a revenue accrual is recorded for the difference and the difference results in no net income impact.

Operating cash flows are seasonal at our MISO Regulated Operating Subsidiaries, in that cash received for revenues is typically higher in the summer months when peak load is higher.

#### **Principal Customers**

Our principal transmission service customers are DTE Electric, Consumers Energy and IP&L, which accounted for approximately 22.2% , 24.2% and 29.0% , respectively, of our consolidated billed revenues for the year ended

December 31, 2014 . One or more of these customers together have consistently represented a significant percentage of our operating revenue. These percentages of total billed revenues of DTE Electric, Consumers Energy and IP&L include the collection of 2012 revenue accruals and deferrals and exclude any amounts for the 2014 revenue accruals and deferrals that were included in our 2014 operating revenues, but will not be billed to our customers until 2016 . Refer to “ Item 7 Management ’ s Discussion and Analysis of Financial Condition and Results of Operations - Cost-Based Formula Rates with True-Up Mechanism ” for a discussion on the difference between billed revenues and operating revenues. Our remaining revenues were generated from providing service to other entities such as alternative electricity suppliers, power marketers and other wholesale customers that provide electricity to end-use consumers and from transaction-based capacity reservations. Nearly all of our revenues are from transmission customers in the United States. Although we may recognize allocated revenues from time to time from Canadian entities reserving transmission over the Ontario or Manitoba interface, these revenues have not been and are not expected to be material to us.

## **Billing**

MISO is responsible for billing and collecting the majority of our transmission services provided by our MISO Regulated Operating Subsidiaries and independently administers the transmission tariff in the MISO service territory. As the billing agent for our MISO Regulated Operating Subsidiaries, MISO independently bills DTE Electric, Consumers Energy, IP&L and other customers on a monthly basis and collects fees for the use of our MISO Regulated Operating Subsidiaries’ transmission systems.

SPP is responsible for billing and collection for the transmission services provided by ITC Great Plains and independently administers the transmission tariff in the SPP service territory. As the billing agent for ITC Great Plains, SPP independently bills customers on a monthly basis and collects fees for the use of ITC Great Plains’ transmission systems.

See “Item 7A Quantitative and Qualitative Disclosures about Market Risk — Credit Risk” for discussion of our credit policies.

## **Competition**

Each of our MISO Regulated Operating Subsidiaries operates the primary transmission system in its respective service area and, therefore, effectively has no competitors for certain projects. However, the competitive environment is evolving due to the implementation of Order 1000. See further discussion of Order 1000 above under “Regulatory Environment — Federal Regulation.” For our subsidiaries focused on development opportunities for transmission investment in other service areas, the incumbent utilities or other entities with transmission development initiatives may compete with us by seeking approval to be named the party authorized to build new capital projects that we are also pursuing. Because our Regulated Operating Subsidiaries are currently the only transmission companies that are independent from electricity market participants, we believe we are best able to develop these projects in a non-discriminatory manner. However, there are no assurances we will be selected to develop projects that other entities are also pursuing.

## **Employees**

As of December 31, 2014 , we had 587 employees. We consider our relations with our employees to be good.

## **Environmental Matters**

Our 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 for failing 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 us. Such liabilities may arise even where the contamination does not result from noncompliance with applicable environmental laws. Under a number of environmental laws, such liabilities may also be joint and several, meaning that a party can be held responsible for more than its share of the liability involved, or even the entire share. Environmental requirements generally have become more stringent and compliance with those requirements more expensive. We are not aware of any specific developments that would increase our costs for such compliance



in a manner that would be expected to have a material effect on our results of operations, financial position or liquidity.

Our 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 polychlorinated biphenyls (commonly known as PCBs). Our facilities and equipment are often situated close to or on property owned by others so that, if they are the source of contamination, the property of others may be affected. For example, aboveground and underground transmission lines sometimes traverse properties that we do not own, and, at some of our transmission stations, transmission assets (owned or operated by us) and distribution assets (owned or operated by our transmission customers) are commingled.

Some properties in which we have an ownership interest or at which we operate are, and others are suspected of being, affected by environmental contamination. We are not aware of any claims pending or threatened against us with respect to environmental contamination, or of any investigation or remediation of contamination at any properties, that entail costs likely to materially affect us. 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 we 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 claims pending or threatened against us 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.

#### **Filings Under the Securities Exchange Act of 1934**

Our internet address is <http://www.itc-holdings.com>. You can access free of charge on our web site all of our reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports. These reports are available as soon as practicable after they are electronically filed with the Securities and Exchange Commission (the "SEC"). Also on our web site are our:

- Corporate Governance Guidelines;
- Code of Business Conduct and Ethics; and
- Committee Charters for the Audit and Finance Committee, Compensation Committee and Nominating/Corporate Governance Committee.

Our Code of Business Conduct and Ethics applies to all directors, officers and employees, including our Chairman, President and Chief Executive Officer and our Senior Vice President, Chief Financial Officer and Treasurer. We will post any amendments to the Code of Business Conduct and Ethics, and any waivers that are required to be disclosed by the rules of either the SEC or the New York Stock Exchange (the "NYSE"), on our web site within the required periods. The information on our web site is not incorporated by reference into this report.

To learn more about us, please visit our website at <http://www.itc-holdings.com>. We use our website as a channel of distribution of material company information. Financial and other material information regarding us is routinely posted on our website and is readily accessible.

You may also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington DC, 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address is <http://www.sec.gov>.

**ITEM 1A. RISK FACTORS.**

**Risks Related to Our Business**

***Certain elements of our Regulated Operating Subsidiaries' formula rates can be and have been 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.***

Our Regulated Operating Subsidiaries provide transmission service under rates regulated by the FERC. The FERC has approved the cost-based formula rate templates used by our Regulated Operating Subsidiaries to calculate their respective annual revenue requirements, but it has not expressly approved the amount of actual capital and operating expenditures to be used in the formula rates. All aspects of our Regulated Operating Subsidiaries' rates approved by the FERC, including the formula rate templates, the rates of return on the actual equity portion of their respective capital structures, the approved targeted capital structures and the data inputs provided by our Regulated Operating Subsidiaries for calculation of each year's rate, are subject to challenge by interested parties at the FERC, or by the FERC on its own initiative in a proceeding under Section 206 of the FPA. In addition, end-use consumers and entities supplying electricity to end-use consumers may attempt to influence government and/or regulators to change the rate setting methodologies that apply to our Regulated Operating Subsidiaries, particularly if rates for delivered electricity increase substantially. If a challenger can establish that any of these aspects are unjust, unreasonable, unduly discriminatory or preferential, then the FERC will make appropriate prospective adjustments to them and/or disallow any of our Regulated Operating Subsidiaries' inclusion of those aspects in the rate setting formula. This could result in lowered rates and/or refunds of amounts collected after the date that a Section 206 challenge is filed, any of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

In November 2013, certain parties filed a joint complaint with the FERC under Section 206 of the FPA, requesting that the FERC find the base rate of return on equity for all MISO transmission owners, including ITCTransmission, METC and ITC Midwest, to be unjust and unreasonable. The joint complainants are seeking a FERC order reducing the base rate of return on equity used in our formula transmission rate from 12.38% to 9.15% , capping the equity component of MISO transmission owners' capital structures, which would reduce the targeted equity component of ITCTransmission's, METC's and ITC Midwest's capital structures from 60% to 50% , and terminating the return on equity adders approved for ITCTransmission and METC. On October 16, 2014, the FERC issued an order rejecting this complaint as to ITCTransmission's and METC's equity adders and MISO transmission owner capital structures. A hearing was ordered on the complaint's allegations as to the base rate of return on equity for all MISO transmission owners. In the event a refund is required upon resolution of the complaint, the refund effective date would be November 12, 2013. Also, on February 12, 2015, an additional complaint was filed under Section 206 of the FPA seeking a FERC order reducing the regional base ROE rate used in our MISO Regulated Operating Subsidiaries' formula transmission rates to 8.67%, to be effective for the period beginning February 12, 2015. An unfavorable resolution of the November 2013 complaint in excess of the amount accrued for the refund liability, or the February 2015 complaint could significantly reduce our future revenues and net income and therefore could have a material adverse effect on our future results of operations, cash flows and financial condition.

***Our actual capital investment may be lower than planned, which would cause a lower than anticipated rate base and therefore our revenues and earnings compared to our current expectations. 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. In addition, we expect to incur expenses related to the pursuit of development opportunities which may be higher than forecasted.***

Each of our operating subsidiaries' rate base, revenues and earnings are determined in part by additions to property, plant and equipment and when those additions are placed in service. We anticipate making significant capital investments over the next several years, the amounts of which could change significantly due to factors beyond our control. If our operating subsidiaries' capital investment and the resulting in-service property, plant and equipment are lower than anticipated for any reason, our operating subsidiaries will have a lower than anticipated rate base thus causing their revenue requirements and future earnings to be potentially lower than anticipated.

We are pursuing broader strategic development investment opportunities including those related to building regional transmission facilities and interconnections for generating resources, among others. Incumbent utilities

or other transmission development entities may compete with us by deciding to pursue capital projects that we are pursuing.

Any capital investment at our operating subsidiaries or as a result of our broader strategic development initiatives may be lower than our published estimates due to, among other factors, 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 system or transmission systems owned by others at any one time, regulatory requirements relating to our rate construct, environmental issues, 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 and the potential for greater competition. Our ability to engage in construction projects resulting from pursuing these initiatives is subject to significant uncertainties, including the factors discussed above, and will depend on obtaining any necessary regulatory and other approvals for the project and for us to initiate construction, our achieving status as the builder of the project in some circumstances and other factors. Therefore, we can provide no assurance as to the actual level of investment we may achieve at our operating subsidiaries or as a result of the broader strategic development initiatives.

In addition, we expect to incur expenses to pursue strategic development investment opportunities. If these expenses are higher than anticipated, our future results of operations, cash flows and financial condition could be materially and adversely affected.

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

Each of our Regulated Operating Subsidiaries is a “public utility” under the FPA and, accordingly, is subject to regulation by the FERC. Approval of the FERC is required under Section 203 of the FPA for a disposition or acquisition of regulated public utility facilities, either directly or indirectly through a holding company. Such approval is also required to acquire a significant interest in securities of a public utility. Section 203 of the FPA also provides the FERC with explicit authority over utility holding companies’ purchases or acquisitions of, and mergers or consolidations with, a public utility. Finally, each of our Regulated Operating Subsidiaries must also seek approval by the FERC under Section 204 of the FPA for issuances of its securities (including debt securities).

We are also pursuing development projects for construction of transmission facilities and interconnections with generating resources. These projects may require regulatory approval by Federal agencies, including the FERC, applicable RTOs and state and local regulatory agencies. Failure to secure such regulatory approval for new strategic development projects could adversely affect our ability to grow our business and increase our revenues. If we fail to obtain these approvals when necessary, we may incur liabilities for such failure.

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

Each of our Regulated Operating Subsidiaries is regulated by the FERC as a “public utility” under the FPA and is a transmission owner in MISO or SPP. We cannot predict whether the approved rate methodologies for any of our Regulated Operating Subsidiaries will be changed. In addition, the U.S. Congress periodically considers enacting energy legislation that could assign new responsibilities to the FERC, modify provisions of the FPA or provide the FERC or another entity with increased authority to regulate transmission matters. We cannot predict whether, and to what extent, our Regulated Operating Subsidiaries may be affected by any such changes in federal energy laws, regulations or policies in the future. While our Regulated Operating Subsidiaries are subject to FERC’s exclusive jurisdiction for purposes of rate regulation, changes in state laws affecting other matters, such as transmission siting and construction, could limit investment opportunities available to us.

***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.***

If amounts billed for transmission service are lower than expected, which could result from lower network load or point-to-point transmission service on our Regulated Operating Subsidiaries’ transmission systems due to a weak economy, changes in the nature or composition of the transmission assets of our Regulated Operating Subsidiaries and surrounding areas, poor transmission quality of neighboring transmission systems, or for any other reason, the timing of the collection of our revenue requirement would likely be delayed until such circumstances

are adjusted through the true-up mechanism in our Regulated Operating Subsidiaries' formula rate templates. In addition, if the revenue requirements of our Regulated Operating Subsidiaries are higher than expected, due to higher actual expenditures compared to the forecasted expenditures used to develop their billing rates or for any other reason, the timing of the collection of our Regulated Operating Subsidiaries' revenue requirements would likely be delayed until such circumstances are reflected through the true-up mechanism in our Regulated Operating Subsidiaries' expected, formula rate templates. The effect of such under-collection would be to reduce the amount of our available cash resources from what we had expected, until such under-collection is corrected through the true-up mechanism in the formula rate template, which may require us to increase our outstanding indebtedness, thereby reducing our available borrowing capacity, and may require us to pay interest at a rate that exceeds the interest to which we are entitled in connection with the operation of the true-up mechanism.

***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.***

ITCTransmission derives a substantial portion of its revenues from the transmission of electricity to DTE Electric's local distribution facilities. DTE Electric accounted for approximately 66.8% of ITCTransmission's total billed revenues for the year ended December 31, 2014 and is expected to constitute the majority of ITCTransmission's revenues for the foreseeable future. DTE Electric is rated BBB+/stable and A2/stable by Standard & Poor's Ratings Services and Moody's Investors Services, Inc., respectively. Similarly, Consumers Energy accounted for approximately 77.4% of METC's total billed revenues for the year ended December 31, 2014 and is expected to constitute the majority of METC's revenues for the foreseeable future. Consumers Energy is rated BBB/stable and A3/stable by Standard & Poor's Ratings Services and Moody's Investors Service, Inc., respectively. Further, IP&L accounted for approximately 84.2% of ITC Midwest's total billed revenues for the year ended December 31, 2014 and is expected to constitute the majority of ITC Midwest's revenues for the foreseeable future. IP&L is rated A-/stable and A3/stable by Standard & Poor's Ratings Services and Moody's Investors Service, Inc., respectively. These percentages of total billed revenues of DTE Electric, Consumers Energy and IP&L include the collection of 2012 revenue accruals and deferrals and exclude any amounts for the 2014 revenue accruals and deferrals that were included in our 2014 operating revenues, but will not be billed to our customers until 2016 .

Any material failure by DTE Electric, Consumers Energy or IP&L to make payments for transmission services could have an adverse effect on our business, financial condition, results of operations and cash flows.

***A significant amount of the land on which our assets are located is subject to easements, mineral rights and other similar encumbrances. As a result, we 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.***

METC does not own the majority of the land on which its electric transmission assets are located. Instead, under the provisions of an Easement Agreement with Consumers Energy, METC pays annual rent of \$10.0 million to Consumers Energy in exchange for rights-of-way, leases, fee interests and licenses which allow METC to use the land on which its transmission lines are located. Under the terms of the Easement Agreement, METC's easement rights could be eliminated if METC fails to meet certain requirements, such as paying contractual rent to Consumers Energy in a timely manner. Additionally, a significant amount of the land on which our other subsidiaries' assets are located is subject to easements, mineral rights and other similar encumbrances. As a result, they must comply with the provisions of various easements, mineral rights and other similar encumbrances, which may adversely impact their ability to complete their construction projects in a timely manner.

***We contract with third parties to provide services for certain aspects of our business. If any of these agreements are terminated, we may face a shortage of labor or replacement contractors to provide the services formerly provided by these third parties.***

We enter into various agreements and arrangements with third parties to provide services for construction, maintenance and operations of certain aspects of our business, which, if terminated could result in a shortage of a readily available workforce to provide these services. If any of these agreements or arrangements is terminated for any reason, we may face difficulty finding a qualified replacement work force to provide such services, which could have an adverse effect on our ability to carry on our business and on our results of operations.

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

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

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

We 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 we currently own or operate. Such liabilities may arise even where the contamination does not result from noncompliance with applicable environmental laws. Under a number of environmental laws, such liabilities may also be joint and several, meaning that a party can be held responsible for more than its share of the liability involved, or even the entire share. Environmental requirements generally have become more stringent in recent years, and compliance with those requirements more expensive.

We have incurred expenses in connection with environmental compliance, and we anticipate that each will continue to do so in the future. Failure to comply with the extensive environmental laws and regulations applicable to each could result in significant civil or criminal penalties and remediation costs. Our assets and operations also involve the use of materials classified as hazardous, toxic, or otherwise dangerous. Some of our facilities and properties are located near environmentally sensitive areas such as wetlands and habitats of endangered or threatened species. In addition, certain properties in which we operate are, or are suspected of being, affected by environmental contamination. Compliance with these laws and regulations, and liabilities concerning contamination or hazardous materials, may adversely affect our costs and, therefore, our business, financial condition and results of operations.

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

***We 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.***

The various regulatory requirements to which we are subject include reliability standards established by the NERC, which acts as the nation's Electric Reliability Organization approved by the FERC in accordance with Section 215 of the FPA. These standards address operation, planning and security of the bulk power system, including requirements with respect to real-time transmission operations, emergency operations, vegetation management, critical infrastructure protection and personnel training. Failure to comply with these requirements can result in monetary penalties as well as non-monetary sanctions. Monetary penalties vary based on an assigned risk factor for each potential violation, the severity of the violation and various other circumstances, such as whether the violation was intentional or concealed, whether there are repeated violations, the degree of the violator's cooperation in investigating and remediating the violation and the presence of a compliance program. Penalty



amounts range from \$1,000 to a maximum of \$1.0 million per day, depending on the severity of the violation. Non-monetary sanctions include potential limitations on the violator's activities or operation and placing the violator on a watchlist for major violators. Despite our best efforts to comply and the implementation of a compliance program intended to ensure reliability, there can be no assurance that violations will not occur that would result in material penalties or sanctions. If any of our subsidiaries were to violate the NERC reliability standards, even unintentionally, in any material way, any penalties or sanctions imposed against us could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Certain of our subsidiaries are also subject to requirements under Sections 203 and 205 of the FPA for approval of transactions; reporting, recordkeeping and accounting requirements; and for filing contracts related to the provision of jurisdictional services. Under FERC policy, failure to file jurisdictional agreements on a timely basis may result in foregoing the time value of revenues collected under the agreement, but not to the point where a loss would be incurred. The failure to obtain timely approval of transactions subject to FPA Section 203, or to comply with applicable reporting, recordkeeping or accounting requirements under FPA Section 205, could subject us to penalties that could have a material adverse effect on our financial condition, results of operations and cash flows.

***Acts of war, terrorist attacks, cyber attacks, natural disasters, severe weather and other catastrophic events may have a material adverse effect on our business, financial condition, results of operations and cash flows.***

Acts of war, terrorist attacks, cyber attacks, natural disasters, severe weather and other catastrophic events may negatively affect our business, financial condition and cash flows in unpredictable ways, such as increased security measures and disruptions of markets. Energy related assets, including, for example, our transmission facilities and DTE Electric's, Consumers Energy's and IP&L's generation and distribution facilities that we interconnect with, may be at risk of acts of war, terrorist attacks, and cyber attacks, as well as natural disasters, severe weather and other catastrophic events. In addition to any physical damage caused by such events, cyber attacks targeting our information systems could impair our records, networks, systems and programs, or transmit viruses to other systems. Such events or the threat of such events may increase costs associated with heightened security requirements. In addition, such events or threats may have a material effect on the economy in general and could result in a decline in energy consumption, which may have a material adverse effect on our business, financial condition, results of operations and cash flows.

#### **Risks Relating to Our Corporate and Financial Structure**

***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.***

As a holding company with no business operations, ITC Holdings' material assets consist primarily of the stock and membership interests in our subsidiaries. Our only sources of cash to pay dividends to our shareholders are dividends and other payments received by us from time to time from our subsidiaries, the proceeds raised from the sale of our debt and equity securities and borrowings under our various credit agreements. Each of our subsidiaries, however, is legally distinct from us and has no obligation, contingent or otherwise, to make funds available to us for the payment of dividends to ITC Holdings' shareholders or otherwise. The ability of each of our Regulated Operating Subsidiaries and our other subsidiaries to pay dividends and make other payments to us is subject to, among other things, the availability of funds, after taking into account capital expenditure requirements, the terms of its indebtedness, applicable state laws and regulations of the FERC and the FPA. Our Regulated Operating Subsidiaries target a FERC-approved capital structure of 60% equity and 40% debt that may limit the ability of our Regulated Operating Subsidiaries to use net assets for the payment of dividends to ITC Holdings. While we currently intend to continue to pay quarterly dividends on our common stock, we have no obligation to do so. The payment of dividends is within the absolute discretion of our board of directors and will depend on, among other things, our results of operations, working capital requirements, capital expenditure requirements, financial condition, contractual restrictions, anticipated cash needs and other factors that our board of directors deems relevant.

***We have a considerable amount of debt and our reliance on debt financing may limit our ability to fulfill our debt obligations and/or to obtain additional financing.***

We have a considerable amount of debt and our consolidated indebtedness includes various debt securities and borrowings which utilize indentures and revolving and term loan credit agreements that we rely on as sources of capital and liquidity. This financing strategy can have several important consequences, including, but not limited to, the following:

- If future cash flows are insufficient, we may not be able to make principal or interest payments on our debt obligations, which could result in the occurrence of an event of default under one or more of those debt instruments.
- We may need to increase our indebtedness in order to make the capital expenditures and other expenses or investments planned by us.
- Our indebtedness has the general effect of reducing our flexibility to react to changing business and economic conditions insofar as they affect our financial condition and, therefore, may pose substantial risk to our shareholders. A substantial portion of the dividends and payments in lieu of taxes we receive from our subsidiaries will be dedicated to the payment of interest on our indebtedness, thereby reducing the funds available for working capital, capital expenditures and the payment of dividends on our common stock.
- In the event of bankruptcy, reorganization or liquidation, our senior or subordinated creditors and the senior or subordinated creditors of our subsidiaries will be entitled to payment in full prior to any distributions to the holders of shares of our common stock.
- We currently have debt instruments outstanding with relatively short remaining maturities. Our ability to secure additional financing prior to or after these facilities mature, if needed, may be substantially restricted by the existing level of our indebtedness and the restrictions contained in our debt instruments. Additionally, the interest rates at which we might secure additional financings may be higher than our currently outstanding debt instruments or higher than forecasted at any point in time, which could adversely affect our business, financial condition, results of operations and cash flows .
- Market conditions could affect our access to capital markets, restrict our ability to secure financing to make the capital expenditures and investments and pay other expenses planned by us which could adversely affect our business, financial condition, cash flows and results of operations.

We may incur substantial additional indebtedness in the future. The incurrence of additional indebtedness would increase the risks described above.

***Certain provisions in our debt instruments limit our financial and operating flexibility.***

Our debt instruments on a consolidated basis, including senior notes, secured notes, first mortgage bonds and revolving and term loan credit agreements , contain numerous financial and operating covenants that place significant restrictions on, among other things, our ability to:

- incur additional indebtedness;
- engage in sale and lease-back transactions;
- create liens or other encumbrances;
- enter into mergers, consolidations, liquidations or dissolutions, or sell or otherwise dispose of all or substantially all of our assets;
- create and acquire subsidiaries; and
- pay dividends or make distributions on our stock or on the stock or member capital of our subsidiaries.

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

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

Our ability to access capital markets is important to our ability to operate our business. Increased scrutiny of the energy industry and the impact of regulation, as well as changes in our financial performance and unfavorable conditions in the capital markets could result in credit agencies reexamining our credit ratings. A downgrade in our credit ratings could restrict or discontinue our ability to access capital markets at attractive rates and increase our borrowing costs. A rating downgrade could also increase the interest we pay under our revolving and term loan credit agreements .

***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.***

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

- a restriction limiting market participants from voting or owning 5% or more of the outstanding shares of our capital stock;
- a requirement that special meetings of our shareholders may be called only by our board of directors, the chairman of our board of directors, our president or the holders of a majority of the shares of our outstanding common stock;
- advance notice requirements for shareholder proposals and nominations; and
- the authority of our board to issue, without shareholder approval, common or preferred stock, including in connection with our implementation of any shareholders rights plan, or “poison pill.”

In addition, our revolving and term loan credit agreements provide that a change in a majority of ITC Holdings’ board of directors that is not approved by the current ITC Holdings’ directors or acquiring beneficial ownership of 35% or more of ITC Holdings outstanding common shares will constitute a default under those agreements.

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

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

**ITEM 1B. UNRESOLVED STAFF COMMENTS.**

None.



**ITEM 2. PROPERTIES.**

Our Regulated Operating Subsidiaries' transmission facilities are located in Michigan's Lower Peninsula and portions of Iowa, Minnesota, Illinois, Missouri, Kansas and Oklahoma. Our MISO Regulated Operating Subsidiaries have agreements with other utilities for the joint ownership of specific substations and transmission lines. See Note 15 to the consolidated financial statements.

ITCTransmission owns the assets of a transmission system and related assets, including:

- approximately 3,000 circuit miles of overhead and underground transmission lines rated at voltages of 120 kV to 345 kV;
- approximately 18,300 transmission towers and poles;
- station assets, such as transformers and circuit breakers, at 179 stations and substations which either interconnect ITCTransmission's transmission facilities or connect ITCTransmission's facilities with generation or distribution facilities owned by others;
- other transmission equipment necessary to safely operate the system (e.g., monitoring and metering equipment);
- warehouses and related equipment;
- associated land held in fee, rights of way and easements;
- an approximately 188,000 square-foot corporate headquarters facility and operations control room in Novi, Michigan, including furniture, fixtures and office equipment; and
- an approximately 40,000 square-foot facility in Ann Arbor, Michigan that includes a back-up operations control room.

ITCTransmission's First Mortgage Bonds are issued under ITCTransmission's first mortgage and deed of trust. As a result, the bondholders have the benefit of a first mortgage lien on substantially all of ITCTransmission's property.

METC owns the assets of a transmission system and related assets, including:

- approximately 5,600 circuit miles of overhead transmission lines rated at voltages of 120 kV to 345 kV;
- approximately 36,900 transmission towers and poles;
- station assets, such as transformers and circuit breakers, at 100 stations and substations which either interconnect METC's transmission facilities or connect METC's facilities with generation or distribution facilities owned by others;
- other transmission equipment necessary to safely operate the system (e.g., monitoring and metering equipment); and
- warehouses and related equipment.

METC's Senior Secured Notes are issued under METC's first mortgage indenture. As a result, the noteholders have the benefit of a first mortgage lien on substantially all of METC's property.

METC does not own the majority of the land on which its assets are located, but under the provisions of its Easement Agreement with Consumers Energy, METC has an easement to use the land, rights-of-way, leases and licenses in the land on which its transmission lines are located that are held or controlled by Consumers Energy. See "Item 1 Business — Operating Contracts — METC — Amended and Restated Easement Agreement."

ITC Midwest owns the assets of a transmission system and related assets, including:

- approximately 6,600 circuit miles of transmission lines rated at voltages of 34.5 kV to 345 kV;
- transmission towers and poles;
- station assets, such as transformers and circuit breakers, at approximately 271 stations and substations which either interconnect ITC Midwest's transmission facilities or connect ITC Midwest's facilities with generation or distribution facilities owned by others;

- other transmission equipment necessary to safely operate the system (e.g., monitoring and metering equipment);
- warehouses and related equipment; and
- associated land held in fee, rights of way and easements.

ITC Midwest's First Mortgage Bonds are issued under ITC Midwest's first mortgage and deed of trust. As a result, the bondholders have the benefit of a first mortgage lien on substantially all of ITC Midwest's property.

ITC Great Plains owns transmission and related assets including:

- approximately 440 miles of transmission lines rated at a voltage of 345 kV;
- approximately 1,900 transmission towers and poles;
- station assets, such as transformers and circuit breakers, at 8 stations and substations which either interconnect ITC Great Plains' transmission facilities or connect ITC Great Plains' facilities with transmission, generation or distribution facilities owned by others;
- other transmission equipment necessary to safely operate the system (e.g., monitoring and metering equipment); and
- associated land held in fee, rights of way and easements.

ITC Great Plains' First Mortgage Bonds are issued under ITC Great Plains' first mortgage and deed of trust. As a result, the bondholders have the benefit of a first mortgage lien on substantially all of ITC Great Plains' property.

The assets of our Regulated Operating Subsidiaries are suitable for electric transmission and adequate for the electricity demand in our service territory. We prioritize capital spending based in part on meeting reliability standards within the industry. This includes replacing and upgrading existing assets as needed.

### **ITEM 3. LEGAL PROCEEDINGS.**

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.

Refer to Notes 4 and 16 to the consolidated financial statements for a description of certain pending legal proceedings, which is incorporated herein by reference.

### **ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

## PART II

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.**

**Stock Price and Dividends**

Our common stock is traded on the NYSE under the symbol "ITC". As of February 20, 2015, there were approximately 802 shareholders of record of our common stock.

The following tables set forth the high and low sales price per share of the common stock for each full quarterly period in 2014 and 2013, as reported on the NYSE, and the cash dividends per share paid during the periods indicated.

<u>Year Ended December 31, 2014</u>	<u>High</u>	<u>Low</u>	<u>Dividends</u>
Quarter ended December 31, 2014	\$ 42.01	\$ 34.05	\$ 0.1625
Quarter ended September 30, 2014	38.14	34.60	0.1625
Quarter ended June 30, 2014	38.43	34.26	0.1425
Quarter ended March 31, 2014	37.41	31.18	0.1425
<u>Year Ended December 31, 2013</u>	<u>High</u>	<u>Low</u>	<u>Dividends</u>
Quarter ended December 31, 2013	\$ 35.58	\$ 29.92	\$ 0.1417
Quarter ended September 30, 2013	33.11	28.60	0.1417
Quarter ended June 30, 2013	31.23	28.24	0.1258
Quarter ended March 31, 2013	29.80	25.54	0.1258

The declaration and payment of dividends is subject to the discretion of ITC Holdings' board of directors and depends on various factors, including our net income, financial condition, cash requirements, future prospects and other factors deemed relevant by ITC Holdings' board of directors. As a holding company with no business operations, ITC Holdings' material assets consist primarily of the common stock or ownership interests in its subsidiaries. ITC Holdings' material cash inflows are only from dividends and other payments received from time to time from its subsidiaries and the proceeds raised from the sale of debt and equity securities. ITC Holdings may not be able to access cash generated by its subsidiaries in order to pay dividends to shareholders. The ability of ITC Holdings' subsidiaries to make dividend and other payments to ITC Holdings is subject to the availability of funds after taking into account the subsidiaries' funding requirements, the terms of the subsidiaries' indebtedness, the regulations of the FERC under FPA and applicable state laws. The debt agreements to which we are parties contain numerous financial covenants that could limit ITC Holdings' ability to pay dividends, as well as covenants that prohibit ITC Holdings from paying dividends if we are in default under our term loan credit facility. Further, each of our subsidiaries is legally distinct from ITC Holdings and has no obligation, contingent or otherwise, to make funds available to ITC Holdings.

On February 6, 2014, our board of directors declared a three-for-one split of our common stock to be accomplished by means of a stock distribution. The additional shares were distributed on February 28, 2014, to the shareholders of record on February 18, 2014. The share and per share data in this Form 10-K reflect this stock split. See further discussion in Note 13 to the consolidated financial statements.

The board of directors intends to increase the dividend rate from time to time as necessary to maintain an appropriate dividend payout ratio, subject to prevailing business conditions, applicable restrictions on dividend payments, the availability of capital resources and our investment opportunities.

The transfer agent for the common stock is Computershare Trust Company, N.A., P.O. Box 43078 Providence, RI 02940-3078.

In addition, the information contained in the Equity Compensation table under "Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" of this report is incorporated herein by reference.

**Stock Repurchases**

The following table sets forth, the repurchases of common stock for the quarter ended December 31, 2014 :

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program (2)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (in millions) (2)
October 2014	771	\$ 36.59	—	\$ 146.0
November 2014	872	37.99	—	146.0
December 2014	653,358	36.56	651,120	120.0
Total	655,001	\$ 36.57	651,120	

(1) Shares purchased other than those purchased as part of a publicly announced plan were delivered to us by employees as payment of tax withholding obligations due to us upon the vesting of restricted stock.

(2) In April 2014, our board of directors authorized a share repurchase program for up to \$250.0 million of common stock, which expires in December 2015. Pursuant to such authorization, on June 19, 2014, ITC Holdings entered into an accelerated share repurchase agreement with JP Morgan Chase (“ASR program”) for up to \$150.0 million , with a minimum commitment of \$130.0 million , under which ITC Holdings was delivered 2.9 million shares with a fair market value of \$104.0 million at the commencement of the ASR program. On December 22, 2014, the ASR program was settled for \$130.0 million and ITC Holdings received an additional 651,120 shares as determined by the volume-weighted average share price during the term of the ASR program less an agreed upon discount and adjusted for the initial share delivery. See Note 13 to the consolidated financial statements for detailed discussion on the ASR program.

**ITEM 6. SELECTED FINANCIAL DATA.**

The selected historical financial data presented below should be read together with our consolidated financial statements and the notes to those statements and "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations," included elsewhere in this Form 10-K.

(In thousands, except per share data)	ITC Holdings and Subsidiaries				
	Year Ended December 31,				
	2014	2013	2012	2011	2010
<b>OPERATING REVENUES (a) (b)</b>	\$ 1,023,048	\$ 941,272	\$ 830,535	\$ 757,397	\$ 696,843
<b>OPERATING EXPENSES</b>					
Operation and maintenance	111,623	112,821	121,941	129,288	126,528
General and administrative (c)	115,031	149,109	112,091	82,790	78,120
Depreciation and amortization	128,036	118,596	106,512	94,981	86,976
Taxes other than income taxes	76,534	65,824	59,701	53,430	48,195
Other operating income and expense — net	(1,005)	(1,139)	(769)	(844)	(297)
Total operating expenses	430,219	445,211	399,476	359,645	339,522
<b>OPERATING INCOME</b>	592,829	496,061	431,059	397,752	357,321
<b>OTHER EXPENSES (INCOME)</b>					
Interest expense	186,636	168,319	155,734	146,936	142,553
Allowance for equity funds used during construction	(20,825)	(30,159)	(23,000)	(16,699)	(13,412)
Loss on extinguishment of debt	29,205	—	—	—	—
Other income	(1,103)	(1,038)	(2,401)	(2,881)	(2,340)
Other expense	4,511	6,571	4,218	3,962	2,588
Total other expenses (income)	198,424	143,693	134,551	131,318	129,389
<b>INCOME BEFORE INCOME TAXES</b>	394,405	352,368	296,508	266,434	227,932
<b>INCOME TAX PROVISION</b>	150,322	118,862	108,632	94,749	82,254
<b>NET INCOME</b>	\$ 244,083	\$ 233,506	\$ 187,876	\$ 171,685	\$ 145,678
Basic earnings per share (d)	\$ 1.56	\$ 1.49	\$ 1.22	\$ 1.12	\$ 0.96
Diluted earnings per share (d)	\$ 1.54	\$ 1.47	\$ 1.20	\$ 1.10	\$ 0.95
Dividends declared per share (d)	\$ 0.610	\$ 0.535	\$ 0.487	\$ 0.458	\$ 0.437

(In thousands)	ITC Holdings and Subsidiaries				
	As of December 31,				
	2014	2013	2012	2011	2010
<b>BALANCE SHEET DATA:</b>					
Cash and cash equivalents	\$ 27,741	\$ 34,275	\$ 26,187	\$ 58,344	\$ 95,109
Working capital (deficit)	(276,198)	(307,841)	(805,085)	(113,939)	69,338
Property, plant and equipment — net	5,496,875	4,846,526	4,134,579	3,415,823	2,872,277
Goodwill	950,163	950,163	950,163	950,163	950,163
Total assets	6,974,089	6,282,243	5,564,809	4,823,366	4,307,873
Debt:					
ITC Holdings	2,135,244	1,881,918	1,689,619	1,459,599	1,459,178
Regulated Operating Subsidiaries	1,968,342	1,730,194	1,457,608	1,185,423	1,037,718
Total debt	4,103,586	3,612,112	3,147,227	2,645,022	2,496,896
Total stockholders' equity	\$ 1,669,557	\$ 1,613,732	\$ 1,414,855	\$ 1,258,892	\$ 1,117,433

(In thousands)	ITC Holdings and Subsidiaries				
	Year Ended December 31,				
	2014	2013	2012	2011	2010
<b>CASH FLOWS DATA:</b>					

Expenditures for property, plant and equipment    \$    733,145    \$    821,588    \$    802,763    \$    556,931    \$    388,401

- (a) During 2014, we recognized an aggregate estimated regulatory liability for the potential refunds relating to the rate of return on equity and capital structure complaint as described in Note 16 to the consolidated financial statements, which resulted in a reduction in operating revenues of \$46.9 million .
- (b) During 2012, we initially recognized the FERC audit refund liability, which resulted in a reduction in operating revenues of \$11.0 million . See Note 16 to the consolidated financial statements for discussion on the FERC audit refund.
- (c) During 2014, 2013, 2012 and 2011, we expensed external legal, advisory and financial services fees of \$0.4 million , \$43.1 million , \$19.4 million and \$7.0 million , respectively, relating to the Entergy Transaction recorded within general and administrative expenses as discussed in Note 17 to the consolidated financial statements.
- (d) Per share data reflect the three-for-one stock split that occurred on February 28, 2014. See further discussion on the stock split in Note 13 to the consolidated financial statements.

**ITEM 7.        *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 this report under "Item 1A Risk Factors" and in our other reports filed with the SEC from time to time.

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 likewise intended to improve overall grid reliability, reduce transmission constraints and facilitate interconnections of new generating resources, as well as enhance competitive wholesale electricity markets.

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 “Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations — 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 DTE Electric, 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 year ended December 31, 2014 or may affect future results include:

- Our capital investments of \$793.5 million at our Regulated Operating Subsidiaries ( \$252.3 million , \$126.4 million , \$286.3 million and \$128.5 million at ITCTransmission, METC, ITC Midwest and ITC Great Plains, respectively) for the year ended December 31, 2014 , resulting primarily from our focus on improving system reliability, increasing system capacity and upgrading the transmission network to support new generating resources;
- Debt issuances as described in Note 8 to the consolidated financial statements and borrowings under our revolving and term loan credit agreements in 2014 and 2013 to fund capital investment at our Regulated Operating Subsidiaries, resulting in higher interest expense;
- Debt maturing within one year and the interest rates associated with the additional financing required as discussed in Note 8 to the consolidated financial statements;
- Loss on extinguishment of debt of \$29.2 million related to the tender of ITC Holdings Senior Notes as described in Note 8 to the consolidated financial statements;
- Recognition of estimated contingent liability of \$47.8 million for the potential refunds, including interest, relating to the rate of return on equity and capital structure complaint as described in Note 16 to the consolidated financial statements; and
- Repurchases of common stock of \$130.0 million during 2014 under the ASR program as described in Note 13 to the consolidated financial statements.

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

### **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 their cost-based formula rate templates, each of our Regulated Operating Subsidiaries separately calculates a revenue requirement based on financial information specific to each company. The calculation of projected revenue requirement for a future period is used to establish the transmission rate used for billing purposes. The calculation of actual revenue requirements for a historic period is used to calculate the amount of revenues recognized in that period and to calculate the over- or under-collection for that period.

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 for a given year initially 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.

*Illustration of Formula Rate Setting*

Line	Item	Instructions	Amount
1	Rate base (a)		\$ 1,000,000
2	Multiply by 13-month weighted average cost of capital (b)		9.43%
3	Allowed return on rate base	(Line 1 x Line 2)	\$ 94,300
4	Recoverable operating expenses (including depreciation and amortization)		\$ 150,000
5	Income taxes		50,000
6	Gross revenue requirement	(Line 3 + Line 4 + Line 5)	\$ 294,300

(a) Consists primarily of in-service property, plant and equipment, net of accumulated depreciation.

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

	Percentage of Total Capitalization	Cost of Capital	Weighted Average Cost of Capital
Debt	40.00%	5.00% =	2.00%
Equity	60.00%	12.38% =	7.43%
	<u>100.00%</u>		<u>9.43%</u>

**Revenue Accruals and Deferrals — 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 accruals and deferrals 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 cost-based 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. 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.

ITC Great Plains does not receive revenue based on a peak load or a dollar amount per kW each month and therefore peak load does not have a seasonal effect on operating cash flows. The SPP tariff applicable to ITC Great Plains is billed ratably each month based on its annual projected revenue requirement posted annually by SPP.

**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 increased rate base that would result from our anticipated capital investment, in excess of depreciation, from 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. In addition, our capital investment efforts relating to development initiatives are based on establishing an ongoing

pipeline of projects that would 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. The FERC requires compliance with certain reliability standards and may take enforcement actions against violators, including fines of up to \$1.0 million per day. NERC is responsible for developing and enforcing these mandatory reliability standards. We continually assess our transmission systems against standards established by NERC, as well as the standards of applicable regional entities under 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.

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:

Source of Investment	Long-term Capital Investment Program 2014-2018	Actual Capital Investment for the Year Ended December 31, 2014 (a)	Forecasted Capital Investment for the Year Ending December 31, 2015
<b>(In millions)</b>			
ITCTransmission	\$ 647	\$ 252.3	\$170 — 200
METC	546	126.4	150 — 170
ITC Midwest (b)	1,991	286.3	380 — 405
ITC Great Plains	194	128.5	10 — 25
Development and other (c)	1,122	0.5	0 — 10
Total	<u>\$ 4,500</u>	<u>\$ 794.0</u>	<u>\$710 — 810</u>

(a) Capital investment amounts differ from cash expenditures for property, plant and equipment included in our consolidated statements of cash flows due in part to differences in construction costs incurred compared 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.

(b) ITC Midwest’s investment program includes the 2011 MISO MVPs as discussed below under “Capital Project Updates and Other Recent Developments — North Central Region Development.”

(c) Refer to “Item 1 Business — Development of Business — Development Projects” for discussion on our development projects.

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 any necessary financing for such expenditures, 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 and other factors beyond our control.

## **Capital Project Updates and Other Recent Developments**

### ***Thumb Loop Project***

The Thumb Loop Project, an additional MVP, 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. Phase 1 of the Thumb Loop Project, consisting of 62 miles of 345 kV transmission facilities has been placed into service. Phase 2, consisting of approximately 20 miles, was placed into service in May 2014. Through December 31, 2014, ITCTransmission has invested \$465.8 million in the Thumb Loop Project. We estimate ITCTransmission will invest a total of approximately \$510 million in the project, which is currently anticipated to be completed in 2015.

### ***ITC Great Plains***

#### ***Kansas V-Plan Project***

The Kansas V-Plan Project is a 200-mile transmission line that runs between Spearville and Wichita, Kansas. ITC Great Plains was 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 the project was placed in-service in 2014. Through December 31, 2014, ITC Great Plains invested \$315.0 million in the Kansas V-Plan Project and does not expect the remaining investment to be material.

#### ***Regulatory Assets***

As of December 31, 2014, we have recorded approximately \$14.1 million of regulatory assets for start-up, development and pre-construction expenses, including associated interest carrying charges, incurred by ITC Great Plains, which include certain costs incurred for the KETA and the Kansas V-Plan Projects 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 granting such authority, ITC Great Plains made a filing with the FERC under Section 205 of the FPA in May 2013 to recover these start-up, development and pre-construction expenses, including associated carrying charges, in future rates. If FERC authorization is received, ITC Great Plains will include the unamortized 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.

### ***North Central Region Development***

In December 2011, MISO approved a portfolio of MVPs which includes portions of four MVPs that we will construct, own and operate. The four MVPs are located in south central Minnesota, northern and southeast Iowa, southwest Wisconsin, and northeast Missouri and will be constructed by ITC Midwest. We currently estimate we will invest approximately \$800 million in our portions of the MVPs from 2014 through 2018.

### ***Development Bonuses***

During 2014, 2013 and 2012, we recognized general and administrative expenses of \$2.7 million, \$3.4 million and \$2.9 million, respectively, for bonuses for certain development projects, including the successful completion of certain milestones relating to projects at ITC Great Plains. Development-related bonuses may be authorized and awarded in the future related to development projects.

### ***Rate of Return on Equity and Capital Structure Complaint***

In November 2013, certain parties filed a joint complaint with the FERC under Section 206 of the FPA (the "Complaint"), requesting that the FERC find the current 12.38% MISO regional base ROE rate for all MISO TOs, including ITCTransmission, METC and ITC Midwest to no longer be just and reasonable. The complainants sought a FERC order reducing the regional base ROE rate used in our MISO Regulated Operating Subsidiaries' formula transmission rates to 9.15%, reducing the equity component of our capital structure from the FERC approved 60% to 50% and terminating the ROE adders currently approved for certain ITC Holdings operating companies, including adders currently utilized by ITCTransmission and METC.

We believe that the current ROE encourages transmission investment and offsets the burdens associated with maintaining the independent transmission business model and RTO membership. ITCTransmission, METC and ITC Midwest filed responses during the first quarter of 2014, separately and together with other MISO TOs, that

seek dismissal of the Complaint for its failure to satisfy the requirements of FPA Section 206 and the FERC's accompanying Rules, or denial of the Complaint on the merits, with prejudice.

On October 16, 2014, FERC granted the complainants' request in part by setting the MISO regional base ROE rate for hearing and settlement procedures, while denying all other aspects of the Complaint. FERC found the complainants failed to show that the use of actual or FERC-approved capital structures that include more than 50% equity are unjust and unreasonable. FERC also denied the request to terminate ITCTransmission's and METC's ROE incentives. The order again reiterates that any TO's total ROE rate is limited by the top end of a zone of reasonableness and the TO's ability to implement the full amount of previously granted ROE adders may be affected by the outcome of the hearing. FERC set the refund effective date as November 12, 2013.

During the fourth quarter of 2014, the MISO TOs engaged in the ordered FERC settlement procedures with the complainants but were not able to reach resolution. On January 5, 2015, the Chief Judge issued an order which terminated settlement procedures and set the matter for hearing. The order established a schedule for the proceeding for a hearing within 32 weeks of the order and an initial decision within 47 weeks of the order. We expect FERC to establish a new base ROE rate to determine any refund liability for the period of November 12, 2013 through February 11, 2015 (the "Initial Refund Period"). The new base ROE rate as well as any ROE adders, subject to the limitations of the top end of any zone of reasonableness that is established, are expected to be used to calculate the refund liability for the Initial Refund Period.

We believe it is probable that a refund will be required for the Initial Refund Period, and the estimated range of refunds is expected to be from \$47.8 million to \$88.1 million for the period from November 12, 2013 through December 31, 2014. During the fourth quarter of 2014, ITCTransmission, METC, and ITC Midwest recorded an aggregate estimated regulatory liability of \$47.8 million for the potential refunds as of December 31, 2014, as there is no best estimate within the range of refunds. This amount has been recorded as a reduction of revenues of \$46.9 million and an increase in interest expense of \$0.9 million in the consolidated statements of operations, and resulted in an estimated after-tax reduction of net income of \$28.9 million for the year ended December 31, 2014. Based on the estimated range of refunds identified above, we believe that it is reasonably possible that this matter could result in an additional pre-tax refund of up to \$40.3 million (or a \$24.4 million after-tax reduction of net income) in excess of the amount recorded as of December 31, 2014. It is also possible the outcome of this matter could differ from the estimated range of losses and materially affect our results of operations due to the uncertainty of the calculation of an authorized ROE rate along with the zone of reasonableness under the newly adopted two-step DCF methodology, which is subject to significant discretion by the FERC.

In a separate but related matter, in November 2014, METC, ITC Midwest and other MISO TOs filed a request with FERC under FPA Section 205 for authority to include a 50 basis point incentive adder for RTO participation in each of the TOs' formula rates. On January 5, 2015, FERC approved the use of this incentive adder, effective January 6, 2015. These adders would be applied to METC's and ITC Midwest's base ROE rates in establishing their total authorized ROE rates, subject to the limitations of the top end of any zone of reasonableness that is established. Additionally, on January 30, 2015, ITC Midwest filed a request with FERC under FPA Section 205 for authority to include a 100 basis point incentive adder for independent transmission ownership, which is currently authorized for ITCTransmission and METC. Finally, on February 12, 2015, an additional complaint was filed under Section 206 of the FPA seeking a FERC order reducing the regional base ROE rate used in our MISO Regulated Operating Subsidiaries' formula transmission rates to 8.67%, to be effective for the period beginning February 12, 2015.

### ***Stock Split***

On February 6, 2014, our board of directors declared a three-for-one split of our common stock that occurred on February 28, 2014. The share and per share data in this Form 10-K reflect this stock split. See further discussion in Note 13 to the consolidated financial statements.

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

### ***Revenues***

We derive nearly all of our revenues from providing transmission, scheduling, control and dispatch services and other related services over our Regulated Operating Subsidiaries' transmission systems to DTE Electric, Consumers Energy, 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. MISO and SPP are responsible for billing and collecting the majority of transmission service revenues. As the billing agent for our Regulated Operating Subsidiaries, MISO and SPP collect fees for the use of our transmission systems, invoicing DTE Electric, Consumers Energy, IP&L and other customers on a monthly basis.

**Network Revenues** are generated from network customers for their use of our electric transmission systems and consist of both billed network revenues and accrued or deferred revenues as a result of our accounting under our cost-based formula rates that contain a true-up mechanism. Refer to “Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Revenue Recognition under Cost-Based Formula Rates with True-Up Mechanisms” for a discussion of revenue recognition relating to network revenues. The monthly network revenues billed to customers using the transmission facilities of our MISO Regulated Operating Subsidiaries are the result of a calculation which can be simplified into the following:

- (1) **multiply** the network load measured in kW achieved during the one hour of monthly peak usage for our transmission systems by the appropriate monthly tariff rate by 12 by the number of days in that month; and
- (2) **divide** the result by 365.

Network revenues from ITC Great Plains include the annual revenue requirements specific to projects that are charged exclusively within one pricing zone within SPP or are classified as direct assigned network upgrades under the SPP tariff and contain a true-up mechanism. Our annual projected project revenue requirements at ITC Great Plains are billed ratably each month and therefore peak usage does not impact its billed network transmission revenues.

**Point-to-Point Revenues** consist of revenues generated from a type of transmission service for which the customer pays for transmission capacity reserved along a specified path between two points on an hourly, daily, weekly or monthly basis. Point-to-point revenues also include other components pursuant to schedules under the MISO and SPP transmission tariffs. Point-to-point revenues are treated as a revenue credit to network or regional customers and are a reduction to gross revenue requirement when calculating net revenue requirement under our cost-based formula rates.

**Regional Cost Sharing Revenues** are generated from transmission customers throughout RTO regions for their use of our MISO Regulated Operating Subsidiaries’ network upgrade projects that are eligible for regional cost sharing under provisions of the MISO tariff, including MVP projects such as the Thumb Loop Project. Regional cost sharing revenue also includes revenues collected by transmission customers from other RTOs outside of MISO to allocate costs of certain transmission plant investments. Additionally, certain projects at ITC Great Plains are eligible for recovery through a region-wide charge under provisions of the SPP tariff. Regional cost sharing revenues consist of both billed regional cost sharing revenues and accrued or deferred revenues as a result of our accounting under our cost-based formula rates that contain a true-up mechanism. The amount of the regional cost sharing revenue accruals (deferrals) is estimated for each reporting period until such time as the regional cost sharing formula rate templates based on actual costs are completed for each of our Regulated Operating Subsidiaries during the following year. A portion of regional cost sharing revenues is not subject to a direct true-up but instead is treated as a revenue credit to regional or network customers and is a reduction to gross revenue requirement when calculating net revenue requirement under our cost-based formula rates.

**Scheduling, Control and Dispatch Revenues** are allocated to our MISO Regulated Operating Subsidiaries by MISO as compensation for the services performed in operating the transmission system. Such services include monitoring of reliability data, current and next day analysis, implementation of emergency procedures and outage coordination and switching. Beginning in 2013, certain scheduling, control and dispatch revenues became subject to a true-up mechanism at our MISO Regulated Operating Subsidiaries that ensures that our MISO Regulated Operating Subsidiaries recover their allowed costs.

**Other Revenues** consist of rental revenues, easement revenues, revenues relating to utilization of jointly owned assets under our transmission ownership and operating agreements and amounts from providing ancillary services to customers. The majority of other revenues are treated as a revenue credit and are a reduction to gross revenue requirement when calculating net revenue requirement under our cost-based formula rates.

### ***Operating Expenses***

**Operation and Maintenance Expenses** consist primarily of the costs of contractors to operate and maintain our transmission systems and costs for our personnel involved in operation and maintenance activities.

Operation expenses include activities related to control area operations, which involve balancing loads and generation and transmission system operations activities, including monitoring the status of our transmission lines and stations. Rental expenses relating to land easements, including METC's Easement Agreement, are also recorded within operation expenses.

Maintenance expenses include preventive or planned maintenance, such as vegetation management, tower painting and equipment inspections, as well as reactive maintenance for equipment failures.

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

**Depreciation and Amortization Expenses** consist primarily of depreciation of property, plant and equipment using the straight-line method of accounting. Additionally, this consists of amortization of various regulatory and intangible assets.

**Taxes Other than Income Taxes** consist primarily of property taxes and payroll taxes.

### ***Other Items of Income or Expense***

**Interest Expense** consists primarily of interest on debt at ITC Holdings and our Regulated Operating Subsidiaries. Additionally, the amortization of debt financing expenses is recorded to interest expense. An allowance for borrowed funds used during construction is included in property, plant and equipment accounts and is a reduction to interest expense. The amortization of gains and losses on settled and terminated derivative financial instruments is also recorded to interest expense.

**Allowance for Equity Funds Used During Construction ("AFUDC equity")** is recorded as an item of other income and is included in property, plant and equipment accounts. The allowance represents a return on equity at our Regulated Operating Subsidiaries used for construction purposes in accordance with FERC regulations. The capitalization rate applied to the construction work in progress balance is based on the proportion of equity to total capital (which currently includes equity and long-term debt) and the allowed return on equity for our Regulated Operating Subsidiaries.

### ***Income Tax Provision***

Income tax provision consists of current and deferred federal and state income taxes.



## Results of Operations

The following table summarizes historical operating results for the periods indicated:

(In thousands)	Year Ended December 31,		Increase (Decrease)	Percentage Increase (Decrease)	Year Ended December 31,		Percentage Increase (Decrease)
	2014	2013			2012	Increase (Decrease)	
OPERATING REVENUES	\$ 1,023,048	\$ 941,272	\$ 81,776	8.7%	\$ 830,535	\$ 110,737	13.3%
OPERATING EXPENSES							
Operation and maintenance	111,623	112,821	(1,198)	(1.1)%	121,941	(9,120)	(7.5)%
General and administrative	115,031	149,109	(34,078)	(22.9)%	112,091	37,018	33.0%
Depreciation and amortization	128,036	118,596	9,440	8.0%	106,512	12,084	11.3%
Taxes other than income taxes	76,534	65,824	10,710	16.3%	59,701	6,123	10.3%
Other operating income and expenses — net	(1,005)	(1,139)	134	(11.8)%	(769)	(370)	48.1%
Total operating expenses	430,219	445,211	(14,992)	(3.4)%	399,476	45,735	11.4%
OPERATING INCOME	592,829	496,061	96,768	19.5%	431,059	65,002	15.1%
OTHER EXPENSES (INCOME)							
Interest expense	186,636	168,319	18,317	10.9%	155,734	12,585	8.1%
Allowance for equity funds used during construction	(20,825)	(30,159)	9,334	(30.9)%	(23,000)	(7,159)	31.1%
Loss on extinguishment of debt	29,205	—	29,205	n/a	—	—	n/a
Other income	(1,103)	(1,038)	(65)	6.3%	(2,401)	1,363	(56.8)%
Other expense	4,511	6,571	(2,060)	(31.3)%	4,218	2,353	55.8%
Total other expenses (income)	198,424	143,693	54,731	38.1%	134,551	9,142	6.8%
INCOME BEFORE INCOME TAXES	394,405	352,368	42,037	11.9%	296,508	55,860	18.8%
INCOME TAX PROVISION	150,322	118,862	31,460	26.5%	108,632	10,230	9.4%
NET INCOME	\$ 244,083	\$ 233,506	\$ 10,577	4.5%	\$ 187,876	\$ 45,630	24.3%

### Operating Revenues

Year ended December 31, 2014 compared to year ended December 31, 2013

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

(In thousands)	2014		2013		Increase (Decrease)	Percentage Increase (Decrease)
	Amount	Percentage	Amount	Percentage		
Network revenues	\$ 763,954	74.7 %	\$ 726,161	77.1%	\$ 37,793	5.2%
Regional cost sharing revenues	265,294	25.9 %	177,364	18.8%	87,930	49.6%
Point-to-point	17,788	1.7 %	17,312	1.8%	476	2.7%
Scheduling, control and dispatch	12,466	1.2 %	12,226	1.3%	240	2.0%
Other	10,456	1.0 %	8,209	1.0%	2,247	27.4%
Recognition of contingent liability for return on equity complaint	(46,910)	(4.5)%	—	—%	(46,910)	n/a
Total	\$ 1,023,048	100.0 %	\$ 941,272	100.0%	\$ 81,776	8.7%

Network revenues increased due primarily to higher net revenue requirements at our Regulated Operating Subsidiaries during the year ended December 31, 2014 as compared to 2013. Higher net revenue requirements were due primarily to higher rate bases associated with higher balances of property, plant and equipment in-service in 2014.

Regional cost sharing revenues increased due primarily to additional capital projects that have been identified by MISO and SPP as eligible for regional cost sharing and these projects being placed in-service.

The recognition of the estimated contingent liability for potential refunds relating to the return on equity complaint resulted in a reduction to operating revenues of \$46.9 million during the fourth quarter of 2014 as described in





Note 16 to the consolidated financial statements. We are not able to estimate whether any required refunds would be applied to all components of revenues listed in the table above or only certain components.

Operating revenues for the years ended December 31, 2014 and 2013 include revenue accruals and deferrals as described in Note 4 to the consolidated financial statements.

*Year ended December 31, 2013 compared to year ended December 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	\$ 726,161	77.1%	\$ 669,048	80.6%	\$ 57,113	8.5 %
Regional cost sharing revenues	177,364	18.8%	122,626	14.8%	54,738	44.6 %
Point-to-point	17,312	1.8%	17,439	2.1%	(127)	(0.7)%
Scheduling, control and dispatch	12,226	1.3%	15,077	1.8%	(2,851)	(18.9)%
Other	8,209	1.0%	6,345	0.7%	1,864	29.4 %
Total	<u>\$ 941,272</u>	<u>100.0%</u>	<u>\$ 830,535</u>	<u>100.0%</u>	<u>\$ 110,737</u>	<u>13.3 %</u>

Network revenues increased due primarily to higher net revenue requirements at our Regulated Operating Subsidiaries during the year ended December 31, 2013 as compared to 2012. Higher net revenue requirements were due primarily to higher rate bases associated with higher balances of property, plant and equipment in-service in 2013 and lower revenues in 2012 resulting from the initial recognition of the FERC audit refund as described in Note 16 to the consolidated financial statements.

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.

Scheduling, control and dispatch revenues decreased due primarily to the true-up mechanism initially implemented in 2013.

Operating revenues for the years ended December 31, 2013 and 2012 include revenue accruals and deferrals as described in Note 4 to the consolidated financial statements.

### **Operating Expenses**

#### *Operation and maintenance expenses*

*Year ended December 31, 2014 compared to year ended December 31, 2013*

Operation and maintenance expenses decreased due primarily to lower vegetation management requirements of \$1.4 million .

*Year ended December 31, 2013 compared to year ended December 31, 2012*

Operation and maintenance expenses decreased due to lower vegetation management requirements of \$4.8 million , lower NERC compliance activities associated with surveying transmission overhead lines of \$2.8 million and lower expenses associated with overhead line maintenance activities of \$1.5 million .

#### *General and administrative expenses*

*Year ended December 31, 2014 compared to year ended December 31, 2013*

General and administrative expenses decreased by \$42.7 million due to legal, advisory and financial services fees incurred in the prior period relating to the terminated Entergy Transaction. The decrease was partially offset by higher professional services such as legal, advisory and financial services fees primarily for various development initiatives of \$8.2 million unrelated to the Entergy Transaction .

*Year ended December 31, 2013 compared to year ended December 31, 2012*

General and administrative expenses increased by \$23.7 million due to higher legal, advisory and financial services fees for the Entergy Transaction, \$6.7 million due to higher compensation-related expenses primarily for personnel additions and \$3.2 million due to an increase in other professional services such as legal, advisory and financial services fees.

*Depreciation and amortization expenses*

*Year ended December 31, 2014 compared to year ended December 31, 2013*

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

*Year ended December 31, 2013 compared to year ended December 31, 2012*

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

*Taxes other than income taxes*

*Year ended December 31, 2014 compared to year ended December 31, 2013*

Taxes other than income taxes increased due to higher property tax expenses primarily due to our Regulated Operating Subsidiaries' 2013 capital additions, which are included in the assessments for 2014 property taxes.

*Year ended December 31, 2013 compared to year ended December 31, 2012*

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

**Other expenses (income)**

*Year ended December 31, 2014 compared to year ended December 31, 2013*

Interest expense increased primarily due to interest associated with the long-term debt issuances at ITC Holdings and the Regulated Operating Subsidiaries which were used for refinancing of current debt maturities and general corporate purposes as described in Note 8 to the consolidated financial statements.

AFUDC equity decreased due primarily to lower balances of construction work in progress eligible for AFUDC during the period.

The loss on extinguishment of debt in 2014 related to the tender and retirement of \$115.6 million of the 5.875% ITC Holdings Senior Notes and \$54.7 million of the 6.375% ITC Holdings Senior Notes as described in Note 8 to the consolidated financial statements.

*Year ended December 31, 2013 compared to year ended December 31, 2012*

Interest expense increased primarily due to interest associated with the long-term debt issuances at ITC Holdings and the Regulated Operating Subsidiaries which were used for refinancing of current debt maturities and general corporate purposes as described in Note 8 to the consolidated financial statements.

AFUDC equity increased due primarily to higher balances of construction work in progress eligible for AFUDC during the period.

Other income decreased and other expense increased primarily due to the gain recognized in other income for the investments held for the supplemental benefit plans in 2012 and the loss recognized in other expense for such investments in 2013. See further discussion in Note 11 to the consolidated financial statements.

**Income Tax Provision**

*Year ended December 31, 2014 compared to year ended December 31, 2013*

Our effective tax rates for the years ended December 31, 2014 and 2013 are 38.1% and 33.7% , respectively. Our effective tax rate differs from our 35% statutory federal income tax rate due primarily to state income taxes as well as the tax effects of AFUDC equity. The amount of income tax expense relating to AFUDC equity is recognized as a regulatory asset and not included in the income tax provision. Additionally, during the fourth quarter of 2013, due to the cancellation of the Entergy Transaction, we recognized tax benefits for expenses that were previously deemed non-deductible for tax purposes, including a decrease to the tax provision of \$5.6 million for expenses that were incurred in 2012 and 2011.

*Year ended December 31, 2013 compared to year ended December 31, 2012*

Our effective tax rates for the years ended December 31, 2013 and 2012 are 33.7% and 36.6% , respectively. Our effective tax rate differs from our 35% statutory federal income tax rate due primarily to state income taxes as well as the tax effects of AFUDC equity. The amount of income tax expense relating to AFUDC equity is recognized as a regulatory asset and not included in the income tax provision. Additionally, during the fourth quarter of 2013, due to the cancellation of the Entergy Transaction, we recognized tax benefits for expenses that were previously deemed non-deductible for tax purposes, including a decrease to the tax provision of \$5.6 million for expenses that were incurred in 2012 and 2011.

### **Liquidity and Capital Resources**

We expect to maintain our approach to fund our future capital requirements with cash from operations at our Regulated Operating Subsidiaries, our existing cash and cash equivalents and amounts available under our revolving credit agreements (the terms of which are described in Note 8 to the 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. As market conditions warrant, we may also from time to time repurchase debt or equity securities issued by us, in the open market, in privately negotiated transactions, by tender offer or otherwise. We expect that our capital requirements will arise principally from our need to:

- Fund capital expenditures at our Regulated Operating Subsidiaries. Our plans with regard to property, plant and equipment investments are described in detail above under “Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations — 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 including principal repayments and periodic interest payments, which are further described in detail below under “Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations — Contractual Obligations.” We expect our interest payments to increase each year as a result of additional debt we expect to incur to fund our capital expenditures and for general corporate purposes.
- Fund any potential share repurchases available under the Board of Directors authorized share repurchase program as described in Note 13 to the consolidated financial statements.
- Fund contributions to our retirement benefit plans, as described in Note 11 to the consolidated financial statements. We expect to contribute up to \$13.0 million to these plans in 2015 . 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 benefit plans to be higher than we have experienced in the past.

In addition to the expected capital requirements above, any adverse determinations relating to the regulatory matters or contingencies described in Notes 4 and 16 to the 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. ITC Holdings’ sources of cash are dividends and other payments received by us from our Regulated Operating Subsidiaries and any other subsidiaries we may have in addition to the proceeds raised from the sale of our debt and equity securities. Each of our Regulated Operating Subsidiaries, while wholly owned by ITC Holdings, is legally distinct from ITC Holdings and has no obligation, contingent or otherwise, to make funds available to us.

We expect to continue to utilize our revolving credit agreements and our cash and cash equivalents as needed to meet our short-term cash requirements. As described in Note 8 to the consolidated financial statements, we entered into new revolving credit agreements in March 2014 at ITC Holdings and its Regulated Operating Subsidiaries with total borrowing capacity of \$1.0 billion , an increase of \$275.0 million from the prior revolving

credit agreements. As of December 31, 2014 , we had consolidated indebtedness under our revolving and term loan credit agreements of \$473.8 million , with unused capacity under the agreements of \$687.2 million . See Note 8 to the consolidated financial statements for a detailed discussion of these agreements and borrowing and repayment activity during the years ended December 31, 2014 and 2013 .

As of December 31, 2014 , we had approximately \$175.0 million of debt maturing within one year, which we expect to refinance with long-term debt. To address our long-term capital requirements and to repay debt maturing within one year, 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.

**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	First Mortgage Bonds	A	A1

(a) On December 6, 2013, Standard and Poor's Ratings Services ("Standard and Poor's") upgraded the senior unsecured credit rating of ITC Holdings and reaffirmed the secured credit ratings of ITCTransmission, METC and ITC Midwest. On October 7, 2014, Standard and Poor's issued a secured credit rating for ITC Great Plains. All of the ratings have a stable outlook.

(b) On April 15, 2014, Moody's Investor Service, Inc. ("Moody's") reaffirmed the credit ratings for ITC Holdings and the MISO Regulated Operating Subsidiaries and on October 8, 2014, issued a secured credit rating for ITC Great Plains. All of the ratings have a stable outlook.

**Covenants**

Our debt instruments include senior notes, secured notes, first mortgage bonds and unsecured revolving and term loan credit agreements containing numerous financial and operating covenants that place significant restrictions, which are described in Note 8 to the consolidated financial statements. As of December 31, 2014 , we were in compliance with all debt covenants. 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 and term loan credit agreements would increase.

**Cash Flows**

The following table summarizes cash flows for the periods indicated:

(In thousands)	Year Ended December 31,		
	2014	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 244,083	\$ 233,506	\$ 187,876
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	128,036	118,596	106,512
Recognition of and refund and collection of revenue accruals and deferrals — including accrued interest	(4,093)	(11,972)	(13,052)
Deferred income tax expense	90,373	76,703	67,285
Tax benefit for excess tax deductions of share-based compensation	(7,767)	(4,302)	(23,022)
Other	50,869	36,665	1,924
Net cash provided by operating activities	501,501	449,196	327,523
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Expenditures for property, plant and equipment	(733,145)	(821,588)	(802,763)
Other	(1,556)	(4,700)	(6,298)
Net cash used in investing activities	(734,701)	(826,288)	(809,061)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net issuance/repayment of long-term debt (including revolving and term loan credit agreements)	462,639	464,425	501,740
Issuance of common stock	20,713	10,042	14,189
Dividends on common stock	(95,595)	(84,129)	(75,153)
Refundable deposits from and repayments to generators for transmission network upgrades — net	(22,850)	(5,955)	(4,943)
Repurchase and retirement of common stock	(134,284)	(4,885)	(7,266)
Tax benefit for excess tax deductions of share-based compensation	7,767	4,302	23,022
Other	(11,724)	1,380	(2,208)
Net cash provided by financing activities	226,666	385,180	449,381
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(6,534)</b>	<b>8,088</b>	<b>(32,157)</b>
CASH AND CASH EQUIVALENTS — Beginning of period	34,275	26,187	58,344
CASH AND CASH EQUIVALENTS — End of period	\$ 27,741	\$ 34,275	\$ 26,187

**Cash Flows From Operating Activities**

*Year ended December 31, 2014 compared to year ended December 31, 2013*

Net cash provided by operating activities increased \$52.3 million in 2014 compared to 2013 . The increase in cash provided by operating activities was due primarily to an increase in cash received from operating revenues of \$132.7 million during 2014 compared to 2013 . This increase was partially offset by higher interest payments (net of interest capitalized) of \$30.2 million , higher income taxes paid of \$24.4 million and an increase in payments of operating expenses of \$12.1 million .

*Year ended December 31, 2013 compared to year ended December 31, 2012*

Net cash provided by operating activities increased \$121.7 million in 2013 compared to 2012. The increase in cash provided by operating activities was due primarily to an increase in cash received from operating revenues of \$81.6 million and the timing of tax payments, which resulted in lower income taxes paid of \$21.1 million during 2013 compared to 2012. Additionally, there was a decrease of \$18.7 million in the recognized reductions of federal and state income tax liabilities related to tax benefits for excess tax deductions of share-based compensation in 2013 as compared to 2012. These tax benefits are reflected as financing cash inflows.

**Cash Flows From Investing Activities**

*Year ended December 31, 2014 compared to year ended December 31, 2013*

Net cash used in investing activities decreased \$91.6 million in 2014 compared to 2013 . The decrease in cash used in investing activities was due primarily to lower investments in property, plant and equipment during 2014 as we executed our capital investment plan described above under “— Overview — Capital Investment and Operating Results Trends.”

*Year ended December 31, 2013 compared to year ended December 31, 2012*

Net cash used in investing activities increased \$17.2 million in 2013 compared to 2012. The increase in cash used in investing activities was due primarily to higher investments in property, plant and equipment during 2013 as we executed our capital investment plan described above under “— Overview — Capital Investment and Operating Results Trends.”

**Cash Flows From Financing Activities**

*Year ended December 31, 2014 compared to year ended December 31, 2013*

Net cash provided by financing activities decreased \$158.5 million in 2014 compared to 2013 . The decrease in cash provided by financing activities was due primarily to a decrease in long-term debt issuances of \$134.4 million during 2014 compared to 2013 as well as the net payment of \$130.0 million for the ASR program as described in Note 13 to the consolidated financial statements. Additionally, there was a net decrease of \$20.8 million in amounts outstanding under our revolving and term loan credit agreements and lower net proceeds of \$16.9 million associated with refundable deposits for transmission network upgrades. These decreases were partially offset by a decrease in payments of \$153.4 million to retire long-term debt. See Note 8 to the consolidated financial statements for detail on the issuances and retirements of long-term debt.

*Year ended December 31, 2013 compared to year ended December 31, 2012*

Net cash provided by financing activities decreased \$64.2 million in 2013 compared to 2012. The decrease in cash provided by financing activities was due primarily to the payments of \$452.0 million to retire long-term debt at ITC Holdings and ITC Transmission and the net decrease of \$343.3 million in amounts outstanding under our revolving and term loan credit agreements during 2013 compared to 2012. Additionally, there was a decrease of \$18.7 million in the recognized reductions of federal and state income tax liabilities related to tax benefits for excess tax deductions of share-based compensation in 2013 as compared to 2012. These decreases were partially offset by the proceeds of \$933.0 million received from the issuance of long-term debt in 2013 as compared to the proceeds of \$175.0 million received from the issuance of long-term debt in 2012.



## Contractual Obligations

The following table details our contractual obligations as of December 31, 2014 :

(In thousands)	Total	Less Than 1 Year	1-3 Years	4-5 Years	More Than 5 Years
<b>Debt:</b>					
ITC Holdings Senior Notes	\$ 1,924,684	\$ —	\$ 574,344	\$ 200,000	\$ 1,150,340
ITC Holdings revolving credit agreement	53,500	—	—	53,500	—
ITC Holdings term loan credit agreement	161,000	—	161,000	—	—
ITCTransmission First Mortgage Bonds	585,000	—	100,000	—	485,000
ITCTransmission revolving credit agreement	14,300	—	—	14,300	—
METC Senior Secured Notes	450,000	175,000	—	—	275,000
ITC Midwest First Mortgage Bonds	525,000	—	40,000	35,000	450,000
ITC Midwest revolving credit agreement	191,200	—	—	191,200	—
ITC Great Plains First Mortgage Bonds	150,000	—	—	—	150,000
ITC Great Plains revolving credit agreement	53,800	—	—	53,800	—
<b>Interest payments:</b>					
ITC Holdings Senior Notes	1,105,033	98,991	253,189	118,221	634,632
ITCTransmission First Mortgage Bonds	630,487	29,326	70,857	38,613	491,691
METC Senior Secured Notes	356,545	21,566	36,270	24,180	274,529
ITC Midwest First Mortgage Bonds	464,525	27,196	78,667	48,630	310,032
ITC Great Plains First Mortgage Bonds	186,593	6,240	18,720	12,480	149,153
Operating leases	5,435	850	2,185	934	1,466
Purchase obligations	44,192	42,272	1,280	640	—
Regulatory liabilities — revenue deferrals, including accrued interest	73,883	39,972	33,911	—	—
METC Easement Agreement	359,721	10,041	30,123	20,082	299,475
<b>Total obligations</b>	<b>\$ 7,334,898</b>	<b>\$ 451,454</b>	<b>\$ 1,400,546</b>	<b>\$ 811,580</b>	<b>\$ 4,671,318</b>

Interest payments included above relate only to our fixed-rate long-term debt outstanding at December 31, 2014 . We also expect to pay interest and commitment fees under our variable-rate revolving and term loan credit agreements that have not been included above due to varying amounts of borrowings and interest rates under the facilities. In 2014 , we paid \$8.7 million of interest and commitment fees under our revolving and term loan credit agreements .

Operating leases include leases for office space, equipment and storage facilities. Purchase obligations represent commitments primarily for materials, services and equipment that had not been received as of December 31, 2014 , primarily for construction and maintenance projects for which we have an executed contract. The majority of the items relate to materials and equipment that have long production lead times. See Note 16 to the consolidated financial statement for more information on our operating leases and purchases obligations.

The regulatory liabilities — revenue deferrals, including accrued interest, included above represents the over-recovery of revenues resulting from differences between the amounts billed to customers and actual revenue requirement at each of our Regulated Operating Subsidiaries, as described in Note 4 to the consolidated financial statements. These amounts will offset future revenue requirement for purposes of calculating our formula rates as part of the true-up mechanism in our rate construct.

The Easement Agreement provides METC with an easement for transmission purposes and rights-of-way, leasehold interests, fee interests and licenses associated with the land over which the transmission lines cross. The cost for use of the rights-of-way is \$10.0 million per year. The term of the Easement Agreement runs through December 31, 2050 and is subject to 10 automatic 50-year renewals thereafter unless METC gives notice of nonrenewal of at least one year in advance. Payments to Consumers Energy under the Easement Agreement are charged to operation and maintenance expense.

The contractual obligations table above excludes certain items, including contingent liabilities and other long-term liabilities, due to uncertainty on the final outcome in addition to the timing and amount of future cash flows necessary to settle these obligations. The amount of cash flows to be paid for pension and other postretirement obligations, to settle regulatory liabilities related to asset removal costs and liabilities to refund deposits from generators for transmission network upgrades recorded in other current and long term liabilities are not known with certainty. As a result, cash obligations for these items are excluded from the contractual obligations table above.

### **Critical Accounting Policies**

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The preparation of these 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 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 following is a list of accounting policies that are most significant to the portrayal of our financial condition and results of operations and/or that require management’s most difficult, subjective or complex judgments.

#### ***Regulation***

Nearly all of our Regulated Operating Subsidiaries’ business is subject to regulation by the FERC. As a result, we apply accounting principles in accordance with the standards set forth by the Financial Accounting Standards Board (“FASB”) for accounting for the effects of certain types of regulation. Use of this accounting guidance results in differences in the application of GAAP between regulated and non-regulated businesses and requires the recording of regulatory assets and liabilities for certain transactions that would have been treated as expense or revenue in non-regulated businesses. As described in Note 5 to the consolidated financial statements, we had regulatory assets and liabilities of \$229.1 million and \$200.0 million, respectively, as of December 31, 2014. Future regulatory changes or changes in the competitive environment could result in discontinuing the application of the guidance for accounting for the effects of certain types of regulations. If we were to discontinue the application of this guidance on our Regulated Operating Subsidiaries’ operations, we may be required to record losses relating to certain regulatory assets or gains relating to certain regulatory liabilities. We also may be required to record losses of \$48.8 million relating to intangible assets at December 31, 2014 that are described in Note 6 to the consolidated financial statements.

We believe that currently available facts support the continued applicability of the standards for accounting for the effects of certain types of regulation and that all regulatory assets and liabilities are recoverable or refundable under our current rate environment.

#### ***Revenue Recognition under Cost-Based Formula Rates with True-Up Mechanism***

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 under their forward-looking cost-based formula rates with a true-up mechanism.

Under their formula rates, our Regulated Operating Subsidiaries use forecasted expenses, property, plant and equipment, point-to-point revenues and other items for the upcoming calendar year to establish their projected revenue requirement and for the MISO Regulated Operating Subsidiaries, their component of the billed network rates for service on their systems from January 1 to December 31 of that year. The 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 in order to subsequently collect or refund any under-recovery or over-recovery of revenues, as appropriate. The under- or over-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, and from differences between actual and projected monthly peak loads at our MISO Regulated Operating Subsidiaries.

The true-up mechanism under our formula rates meet the requirements in the Accounting Standards Codification for accounting for rate-regulated utilities and the effects of certain alternative revenue programs. Accordingly,



revenue is recognized during each reporting period based on actual revenue requirements calculated using the cost-based formula rate. 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. The true-up amount is automatically reflected in customer bills within two years under the provisions of the formula rates. See Note 4 to the consolidated financial statements for the regulatory assets and liabilities recorded at our Regulated Operating Subsidiaries' as a result of the formula rate revenue accruals and deferrals.

### ***Valuation of Goodwill***

We have goodwill resulting from our acquisitions of ITC Transmission and METC and ITC Midwest's acquisition of the IP&L transmission assets. In accordance with the standards set forth by the FASB for goodwill, we are required to perform an impairment test annually or whenever events or circumstances indicate that the value of goodwill may be impaired. In order to perform these impairment tests, we determined fair value using quoted market prices in active markets, and valuation techniques based on discounted future cash flows under various scenarios. We also considered estimates of market-based valuation multiples for companies within our Regulated Operating Subsidiaries' peer group. The market-based multiples involve judgment regarding the appropriate peer group and the appropriate multiple to apply in the valuation and the cash flow estimates involve judgments based on a broad range of assumptions, information and historical results. To the extent estimated market-based valuation multiples and/or discounted cash flows are revised downward, we may be required to write down all or a portion of goodwill, which would adversely impact earnings.

As of December 31, 2014 and 2013, consolidated goodwill totaled \$950.2 million. We completed our annual goodwill impairment test as of October 1, 2014 and determined that no impairment exists. There were no events subsequent to October 1, 2014 that indicated impairment of our goodwill. We do not believe there is a material risk of our goodwill being impaired in the near term at ITC Transmission, METC or ITC Midwest.

### ***Contingent Obligations***

We are subject to a number of federal and state laws and regulations, as well as other factors and conditions that potentially subject us to environmental, litigation, income tax and other contingencies. Additionally, we have other contingent obligations that may be required to be paid to developers based on achieving certain milestones relating to development initiatives. We periodically evaluate our exposure to such contingencies and record reserves for those matters where a loss is considered probable and reasonably estimable in accordance with GAAP. The adequacy of reserves can be significantly affected by external events or conditions that can be unpredictable; thus, the ultimate outcome of such matters could materially affect our consolidated financial statements. These events or conditions include, without limitation, the following:

- Changes in existing state or federal regulation by governmental authorities having jurisdiction over air quality, water quality, control of toxic substances, hazardous and solid wastes and other environmental matters.
- Changes in existing federal income tax laws or Internal Revenue Service regulations.
- Identification and evaluation of lawsuits or complaints in which we may be or have been named as a defendant.
- Resolution or progression of existing matters through the legislative process, the courts, the FERC, NERC, the Internal Revenue Service, or the Environmental Protection Agency.
- Completion of certain milestones relating to development initiatives.

### ***Share-Based Awards***

Our accounting for share-based payments requires us to determine the fair value of awards of ITC Holdings' common stock issued in the form of restricted stock and stock option awards. We use the value of ITC Holdings' common stock at the date of the grant in the calculation of the fair value of our share-based awards. The restricted stock awards are recorded at fair value at the date of the grant. The fair value of stock options held by our employees is determined using a Black-Scholes option valuation method, which is a valuation technique that is acceptable for share-based payment accounting. Key assumptions in determining fair value include volatility, risk-free interest rate, dividend yield and expected term. In the event different assumptions were used, a different fair value would be derived that could cause the related expense to be materially higher or lower. We amortize the fair value of the awards on a straight-line basis (net of any estimated forfeitures) over the vesting period of the awards.

### ***Pension and Postretirement Costs***

We sponsor certain retirement benefits for our employees, which include retirement pension plans and certain postretirement health care, dental and life insurance benefits. Our periodic costs and obligations associated with these plans are developed from actuarial valuations derived from a number of assumptions including rates of return on plan assets, the discount rates, the rate of increase in health care costs, the amount and timing of plan sponsor contributions and demographic factors such as retirements, mortality and turnover, among others. We evaluate these assumptions annually and update them periodically to reflect our actual experience. Three critical assumptions in determining our periodic costs and obligations are discount rate, expected long-term return on plan assets and the rate of increases in health care costs. The discount rate represents the market rate for synthesized AA-rated zero-coupon bonds with durations corresponding to the expected durations of the benefit obligations and is used to calculate the present value of the expected future cash flows for benefit obligations under our plans. In determining our long-term rate of return on plan assets, we consider the current and expected asset allocations, as well as historical and expected long-term rates of return on those types of asset classes. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans as described in Note 11 to the consolidated financial statements.

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

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

### **Recent Accounting Pronouncements**

See Note 3 to the consolidated financial statements.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

### **Commodity Price Risk**

We have commodity price risk at our Regulated Operating Subsidiaries arising from market price fluctuations for materials such as copper, aluminum, steel, oil and gas and other goods used in construction and maintenance activities. Higher costs of these materials are passed on to us by the contractors for these activities. These items affect only cash flows, as the amounts are included as components of net revenue requirement and any higher costs are included in rates under their cost-based formula rates.

### **Interest Rate 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 \$3,985.6 million at December 31, 2014. The total book value of our consolidated long-term debt and debt maturing within one year, excluding revolving and term loan credit agreements, was \$3,629.8 million at December 31, 2014. 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 our revolving and term loan credit agreements, at December 31, 2014. An increase in interest rates of 10% (from 7.0% to 7.7%, for example) at December 31, 2014 would decrease the fair value of debt by \$176.1 million, and a decrease in interest rates of 10% at December 31, 2014 would increase the fair value of debt by \$189.6 million at that date.

#### ***Revolving and Term Loan Credit Agreements***

At December 31, 2014, we had a consolidated total of \$473.8 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 and term loan credit agreements compared to the weighted average rates in effect at December 31, 2014 would increase or decrease the total interest expense by \$0.6 million, respectively, for an annual period on a constant borrowing level of \$473.8 million.

#### ***Derivative Instruments and Hedging Activities***

We may 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. In May 2014, we executed, settled and terminated \$150.0 million of 10 - year interest rate swaps in conjunction with the Senior Notes issued at ITC Holdings as described in Note 8 to the consolidated financial statements. As of December 31, 2014 , we held 10-year interest rate swaps with a notional amount of \$50.0 million , which manage interest rate risk associated with the forecasted future issuance of fixed-rate debt related to the expected refinancing of the maturing ITC Holdings 5.875% Senior Notes, due September 30, 2016 (“5.875% Senior Notes”). ITC Holdings entered into an additional 10-year interest rate swap on January 14, 2015 with a notional amount of \$25.0 million, which also manages interest rate risk related to the expected refinancing of the 5.875% Senior Notes. See Note 8 to the consolidated financial statements for further discussion on these interest rate swaps.

### **Credit Risk**

Our credit risk is primarily with DTE Electric, Consumers Energy and IP&L, which were responsible for 22.2% , 24.2% and 29.0% , respectively, or \$224.5 million , \$244.7 million and \$292.9 million , respectively, of our consolidated billed revenues for 2014 . These percentages of total billed revenues of DTE Electric, Consumers Energy and IP&L include the collection of 2012 revenue accruals and deferrals and exclude any amounts for the 2014 revenue accruals and deferrals that were included in our 2014 operating revenues, but will not be billed to our customers until 2016 . Refer to “ Item 7 Management ’ s Discussion and Analysis of Financial Condition and Results of Operations - Cost-Based Formula Rates with True-Up Mechanism ” for a discussion on the difference between billed revenues and operating revenues. Under DTE Electric’s and Consumers Energy’s current rate structure, DTE Electric and Consumers Energy include in their retail rates the actual cost of transmission services provided by ITCTransmission and METC, respectively, in their billings to their customers, effectively passing through to end-use consumers the total cost of transmission service. IP&L currently includes in their retail rates an allowance for transmission services provided by ITC Midwest in their billings to their customers. However, any financial difficulties experienced by DTE Electric, Consumers Energy or IP&L may affect their ability to make payments for transmission service to ITCTransmission, METC and ITC Midwest, which could negatively impact our business. MISO, as our MISO Regulated Operating Subsidiaries’ billing agent, bills DTE Electric, Consumers Energy, IP&L and other customers on a monthly basis and collects fees for the use of the MISO Regulated Operating Subsidiaries’ transmission systems. SPP is the billing agent for ITC Great Plains and bills transmission customers for the use of ITC Great Plains transmission systems. MISO and SPP have implemented strict credit policies for its members’ customers, which include customers using our transmission systems. Specifically, MISO and SPP require a letter of credit or cash deposit equal to the credit exposure, which is determined by a credit scoring model and other factors, from any customer using a member’s transmission system.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

The following financial statements and schedules are included herein:

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Report of Independent Registered Public Accounting Firm	51
Consolidated Statements of Financial Position as of December 31, 2014 and 2013	52
Consolidated Statements of Operations for the Years Ended December 31, 2014, 2013 and 2012	53
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## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is designed to provide reasonable, not absolute, assurance as to the reliability of our financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, internal control over financial reporting determined to be effective can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements.

Under management's supervision, an evaluation of the design and effectiveness of our internal control over financial reporting was conducted based on the criteria set forth in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our assessment included extensive documenting, evaluating and testing of the design and operating effectiveness of our internal control over financial reporting. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2014 .

Deloitte & Touche LLP, an independent registered public accounting firm, as auditors of our consolidated financial statements, has issued an attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2014 . Deloitte & Touche LLP's report, which expresses an unqualified opinion on the effectiveness of our internal control over financial reporting, is included herein.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
ITC Holdings Corp.:  
Novi, Michigan

We have audited the accompanying consolidated statements of financial position of ITC Holdings Corp. and subsidiaries (the "Company") as of December 31, 2014 and 2013 , and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014 . Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of ITC Holdings Corp. and subsidiaries as of December 31, 2014 and 2013 , and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 , in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014 , based on criteria established in the *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2015 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Detroit, Michigan  
February 26, 2015



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
ITC Holdings Corp.:  
Novi, Michigan

We have audited the internal control over financial reporting of ITC Holdings Corp. and subsidiaries (the "Company") as of December 31, 2014, based on criteria established in the *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2014 of the Company and our report dated February 26, 2015 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ DELOITTE & TOUCHE LLP

Detroit, Michigan  
February 26, 2015

**ITC HOLDINGS CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(In thousands, except share data)	December 31,	
	2014	2013
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 27,741	\$ 34,275
Accounts receivable	100,998	89,348
Inventory	30,892	31,986
Deferred income taxes	14,511	17,225
Regulatory assets	5,393	6,334
Prepaid and other current assets	7,281	12,370
Total current assets	186,816	191,538
<b>Property, plant and equipment</b> (net of accumulated depreciation and amortization of \$1,388,217 and \$1,330,094, respectively)	5,496,875	4,846,526
<b>Other assets</b>		
Goodwill	950,163	950,163
Intangible assets (net of accumulated amortization of \$24,917 and \$21,616, respectively)	48,794	49,328
Regulatory assets	223,712	182,105
Deferred financing fees (net of accumulated amortization of \$15,972 and \$15,261, respectively)	30,311	25,585
Other	37,418	36,998
Total other assets	1,290,398	1,244,179
<b>TOTAL ASSETS</b>	\$ 6,974,089	\$ 6,282,243
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 107,969	\$ 111,145
Accrued payroll	23,502	21,930
Accrued interest	50,538	53,049
Accrued taxes	41,614	29,805
Regulatory liabilities	39,972	46,187
Refundable deposits from generators for transmission network upgrades	10,376	23,283
Debt maturing within one year	175,000	200,000
Other	14,043	13,980
Total current liabilities	463,014	499,379
<b>Accrued pension and postretirement liabilities</b>	69,562	53,704
<b>Deferred income taxes</b>	656,562	562,938
<b>Regulatory liabilities</b>	160,070	106,986
<b>Refundable deposits from generators for transmission network upgrades</b>	9,384	19,328
<b>Other</b>	17,354	14,064
<b>Long-term debt</b>	3,928,586	3,412,112
<b>Commitments and contingent liabilities</b> (Notes 4 and 16)		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, without par value, 300,000,000 shares authorized, 155,140,967 and 157,500,795 shares issued and outstanding at December 31, 2014 and 2013, respectively	923,191	1,014,435
Retained earnings	741,550	592,970
Accumulated other comprehensive income	4,816	6,327
Total stockholders' equity	1,669,557	1,613,732
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	\$ 6,974,089	\$ 6,282,243

See notes to consolidated financial statements.



**ITC HOLDINGS CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share data)	Year Ended December 31,		
	2014	2013	2012
<b>OPERATING REVENUES</b>	\$ 1,023,048	\$ 941,272	\$ 830,535
<b>OPERATING EXPENSES</b>			
Operation and maintenance	111,623	112,821	121,941
General and administrative	115,031	149,109	112,091
Depreciation and amortization	128,036	118,596	106,512
Taxes other than income taxes	76,534	65,824	59,701
Other operating income and expense — net	(1,005)	(1,139)	(769)
Total operating expenses	430,219	445,211	399,476
<b>OPERATING INCOME</b>	592,829	496,061	431,059
<b>OTHER EXPENSES (INCOME)</b>			
Interest expense — net	186,636	168,319	155,734
Allowance for equity funds used during construction	(20,825)	(30,159)	(23,000)
Loss on extinguishment of debt	29,205	—	—
Other income	(1,103)	(1,038)	(2,401)
Other expense	4,511	6,571	4,218
Total other expenses (income)	198,424	143,693	134,551
<b>INCOME BEFORE INCOME TAXES</b>	394,405	352,368	296,508
<b>INCOME TAX PROVISION</b>	150,322	118,862	108,632
<b>NET INCOME</b>	\$ 244,083	\$ 233,506	\$ 187,876
Basic earnings per common share	\$ 1.56	\$ 1.49	\$ 1.22
Diluted earnings per common share	\$ 1.54	\$ 1.47	\$ 1.20
Dividends declared per common share	\$ 0.610	\$ 0.535	\$ 0.487

See notes to consolidated financial statements.

**ITC HOLDINGS CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(In thousands)	Year Ended December 31,		
	2014	2013	2012
<b>NET INCOME</b>	\$ 244,083	\$ 233,506	\$ 187,876
<b>OTHER COMPREHENSIVE (LOSS) INCOME</b>			
Derivative instruments, net of tax (Note 13)	(1,479)	24,304	(2,680)
Available-for-sale securities, net of tax (Note 13)	(32)	71	—
<b>TOTAL OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAX</b>	(1,511)	24,375	(2,680)
<b>TOTAL COMPREHENSIVE INCOME</b>	\$ 242,572	\$ 257,881	\$ 185,196

See notes to consolidated financial statements.

**ITC HOLDINGS CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN**  
**STOCKHOLDERS' EQUITY**

	Common Stock		Retained Earnings	Accumulated Other Comprehensive	Total Stockholders' Equity
	Shares	Amount		Income (Loss)	
<b>(In thousands, except share and per share data)</b>					
<b>BALANCE, DECEMBER 31, 2011</b>	153,970,104	\$ 943,444	\$ 330,816	\$ (15,368)	\$ 1,258,892
Net income	—	—	187,876	—	187,876
Repurchase and retirement of common stock	(298,599)	(7,266)	—	—	(7,266)
Dividends declared on common stock (\$0.487 per share)	—	—	(75,153)	—	(75,153)
Stock option exercises	2,555,160	12,593	—	—	12,593
Shares issued under the Employee Stock Purchase Plan	76,563	1,596	—	—	1,596
Issuance of restricted stock	475,797	—	—	—	—
Forfeiture of restricted stock	(33,483)	—	30	—	30
Share-based compensation, net of forfeitures	—	15,592	—	—	15,592
Tax benefit for excess tax deductions of share-based compensation	—	23,022	—	—	23,022
Other comprehensive loss, net of tax (Note 13)	—	—	—	(2,680)	(2,680)
Other	—	353	—	—	353
<b>BALANCE, DECEMBER 31, 2012</b>	156,745,542	\$ 989,334	\$ 443,569	\$ (18,048)	\$ 1,414,855
Net income	—	—	233,506	—	233,506
Repurchase and retirement of common stock	(163,320)	(4,885)	—	—	(4,885)
Dividends declared on common stock (\$0.535 per share)	—	—	(84,129)	—	(84,129)
Stock option exercises	499,014	8,165	—	—	8,165
Shares issued under the Employee Stock Purchase Plan	77,097	1,877	—	—	1,877
Issuance of restricted stock	384,576	—	—	—	—
Forfeiture of restricted stock	(42,114)	—	24	—	24
Share-based compensation, net of forfeitures	—	15,642	—	—	15,642
Tax benefit for excess tax deductions of share-based compensation	—	4,302	—	—	4,302
Other comprehensive income, net of tax (Note 13)	—	—	—	24,375	24,375
<b>BALANCE, DECEMBER 31, 2013</b>	157,500,795	\$ 1,014,435	\$ 592,970	\$ 6,327	\$ 1,613,732
Net income	—	—	244,083	—	244,083
Repurchase and retirement of common stock	(3,673,226)	(134,284)	—	—	(134,284)
Dividends declared on common stock (\$0.610 per share)	—	—	(95,595)	—	(95,595)
Stock option exercises	1,011,750	18,650	—	—	18,650
Shares issued under the Employee Stock Purchase Plan	69,230	2,063	—	—	2,063
Issuance of restricted stock	321,139	—	—	—	—
Forfeiture of restricted stock	(88,721)	—	92	—	92
Share-based compensation, net of forfeitures	—	14,560	—	—	14,560
Tax benefit for excess tax deductions of share-based compensation	—	7,767	—	—	7,767
Other comprehensive loss, net of tax (Note 13)	—	—	—	(1,511)	(1,511)
<b>BALANCE, DECEMBER 31, 2014</b>	155,140,967	\$ 923,191	\$ 741,550	\$ 4,816	\$ 1,669,557

See notes to consolidated financial statements.



**ITC HOLDINGS CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)	Year Ended December 31,		
	2014	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 244,083	\$ 233,506	\$ 187,876
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	128,036	118,596	106,512
Recognition of and refund and collection of revenue accruals and deferrals — including accrued interest	(4,093)	(11,972)	(13,052)
Deferred income tax expense	90,373	76,703	67,285
Allowance for equity funds used during construction	(20,825)	(30,159)	(23,000)
Loss on extinguishment of debt	29,205	—	—
Other	17,697	17,864	13,772
Changes in assets and liabilities, exclusive of changes shown separately:			
Accounts receivable	(11,869)	(16,312)	1,721
Inventory	1,094	5,371	(2,502)
Prepaid and other current assets	5,089	16,891	(25,102)
Accounts payable	(19,061)	17,638	(5,400)
Accrued payroll	525	1,619	1,583
Accrued interest	(2,511)	8,341	1,066
Accrued taxes	19,756	6,113	24,247
Tax benefit on the excess tax deduction of share-based compensation	(7,767)	(4,302)	(23,022)
Other current liabilities	(2,314)	1,630	2,912
Other non-current assets and liabilities, net	34,083	7,669	12,627
Net cash provided by operating activities	501,501	449,196	327,523
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Expenditures for property, plant and equipment	(733,145)	(821,588)	(802,763)
Proceeds from sale of marketable securities	495	20,844	5,935
Purchases of marketable securities	(6,091)	(22,250)	(11,779)
Other	4,040	(3,294)	(454)
Net cash used in investing activities	(734,701)	(826,288)	(809,061)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issuance of long-term debt	798,664	933,025	175,000
Borrowings under revolving credit agreements	1,660,000	1,090,100	1,355,150
Borrowings under term loan credit agreements	110,000	675,000	200,000
Retirement of long-term debt - including extinguishment of debt costs	(298,625)	(452,000)	—
Repayments of revolving credit agreements	(1,618,400)	(1,146,700)	(1,228,410)
Repayments of term loan credit agreements	(189,000)	(635,000)	—
Issuance of common stock	20,713	10,042	14,189
Dividends on common and restricted stock	(95,595)	(84,129)	(75,153)
Refundable deposits from generators for transmission network upgrades	5,833	32,281	33,310
Repayment of refundable deposits from generators for transmission network upgrades	(28,683)	(38,236)	(38,253)
Repurchase and retirement of common stock	(134,284)	(4,885)	(7,266)
Tax benefit on the excess tax deduction of share-based compensation	7,767	4,302	23,022
Advance for forward contract of accelerated share repurchase program	(20,000)	—	—
Return of unused advance for forward contract of accelerated share repurchase program	20,000	—	—
Other	(11,724)	1,380	(2,208)
Net cash provided by financing activities	226,666	385,180	449,381
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(6,534)</b>	<b>8,088</b>	<b>(32,157)</b>
<b>CASH AND CASH EQUIVALENTS — Beginning of period</b>	<b>34,275</b>	<b>26,187</b>	<b>58,344</b>
<b>CASH AND CASH EQUIVALENTS — End of period</b>	<b>\$ 27,741</b>	<b>\$ 34,275</b>	<b>\$ 26,187</b>

See notes to consolidated financial statements.



**ITC HOLDINGS CORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1 . GENERAL**

ITC Holdings Corp. (“ITC Holdings,” and together with its subsidiaries, “we,” “our” or “us”) and its subsidiaries are engaged in the transmission of electricity in the United States. Through our operating subsidiaries, ITC Transmission, METC, ITC Midwest and ITC Great Plains (together, 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 allow new generating resources to interconnect to our transmission systems. We also are pursuing transmission development projects not within our existing systems, which are intended to improve overall grid reliability, lower electricity congestion and facilitate interconnections of new generating resources, as well as to enhance competitive wholesale electricity markets.

Our Regulated Operating Subsidiaries are independent electric transmission utilities, with rates regulated by the FERC and established on a cost-of-service model. ITC Transmission’s service area is located in southeastern Michigan and METC’s service area covers approximately two-thirds of Michigan’s Lower Peninsula and is contiguous with ITC Transmission’s service area. ITC Midwest’s service area is located in portions of Iowa, Minnesota, Illinois and Missouri and ITC Great Plains currently owns assets located in Kansas and Oklahoma. The Midcontinent Independent System Operator, Inc. (“MISO”) bills and collects revenues from ITC Transmission, METC, and ITC Midwest (“MISO Regulated Operating Subsidiaries”) customers. The Southwest Power Pool, Inc. (“SPP”) bills and collects revenue from ITC Great Plains customers.

**2 . SIGNIFICANT ACCOUNTING POLICIES**

A summary of the major accounting policies followed in the preparation of the accompanying consolidated financial statements, which conform to accounting principles generally accepted in the United States of America (“GAAP”), is presented below:

*Principles of Consolidation* — ITC Holdings consolidates its majority owned subsidiaries. We eliminate all intercompany balances and transactions.

*Use of Estimates* — The preparation of the consolidated financial statements in accordance with GAAP requires 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.

*Regulation* — Our Regulated Operating Subsidiaries are subject to the regulatory jurisdiction of the FERC, which issues orders pertaining to rates, recovery of certain costs, including the costs of transmission assets and regulatory assets, conditions of service, accounting, financing authorization and operating-related matters. The utility operations of our Regulated Operating Subsidiaries meet the accounting standards set forth by the Financial Accounting Standards Board (“FASB”) for the accounting effects of certain types of regulation. These accounting standards recognize the cost based rate setting process, which results in differences in the application of GAAP between regulated and non-regulated businesses. These standards require the recording of regulatory assets and liabilities for certain transactions that would have been recorded as revenue and expense in non-regulated businesses. Regulatory assets represent costs that will be included as a component of future tariff rates and regulatory liabilities represent amounts provided in the current tariff rates that are intended to recover costs expected to be incurred in the future or amounts to be refunded to customers.

*Cash and Cash Equivalents* — We consider all unrestricted highly-liquid temporary investments with an original maturity of three months or less at the date of purchase to be cash equivalents.

*Consolidated Statements of Cash Flows* — The following table presents certain supplementary cash flows information for the years ended December 31, 2014 , 2013 and 2012 :

(In thousands)	Year Ended December 31,		
	2014	2013	2012
Supplementary cash flows information:			
Interest paid (net of interest capitalized)	\$ 185,288	\$ 155,112	\$ 148,598
Income taxes paid — net	44,524	20,092	41,174
Supplementary non-cash investing and financing activities:			
Additions to property, plant and equipment and other long-lived assets (a)	\$ 90,949	\$ 68,276	\$ 94,218
Allowance for equity funds used during construction	20,825	30,159	23,000

(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 December 31, 2014 , 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.

Excess tax benefits are recognized as an addition to common stock pursuant to the share-based compensation accounting standards. Cash retained as a result of those excess tax benefits are presented in the statement of cash flows as cash inflows from financing activities and cash outflows from operating activities.

*Accounts Receivable* — We recognize losses for uncollectible accounts based on specific identification of any such items. As of December 31, 2014 and 2013 , we did not have an accounts receivable reserve.

*Inventories* — Materials and supplies inventories are valued at average cost. Additionally, the costs of warehousing activities are recorded here and included in the cost of materials when requisitioned.

*Property, Plant and Equipment* — Depreciation and amortization expense on property, plant and equipment was \$118.9 million , \$109.4 million and \$97.3 million for 2014 , 2013 and 2012 , respectively.

Property, plant and equipment in service at our Regulated Operating Subsidiaries is stated at its original cost when first devoted to utility service. The gross book value of assets retired less salvage proceeds is charged to accumulated depreciation. The provision for depreciation of transmission assets is a significant component of our Regulated Operating Subsidiaries' cost of service under FERC-approved rates. Depreciation is computed over the estimated useful lives of the assets using the straight-line method for financial reporting purposes and accelerated methods for income tax reporting purposes. The composite depreciation rate for our Regulated Operating Subsidiaries included in our consolidated statements of operations was 2.1% , 2.2% and 2.4% for 2014 , 2013 and 2012 , respectively. The composite depreciation rates include depreciation primarily on transmission station equipment, towers, poles and overhead and underground lines that have a useful life ranging from 48 to 60 years . The portion of depreciation expense related to asset removal costs is added to regulatory liabilities or deducted from regulatory assets and removal costs incurred are deducted from regulatory liabilities or added to regulatory assets. Our Regulated Operating Subsidiaries capitalize to property, plant and equipment an allowance for the cost of equity and borrowings used during construction ("AFUDC") in accordance with FERC regulations. AFUDC represents the composite cost incurred to fund the construction of assets, including interest expense and a return on equity capital devoted to construction of assets. The AFUDC debt of \$5.1 million , \$8.0 million and \$7.0 million for 2014 , 2013 and 2012 , respectively, was a reduction to interest expense. Certain projects at ITC Great Plains have been granted an incentive to include construction work in progress balances in rate base and we do not record AFUDC on those projects.

For acquisitions of property, plant and equipment greater than the net book value (other than asset acquisitions accounted for under the purchase method of accounting that result in goodwill), the acquisition premium is recorded to property, plant and equipment and amortized over the estimated remaining useful lives of the assets using the straight-line method for financial reporting purposes and accelerated methods for income tax reporting purposes.

Property, plant and equipment includes capital equipment inventory stated at original cost consisting of items that are expected to be used exclusively for capital projects.

Property, plant and equipment at ITC Holdings and non-regulated subsidiaries is stated at its acquired cost. Proceeds from salvage less the net book value of assets disposed of is recognized as a gain or loss on disposal. Depreciation is computed based on the acquired cost less expected residual value and is recognized over the estimated useful lives of the assets on a straight-line method for financial reporting purposes and accelerated methods for income tax reporting purposes.

*Generator Interconnection Projects and Contributions in Aid of Construction* — Certain capital investment at our Regulated Operating Subsidiaries relates to investments we make under generator interconnection agreements. The generator interconnection agreements typically consist of both transmission network upgrades, which are a category of upgrades deemed by FERC to benefit the transmission system as a whole, as well as direct connection facilities, which are needed to interconnect the generating facility to the transmission system and primarily benefit the generating facility.

Our investments in transmission facilities are recorded to property, plant and equipment, and are recorded net of any contribution in aid of construction. Contributions in aid of construction of \$19.7 million, \$2.6 million and \$11.3 million were recorded as reductions to property, plant and equipment during the years ended December 31, 2014, 2013 or 2012, respectively, and are included as reductions of expenditures for property, plant and equipment in our consolidated statements of cash flows when received. We also receive refundable deposits from the generator for certain investment in network upgrade facilities in advance of construction, which are recorded to current or non-current liabilities depending on the expected refund date.

*Available-For-Sale Securities* — We have certain investments in debt and equity securities which are classified as available-for-sale securities. These investments currently fund our two supplemental nonqualified, noncontributory, retirement benefit plans for selected management employees as described in Note 11. Unrealized gains recorded for the investments are recognized, net of tax, in the accumulated other comprehensive income component of equity. Any unrealized losses (where cost exceeds fair market value) on the investments will also be recorded in the accumulated other comprehensive income component of equity unless the unrealized loss is other than temporary, in which case it would be recorded as investment loss in earnings.

*Impairment of Long-Lived Assets* — Other than goodwill, our long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. If the carrying amount of the asset exceeds the expected undiscounted future cash flows generated by the asset, an impairment loss is recognized resulting in the asset being written down to its estimated fair value.

*Goodwill and Intangible Assets* — We comply with the standards set forth by the FASB for goodwill and other intangible assets. Under these standards, goodwill and other intangibles with indefinite lives are not subject to amortization. However, goodwill and other intangibles with indefinite lives are subject to fair value-based rules for measuring impairment, and resulting write-downs, if any, are to be reflected in operating expense. In order to perform these impairment tests, we determined fair value using valuation techniques based on discounted future cash flows under various scenarios and we also considered estimates of market-based valuation multiples for companies within the peer group of the reporting unit that has goodwill recorded. These accounting standards require that goodwill be reviewed at least annually for impairment and whenever facts or circumstances indicate that the value of goodwill may be impaired. We have goodwill recorded relating to the acquisitions of each our MISO Regulated Operating Subsidiaries. We completed our annual goodwill impairment test for each of our MISO Regulated Operating Subsidiaries as of October 1, 2014 and determined that no impairment exists. There were no events subsequent to October 1, 2014 that indicated impairment of our goodwill. We do not believe there is a material risk of our goodwill being impaired in the near term at ITCTransmission, METC or ITC Midwest. Our intangible assets have finite lives and are amortized over their useful lives, refer to Note 6.

*Deferred Financing Fees and Discount or Premium on Debt* — The costs related to the issuance of long-term debt are recorded to deferred financing fees and are amortized over the life of the debt issue. The debt discount or premium related to the issuance of long-term debt is recorded to long-term debt and amortized over the life of the debt issue. We recorded to interest expense the amortization of deferred financing fees



and the amortization of our debt discounts for 2014 , 2013 and 2012 of \$4.1 million , \$4.1 million and \$4.0 million , respectively.

*Asset Retirement Obligations* — We comply with the standards set forth by the FASB for asset retirement obligations. As defined in the standards, a conditional asset retirement obligation refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within our control. We have identified conditional asset retirement obligations primarily associated with the removal of equipment containing polychlorinated biphenyls (“PCBs”) and asbestos. We record a liability at fair value for a legal asset retirement obligation in the period in which it is incurred. When a new legal obligation is recorded, we capitalize the costs of the liability by increasing the carrying amount of the related long-lived asset. We accrete the liability to its present value each period and depreciate the capitalized cost over the useful life of the related asset. At the end of the asset’s useful life, we settle the obligation for its recorded amount or incur a gain or loss. The standards for asset retirement obligations applied to our Regulated Operating Subsidiaries require us to recognize regulatory assets or liabilities for the timing differences between when we recover legal asset retirement obligations in rates and when we would recognize these costs under the standards. There have not been any significant changes to our asset retirement obligations in 2014 . Our asset retirement obligations as of December 31, 2014 and 2013 of \$5.9 million and \$5.7 million , respectively, are included in other liabilities.

*Financial Instruments* — We comply with the standards set forth by the FASB for derivatives and hedging in accounting for financial instruments. For derivative instruments that have been designated and qualify as hedges of the exposure to variability in expected future cash flows, the gain or loss on the derivative is initially reported as a component of other comprehensive income (loss) and reclassified to the consolidated statement of operations when the underlying hedged transaction affects net income. Any hedge ineffectiveness is recognized in net income immediately at the time the gain or loss on the derivative instruments is calculated. Refer to Note 8 for additional discussion regarding derivative instruments.

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

*Revenues* — Revenues from the transmission of electricity are recognized as services are provided based on FERC-approved cost-based formula rate templates. We record a reserve for revenue subject to refund when such refund is probable and can be reasonably estimated. The reserve is recorded as a reduction to operating revenues.

The cost-based formula rate templates at our Regulated Operating Subsidiaries include a true-up mechanism, whereby they compare their actual revenue requirements to their billed revenues for each year to determine any over- or under-collection of revenue requirements and record a revenue accrual or deferral for the difference. Refer to Note 4 under “Cost-Based Formula Rates with True-Up Mechanism” for a discussion of our revenue accounting under our cost-based formula rate templates.

*Share-Based Payment* — We have an Amended and Restated 2003 Stock Purchase and Option Plan for Key Employees of ITC Holdings Corp. and its subsidiaries (“2003 Plan”) and a Second Amended and Restated 2006 Long-Term Incentive Plan (“LTIP”) pursuant to which we grant various share-based awards, including options and restricted stock. Compensation expense is recorded for restricted stock awards that are expected to vest based on their fair value at grant date, and is amortized over the expected vesting period. We recognize expense for stock options that are expected to vest based on their fair value at grant date on a straight-line basis over the requisite service period and not for each separately vesting portion of the award. For certain stock option awards, expense is recognized in the period when the service condition is met upon retirement eligibility. The grant date is the date at which our commitment to issue share based awards to the employee or a director arises, which is generally the later of the board approval date, the date of hire of the employee or the date of the employee’s compensation agreement which contains the commitment to issue the award.

We also have an Employee Stock Purchase Plan (“ESPP”) which is a compensatory plan. Compensation expense is recorded based on the fair value of the purchase options at the grant date, which corresponds to the first day of each purchase period, and is amortized over the purchase period.

*Comprehensive Income (Loss)* — Comprehensive income (loss) is the change in common stockholders’ equity during a period arising from transactions and events from non-owner sources, including net income, any gain or loss recognized for the effective portion of our interest rate swaps and any unrealized gain or loss associated with our available-for-sale securities.

*Income Taxes* — Deferred income taxes are recognized for the expected future tax consequences of events that have been recognized in the financial statements or tax returns. Deferred tax assets and liabilities are determined based on the differences between the financial statements and tax bases of various assets and liabilities using the tax rates expected to be in effect for the year in which the differences are expected to reverse.

The accounting standards for uncertainty in income taxes prescribe a recognition threshold and a measurement attribute for tax positions taken, or expected to be taken, in a tax return that may not be sustainable.

We file income tax returns with the Internal Revenue Service and with various state and city jurisdictions. We are no longer subject to U.S. federal tax examinations for tax years 2010 and earlier. State and city jurisdictions that remain subject to examination range from tax years 2010 to 2013 . In the event we are assessed interest or penalties by any income tax jurisdictions, interest would be recorded as interest expense and penalties would be recorded as other expense.

### **3 . RECENT ACCOUNTING PRONOUNCEMENTS**

#### **Revenue Recognition**

In May 2014, the FASB issued authoritative guidance requiring entities to apply a new model for recognizing revenue from contracts with customers. The guidance will supersede the current revenue recognition guidance and require entities to evaluate their revenue recognition arrangements using a five step model to determine when a customer obtains control of a transferred good or service. The guidance is effective for annual reporting periods beginning after December 15, 2016 and may be adopted using a full or modified retrospective application. We do not expect the guidance to have a material impact on our results of operations, cash flows, or financial position.

#### **Going Concern**

In August 2014, the FASB issued authoritative guidance on (1) how to perform a going concern assessment and (2) when going concern disclosures are required under U.S. GAAP. The guidance extends the responsibility for performing a going concern assessment to company management; previously this requirement existed only in auditing literature. The standard is expected to enhance the timeliness, clarity, and consistency of going concern disclosures. The guidance is effective for the annual period ending after December 15, 2016, and for interim periods and annual periods thereafter. Early application is permitted. We do not expect the standard to have a material impact on our consolidated financial statements, including our disclosure.

### **4 . REGULATORY MATTERS**

#### **Order on Formula Rate Protocols**

In 2012, the FERC issued an order initiating a proceeding 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. Our MISO Regulated Operating Subsidiaries were named in the order. In May 2013, the FERC issued an order that determined the formula rate protocols are insufficient to ensure just and reasonable rates and directed MISO and its member transmission owners (“TOs”) to file revised formula rate protocols. In September 2013, MISO and its TOs, including our MISO Regulated Operating Subsidiaries, filed revised formula rate protocols which require our MISO Regulated Operating Subsidiaries to provide additional information for certain aspects of the formula rates used to calculate their respective annual revenue requirements. On March 20, 2014, FERC issued an order conditionally accepting MISO and its TOs’ September 2013 filing and required a further compliance filing, which MISO and its TOs made on May 19, 2014. On January 22, 2015, the FERC conditionally accepted the May 19,

2014 compliance filing, subject to a further compliance filing. We do not expect the revised formula rate protocols to impact our results of operations, cash flows or financial condition.

### **Complaint of IP&L**

In 2012, IP&L filed a complaint with the FERC against ITC Midwest's policy for reimbursement of certain network upgrades under Section 206 of the FPA. The complaint challenged ITC Midwest's FERC-approved reimbursement policy for up to 100% reimbursement of the costs funded upfront by qualifying generators for network upgrades.

In July 2013, FERC issued an order indicating that the use of Attachment FF was no longer just and reasonable for generator interconnections on the ITC Midwest system and required MISO, on behalf of ITC Midwest, to prospectively revise ITC Midwest's Attachment FF of the MISO Tariff to conform ITC Midwest's policy to the default generator interconnection cost recovery provisions used in most other MISO pricing zones. The order does not modify agreements executed or filed unexecuted prior to July 18, 2013. In August 2013, MISO made the required compliance filing to revise ITC Midwest's Attachment FF of the MISO Tariff and ITC Midwest filed for rehearing of this matter with FERC. On February 20, 2014, FERC issued an order which accepted the required revisions to ITC Midwest's Attachment FF for the MISO Tariff, making them effective as of July 18, 2013 but denied ITC Midwest's request for rehearing.

Under the default MISO cost recovery provisions in effect for new generator interconnection agreements ("GIAs") on MISO's system, ITC Midwest intends to utilize the option that exists to elect to fund network upgrades and recover such costs from the interconnection customer. We do not expect the revised policy to have a material impact on our results of operations, cash flows or financial condition.

### **FERC Audit Refund**

See "FERC Audit of ITC Midwest" in Note 16 for a discussion of the FERC audit refund.

### **Rate of Return on Equity and Capital Structure Complaint**

See "Rate of Return on Equity and Capital Structure Complaint" in Note 16 for a discussion 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. 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.

The net changes in regulatory assets and liabilities associated with our Regulated Operating Subsidiaries' formula rate revenue accruals and deferrals, including accrued interest, were as follows during the year ended December 31, 2014 :

(In thousands)	Total
Balance as of December 31, 2013	\$ (60,196)
Net refund of 2012 revenue deferrals and accruals, including accrued interest	27,260
Net revenue deferral for the year ended December 31, 2014	(21,045)
Net accrued interest payable for the year ended December 31, 2014	(2,122)
Balance as of December 31, 2014	<u>\$ (56,103)</u>

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

(In thousands)	Total
Current assets	\$ 5,393
Non-current assets	12,387
Current liabilities	(39,972)
Non-current liabilities	(33,911)
Balance as of December 31, 2014	<u>\$ (56,103)</u>

#### **ITC Great Plains Start-up, Development and Pre-construction Regulatory Assets**

As of December 31, 2014 , we have recorded a total of \$14.1 million of regulatory assets for start-up, development and pre-construction expenses, including associated interest carrying charges, incurred by ITC Great Plains, which include certain costs incurred for the KETA Project and the Kansas V-Plan Project prior to construction. ITC Great Plains made a filing with the FERC under Section 205 of the FPA in May 2013 to recover these start-up, development and pre-construction expenses, including associated carrying charges, in future rates. If FERC authorization is received, ITC Great Plains will include the unamortized 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.

#### **ITC Midwest's Rate Discount**

As part of the orders by the Iowa Utility Board and the Minnesota Public Utilities Commission approving ITC Midwest's asset acquisition, ITC Midwest agreed to provide a rate discount of \$4.1 million per year to its customers for eight years, beginning in the first year customers experience an increase in transmission charges following the consummation of the ITC Midwest asset acquisition. Beginning in 2009 and extending through 2016, ITC Midwest's net revenue requirement was or will be reduced by \$4.1 million for each year. The rate discount is recognized as a reduction in revenues when we provide the service and charge the reduced rate that includes the rate discount.

## 5 . REGULATORY ASSETS AND LIABILITIES

### Regulatory Assets

The following table summarizes the regulatory asset balances at December 31, 2014 and 2013 :

(In thousands)	2014	2013
Regulatory Assets:		
Current:		
Revenue accruals (including accrued interest of \$120 and \$114 as of December 31, 2014 and 2013, respectively)	\$ 5,393	\$ 6,334
Non-current:		
Revenue accruals (including accrued interest of \$75 and \$27 as of December 31, 2014 and 2013, respectively)	12,387	3,037
ITCTransmission ADIT Deferral (net of accumulated amortization of \$35,856 and \$32,826 as of December 31, 2014 and 2013, respectively)	24,746	27,776
METC ADIT Deferral (net of accumulated amortization of \$18,869 and \$16,511 as of December 31, 2014 and 2013, respectively)	23,587	25,945
METC Regulatory Deferrals (net of accumulated amortization of \$6,172 and \$5,400 as of December 31, 2014 and 2013, respectively)	9,257	10,029
Income taxes recoverable related to AFUDC equity	87,168	75,798
ITC Great Plains start-up, development and pre-construction	14,054	13,916
Pensions and postretirement	34,151	15,079
Income taxes recoverable related to implementation of the Michigan Corporate Income Tax	8,869	8,869
Accrued asset removal costs	7,337	170
Other	2,156	1,486
Total non-current	223,712	182,105
Total	<u>\$ 229,105</u>	<u>\$ 188,439</u>

### **Revenue Accruals**

Refer to discussion of revenue accruals in Note 4 under “Cost-Based Formula Rates with True-Up Mechanism.” Our Regulated Operating Subsidiaries do not earn a return on the balance of the revenue accruals, but do accrue interest carrying costs which are subject to rate recovery along with the principal amount of the revenue accrual.

### **ITCTransmission ADIT Deferral**

The carrying amount of the ITCTransmission Accumulated Deferred Income Tax (“ADIT”) Deferral is the remaining unamortized balance of the portion of ITCTransmission’s purchase price in excess of the fair value of net assets acquired approved for inclusion in future rates by the FERC. ITCTransmission earns a return on the remaining unamortized balance of the ITCTransmission ADIT Deferral that is included in rate base. The original amount recorded for this regulatory asset of \$60.6 million is recognized in rates and amortized on a straight-line basis over 20 years. ITCTransmission recorded amortization expense of \$3.0 million annually during 2014 , 2013 and 2012 , which is included in depreciation and amortization and recovered through ITCTransmission’s cost-based formula rate template.

### **METC ADIT Deferral**

The carrying amount of the METC ADIT Deferral is the remaining unamortized balance of the portion of METC’s purchase price in excess of the fair value of net assets acquired from Consumers Energy approved for inclusion in future rates by the FERC. The original amount recorded for the regulatory asset for METC ADIT Deferral of \$42.5 million is recognized in rates and amortized on a straight-line basis over 18 years beginning January 1, 2007. METC earns a return on the remaining unamortized balance of the regulatory asset for METC ADIT Deferral that is included in rate base. METC recorded amortization expense of \$2.4 million annually during 2014 , 2013 and 2012 , which is included in depreciation and amortization and recovered through METC’s cost-based formula rate template.

### ***METC Regulatory Deferrals***

METC has deferred, as a regulatory asset, depreciation and related interest expense associated with new transmission assets placed in service from January 1, 2001 through December 31, 2005 that were included on METC's balance sheet at the time MTH acquired METC from Consumers Energy (the "METC Regulatory Deferrals"). The original amount recorded for the regulatory asset for METC Regulatory Deferrals of \$15.4 million is recognized in rates and amortized over 20 years beginning January 1, 2007. METC earns a return on the remaining unamortized balance of the METC Regulatory Deferrals that is included in rate base. METC recorded amortization expense of \$0.8 million annually during 2014, 2013 and 2012, which is included in depreciation and amortization and recovered through METC's cost-based formula rate template.

### ***Income Taxes Recoverable Related to AFUDC Equity***

Accounting standards for income taxes provide that a regulatory asset be recorded if it is probable that a future increase in taxes payable relating to the book depreciation of AFUDC equity that has been capitalized to property, plant and equipment will be recovered from customers through future rates. We do not earn a return on this regulatory asset and the related deferred tax liabilities do not reduce rate base.

### ***ITC Great Plains Start-up, Development and Pre-Construction***

The start-up, development and pre-construction regulatory assets consists of certain costs incurred by ITC Great Plains from inception through the effective date of the ITC Great Plains' cost-based formula rate, including costs which had been incurred to develop and acquire transmission assets in the SPP region and certain costs incurred for the KETA Project and Kansas V-Plan Project prior to construction. These costs relate primarily to obtaining various state, SPP and FERC approvals necessary for ITC Great Plains to own transmission assets and build new facilities in the SPP region, efforts to establish the ITC Great Plains' cost-based formula rate, the establishment of ITC Great Plains as a public utility in Kansas and Oklahoma, obtaining the necessary approvals and authorizations for the state regulators in Kansas and Oklahoma, as well as engineering studies, routing studies and education and outreach to stakeholders on ITC Great Plains' efforts to bring these projects to the SPP region, and other costs incurred specific to the KETA and V-Plan Projects prior to construction.

The start-up, development and pre-construction regulatory assets accrue carrying charges at a rate equivalent to ITC Great Plains' weighted average cost of capital, adjusted annually based on ITC Great Plains' actual weighted average cost of capital calculated in its formula rate template for that year. The carrying charges began to accrue in March 2009 and will continue until such time that the regulatory assets are included in rate base. The equity component of these carrying charges including applicable taxes, totaling \$10.5 million as of December 31, 2014, is not recorded for GAAP accounting and reporting as the equity return does not meet the recognition criteria of incurred costs eligible for deferral under GAAP. ITC Great Plains made a filing with the FERC under Section 205 of the FPA in May 2013 to recover these start-up, development and pre-construction expenses, including associated carrying charges, in future rates. If FERC authorization is received, ITC Great Plains will include the unamortized balance of the start-up, development and pre-construction 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.

### ***Pensions and Postretirement***

Accounting standards for defined benefit pension and other postretirement plans for rate-regulated entities allow that amounts that otherwise would have been charged and or credited to accumulated other comprehensive income are recorded as a regulatory asset or liability. As the unrecognized amounts recorded to this regulatory asset are recognized, expenses will be recovered from customers in future rates under our cost based formula rates. Our Regulated Operating Subsidiaries do not earn a return on the balance of the pension and postretirement regulatory asset.

### ***Income Taxes Recoverable Related to Implementation of the Michigan Corporate Income Tax***

In May 2011, the Michigan Business Tax ("MBT") was repealed and replaced with the Michigan Corporate Income Tax ("CIT"), effective January 1, 2012. Under the CIT, we are taxed at a rate of 6.0% on federal taxable income that is attributed to our operations in the state of Michigan, subject to certain adjustments. In addition to the traditional income tax, the MBT had also included a modified gross receipts tax which allowed for deductions and credits for certain activities, none of which are part of the CIT. The change in Michigan tax law required us to



remove deferred income tax balances recognized under the MBT and establish new deferred income tax balances under the CIT in 2011, and the net result was incremental deferred state income tax liabilities at both ITCTransmission and METC. Under our cost-based formula rates with true-up mechanism, the future taxes receivable as a result of the tax law change is expected to be collected from customers through future rates and has resulted in the recognition of a regulatory asset. ITCTransmission and METC do not earn a return on the balance of the CIT regulatory asset and the related net deferred tax liabilities do not reduce rate base.

**Accrued Asset Removal Costs**

The carrying amount of the accrued asset removal costs represents the difference between costs incurred to remove property, plant and equipment and the estimated removal costs that have been recovered in rates. The portion of depreciation expense included in our depreciation rates related to asset removal costs reduces this regulatory asset and removal costs incurred are added to this regulatory asset. In addition, this regulatory asset has also been adjusted for differences between when legal asset retirement obligations are settled and when such obligations are recognized under the standards set forth by the FASB. Our Regulated Operating Subsidiaries include this item, excluding the cost component related to the recognition of our legal asset retirement obligations under the standards set forth by the FASB, as a reduction to accumulated depreciation for rate-making purposes, which is an increase to rate base.

**Regulatory Liabilities**

The following table summarizes the regulatory liability balances at December 31, 2014 and 2013 :

(In thousands)	2014	2013
Regulatory Liabilities:		
Current:		
Revenue deferrals (including accrued interest of \$1,853 and \$1,535 as of December 31, 2014 and 2013, respectively) (a)	\$ 39,972	\$ 33,120
FERC audit refund (including accrued interest of \$2,095 as of December 31, 2013) (b)	—	13,067
Total current	39,972	46,187
Non-current:		
Revenue deferrals (including accrued interest of \$541 and \$581 as of December 31, 2014 and 2013, respectively) (a)	33,911	36,447
Accrued asset removal costs	70,705	67,571
Estimated potential refund related to return on equity complaint (including accrued interest of \$870 as of December 31, 2014) (c)	47,780	—
Excess state income tax deductions	7,504	2,968
Other	170	—
Total non-current	160,070	106,986
Total	<u>\$ 200,042</u>	<u>\$ 153,173</u>

(a) Refer to discussion of revenue deferrals in Note 4 under “Cost-Based Formula Rates with True-Up Mechanism.” Our Regulated Operating Subsidiaries accrue interest on the true-up amounts which will be refunded through rates along with the principal amount of revenue deferrals in future periods.

(b) Refer to discussion of FERC audit refund in Note 16 under “FERC Audit of ITC Midwest.”

(c) Refer to discussion of the estimated potential refund in Note 16 under “Rate of Return on Equity and Capital Structure Complaint.”

**Accrued Asset Removal Costs**

The carrying amount of the accrued asset removal costs represents the difference between incurred costs to remove property, plant and equipment and the estimated removal costs included in rates. The portion of depreciation expense included in our depreciation rates related to asset removal costs is added to this regulatory liability and removal expenditures incurred are charged to this regulatory liability. Our Regulated Operating Subsidiaries include this item within accumulated depreciation for rate-making purposes, which is a reduction to rate base.



**Excess State Income Tax Deductions**

We have taken income tax deductions that exceed the tax basis of property and the unrealized income tax benefits resulting from these deductions are expected to be refunded to customers through future rates when the income tax benefits are realized. This regulatory liability and the related deferred tax assets do not affect rate base.

**6 . GOODWILL AND INTANGIBLE ASSETS****Goodwill**

At December 31, 2014 and 2013 , we had goodwill balances recorded at ITCTransmission, METC and ITC Midwest of \$173.4 million , \$453.8 million and \$323.0 million , respectively, which resulted from the ITCTransmission acquisition, the METC acquisition and ITC Midwest's asset acquisition, respectively.

**Intangible Assets**

Pursuant to the METC acquisition in October 2006, we have identified intangible assets with finite lives derived from the portion of regulatory assets recorded on METC's historical FERC financial statements that were not recorded on METC's historical GAAP financial statements associated with the METC Regulatory Deferrals and the METC ADIT Deferral. The carrying amount of the intangible asset for METC Regulatory Deferrals at December 31, 2014 and 2013 is \$23.7 million and \$25.7 million , respectively, and is amortized over 20 years beginning January 1, 2007. The carrying amount of the intangible asset for METC ADIT Deferral at December 31, 2014 and 2013 is \$10.5 million and \$11.5 million , respectively, and is amortized over 18 years beginning January 1, 2007, which also corresponds to the amortization period established in the METC rate case settlement. METC earns an equity return on the remaining unamortized balance of both the intangible asset for METC Regulatory Deferrals and the intangible asset for METC ADIT Deferral and recovers the amortization expense through METC's cost-based formula rate template.

ITC Great Plains has recorded intangible assets for payments and obligations 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 \$14.6 million and \$12.1 million (net of accumulated amortization of \$0.7 million and \$0.4 million , respectively) as of December 31, 2014 and 2013 , respectively. The amortization period for these intangible assets is 50 years .

During each of the years ended December 31, 2014 , 2013 and 2012 , we recognized \$3.3 million , \$3.2 million and \$3.1 million , respectively, of amortization expense of our intangible assets. We expect the annual amortization of our intangible assets that have been recorded as of December 31, 2014 to be as follows:

(In thousands)

2015	\$ 3,331
2016	3,331
2017	3,331
2018	3,331
2019	3,331
2020 and thereafter	32,139
Total	<u>\$ 48,794</u>

## 7 . PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment — net consisted of the following at December 31, 2014 and 2013 :

(In thousands)	2014	2013
Property, plant and equipment		
Regulated Operating Subsidiaries:		
Property, plant and equipment in service	\$ 6,396,449	\$ 5,641,240
Construction work in progress	391,788	423,433
Capital equipment inventory	68,170	75,470
Other	13,151	22,460
ITC Holdings and other	15,534	14,017
Total	6,885,092	6,176,620
Less: Accumulated depreciation and amortization	(1,388,217)	(1,330,094)
Property, plant and equipment — net	<u>\$ 5,496,875</u>	<u>\$ 4,846,526</u>

Additions to property, plant and equipment in service and construction work in progress during 2014 and 2013 were due primarily for projects to upgrade or replace existing transmission plant to improve the reliability of our transmission systems as well as transmission infrastructure to support generator interconnections and investments that provide regional benefits such as our Multi-Value Projects.

**8 . DEBT**

The following amounts were outstanding at December 31, 2014 and 2013 :

<b>(Amounts in thousands)</b>	<b>2014</b>	<b>2013</b>
ITC Holdings 6.04% Senior Notes, Series A, due September 20, 2014 (a)	\$ —	\$ 50,000
ITC Holdings 5.875% Senior Notes due September 30, 2016 (net of discount of \$6 and \$9, respectively) (b)	139,338	254,991
ITC Holdings 6.23% Senior Notes, Series B, due September 20, 2017	50,000	50,000
ITC Holdings 6.375% Senior Notes due September 30, 2036 (net of discount of \$166 and \$174, respectively) (b)	200,174	254,826
ITC Holdings 6.05% Senior Notes due January 31, 2018 (net of discount of \$487 and \$644, respectively)	384,513	384,356
ITC Holdings 5.50% Senior Notes due January 15, 2020 (net of discount of \$654 and \$787, respectively)	199,346	199,213
ITC Holdings 4.05% Senior Notes due July 1, 2023 (net of discount of \$606 and \$677, respectively)	249,394	249,323
ITC Holdings 3.65% Senior Notes due June 15, 2024 (net of discount of \$1,258)	398,742	—
ITC Holdings 5.30% Senior Notes due July 1, 2043 (net of discount of \$763 and \$791, respectively)	299,237	299,209
ITC Holdings Term Loan Credit Agreement due September 30, 2016	161,000	140,000
ITC Holdings Revolving Credit Agreement due May 17, 2016 (c)	—	—
ITC Holdings Revolving Credit Agreement due March 28, 2019	53,500	—
ITCTransmission 6.125% First Mortgage Bonds, Series C, due March 31, 2036 (net of discount of \$79 and \$82, respectively)	99,921	99,918
ITCTransmission 5.75% First Mortgage Bonds, Series D, due April 1, 2018 (net of discount of \$37 and \$49, respectively)	99,963	99,951
ITCTransmission 4.625% First Mortgage Bonds, Series E, due August 15, 2043 (net of discount of \$437 and \$452, respectively)	284,563	284,548
ITCTransmission 4.27% First Mortgage Bonds, Series F, due June 10, 2044	100,000	—
ITCTransmission Revolving Credit Agreement due May 17, 2016 (c)	—	41,100
ITCTransmission Revolving Credit Agreement due March 28, 2019	14,300	—
METC 5.75% Senior Secured Notes due December 10, 2015 (a)	175,000	175,000
METC 6.63% Senior Secured Notes due December 18, 2014 (a)	—	50,000
METC 5.64% Senior Secured Notes due May 6, 2040	50,000	50,000
METC 3.98% Senior Secured Notes due October 26, 2042	75,000	75,000
METC 4.19% Senior Secured Notes due December 15, 2044	150,000	—
METC Revolving Credit Agreement due May 17, 2016 (c)	—	67,200
METC Revolving Credit Agreement due March 28, 2019	—	—
ITC Midwest 6.15% First Mortgage Bonds, Series A, due January 31, 2038 (net of discount of \$405 and \$423, respectively)	174,595	174,577
ITC Midwest 7.12% First Mortgage Bonds, Series B, due December 22, 2017	40,000	40,000
ITC Midwest 7.27% First Mortgage Bonds, Series C, due December 22, 2020	35,000	35,000
ITC Midwest 4.60% First Mortgage Bonds, Series D, due December 17, 2024	75,000	75,000
ITC Midwest 3.50% First Mortgage Bonds, Series E, due January 19, 2027	100,000	100,000
ITC Midwest 4.09% First Mortgage Bonds, Series F, due April 30, 2043	100,000	100,000
ITC Midwest Revolving Credit Agreement due May 31, 2017 (c)	—	111,000
ITC Midwest Revolving Credit Agreement due March 28, 2019	191,200	—
ITC Great Plains 4.16% First Mortgage Bonds, Series A, due November 26, 2044	150,000	—
ITC Great Plains Term Loan Credit Agreement due November 28, 2014 (a)	—	100,000
ITC Great Plains Revolving Credit Agreement due February 16, 2015 (c)	—	51,900
ITC Great Plains Revolving Credit Agreement due March 28, 2019	53,800	—
<b>Total debt</b>	<b>\$ 4,103,586</b>	<b>\$ 3,612,112</b>

(a) As of December 31, 2014 and 2013 , there was \$175.0 million and \$200.0 million , respectively, of debt included within debt maturing within one year that is classified as a current liability in the consolidated statements of financial position.

(b) The debt obligations were partially retired prior to maturity date through the cash tender offer described below.

(c) The debt obligations were retired prior to maturity date.

The annual maturities of debt as of December 31, 2014 are as follows:

<b>(In thousands)</b>	
2015	\$ 175,000
2016	300,344
2017	90,000
2018	485,000
2019	312,800
2020 and thereafter	2,745,340
<b>Total</b>	<b>\$ 4,108,484</b>

## **ITC Holdings**

### *Term Loan Credit Agreements*

On December 20, 2013, ITC Holdings entered into an unsecured, unguaranteed term loan credit agreement, due September 30, 2016, with an initial borrowing capacity of \$200.0 million, which was borrowed in full as of March 31, 2014. As of December 31, 2014 and 2013, ITC Holdings had \$161.0 million and \$140.0 million outstanding under this agreement, respectively. The term loan bears interest at a variable rate, subject to adjustment based on ITC Holdings' credit rating. The proceeds were used for general corporate purposes, including the repayment of borrowings under the ITC Holdings' revolving credit agreement. The weighted-average interest rate on the borrowing outstanding under this agreement was 1.3% at December 31, 2014.

### *Cash Tender Offer*

In May 2014, ITC Holdings commenced a cash tender offer for any and all of the outstanding \$255.0 million ITC Holdings 5.875% Senior Notes due September 30, 2016 and \$255.0 million ITC Holdings 6.375% Senior Notes due September 30, 2036, under which \$115.6 million of the 5.875% Senior Notes and \$54.7 million of the 6.375% Senior Notes were validly tendered on May 30, 2014. All of the Senior Notes validly tendered were subsequently retired with the proceeds from the \$400.0 million 3.65% Senior Notes described below. ITC Holdings incurred a loss on extinguishment of debt of \$29.2 million related to the tender premium, the write-off of deferred debt issuance costs and other related expenses.

### *Senior Unsecured Notes*

On July 3, 2013, ITC Holdings issued \$250.0 million aggregate principal amount of its 4.05% Senior Notes, due July 1, 2023 and \$300.0 million aggregate principal amount of its 5.30% Senior Notes, due July 1, 2043. The proceeds from these issuances were used to repay its \$267.0 million of 5.25% Senior Notes due July 15, 2013, amounts borrowed under ITC Holdings' various term loan credit agreements and for general corporate purposes.

On June 4, 2014, ITC Holdings issued \$400.0 million aggregate principal amount of its 3.65% Senior Notes, due June 15, 2024. The proceeds from the issuance were used for the cash tender offer described above and for general corporate purposes, primarily the repayment of borrowings under the ITC Holdings revolving credit agreement. These ITC Holdings Senior Notes were issued under its 2013 indenture. All issuances of ITC Holdings Senior Notes are unsecured.

## **ITCTransmission**

On August 14, 2013, ITCTransmission issued \$285.0 million aggregate principal amount of 4.625% First Mortgage Bonds, Series E, due August 15, 2043. The proceeds from the issuance were used to repay its term loan credit agreement of \$185.0 million and \$100.0 million outstanding under an intercompany advance agreement between ITCTransmission and ITC Holdings.

On June 10, 2014, ITCTransmission issued \$75.0 million of the total face amount of \$100.0 million of 4.27% First Mortgage Bonds, Series F, due June 10, 2044 ("First Mortgage Bonds, Series F"). ITCTransmission issued the remaining \$25.0 million of First Mortgage Bonds, Series F on August 22, 2014. The proceeds from both issuances were used for general corporate purposes, primarily the repayment of borrowings under the ITCTransmission revolving credit agreement. ITCTransmission's First Mortgage Bonds are issued under its first mortgage and deed of trust and secured by a first mortgage lien on substantially all of its property.

**METC**

*Term Loan Credit Agreement*

On January 31, 2014, METC entered into an unsecured, unguaranteed term loan credit agreement due February 2, 2015, under which METC borrowed the maximum of \$50.0 million available under the agreement. The proceeds were used for general corporate purposes, primarily the repayment of borrowings under the METC revolving credit agreement. This borrowing was repaid in full in the fourth quarter of 2014.

*Senior Secured Notes*

On December 17, 2014, METC issued \$150.0 million of 4.19% Senior Secured Notes, due December 15, 2044. The proceeds were used to repay the \$50.0 million of 6.63% Senior Secured Notes due December 18, 2014 and the \$50.0 million borrowed under METC's term loan credit agreement described above and for general corporate purposes, including the repayment of borrowings under METC's revolving credit agreement. The METC Senior Secured Notes are issued under its first mortgage indenture and secured by a first mortgage lien on substantially all of its real property and tangible personal property.

**ITC Midwest**

On April 4, 2013, ITC Midwest issued \$100.0 million aggregate principal amount of 4.09% First Mortgage Bonds, Series F, due April 30, 2043. The proceeds from the issuance were used to refinance existing indebtedness, partially fund capital expenditures and for general corporate purposes. ITC Midwest's First Mortgage Bonds are issued under its first mortgage and deed of trust and secured by a first mortgage lien on substantially all of its property.

**ITC Great Plains**

*Term Loan Credit Agreement*

On May 30, 2013, ITC Great Plains entered into an unsecured, unguaranteed term loan credit agreement due November 28, 2014, under which ITC Great Plains had borrowed the maximum \$100.0 million as of December 31, 2013. The proceeds were used to refinance existing indebtedness, fund capital expenditures and for general corporate purposes. This borrowing was repaid in full in the fourth quarter of 2014.

*First Mortgage Bonds*

On November 26, 2014, ITC Great Plains issued \$150.0 million of 4.16% First Mortgage Bonds, Series A, due November 26, 2044. The proceeds were used to repay the \$100.0 million borrowed under the ITC Great Plains' term loan credit agreement described above and for general corporate purposes, including the repayment of borrowings under the ITC Great Plains' revolving credit agreement. ITC Great Plains' First Mortgage Bonds are issued under its first mortgage and deed of trust and secured by a first mortgage lien on substantially all of its property.

**Derivative Instruments and Hedging Activities**

We may 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 issuance of fixed-rate debt related to the expected refinancing of the maturing ITC Holdings 5.875% Senior Notes, due September 30, 2016. As of December 31, 2014, ITC Holdings had \$139.3 million outstanding under the 5.875% Senior Notes subsequent to the cash tender offer described above.

Interest Rate Swaps	Notional Amount	Fixed Rate	Original Term	Effective Date
(Amounts in millions)				
August 2014 swap	\$ 25.0	3.217%	10 years	September 2016
October 2014 swap	25.0	3.075%	10 years	September 2016
Total	\$ 50.0			

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

September 30, 2016 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 September 30, 2016. 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. On January 14, 2015, ITC Holdings entered into an additional interest rate swap contract with terms comparable to the interest rate swaps described above, consisting of an additional \$25.0 million notional amount of a 10 -year term interest rate swap with a fixed rate of 2.301% .

As of December 31, 2014 , there has been no material ineffectiveness recorded in the 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 (“AOCI”). This amount will be accumulated and amortized as a component of interest expense over the life of the forecasted debt. As of December 31, 2014 , the fair value of the derivative instruments was a liability of \$1.9 million recorded to other non-current liabilities. None of the interest rate swaps contain credit-risk-related contingent features. Refer to Note 12 for additional fair value information.

In May 2014, we executed, settled and terminated \$150.0 million of 10 -year interest rate swaps in conjunction with the Senior Notes issued at ITC Holdings described above. A summary of the terminated interest rate swaps is provided below:

Interest Rate Swaps	Amount	Weighted Average Fixed Rate of Interest Rate Swaps	Comparable Reference Rate of Senior Notes	Loss on Derivative	Settlement Date
<b>(Amounts in millions)</b>					
10-year interest rate swaps	\$ 150.0	2.65%	2.53%	\$ 1.6	May 2014

The interest rate swaps qualified for hedge accounting treatment and the loss of \$1.6 million was recognized as of December 31, 2014 for the effective portion of the hedges and recorded net of tax in AOCI. This amount is being amortized as a component of interest expense over the life of the related debt.

### Revolving Credit Agreements

On March 28, 2014, ITC Holdings and its Regulated Operating Subsidiaries entered into new unsecured, unguaranteed revolving credit agreements maturing in March 2019, which replaced their existing revolving credit agreements. At December 31, 2014 , ITC Holdings and its Regulated Operating Subsidiaries had the following unsecured revolving credit facilities available:

(Amounts in millions)	Total Available Capacity	Outstanding Balance (a)	Unused Capacity	Weighted Average Interest Rate on Outstanding Balance	Commitment Fee Rate (b)
<b>Revolving Credit Agreements:</b>					
ITC Holdings	\$ 400.0	\$ 53.5	\$ 346.5	1.4% (c)	0.175%
ITCTransmission	100.0	14.3	85.7	1.1% (d)	0.10%
METC	100.0	—	100.0	n/a (d)	0.10%
ITC Midwest	250.0	191.2	58.8	1.1% (d)	0.10%
ITC Great Plains	150.0	53.8	96.2	1.1% (d)	0.10%
<b>Total</b>	<b>\$ 1,000.0</b>	<b>\$ 312.8</b>	<b>\$ 687.2</b>		

(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.

(c) Loan bears interest at a rate equal to LIBOR plus an applicable margin of 1.25% or at a base rate, which is defined as the higher of the prime rate, 0.50% above the federal funds rate or 1.00% above the one month LIBOR, plus an applicable margin of 0.25%, subject to adjustments based on ITC Holdings’ credit rating.

(d) Loans bear interest at a rate equal to LIBOR plus an applicable margin of 1.00% or at a base rate, which is defined as the higher of the prime rate, 0.50% above the federal funds rate or 1.00% above the one month LIBOR, subject to adjustments 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. As of December 31, 2014, we were not in violation of any debt covenant.

## 9 . 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 years ended December 31, 2014, 2013 and 2012 is presented in the following table (see additional information below under "Stock Split" for the recast share and per share data for the years ended December 31, 2013 and 2012 as a result of the three-for-one stock split):

(In thousands, except share, per share data and percentages)	Year Ended December 31,		
	2014	2013	2012
<b>Numerator:</b>			
Net income	\$ 244,083	\$ 233,506	\$ 187,876
Less: dividends declared and paid — common and restricted shares	(95,503)	(84,104)	(75,124)
Undistributed earnings	148,580	149,402	112,752
Percentage allocated to common shares (a)	99.2%	99.1%	98.7%
Undistributed earnings — common shares	147,391	148,057	111,286
Add: dividends declared and paid — common shares	94,824	83,351	74,202
Numerator for basic and diluted earnings per common share	\$ 242,215	\$ 231,408	\$ 185,488
<b>Denominator:</b>			
Basic earnings per common share — weighted average common shares outstanding	155,363,848	155,736,384	152,462,514
Incremental shares for stock options and employee stock purchase plan — weighted average assumed conversion	1,453,804	1,288,620	2,227,671
Diluted earnings per common share — adjusted weighted average shares and assumed conversion	156,817,652	157,025,004	154,690,185
<b>Per common share net income:</b>			
Basic	\$ 1.56	\$ 1.49	\$ 1.22
Diluted	\$ 1.54	\$ 1.47	\$ 1.20
<hr/>			
(a) Weighted average common shares outstanding	155,363,848	155,736,384	152,462,514
Weighted average restricted shares (participating securities)	1,277,128	1,472,967	1,976,505
Total	156,640,976	157,209,351	154,439,019
Percentage allocated to common shares	99.2%	99.1%	98.7%



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The incremental shares for stock options and the ESPP 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 and the anti-dilutive stock options and ESPP shares excluded from the diluted earnings per share calculations were as follows:

	2014	2013	2012
Outstanding stock options and ESPP shares (as of December 31)	4,603,292	5,169,828	4,810,287
Anti-dilutive stock options and ESPP shares (for the year ended December 31)	550,178	912,570	1,697,835

## Stock Split

Below are the effects of the stock split on earnings per share for the years ended December 31, 2013 and 2012 :

(In thousands, except per share and share data)	Reported	Adjustment	Adjusted
<b>For the year ended December 31, 2013</b>			
Numerator for basic and diluted earnings per common share	\$ 231,408	\$ —	\$ 231,408
Denominator:			
Basic earnings per common share — weighted average common shares	51,912,128	103,824,256	155,736,384
Incremental shares for stock options and employee stock purchase plan	429,540	859,080	1,288,620
Diluted earnings per common share — adjusted weighted average shares and assumed conversion	52,341,668	104,683,336	157,025,004
Per common share net income:			
Basic	\$ 4.46	\$ (2.97)	\$ 1.49
Diluted	\$ 4.42	\$ (2.95)	\$ 1.47
<b>For the year ended December 31, 2012</b>			
Numerator for basic and diluted earnings per common share	\$ 185,488	\$ —	\$ 185,488
Denominator:			
Basic earnings per common share — weighted average common shares	50,820,838	101,641,676	152,462,514
Incremental shares for stock options and employee stock purchase plan	742,557	1,485,114	2,227,671
Diluted earnings per common share — adjusted weighted average shares and assumed conversion	51,563,395	103,126,790	154,690,185
Per common share net income:			
Basic	\$ 3.65	\$ (2.43)	\$ 1.22
Diluted	\$ 3.60	\$ (2.40)	\$ 1.20

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Below are the effects of the stock split on other disclosures included for earnings per share for the years ended December 31, 2013 and 2012 :

### Percentage Allocated to Common Shares

	Reported	Adjustment	Adjusted
<b>For the year ended December 31, 2013</b>			
Weighted-average common shares outstanding	51,912,128	103,824,256	155,736,384
Weighted-average restricted shares (participating securities)	490,989	981,978	1,472,967
Total	52,403,117	104,806,234	157,209,351
Percentage allocated to common shares	99.1%	—%	99.1%
<b>For the year ended December 31, 2012</b>			
Weighted-average common shares outstanding	50,820,838	101,641,676	152,462,514
Weighted-average restricted shares (participating securities)	658,835	1,317,670	1,976,505
Total	51,479,673	102,959,346	154,439,019
Percentage allocated to common shares	98.7%	—%	98.7%

### Outstanding and Anti-dilutive Stock Options and ESPP Shares

The outstanding stock options and the ESPP shares as of December 31, 2013 and 2012 and the anti-dilutive stock options and ESPP shares excluded from the diluted earnings per share calculations for the years ended December 31, 2013 and 2012 were as follows:

	Reported	Adjustment	Adjusted
<b>As of and for the year ended December 31, 2013</b>			
Outstanding stock options and ESPP shares	1,723,276	3,446,552	5,169,828
Anti-dilutive stock options and ESPP shares	304,190	608,380	912,570
<b>As of and for the year ended December 31, 2012</b>			
Outstanding stock options and ESPP shares	1,603,429	3,206,858	4,810,287
Anti-dilutive stock options and ESPP shares	565,945	1,131,890	1,697,835

### Impacts of the Accelerated Share Repurchase Program

The basic shares outstanding as of December 31, 2014 include the impact of the 3.6 million shares received under the ASR program, as described in Note 13 .

## 10 . INCOME TAXES

Our effective tax rate varied from the statutory federal income tax rate due to differences between the book and tax treatment of various transactions as follows:

(In thousands)	2014	2013	2012
Income tax expense at 35% statutory rate	\$ 138,042	\$ 123,329	\$ 103,778
State income taxes (net of federal benefit)	16,054	9,110	6,247
AFUDC equity	(6,201)	(9,715)	(7,207)
Entergy Transaction expenses (a)	—	(5,614)	4,113
Other — net	2,427	1,752	1,701
Total income tax provision	\$ 150,322	\$ 118,862	\$ 108,632

(a) During the fourth quarter of 2013, due to the cancellation of the Entergy Transaction, we recognized tax benefits for expenses that were previously deemed non-deductible for tax purposes that were incurred in 2012 and 2011. See Note 17 for discussion of the Entergy Transaction.



Components of the income tax provision were as follows:

(In thousands)	2014	2013	2012
Current income tax expense	\$ 59,949	\$ 42,159	\$ 41,347
Deferred income tax expense	90,313	76,094	66,710
Benefits of operating loss carryforward	60	609	575
Total income tax provision	<u>\$ 150,322</u>	<u>\$ 118,862</u>	<u>\$ 108,632</u>

Deferred tax assets and liabilities are recognized for the estimated future tax effect of temporary differences between the tax basis of assets or liabilities and the reported amounts in the financial statements. Deferred tax assets and liabilities are classified as current or non-current according to the classification of the related assets or liabilities. Deferred tax assets and liabilities not related to assets or liabilities are classified according to the expected reversal date of the temporary differences.

Deferred income tax assets (liabilities) consisted of the following at December 31:

(In thousands)	2014	2013
Property, plant and equipment	\$ (560,960)	\$ (459,983)
METC regulatory deferral (a)	(12,721)	(13,743)
Acquisition adjustments — ADIT deferrals (a)	(15,164)	(14,945)
Goodwill	(133,138)	(117,493)
Net revenue accruals and deferrals, including accrued interest (a)	22,047	23,504
Pension and postretirement liabilities	14,196	11,864
State income tax NOLs (net of federal benefit)	20,004	16,573
Share-based compensation	12,211	12,040
Other — net	11,474	(3,530)
Net deferred tax liabilities	<u>\$ (642,051)</u>	<u>\$ (545,713)</u>
Gross deferred income tax liabilities	<u>\$ (810,141)</u>	<u>\$ (674,172)</u>
Gross deferred income tax assets	168,090	128,459
Net deferred tax liabilities	<u>\$ (642,051)</u>	<u>\$ (545,713)</u>

(a) Described in Note 5 .

We have state income tax net operating losses (“NOLs”) as of December 31, 2014 , all of which we expect to use prior to their expiration. Our state income tax NOLs would expire beginning in 2022. In addition to the estimated state income tax NOL deferred tax assets in the table above, we have additional estimated state income tax NOLs of \$7.1 million tax effected, net of federal benefit, as of December 31, 2014 that have not been recognized in the consolidated statements of financial position relating to tax deductions for share-based payment. The accounting standards for share-based payment require that the tax deductions that exceed book value be recognized only if that deduction reduces taxes payable as a result of a realized cash benefit from the deduction.

## 11 . RETIREMENT BENEFITS AND ASSETS HELD IN TRUST

### Pension Plan Benefits

We have a qualified defined benefit pension plan for eligible employees, comprised of a traditional final average pay plan and a cash balance plan (“retirement plan”). The traditional final average pay plan is noncontributory, covers select employees, and provides retirement benefits based on 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. Our funding practice for the qualified retirement plan is to contribute amounts necessary to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974, plus additional amounts as we determine appropriate. We made contributions of \$3.8 million , \$6.9 million and \$7.0 million to the retirement plan in 2014 , 2013 and 2012 , respectively. We expect to contribute up to \$4.0 million to the retirement plan in 2015 .

We also have two supplemental nonqualified, noncontributory, defined benefit pension plans for selected management employees (the “supplemental benefit plans” and collectively with the retirement plan, the “pension plans”). The supplemental benefit plans provide for benefits that supplement those provided by the retirement plan. The obligations under these supplemental benefit plans are included in the pension benefit obligation calculations below. The investments held in trust for the supplemental benefit plans of \$26.5 million and \$21.1 million at December 31, 2014 and 2013, respectively, are not included in the retirement plan asset amounts presented below, but are included in other assets on our consolidated statement of financial position. For the years ended December 31, 2014, 2013 and 2012, we contributed \$5.1 million, \$0.6 million and \$4.7 million, respectively, to these supplemental benefit plans.

Prior to August 2013, the investments held for the supplemental benefit plans were classified as trading securities and the net realized and unrealized loss of \$1.8 million in 2013 was recorded as other expense and the net realized and unrealized gains of \$1.9 million in 2012 was recorded as other income. In August 2013, the investments were sold and reinvested into new funds, and at acquisition, based on our evaluation of the intent of the new investments, we classified them as available-for-sale consistent with the FASB guidance. As of December 31, 2014, all of our investments held in the supplemental benefit plans were classified as available-for-sale securities and the net unrealized gains of \$0.1 million were recognized in the accumulated other comprehensive income component of equity.

The plan assets of the retirement plan consisted of the following assets by category:

<u>Asset Category</u>	<u>2014</u>	<u>2013</u>
Fixed income securities	48.8%	47.7%
Equity securities	51.2%	52.3%
Total	100.0%	100.0%

Net periodic benefit cost for the pension plans during 2014, 2013 and 2012 was as follows by component:

<u>(In thousands)</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Service cost	\$ 5,066	\$ 5,261	\$ 4,160
Interest cost	3,603	2,792	2,590
Expected return on plan assets	(3,541)	(2,868)	(2,277)
Amortization of prior service credit	(42)	(42)	(42)
Amortization of unrecognized loss	1,545	2,714	3,470
Net pension cost	\$ 6,631	\$ 7,857	\$ 7,901

The following table reconciles the obligations, assets and funded status of the pension plans as well as the amounts recognized as accrued pension liability in the consolidated statement of financial position as of December 31, 2014 and 2013 :

(In thousands)	2014	2013
<b>Change in Benefit Obligation:</b>		
Beginning projected benefit obligation	\$ (73,468)	\$ (72,400)
Service cost	(5,066)	(5,261)
Interest cost	(3,603)	(2,792)
Actuarial net (loss) gain	(14,937)	6,161
Benefits paid	1,334	824
Ending projected benefit obligation	<u>\$ (95,740)</u>	<u>\$ (73,468)</u>
<b>Change in Plans' Assets:</b>		
Beginning plan assets at fair value	\$ 48,894	\$ 38,130
Actual return on plan assets	4,851	4,650
Employer contributions	3,822	6,938
Benefits paid	(1,177)	(824)
Ending plan assets at fair value	<u>\$ 56,390</u>	<u>\$ 48,894</u>
Funded status, underfunded	<u>\$ (39,350)</u>	<u>\$ (24,574)</u>
Accumulated benefit obligation	<u>\$ (84,533)</u>	<u>\$ (61,832)</u>
<b>Amounts recorded as:</b>		
<b>Funded Status:</b>		
Accrued pension liabilities	\$ (44,033)	\$ (35,003)
Pension assets — other assets — other	4,683	10,429
Total	<u>\$ (39,350)</u>	<u>\$ (24,574)</u>
<b>Accumulated benefit obligation:</b>		
Retirement plan	\$ (48,571)	\$ (36,033)
Supplemental benefit plans	(35,962)	(25,799)
Total	<u>\$ (84,533)</u>	<u>\$ (61,832)</u>
<b>Unrecognized Amounts in Non-current Regulatory Assets:</b>		
Net actuarial loss	\$ 24,868	\$ 12,787
Prior service credit	25	(17)
Total	<u>\$ 24,893</u>	<u>\$ 12,770</u>

The unrecognized amounts that otherwise would have been charged and/or credited to accumulated other comprehensive income in accordance with the FASB guidance on accounting for retirement benefits are recorded as a regulatory asset on our consolidated statements of financial position as discussed in Note 5 . The amounts recorded as a regulatory asset represent a net periodic benefit cost to be recognized in our operating income in future periods.

The actuarial net loss in 2014 includes the impact of a change in our mortality assumption which generally assumes longer life expectancies for plan participants as compared with our prior assumption. Additionally the reduction in our discount rate assumption contributed to the actuarial net loss in 2014.

Actuarial assumptions used to determine the benefit obligation for the pension plans for 2014 , 2013 and 2012 are as follows:

	2014	2013	2012
Discount rate	3.75 - 4.05%	4.60 - 5.10%	3.70 - 4.45%
Annual rate of salary increases	4.00%	4.00 - 6.00%	5.00 - 6.00%

Actuarial assumptions used to determine the benefit cost for 2014 , 2013 and 2012 for the pension plans are as follows:

	2014	2013	2012
Discount rate	4.60 - 5.10%	3.70 - 4.45%	4.50 - 5.00%
Annual rate of salary increases	4.00 - 6.00%	5.00 - 6.00%	5.00 - 6.00%
Expected long-term rate of return on plan assets	6.75%	7.00%	7.25%

At December 31, 2014 , the projected benefit payments for the pension plans calculated using the same assumptions as those used to calculate the benefit obligation described above are as follows:

(In thousands)

2015	\$	1,767
2016		1,722
2017		5,419
2018		5,498
2019		5,904
2020 through 2024		36,957

### **Investment Objectives and Fair Value Measurement**

The general investment objectives of the retirement plan includes maximizing the return within reasonable and prudent levels of risk and controlling administrative and management costs. The targeted asset allocation is weighted equally between equity and fixed income investments. Investment decisions are made by our retirement benefits board as delegated by our board of directors. Equity investments may include various types of U.S. and international equity securities, such as large-cap, mid-cap and small-cap stocks. Fixed income investments may include cash and short-term instruments, U.S. Government securities, corporate bonds, mortgages and other fixed income investments. No investments are prohibited for use in the retirement plan, including derivatives, but our exposure to derivatives currently is not material. We intend that the long-term capital growth of the retirement plan, together with employer contributions, will provide for the payment of the benefit obligations.

We determine our expected long-term rate of return on plan assets based on the current and expected target allocations of the retirement plan investments and considering historical and expected long-term rates of returns on comparable fixed income investments and equity investments.

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. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. For the years ended December 31, 2014 and 2013 , there were no transfers between levels.



The fair value measurement of the retirement plan assets as of December 31, 2014 , was as follows:

(In thousands)	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in	Significant	Significant
	Active Markets for	Other Observable	Unobservable
	Identical Assets	Inputs	Inputs
	(Level 1)	(Level 2)	(Level 3)
Financial assets measured on a recurring basis:			
Mutual funds — U.S. equity securities	\$ 23,770	\$ —	\$ —
Mutual funds — international equity securities	5,096	—	—
Mutual funds — fixed income securities	23,783	—	—
Guaranteed deposit fund	—	3,741	—
<b>Total</b>	<b>\$ 52,649</b>	<b>\$ 3,741</b>	<b>\$ —</b>

The fair value measurement of the retirement plan assets as of December 31, 2013 , was as follows:

(In thousands)	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in	Significant	Significant
	Active Markets for	Other Observable	Unobservable
	Identical Assets	Inputs	Inputs
	(Level 1)	(Level 2)	(Level 3)
Financial assets measured on a recurring basis:			
Mutual funds — U.S. equity securities	\$ 20,639	\$ —	\$ —
Mutual funds — international equity securities	4,956	—	—
Mutual funds — fixed income securities	19,813	—	—
Guaranteed deposit fund	—	3,486	—
<b>Total</b>	<b>\$ 45,408</b>	<b>\$ 3,486</b>	<b>\$ —</b>

The mutual funds consist primarily of publicly traded mutual funds and are recorded at fair value based on observable trades for identical securities in an active market. The guaranteed deposit fund is a group annuity contract and is valued at estimated fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations that are quoted in active markets.

### Other Postretirement Benefits

We provide certain postretirement health care, dental, and life insurance benefits for eligible employees. We contributed \$6.3 million , \$1.5 million and \$4.4 million to the postretirement benefit plan in 2014 , 2013 and 2012 , respectively. We expect to contribute up to \$9.0 million to the plan in 2015 .

The plan assets consisted of the following assets by category:

<u>Asset Category</u>	2014	2013
Fixed income securities	57.2%	46.6%
Equity securities	42.8%	53.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Our measurement of the accumulated postretirement benefit obligation as of December 31, 2014 and 2013 does not reflect the potential receipt of any subsidies under the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

Net postretirement benefit plan cost for 2014 , 2013 and 2012 was as follows by component:

(In thousands)	2014	2013	2012
Service cost	\$ 5,846	\$ 5,774	\$ 5,433
Interest cost	1,991	1,562	1,552
Expected return on plan assets	(1,361)	(1,415)	(1,016)
Amortization of prior service cost	—	—	125
Amortization of unrecognized loss	—	220	534
Net postretirement cost	<u>\$ 6,476</u>	<u>\$ 6,141</u>	<u>\$ 6,628</u>

The following table reconciles the obligations, assets and funded status of the plan as well as the amounts recognized as accrued postretirement liability in the consolidated statement of financial position as of December 31, 2014 and 2013 :

(In thousands)	2014	2013
<b>Change in Benefit Obligation:</b>		
Beginning accumulated postretirement obligation	\$ (42,706)	\$ (37,015)
Service cost	(5,846)	(5,774)
Interest cost	(1,991)	(1,562)
Actuarial net (loss) gain	(7,695)	1,491
Benefits paid	311	154
Ending accumulated postretirement obligation	<u>\$ (57,927)</u>	<u>\$ (42,706)</u>
<b>Change in Plan's Assets:</b>		
Beginning plan assets at fair value	\$ 24,004	\$ 19,670
Actual return on plan assets	2,107	2,857
Employer contributions	6,286	1,477
Employer provided retiree premiums	311	154
Benefits paid	(311)	(154)
Ending plan assets at fair value	<u>\$ 32,397</u>	<u>\$ 24,004</u>
Funded status, underfunded	<u>\$ (25,530)</u>	<u>\$ (18,702)</u>
<b>Amounts recorded as:</b>		
<b>Funded Status:</b>		
Accrued postretirement liabilities	\$ (25,530)	\$ (18,702)
Total	<u>\$ (25,530)</u>	<u>\$ (18,702)</u>
<b>Unrecognized Amounts in Non-current Regulatory Assets:</b>		
Net actuarial loss	\$ 9,258	\$ 2,309
Total	<u>\$ 9,258</u>	<u>\$ 2,309</u>

The unrecognized amounts that otherwise would have been charged and/or credited to accumulated other comprehensive income in accordance with the FASB guidance on accounting for retirement benefits are recorded as a regulatory asset on our consolidated statements of financial position as discussed in Note 5 . The amounts recorded as a regulatory asset represent a net periodic benefit cost to be recognized in our operating income in future periods.

The actuarial net loss in 2014 includes the impact of a change in our mortality assumption which generally assumes longer life expectancies for plan participants as compared with our prior assumption. Additionally the reduction in our discount rate assumption contributed to the actuarial net loss in 2014.

Actuarial assumptions used to determine the benefit obligation for 2014 , 2013 and 2012 are as follows:

	2014	2013	2012
Discount rate	4.20%	5.15%	4.20%
Annual rate of salary increases	4.00%	4.00%	5.00%
Health care cost trend rate assumed for next year	7.25%	7.50%	8.00%
Rate to which the cost trend rate is assumed to decline	5.00%	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2022	2022	2017
Annual rate of increase in dental benefit costs	5.00%	5.00%	5.00%

Actuarial assumptions used to determine the benefit cost for 2014 , 2013 and 2012 are as follows:

	2014	2013	2012
Discount rate	5.15%	4.20%	5.00%
Annual rate of salary increases	4.00%	5.00%	5.00%
Health care cost trend rate assumed for next year	7.50%	8.00%	9.00%
Rate to which the cost trend rate is assumed to decline	5.00%	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2022	2017	2017
Expected long-term rate of return on plan assets	5.00 - 6.75%	7.00%	7.25%

At December 31, 2014 , the projected benefit payments for the postretirement benefit plan calculated using the same assumptions as those used to calculate the benefit obligations listed above are as follows:

(In thousands)

2015	\$ 450
2016	566
2017	713
2018	1,041
2019	1,373
2020 through 2024	12,833

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point increase or decrease in assumed health care cost trend rates would have the following effects on costs for 2014 and the postretirement benefit obligation at December 31, 2014 :

(In thousands)	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total of service and interest cost	\$ 1,686	\$ (1,322)
Effect on postretirement benefit obligation	12,643	(9,838)

### **Investment Objectives and Fair Value Measurement**

The general investment objectives of the other postretirement benefit plan includes maximizing the return within reasonable and prudent levels of risk and controlling administrative and management costs. The targeted asset allocation is weighted equally between equity and fixed income investments. Investment decisions are made by our retirement benefits board as delegated by our board of directors. Equity investments may include various types of U.S. and international equity securities, such as large-cap, mid-cap and small-cap stocks. Fixed income investments may include cash and short-term instruments, U.S. Government securities, corporate bonds, mortgages and other fixed income investments. No investments are prohibited for use in the other postretirement benefit plan, including derivatives, but our exposure to derivatives currently is not material. We intend that the long-term capital growth of the other postretirement benefit plan, together with employer contributions, will provide for the payment of the benefit obligations.

We determine our expected long-term rate of return on plan assets based on the current target allocations of the retirement plan investments and considering historical returns on comparable fixed income investments and equity investments.

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. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. For the years ended December 31, 2014 and 2013, there were no transfers between levels.

The fair value measurement of the other postretirement benefit plan assets as of December 31, 2014, was as follows:

(In thousands)	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in	Significant	Significant
	Active Markets for	Other Observable	Unobservable
	Identical Assets	Inputs	Inputs
	(Level 1)	(Level 2)	(Level 3)
Financial assets measured on a recurring basis:			
Cash and cash equivalents	\$ 5,099	\$ —	\$ —
Mutual funds — U.S. equity securities	13,070	—	—
Mutual funds — international equity securities	785	—	—
Mutual funds — fixed income securities	12,790	—	—
Guaranteed deposit fund	—	653	—
Total	<u>\$ 31,744</u>	<u>\$ 653</u>	<u>\$ —</u>

The fair value measurement of the other postretirement benefit plan assets as of December 31, 2013, was as follows:

(In thousands)	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in	Significant	Significant
	Active Markets for	Other Observable	Unobservable
	Identical Assets	Inputs	Inputs
	(Level 1)	(Level 2)	(Level 3)
Financial assets measured on a recurring basis:			
Cash and cash equivalents	\$ 519	\$ —	\$ —
Mutual funds — U.S. equity securities	12,113	—	—
Mutual funds — international equity securities	713	—	—
Mutual funds — fixed income securities	10,127	—	—
Guaranteed deposit fund	—	532	—
Total	<u>\$ 23,472</u>	<u>\$ 532</u>	<u>\$ —</u>

Our 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 fund investments consist primarily of publicly traded mutual funds and are recorded at fair value based on observable trades for identical securities in an active market. The guaranteed deposit fund is a group annuity contract and is valued at estimated fair value based on the underlying assets of the fund by discounting the related cash flows based on current yields of similar instruments with comparable durations, which represents the net asset value. As of December 31, 2014 and 2013, there were no unfunded commitments for the guaranteed deposit fund and the investment allowed a daily redemption with a one day notice.

### 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 \$4.5 million , \$4.5 million and \$3.8 million in 2014 , 2013 and 2012 , respectively.

## 12 . 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. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. For the years ended December 31, 2014 and 2013 , there were no transfers between levels.

Our assets and liabilities measured at fair value subject to the three-tier hierarchy at December 31, 2014 , were as follows:

(In thousands)	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
	(Level 1)	(Level 2)	(Level 3)
Financial assets measured on a recurring basis:			
Cash and cash equivalents — cash equivalents	\$ 5,452	\$ —	\$ —
Mutual funds — fixed income securities	26,715	—	—
Mutual funds — equity securities	667	—	—
Financial liabilities measured on a recurring basis:			
Interest rate swap derivatives	—	(1,934)	—
Total	\$ 32,834	\$ (1,934)	\$ —

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

(In thousands)	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
	(Level 1)	(Level 2)	(Level 3)
Financial assets measured on a recurring basis:			
Cash and cash equivalents — cash equivalents	\$ 19,000	\$ —	\$ —
Mutual funds — fixed income securities	21,318	—	—
Mutual funds — equity securities	516	—	—
Total	\$ 40,834	\$ —	\$ —

As of December 31, 2014 and 2013 , we held certain assets and liabilities that are required to be measured at fair value on a recurring basis. The assets included in the table 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. Our cash and cash equivalents consist of money market mutual funds 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 and are recorded at fair value based on observable trades for identical securities in an active market. 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 for investments classified as trading securities and other comprehensive income for investments classified as available-for-sale if fair value falls below recorded cost.

The liability related to derivatives consists of interest rate swaps as discussed in Note 8 . The fair value of our interest rate swap derivatives as of December 31, 2014 is determined based on a discounted cash flow ("DCF") 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 years ended December 31, 2014 and 2013 .

### **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 our revolving and term loan credit agreements , was \$3,985.6 million and \$3,299.0 million at December 31, 2014 and 2013 , 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 our revolving and term loan credit agreements , was \$3,629.8 million and \$3,100.9 million at December 31, 2014 and 2013 , respectively.

#### ***Revolving and Term Loan Credit Agreements***

At December 31, 2014 and 2013 , we had a consolidated total of \$473.8 million and \$511.2 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.

#### ***Other Financial Instruments***

The carrying value of other financial instruments included in current assets and current liabilities, including cash and cash equivalents and special deposits, approximates their fair value due to the short-term nature of these instruments.

## **13 . STOCKHOLDERS' EQUITY**

### **Common Stock**

*General* — At December 31, 2014 , ITC Holdings' authorized capital stock consisted of:

- 300 million shares of common stock, without par value ; and
- 10 million shares of preferred stock, without par value .

As of December 31, 2014 , there were 155,140,967 shares of our common stock outstanding (which includes restricted stock), no shares of preferred stock outstanding and 797 holders of record of our common stock.

*Stock Split* — In January 2014, we filed an amendment to our Articles of Incorporation, as previously approved by our shareholders, to increase the number of authorized shares of common stock to 300 million shares. On February 6, 2014, the Board of Directors declared a three-for-one split of our common stock to be accomplished by means of a stock distribution on February 28, 2014 to shareholders of record on February 18, 2014. As a result of the stock split and other issuances and retirements during the year ended December 31, 2014 , our outstanding shares increased from approximately 52.5 million shares (unadjusted for the three-for-one stock split) as of December 31, 2013 to 155,140,967 shares as of December 31, 2014 . In addition, all unvested restricted stock awards, outstanding stock option awards and share reserves under our share-based compensation plans as discussed in Note 14 were adjusted under the terms of the respective agreements for this three-for-one split. The share and per share data in this Form 10-K reflects the three-for-one stock split effective February 28, 2014, unless otherwise noted.

*Accelerated Share Repurchase Program* — In April 2014, the Board of Directors authorized a share repurchase program for up to \$250.0 million , which expires in December 2015. On June 19, 2014, ITC Holdings entered into an accelerated share repurchase agreement (the "ASR program") with JP Morgan Chase ("JP Morgan") for up to \$150.0 million , with a minimum commitment of \$130.0 million . Under the ASR program, ITC Holdings advanced \$150.0 million to JP Morgan in June 2014 and received an initial delivery of 2.9 million shares with a fair market value of \$104.0 million , based on the closing market price of \$35.80 per share at the commencement of the ASR program. On December 22, 2014, the ASR program was settled for \$130.0 million and ITC Holdings received an



additional 0.7 million shares as determined by the volume-weighted average share price during the term of the ASR program less an agreed upon discount and adjusted for the initial share delivery. Additionally, ITC Holdings received a repayment of the unused advance of \$20.0 million . ITC Holdings recorded the net \$130.0 million payment as a reduction to common stock as of December 31, 2014 .

*Voting Rights* — Each holder of ITC Holdings' common stock, including holders of our common stock subject to restricted stock awards, is entitled to cast one vote for each share held of record on all matters submitted to a vote of shareholders, including the election of directors. Holders of ITC Holdings' common stock have no cumulative voting rights.

*Dividends* — Holders of our common stock, including holders of common stock subject to restricted stock awards, are entitled to receive dividends or other distributions declared by the board of directors. The right of the board of directors to declare dividends is subject to the right of any holders of ITC Holdings' preferred stock, to the extent that any preferred stock is authorized and issued, and the availability under the Michigan Business Corporation Act of sufficient funds to pay dividends. We have not issued any shares of preferred stock. The declaration and payment of dividends is subject to the discretion of ITC Holdings' board of directors and depends on various factors, including our net income, financial condition, cash requirements, future prospects and other factors deemed relevant by ITC Holdings' board of directors.

As a holding company with no business operations, ITC Holdings' assets consist primarily of the stock and membership interests in its subsidiaries, deferred tax assets and cash on hand. ITC Holdings' only sources of cash to pay dividends to our stockholders are dividends and other payments received by us from our Regulated Operating Subsidiaries and any other subsidiaries we may have and the proceeds raised from the sale of our debt and equity securities. Each of our Regulated Operating Subsidiaries, however, is legally distinct from ITC Holdings and has no obligation, contingent or otherwise, to make funds available to us for the payment of dividends to ITC Holdings' shareholders or otherwise. The ability of each of our Regulated Operating Subsidiaries and any other subsidiaries we may have to pay dividends and make other payments to ITC Holdings is subject to, among other things, the availability of funds, after taking into account capital expenditure requirements, the terms of its indebtedness, applicable state laws and regulations of the FERC and the FPA.

The note purchase agreements governing ITC Holdings' Term Loan Credit Agreement and Senior Notes impose restrictions on ITC Holdings and its subsidiaries' respective abilities to pay dividends if an event of default has occurred under the relevant agreement, and thus ITC Holdings' ability to pay dividends on its common stock will depend upon, among other things, our level of indebtedness at the time of the proposed dividend and whether we are in compliance with the covenants under our revolving and term loan credit facilities and our other debt instruments. ITC Holdings' future dividend policy will also depend on the requirements of any future financing agreements to which we may be a party and other factors considered relevant by ITC Holdings' board of directors.

Pursuant to SEC requirements, Schedule I included in Part IV Item 15 is required because of restrictions which limit the payment of dividends to ITC Holdings by its subsidiaries. Each of our Regulated Operating Subsidiaries as of December 31, 2014 are limited in using net assets for dividends based on management's intent to maintain the FERC-approved capital structure targeting 60% equity and 40% debt for each of our Regulated Operating Subsidiaries. These net assets are included in Schedule I as the line-item "Investments in subsidiaries." Management does not expect that maintaining this targeted capital structure will have an impact on the Company's ability to pay dividends at the current level in the foreseeable future.

*Liquidation Rights* — If ITC Holdings is dissolved, the holders of our common stock will share ratably in the distribution of all assets that remain after we pay all of our liabilities and satisfy our obligations to the holders of any of ITC Holdings' preferred stock, to the extent that any preferred stock is authorized and issued.

*Preemptive and Other Rights* — Holders of our common stock have no preemptive rights to purchase or subscribe for any of our stock or other securities of our company and there are no conversion rights or redemption or sinking fund provisions with respect to our common stock.

*Repurchases* — In 2014 , 2013 and 2012 , we repurchased 3,673,226 , 163,320 and 298,599 shares of common stock for an aggregate of \$134.3 million , \$4.9 million and \$7.3 million , respectively, which represented shares of common stock delivered to us by employees as payment of tax withholdings due to us upon the vesting of restricted stock in addition to shares delivered under the ASR program described above.



**Accumulated Other Comprehensive Income**

The following table provides the components of changes in AOCI for the years ended December 31, 2014 , 2013 and 2012 :

(In thousands)	Year Ended December 31,		
	2014	2013	2012
Balance at the beginning of period	\$ 6,327	\$ (18,048)	\$ (15,368)
<u>Derivative instruments</u>			
Reclassification of net (loss) gain relating to interest rate cash flow hedges from AOCI to interest expense — net (net of tax of \$349, \$436 and \$31 for the years ended December 31, 2014, 2013 and 2012, respectively)	445	(25)	67
Reclassification of loss relating to interest rate cash flow hedges from AOCI to loss on extinguishment of debt (net of tax of \$83 for the year ended December 31, 2014)	117	—	—
Gain (loss) on interest rate swaps relating to interest rate cash flow hedges (net of tax of \$1,465, \$15,652 and \$1,777 for the years ended December 31, 2014, 2013 and 2012, respectively)	(2,041)	24,329	(2,747)
Derivative instruments, net of tax	(1,479)	24,304	(2,680)
<u>Available-for-sale securities</u>			
Unrealized gain (loss) on available-for-sale securities (net of tax of \$18 and \$46 for the years ended December 31, 2014 and 2013, respectively)	(32)	71	—
Available-for-sale securities, net of tax	(32)	71	—
Total other comprehensive (loss) income, net of tax	(1,511)	24,375	(2,680)
Balance at the end of period	\$ 4,816	\$ 6,327	\$ (18,048)

**ITC Holdings Sales Agency Financing Agreement**

On July 27, 2011, ITC Holdings entered into a Sales Agency Financing Agreement (the “SAFA”). Under the terms of the SAFA, ITC Holdings was able to 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 . No shares were issued under the SAFA prior to its expiration on July 27, 2014.

**14 . SHARE-BASED COMPENSATION**

The share and per share data below reflects the three-for-one stock split effective February 28, 2014. See Note 13 for discussion on the stock split. Our LTIP, which was adopted in 2006 and most recently amended and restated in 2011, permits the compensation committee to make grants of a variety of share-based awards (such as options, restricted shares and deferred stock units) for a cumulative amount of up to 14,850,000 shares to employees, directors and consultants. The LTIP provides that no more than 9,750,000 of the shares may be granted as awards to be settled in shares of common stock other than options or stock appreciation rights. No awards would be permitted after February 7, 2016. Prior to the adoption of the LTIP, we made various share-based awards under the 2003 Plan, including options and restricted stock. In addition, our board of directors and shareholders approved the ESPP, which we implemented effective April 1, 2007 and most recently amended on May 21, 2014. The ESPP allows for the issuance of an aggregate of 665,000 shares of our common stock. Participation in this plan is available to substantially all employees. ITC Holdings issues new shares to satisfy option exercises, restricted stock grants, employee ESPP purchases and settlement of deferred stock units. As of December 31, 2014 , 4,999,110 shares were available for future issuance under our LTIP and ESPP, including 4,603,292 shares issuable upon the exercise of outstanding stock options, of which 3,198,528 were vested.

We recorded share-based compensation in 2014 , 2013 and 2012 as follows:

(In thousands)	2014	2013	2012
Operation and maintenance expenses	\$ 1,444	\$ 1,617	\$ 1,933
General and administrative expenses	8,549	9,318	8,057
Amounts capitalized to property, plant and equipment	4,659	4,731	5,632
Total share-based compensation	\$ 14,652	\$ 15,666	\$ 15,622
Total tax benefit recognized in the consolidated statement of operations	\$ 4,182	\$ 4,557	\$ 3,807

Tax deductions that exceed the cumulative compensation cost recognized for options exercised, restricted shares that vested or deferred stock units that are settled are recognized as common stock only if the tax deductions reduce taxes payable as a result of a realized cash benefit from the deduction. For the years ended December 31, 2014 , 2013 and 2012 , we recognized the tax effects of the excess tax deductions as an increase in common stock of \$7.8 million , \$4.3 million and \$23.0 million , respectively, as the deductions have resulted in a reduction of taxes payable.

### Options

Our option grants vest in equal annual installments over a 3 year period from the date of grant, or as a result of other events such as death or disability of the option holder. The options have a term of 10 years from the grant date.

Stock option activity for 2014 was as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at January 1, 2014 (3,385,620 exercisable with a weighted average exercise price of \$14.33)	5,169,828	\$ 18.53
Granted	652,900	36.73
Exercised	(1,011,750)	18.43
Forfeited	(207,686)	28.00
Outstanding at December 31, 2014 (3,198,528 exercisable with a weighted average exercise price of \$15.98)	<u>4,603,292</u>	<u>\$ 20.71</u>

Grant date fair value of the stock options awards granted during 2014 , 2013 and 2012 was determined using a Black-Scholes option pricing model. The following assumptions were used in determining the weighted average fair value per option:

	2014 Option Grants	2013 Option Grants	2012 Option Grants
Weighted average grant date fair value per option	\$ 8.92	\$ 7.06	\$ 5.53
Weighted average expected volatility (a)	27.2%	29.3%	29.8%
Weighted average risk-free interest rate	1.8%	1.1%	1.0%
Weighted average expected term (b)	6 years	6 years	6 years
Weighted average expected dividend yield	1.55%	1.72%	1.99%
Estimated fair value of underlying shares	\$ 36.73	\$ 29.31	\$ 23.59

(a) We estimated volatility using the historical volatility of our stock.

(b) The expected term represents the period of time that options granted are expected to be outstanding. We have utilized the simplified method permitted under share-based award accounting standards in determining the expected term for all option grants as we do not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term due to the limited number of awards of equity shares that have reached expiration.

At December 31, 2014 , the aggregate intrinsic value and the weighted average remaining contractual term for all outstanding options were approximately \$90.8 million and 5.3 years , respectively. At December 31, 2014 , the aggregate intrinsic value and the weighted average remaining contractual term for exercisable options were \$78.2 million and 3.9 years , respectively. The aggregate intrinsic value of options exercised during 2014 , 2013 and 2012 was \$18.5 million , \$53.2 million and \$53.2 million , respectively. At December 31, 2014 , the total unrecognized compensation cost related to the unvested options awards was \$6.3 million and the weighted average period over which it is expected to be recognized was 1.9 years .

We estimate that 4,494,995 of the options outstanding at December 31, 2014 will vest, including those already vested. The weighted average exercise price, aggregate intrinsic value and the weighted average remaining contractual term for options shares that are vested and expected to vest as of December 31, 2014 was \$20.45 per share, \$89.8 million and 5.3 years , respectively.

### Restricted Stock Awards

Holders of restricted stock awards have all the rights of a holder of common stock of ITC Holdings, including dividend and voting rights. The holder becomes vested as a result of certain events such as death or disability of the holder, but not later than the vesting date of the awards. The weighted average expected remaining vesting period at December 31, 2014 is 1.5 years . Holders of restricted shares may not sell, transfer, or pledge their restricted shares until the shares vest and the restrictions lapse. Restricted stock awards are recorded at fair value at the date of grant, which is based on the closing share price on the grant date. Awards that were granted for future services are accounted for as unearned compensation, with amounts amortized over the vesting period.

Restricted stock award activity for 2014 was as follows:

	Number of Restricted Stock Awards	Weighted Average Grant Date Fair Value
Unvested restricted stock awards at January 1, 2014	1,386,966	\$ 24.32
Granted	321,139	36.75
Vested	(395,565)	21.53
Forfeited	(88,721)	26.03
Unvested restricted stock awards at December 31, 2014	<u>1,223,819</u>	<u>\$ 28.37</u>

The weighted average grant date fair value of restricted stock awarded during 2013 and 2012 was \$29.42 and \$23.88 per share , respectively. The aggregate fair value of restricted stock awards as of December 31, 2014 was \$49.5 million . The aggregate fair value of restricted stock awards that vested during 2014 , 2013 and 2012 was \$14.4 million , \$15.8 million and \$25.1 million , respectively. At December 31, 2014 , the total unrecognized compensation cost related to the restricted stock awards was \$18.2 million and the weighted average period over which that cost is expected to be recognized was 2.2 years .

As of December 31, 2014 , we estimate that 1,081,166 shares of the restricted shares outstanding at December 31, 2014 will vest. The weighted average fair value, aggregate intrinsic value and the weighted average remaining contractual term for restricted shares that are expected to vest is \$28.15 per share , \$43.7 million and 1.5 years , respectively.

### Employee Stock Purchase Plan

The ESPP is a compensatory plan accounted for under the expense recognition provisions of the share-based payment accounting standards. Compensation expense is recorded based on the fair market value of the purchase options at the grant date, which corresponds to the first day of each purchase period and is amortized over the purchase period. During 2014 , 2013 and 2012 , employees purchased 69,230 , 77,097 and 76,563 shares, respectively, resulting in proceeds from the sale of our common stock of \$2.1 million , \$1.9 million and \$1.6 million , respectively, under the ESPP. The total share-based compensation amortization for the ESPP was \$0.5 million , \$0.4 million and \$0.4 million for the years ended December 31, 2014 , 2013 and 2012 , respectively.

## 15 . JOINTLY OWNED UTILITY PLANT/COORDINATED SERVICES

Our Regulated Operating Subsidiaries have agreements with other utilities for the joint ownership of substation assets and transmission lines. We account for these jointly owned assets by recording property, plant and equipment

for our percentage of ownership interest. Various agreements provide the authority for construction of capital improvements and for the operating costs associated with the substations and lines. Generally, each party is responsible for the capital, operation and maintenance, and other costs of these jointly owned facilities based upon each participant's undivided ownership interest. Our Regulated Operating Subsidiaries' participating share of expenses associated with these jointly held assets are primarily recorded within operation and maintenance expense on our consolidated statement of operations.

We have investments in jointly owned utility assets as shown in the table below as of December 31, 2014 :

(In thousands)	Net Investments (a)	Construction Work in Progress
Substations	\$ 30,842	\$ 931
Lines	100,591	3,640
Total	<u>\$ 131,433</u>	<u>\$ 4,571</u>

(a) Amount represents our investment in jointly held plant, which has been reduced by the ownership interest amounts of other parties.

### ITCTransmission

ITCTransmission has joint ownership in two 345 kV transmission lines with a municipal power agency that has a 50.4% ownership interest in the transmission lines. ITCTransmission's net investment in these two lines totaled \$28.4 million (including \$0.8 million of jointly owned lines under construction) as of December 31, 2014 . The municipal power agency's ownership portion entitles them to approximately 234 MW of network transmission service over the ITCTransmission system. An Ownership and Operating Agreement with the municipal power agency provides ITCTransmission with authority for construction of capital improvements and for the operation and management of the transmission lines. The municipal power agency is responsible for the capital and operation and maintenance costs allocable to their ownership interest.

### METC

METC has joint sharing of several assets within various substations with Consumers Energy, other municipal distribution systems and other generators. The rights, responsibilities and obligations for these jointly owned assets are documented in the Amended and Restated Distribution — Transmission Interconnection Agreement with Consumers Energy and in numerous Interconnection Facilities Agreements with various municipalities and other generators. As of December 31, 2014 , METC had net investments in jointly owned assets within substations totaling \$13.4 million (including less than \$0.1 million of jointly owned substation assets under construction) of which METC's ownership percentages for these jointly owned substation assets ranged from 6.3% to 92.0% . In addition, other municipal power agencies and cooperatives have an ownership interest in several METC 345 kV transmission lines. This ownership entitles these municipal power agencies and cooperatives to approximately 608 MW of network transmission service over the METC transmission system. As of December 31, 2014 , METC had net investments in jointly shared transmission lines totaling \$41.0 million of which METC's ownership percentages for these jointly owned lines ranged from 1.0% to 41.9% .

### ITC Midwest

ITC Midwest has joint sharing of several substations and transmission lines with various parties. As of December 31, 2014 , ITC Midwest had net investments in jointly shared substations facilities totaling \$17.8 million (including \$0.4 million of jointly owned substation assets under construction) of which ITC Midwest's ownership percentages for these jointly owned substations facilities ranged from 28.0% to 80.0% . As of December 31, 2014 , ITC Midwest had net investments in jointly shared transmission lines totaling \$32.8 million (including \$0.7 million of jointly owned lines under construction) of which ITC Midwest's ownership percentage for these jointly owned lines ranged from 48.0% to 80.0% .

### ITC Great Plains

In May 2014, ITC Great Plains entered into a joint ownership agreement with an electric cooperative that has a 49% ownership interest in the transmission project. ITC Great Plains will construct and operate the project and the electric cooperative will be responsible for their ownership percentage of capital and operation and maintenance

costs. As of December 31, 2014 , ITC Great Plains had net investment in the project that is currently under construction of \$2.6 million of which ITC Great Plains ownership percentage was 51% .

## **16 . 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 polychlorinated biphenyls, or 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.

### **Michigan Sales and Use Tax Audit**

The Michigan Department of Treasury has conducted sales and use tax audits of ITCTransmission for the audit periods April 1, 2005 through June 30, 2008 and October 1, 2009 through September 30, 2013. The Michigan Department of Treasury has denied ITCTransmission's use of the industrial processing exemption from use tax it has taken beginning January 1, 2007.

ITCTransmission believes that its utilization of the industrial processing exemption is appropriate and intends to defend itself against the denial of such exemption through certain administrative and judicial appeal rights. 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 December 31, 2014 is estimated to be approximately \$15.5 million, including interest. This amount includes approximately \$10.0 million, including interest, assessed or preliminarily assessed for the audit periods noted above. ITCTransmission has not recorded this contingent liability as of December 31, 2014. METC has also taken the industrial processing exemption, estimated to be approximately \$10.6 million for periods still subject to audit and METC has also not recorded any contingent liabilities as of December 31, 2014 associated with this matter. In the event it becomes appropriate to record additional use tax liability relating to this matter, ITCTransmission and METC 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.

### **FERC Audit Refund**

In 2011, the FERC issued an order that identified certain findings and recommendations of certain staff of the FERC relating to specific aspects of the accounting treatment for the acquisition of the transmission assets of IP&L by ITC Midwest that required adjustments to the MISO Regulated Operating Subsidiaries' respective annual revenue requirement calculations and resulted in corresponding refunds. ITC Midwest, ITCTransmission and METC recorded an aggregate regulatory liability for the refund and related interest of \$13.1 million as of December 31, 2013. The amounts were fully refunded through the cost-based formula rates in 2014.

### **Rate of Return on Equity and Capital Structure Complaint**

On November 12, 2013, the Association of Businesses Advocating Tariff Equity, Coalition of MISO Transmission Customers, Illinois Industrial Energy Consumers, Indiana Industrial Energy Consumers, Inc., Minnesota Large Industrial Group, and Wisconsin Industrial Energy Group (collectively, the "complainants") filed a complaint with the FERC under Section 206 of the FPA (the "Complaint"), requesting that the FERC find the current 12.38% MISO regional base ROE rate for all MISO TOs, including ITCTransmission, METC and ITC Midwest to no longer be just and reasonable. The complainant sought a FERC order reducing the regional base ROE rate used in our MISO Regulated Operating Subsidiaries' formula transmission rates to 9.15%. The complaint also alleged that the rates of any MISO TO using a capital structure with greater than 50% for the equity component are likewise not just and reasonable (our MISO Regulated Operating Subsidiaries use their actual capital structures, which target 60% equity, as FERC had previously authorized). The Complaint also alleged the ROE adders currently approved for certain ITC Holdings operating companies, including an adder currently charged by ITCTransmission for being a member of an RTO and adders charged by ITCTransmission and METC for being independent transmission owners, are no longer just and reasonable, and sought to have them eliminated.

On January 6, 2014, our MISO Regulated Operating Subsidiaries filed responses to the Complaint with the FERC (both jointly with other MISO TOs and through a separate supplemental response), supporting the current regional base ROE rate as just and reasonable, the use of current individual company capital structures, and the use of approved ROE adders for RTO membership and independence. The responses sought dismissal of the Complaint, asserting that the complainants failed to meet their burden under Section 206 of the FPA to show that the current regional base ROE rate, approved capital structures and ROE adders approved for ITCTransmission and METC are no longer just and reasonable.

On June 19, 2014, in a separate Section 206 complaint against the regional base ROE rate for ISO New England TOs, FERC adopted a new methodology for establishing base ROE rates for electric transmission utilities. The

new methodology is based on a two-step discounted cash flow analysis (“two-step DCF”) that uses both short-term and long-term growth projections in calculating ROE rates for a proxy group of electric utilities. The previous methodology used only short-term growth projections. FERC also reiterated that it can apply discretion in determining how ROE rates are established within a zone of reasonableness and reiterated its policy for limiting the overall ROE rate for any company, including the base and all applicable adders, at the high end of the zone of reasonableness set by the two-step DCF methodology. The new method presented in the ISO New England ROE case will be used in resolving the MISO ROE case.

On October 16, 2014, FERC granted the complainants’ request in part by setting the MISO regional base ROE rate for hearing and settlement procedures, while denying all other aspects of the Complaint. FERC found the joint complainants failed to show that the use of actual or FERC-approved capital structures that include more than 50% equity are unjust and unreasonable. FERC also denied the request to terminate ITCTransmission’s and METC’s ROE incentives. The order again reiterates that any TO’s total ROE rate is limited by the top end of a zone of reasonableness and the TO’s ability to implement the full amount of previously granted ROE adders may be affected by the outcome of the hearing. FERC set the refund effective date as November 12, 2013.

During the fourth quarter of 2014, the MISO TOs engaged in the ordered FERC settlement procedures with the complainants but were not able to reach resolution. On January 5, 2015, the Chief Judge issued an order which terminated settlement procedures and set the matter for hearing. The order established a schedule for the proceeding for a hearing within 32 weeks of the order and an initial decision within 47 weeks of the order. We expect FERC to establish a new base ROE rate to determine any refund liability for the period of November 12, 2013 through February 11, 2015 (the “Initial Refund Period”). The new base ROE rate as well as any ROE adders, subject to the limitations of the top end of any zone of reasonableness that is established, are expected to be used to calculate the refund liability for the Initial Refund Period.

We believe it is probable that a refund will be required for the Initial Refund Period, and the estimated range of refunds is expected to be from \$47.8 million to \$88.1 million for the period from November 12, 2013 through December 31, 2014 . During the fourth quarter of 2014, ITCTransmission, METC, and ITC Midwest recorded an aggregate estimated regulatory liability of \$47.8 million for the potential refunds as of December 31, 2014 , as there is no best estimate within the range of refunds. This amount has been recorded as a reduction of revenues of \$46.9 million and an increase in interest expense of \$0.9 million in the consolidated statements of operations, and resulted in an estimated after-tax reduction of net income of \$28.9 million for the year ended December 31, 2014 . Based on the estimated range of refunds identified above, we believe that it is reasonably possible that this matter could result in an additional pre-tax refund of up to \$40.3 million (or a \$24.4 million after-tax reduction of net income) in excess of the amount recorded as of December 31, 2014 . It is also possible the outcome of this matter could differ from the estimated range of losses and materially affect our results of operations due to the uncertainty of the calculation of an authorized ROE rate along with the zone of reasonableness under the newly adopted two-step DCF methodology, which is subject to significant discretion by the FERC.

In a separate but related matter, in November 2014, METC, ITC Midwest and other MISO TOs filed a request with FERC under FPA Section 205 for authority to include a 50 basis point incentive adder for RTO participation in each of the TOs’ formula rates. On January 5, 2015, FERC approved the use of this incentive adder, effective January 6, 2015. These adders would be applied to METC’s and ITC Midwest’s base ROE rates in establishing their total authorized ROE rates, subject to the limitations of the top end of any zone of reasonableness that is established. Additionally, on January 30, 2015, ITC Midwest filed a request with FERC under FPA Section 205 for authority to include a 100 basis point incentive adder for independent transmission ownership, which is currently authorized for ITCTransmission and METC. Finally, on February 12, 2015, an additional complaint was filed under Section 206 of the FPA seeking a FERC order reducing the regional base ROE rate used in our MISO Regulated Operating Subsidiaries’ formula transmission rates to 8.67% , to be effective for the period beginning February 12, 2015.

### **Purchase Obligations and Leases**

At December 31, 2014 , we had purchase obligations of \$44.2 million representing commitments for materials, services and equipment that had not been received as of December 31, 2014 , primarily for construction and maintenance projects for which we have an executed contract. The majority of the items relate to materials and equipment that have long production lead times that are expected to be paid for in 2015 .



We have operating leases for office space, equipment and storage facilities. We recognize expenses relating to our operating lease obligations on a straight-line basis over the term of the lease. We recognized rent expense of \$1.0 million, \$0.8 million and \$0.7 million for the years ended December 31, 2014, 2013 and 2012, respectively, recorded in general and administrative and operation and maintenance expenses. These amounts and the amounts in the table below do not include any expense or payments to be made under the METC Easement Agreement described below under “Other Commitments — METC — Amended and Restated Easement Agreement with Consumers Energy.”

Future minimum lease payments under the leases at December 31, 2014 were:

(In thousands)	
2015	\$ 850
2016	800
2017	753
2018	632
2019 and thereafter	2,400
Total minimum lease payments	<u>\$ 5,435</u>

## Other Commitments

### Nonconsolidated Variable Interest Entity

We have an agreement with Utility Lines Construction Services, Inc. (“ULCS”), which is a division of Asplundh Tree Expert Co., to perform the majority of maintenance for all of our Regulated Operating Subsidiaries. The agreement between us and ULCS contains a variable component related to a cost-plus arrangement which is a consideration for consolidation. However, we are not subject to risk of loss from ULCS’ operations and have not provided, nor will we provide, any significant financial support other than contractual payments. We have evaluated the agreement for possible consolidation, including review of qualitative factors such as the length and terms of the agreement, and have concluded that ULCS is not required to be consolidated in our consolidated financial statements.

### **METC**

*Amended and Restated Purchase and Sale Agreement for Ancillary Services with Consumers Energy.* Under the Purchase and Sale Agreement for Ancillary Services with Consumers Energy (the “Ancillary Services Agreement”), Consumers Energy provides reactive power, balancing energy, load following and spinning and supplemental reserves that are needed by METC and MISO. These ancillary services are a necessary part of the provision of transmission service. This agreement is necessary because METC does not own any generating facilities and therefore must procure ancillary services from third party suppliers including Consumers Energy. The Ancillary Services Agreement establishes the terms and conditions under which METC obtains ancillary services from Consumers Energy. Consumers Energy will offer all ancillary services as required by FERC Order No. 888 at FERC-approved rates. METC is not precluded from procuring these services from third party suppliers and is free to purchase ancillary services from unaffiliated generators located within its control area or in neighboring jurisdictions on a non-preferential, competitive basis. This one -year agreement became effective on May 1, 2002 and is automatically renewed each year for successive one -year periods. The Ancillary Services Agreement can be terminated by either party with six months prior written notice. Services performed by Consumers Energy under the Ancillary Services Agreement are charged to operation and maintenance expense.

*Amended and Restated Easement Agreement with Consumers Energy.* The Easement Agreement with Consumers Energy (the “Easement Agreement”) provides METC with an easement for transmission purposes and rights-of-way, leasehold interests, fee interests and licenses associated with the land over which the transmission lines cross. Consumers Energy has reserved for itself the rights to and the value of activities associated with other uses of the infrastructure (such as for fiber optics, telecommunications and gas pipelines). The cost for use of the rights-of-way is \$10.0 million per year. The term of the Easement Agreement runs through December 31, 2050 and is subject to 10 automatic 50 -year renewals thereafter. Payments to Consumers Energy under the Easement Agreement are charged to operation and maintenance expense.

### **ITC Midwest**

*Operations Services Agreement For 34.5 kV Transmission Facilities.* ITC Midwest and IP&L have entered into the Operations Services Agreement For 34.5 kV Transmission Facilities (the "OSA"), effective as of January 1, 2011, under which IP&L performs certain operations of ITC Midwest's 34.5 kV transmission system. The OSA will remain in full force and effect until December 31, 2015 and will extend automatically from year to year thereafter until terminated by either party upon not less than one year prior written notice to the other party.

### **ITC Great Plains**

*Amended and Restated Maintenance Agreement.* Mid-Kansas Electric Company LLC ("Mid-Kansas") and ITC Great Plains have entered into a Maintenance Agreement (the "Mid-Kansas Agreement"), dated as of August 24, 2010, and amended June 20, 2013, pursuant to which Mid-Kansas has agreed to perform various field operations and maintenance services related to certain ITC Great Plains assets. The Mid-Kansas Agreement has an initial term of 10 years and automatic 10 -year renewal terms unless terminated (1) due to a breach by the non-terminating party following notice and failure to cure, (2) by mutual consent of the parties, or (3) by ITC Great Plains under certain limited circumstances. Services must continue to be provided for at least six months subsequent to the termination date in any case.

*Maintenance Agreement.* Midwest Energy, Inc. ("Midwest Energy") and ITC Great Plains entered into a maintenance agreement (the "Midwest Energy Agreement") dated as of June 25, 2012, pursuant to which Midwest Energy agreed to perform various field operations and maintenance service related to ITC Great Plains facilities associated with the KETA project. The Midwest Energy Agreement had an initial term of three years with automatic three -year renewals unless terminated (1) due to a material breach by the non-terminating party following notice and failure to cure or (2) by mutual consent of the parties. In December 2014, ITC Great Plains and Midwest Energy mutually agreed to terminate the Midwest Energy Agreement. Services will continue to be provided through the effective termination date of June 24, 2015.

### **Concentration of Credit Risk**

Our credit risk is primarily with DTE Electric, Consumers Energy and IP&L, which were responsible for approximately 22.2% , 24.2% and 29.0% , respectively, or \$224.5 million , \$244.7 million and \$292.9 million , respectively, of our consolidated billed revenues for the year ended December 31, 2014 . These percentages and amounts of total billed revenues of DTE Electric, Consumers Energy and IP&L include the collection of 2012 revenue accruals and deferrals and exclude any amounts for the 2014 revenue accruals and deferrals that were included in our 2014 operating revenues, but will not be billed to our customers until 2016 . Any financial difficulties experienced by DTE Electric, Consumers Energy or IP&L could negatively impact our business. MISO, as our MISO Regulated Operating Subsidiaries' billing agent, bills DTE Electric, Consumers Energy, IP&L and other customers on a monthly basis and collects fees for the use of our transmission systems. SPP bills customers of ITC Great Plains on a monthly basis and collects fees for the use of ITC Great Plains' assets. MISO and SPP have implemented strict credit policies for its members' customers, which include customers using our transmission systems. Specifically, MISO and SPP require a letter of credit or cash deposit equal to the credit exposure, which is determined by a credit scoring model and other factors, from any customer using a member's transmission system.

## **17 . ENTERGY TRANSACTION**

In 2011, Entergy and ITC Holdings executed definitive agreements under which Entergy would divest and then merge its electric transmission business with a wholly-owned subsidiary of ITC Holdings. Completion of the transaction was subject to the satisfaction of certain closing conditions, including the receipt of necessary approvals of Entergy's retail regulators. On December 10, 2013, the Mississippi Public Service Commission issued an order denying permission to transfer ownership and control of Entergy Mississippi Inc. ' s transmission assets to a subsidiary of ITC Holdings. On December 13, 2013, ITC Holdings and Entergy mutually agreed to terminate the Entergy Transaction.

For the years ended December 31, 2014 , 2013 and 2012 , we expensed external legal, advisory and financial services fees related to the terminated Entergy Transaction of \$0.4 million , \$43.1 million and \$19.4 million , respectively, and certain internal labor and associated costs related to the terminated Entergy Transaction of \$0.7 million , \$7.8 million and \$7.1 million , respectively. The external and internal costs related to the Entergy Transaction were not included as components of revenue requirement at our Regulated Operating Subsidiaries as they were incurred at ITC Holdings.

## **18 . 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.

### **Regulated Operating Subsidiaries**

We aggregate ITCTransmission, METC, ITC Midwest and ITC Great Plains into one reportable operating segment based on their similar regulatory environment and economic characteristics, among other factors. They are engaged in the transmission of

electricity within the United States, earn revenues from the same types of customers and are regulated by the FERC. Their tariff rates are established using cost-based formula rates.

### ITC Holdings and Other

Information below for ITC Holdings and Other consists of a holding company whose activities include debt and equity financings and general corporate activities and all of ITC Holdings' other subsidiaries, excluding the Regulated Operating Subsidiaries, which are focused primarily on business development activities.

	Regulated Operating Subsidiaries	ITC Holdings and Other	Reconciliations/ Eliminations	Total
<b>2014</b>				
<i>(In thousands)</i>				
Operating revenues	\$ 1,023,170	\$ 605	\$ (727)	\$ 1,023,048
Depreciation and amortization	127,320	716	—	128,036
Interest expense — net	81,225	105,418	(7)	186,636
Income (loss) before income taxes	548,704	(154,299)	—	394,405
Income tax provision (benefit)	210,914	(60,592)	—	150,322
Net income	337,790	244,083	(337,790)	244,083
Property, plant and equipment — net	5,483,093	13,782	—	5,496,875
Goodwill	950,163	—	—	950,163
Total assets (a)	6,867,411	3,944,318	(3,837,640)	6,974,089
Capital expenditures	736,751	1,471	(5,077)	733,145

	Regulated Operating Subsidiaries	ITC Holdings and Other	Reconciliations/ Eliminations	Total
<b>2013</b>				
<i>(In thousands)</i>				
Operating revenues	\$ 941,571	\$ 567	\$ (866)	\$ 941,272
Depreciation and amortization	117,924	672	—	118,596
Interest expense — net	70,239	98,660	(580)	168,319
Income (loss) before income taxes	515,327	(162,959)	—	352,368
Income tax provision (benefit)	193,764	(74,902)	—	118,862
Net income	321,563	233,506	(321,563)	233,506
Property, plant and equipment — net	4,833,545	12,981	—	4,846,526
Goodwill	950,163	—	—	950,163
Total assets (a)	6,174,888	3,619,759	(3,512,404)	6,282,243
Capital expenditures	824,165	2,208	(4,785)	821,588

<b>2012</b>	<b>Regulated Operating Subsidiaries</b>	<b>ITC Holdings and Other</b>	<b>Reconciliations/ Eliminations</b>	<b>Total</b>
<b>(In thousands)</b>				
Operating revenues	\$ 830,616	\$ 607	\$ (688)	\$ 830,535
Depreciation and amortization	105,841	671	—	106,512
Interest expense — net	65,445	90,289	—	155,734
Income (loss) before income taxes	422,074	(125,566)	—	296,508
Income tax provision (benefit)	159,528	(50,896)	—	108,632
Net income	262,545	187,876	(262,545)	187,876
Property, plant and equipment — net	4,123,520	11,059	—	4,134,579
Goodwill	950,163	—	—	950,163
Total assets (a)	5,440,401	3,252,047	(3,127,639)	5,564,809
Capital expenditures	806,825	243	(4,305)	802,763

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

## 19 . SUPPLEMENTARY QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly earnings per share amounts may not sum to the totals for each of the years, since quarterly computation are based on weighted average common shares outstanding during each quarter.

<b>(In thousands, except per share data)</b>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>	<b>Year</b>
<b>2014</b>					
Operating revenues (a)	\$ 258,603	\$ 263,214	\$ 270,134	\$ 231,097	\$ 1,023,048
Operating income (a)(b)	153,441	158,928	161,432	119,028	592,829
Net income (a)(b)(c)	69,136	54,336	73,873	46,738	244,083
Basic earnings per share	\$ 0.44	\$ 0.34	\$ 0.47	\$ 0.30	\$ 1.56
Diluted earnings per share	\$ 0.43	\$ 0.34	\$ 0.47	\$ 0.30	\$ 1.54
<b>2013</b>					
Operating revenues	\$ 217,304	\$ 229,817	\$ 238,782	\$ 255,369	\$ 941,272
Operating income (b)	112,881	110,994	130,822	141,364	496,061
Net income (b)(d)	50,190	47,395	58,984	76,937	233,506
Basic earnings per share	\$ 0.32	\$ 0.30	\$ 0.37	\$ 0.49	\$ 1.49
Diluted earnings per share	\$ 0.32	\$ 0.30	\$ 0.37	\$ 0.48	\$ 1.47

(a) During the fourth quarter of 2014, we established a refund reserve at our MISO Regulated Operating Subsidiaries related to the rate of return on equity and capital structure complaint as described in Note 16 , which resulted in a reduction in operating revenues and operating income of \$46.9 million and an estimated \$28.9 million reduction to net income.

(b) During the years ended December 31, 2014 and 2013 , we expensed external legal, advisory and financial services fees of \$0.4 million and \$43.1 million , respectively, and internal labor and related costs of approximately \$0.7 million and \$7.8 million , respectively, related to the Entergy Transaction, which reduced operating income. These expenses, including the fourth quarter 2013 effects described below, resulted in an estimated reduction to net income of \$0.7 million and \$22.7 million for the years ended December 31, 2014 and 2013 , respectively. 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.

- (c) During the year ended December 31, 2014 , we incurred a loss on extinguishment of debt of \$29.2 million related to the tender of ITC Holdings Senior Notes as described in Note 8 , which resulted in an estimated reduction to net income of \$18.2 million .
- (d) During the fourth quarter of 2013, we recognized a reduction in income tax provision and a corresponding increase in net income of \$13.1 million , respectively, for the external costs related to the Entergy transaction that originally were recorded as non-deductible for income tax provision purposes.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None.

**ITEM 9A. CONTROLS AND PROCEDURES.**

Management's Report on Internal Control Over Financial Reporting is included in Item 8 of this Form 10-K. The attestation report of Deloitte & Touche LLP, our independent registered public accounting firm, on the effectiveness of our internal control over financial reporting is also included in Item 8 of this Form 10-K.

**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 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 quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION.**

None.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

The information required by this Item is contained under the captions "Election of Directors," "Executive Officers," "Section 16(a) Beneficial Ownership Reporting Compliance," and "Corporate Governance" in the Proxy Statement and (excluding the report of the Audit Committee) is incorporated herein by reference.

**ITEM 11. EXECUTIVE COMPENSATION.**

The information required by this Item is contained under the caption "Compensation of Executive Officers and Directors" in the Proxy Statement and is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

The information required by this Item is contained under the caption “Security Ownership of Management and Major Shareholders” in the Proxy Statement and is incorporated herein by reference.

**Equity Compensation Plans**

The Company makes equity-based grants to employees, directors and consultants under the LTIP, issues shares to employees under the ESPP, and previously made equity-based grants to employees and directors under the 2003 Plan, all of which plans were previously approved by shareholders.

The following table sets forth certain information with respect to our equity compensation plans at December 31, 2014 (shares in thousands):

<u>Plan Category</u>	Number of Shares to be Issued Upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans(a)
Equity compensation plans approved by shareholders	4,603	\$ 20.71	4,999

(a) The number of shares remaining available for future issuance under equity compensation plans has been reduced by 1) the common shares issued through December 31, 2014 upon exercise of stock options; 2) the number of common shares that could be issued upon the future exercise of outstanding stock options and 3) the number of restricted stock awards granted that have not been forfeited. The LTIP imposes a separate restriction so that no more than 9,750,000 of the shares may be granted as awards to be settled in shares of common stock other than options or stock appreciation rights.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.**

The information required by this Item is contained under the captions “Certain Transactions” and “Corporate Governance — Director Independence” in the Proxy Statement and is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

The information required by this Item is contained under the caption “Proposal 3 - Approval of Independent Registered Public Accounting Firm - Independent Registered Public Accounting Firm” in the Proxy Statement and is incorporated herein by reference.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.**

(a) (1) Financial Statements:

Management's Report on Internal Control over Financial Reporting

Report of Independent Registered Public Accounting Firm

Report of Independent Registered Public Accounting Firm

Consolidated Statements of Financial Position as of December 31, 2014 and 2013

Consolidated Statements of Operations for the Years Ended December 31, 2014, 2013 and 2012

Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2014, 2013 and 2012

Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2014, 2013 and 2012

Consolidated Statements of Cash Flows for the Years Ended December 31, 2014, 2013 and 2012

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules

Schedule I — Condensed Financial Information of Registrant

All other schedules for which provision is made in Regulation S-X either (i) are not required under the related instructions or are inapplicable and, therefore, have been omitted, or (ii) the information required is included in the consolidated financial statements or the notes thereto that are a part hereof.

(b) The exhibits included as part of this report are listed in the attached Exhibit Index, which is incorporated herein by reference. **At the request of any shareholder, ITC Holdings will furnish any exhibit upon the payment of a fee of \$.10 per page to cover the costs of furnishing the exhibit.**



**SCHEDULE I — Condensed Financial Information of Registrant**  
**ITC HOLDINGS CORP.**  
**CONDENSED STATEMENTS OF FINANCIAL POSITION (PARENT COMPANY ONLY)**

(In thousands, except share data)	December 31,	
	2014	2013
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 6,305	\$ 26,853
Accounts receivable from subsidiaries	42,665	50,196
Prepaid and other current assets	3,145	7,302
Total current assets	52,115	84,351
<b>Other assets</b>		
Investment in subsidiaries	3,784,609	3,450,989
Deferred income taxes	24,397	25,519
Deferred financing fees (net of accumulated amortization of \$4,700 and \$6,346, respectively)	14,117	11,241
Other	67,376	47,660
Total other assets	3,890,499	3,535,409
<b>TOTAL ASSETS</b>	<b>\$ 3,942,614</b>	<b>\$ 3,619,760</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 2,431	\$ 6,300
Accrued payroll	23,502	21,930
Accrued interest	34,815	37,486
Accrued taxes	3,146	37
Debt maturing within one year	—	50,000
Other	1,120	3,546
Total current liabilities	65,014	119,299
<b>Accrued pension and postretirement liabilities</b>	69,562	53,704
<b>Other</b>	3,237	1,106
<b>Long-term debt</b> (net of discounts of \$3,940 and \$3,082, respectively)	2,135,244	1,831,918
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, without par value, 300,000,000 shares authorized, 155,140,967 and 157,500,795 shares issued and outstanding at December 31, 2014 and 2013, respectively	923,191	1,014,435
Retained earnings	741,550	592,971
Accumulated other comprehensive income	4,816	6,327
Total stockholders' equity	1,669,557	1,613,733
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 3,942,614</b>	<b>\$ 3,619,760</b>

See notes to condensed financial statements (parent company only).

**SCHEDULE I — Condensed Financial Information of Registrant**

**ITC HOLDINGS CORP.**

**CONDENSED STATEMENTS OF OPERATIONS (PARENT COMPANY ONLY)**

(In thousands)	Year Ended December 31,		
	2014	2013	2012
Other income	\$ 786	\$ 1,487	\$ 2,165
General and administrative expense	(7,336)	(56,707)	(31,833)
Interest expense	(105,411)	(98,660)	(90,289)
Loss on extinguishment of debt	(29,205)	—	—
Other expense	(196)	(3,609)	(812)
<b>LOSS BEFORE INCOME TAXES</b>	<b>(141,362)</b>	<b>(157,489)</b>	<b>(120,769)</b>
<b>INCOME TAX BENEFIT</b>	<b>(55,646)</b>	<b>(72,798)</b>	<b>(49,141)</b>
<b>LOSS AFTER TAXES</b>	<b>(85,716)</b>	<b>(84,691)</b>	<b>(71,628)</b>
<b>EQUITY IN SUBSIDIARIES' NET EARNINGS</b>	<b>329,799</b>	<b>318,197</b>	<b>259,504</b>
<b>NET INCOME</b>	<b>\$ 244,083</b>	<b>\$ 233,506</b>	<b>\$ 187,876</b>

See notes to condensed financial statements (parent company only).

**SCHEDULE I — Condensed Financial Information of Registrant**

**ITC HOLDINGS CORP.**

**CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (PARENT COMPANY ONLY)**

(In thousands)	Year Ended December 31,		
	2014	2013	2012
<b>NET INCOME</b>	\$ 244,083	\$ 233,506	\$ 187,876
<b>OTHER COMPREHENSIVE (LOSS) INCOME</b>			
Derivative instruments (net of tax of \$1,897, \$16,087 and \$1,746 for the years ended December 31, 2014, 2013 and 2012, respectively)	(1,479)	24,304	(2,680)
Available-for-sale securities (net of tax of \$18 and \$46 for the years ended December 31, 2014 and 2013, respectively)	(32)	71	—
<b>TOTAL OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAX</b>	<b>(1,511)</b>	<b>24,375</b>	<b>(2,680)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$ 242,572</b>	<b>\$ 257,881</b>	<b>\$ 185,196</b>

See notes to condensed financial statements (parent company only).

**SCHEDULE I — Condensed Financial Information of Registrant  
ITC HOLDINGS CORP.  
CONDENSED STATEMENTS OF CASH FLOWS (PARENT COMPANY ONLY)**

(In thousands)	Year Ended December 31,		
	2014	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 244,083	\$ 233,506	187,876
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in subsidiaries' earnings	(329,799)	(318,197)	(259,504)
Dividends from subsidiaries	224,167	169,973	127,412
Deferred and other income taxes	(122,413)	(117,956)	(87,861)
Loss on extinguishment of debt	29,205	—	—
Intercompany tax payments from subsidiaries	124,315	112,008	83,144
Share-based compensation expense	14,652	15,667	15,622
Other	2,852	(226)	2,438
Changes in assets and liabilities, exclusive of changes shown separately:			
Accounts receivable from subsidiaries	1,304	(979)	(9,677)
Prepaid and other current assets	4,154	16,948	(21,803)
Accounts payable	(3,869)	(2,294)	2,680
Accrued payroll	1,572	1,190	2,727
Accrued interest	(2,671)	6,501	93
Accrued taxes	11,147	(179)	(122)
Tax benefit on the excess tax deduction of share-based compensation	(7,767)	(4,302)	(23,022)
Other current liabilities	(2,425)	2,278	21,076
Other non-current assets and liabilities, net	3,078	12,465	(65)
Net cash provided by operating activities	191,585	126,403	41,014
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Equity contributions to subsidiaries	(348,661)	(339,770)	(337,630)
Return of capital from subsidiaries	126,900	96,120	91,399
Proceeds from sale of marketable securities	495	20,844	5,935
Purchases of marketable securities	(6,091)	(22,250)	(11,779)
Other	(984)	—	—
Net cash used in investing activities	(228,341)	(245,056)	(252,075)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issuance of long-term debt	398,664	548,484	—
Borrowings under revolving credit agreement	533,900	222,800	295,450
Borrowings under term loan credit agreements	60,000	390,000	200,000
Retirement of long-term debt - including extinguishment of debt costs	(248,625)	(267,000)	—
Repayments of revolving credit agreement	(480,400)	(252,400)	(265,850)
Repayments of term loan credit agreements	(39,000)	(450,000)	—
Issuance of common stock	20,713	10,042	14,189
Dividends on common and restricted stock	(95,595)	(84,129)	(75,153)
Repurchase and retirement of common stock	(134,284)	(4,885)	(7,266)
Tax benefit on the excess tax deduction of share-based compensation	7,767	4,302	23,022
Advance for forward contract of accelerated share repurchase program	(20,000)	—	—
Return of unused advance for forward contract of accelerated share repurchase program	20,000	—	—
Other	(6,932)	5,746	(25)
Net cash provided by financing activities	16,208	122,960	184,367
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(20,548)	4,307	(26,694)
<b>CASH AND CASH EQUIVALENTS — Beginning of period</b>	26,853	22,546	49,240
<b>CASH AND CASH EQUIVALENTS — End of period</b>	\$ 6,305	\$ 26,853	\$ 22,546

Supplementary cash flows information:						
Interest paid (net of interest capitalized)	\$	105,817	\$	90,224	\$	88,303
Income taxes paid — net		44,524		20,092		41,174
Supplementary non-cash investing and financing activities:						
Equity transfers to subsidiaries		6,227		6,213		6,470

See notes to condensed financial statements (parent company only).

**SCHEDULE I — Condensed Financial Information of Registrant****ITC HOLDINGS CORP.****NOTES TO CONDENSED FINANCIAL STATEMENTS (PARENT COMPANY ONLY)****1. GENERAL**

For ITC Holdings Corp.'s ("ITC Holdings," "we," "our" and "us") presentation (Parent Company only), the investment in subsidiaries is accounted for using the equity method. The condensed parent company financial statements and notes should be read in conjunction with the consolidated financial statements and notes of ITC Holdings appearing in this Annual Report on Form 10-K.

As a holding company with no business operations, ITC Holdings' assets consist primarily of investments in our subsidiaries. ITC Holdings' material cash inflows are only from dividends and other payments received from our subsidiaries and the proceeds raised from the sale of debt and equity securities. ITC Holdings may not be able to access cash generated by our subsidiaries in order to fulfill cash commitments or to pay dividends to shareholders. The ability of our subsidiaries to make dividend and other payments to us is subject to the availability of funds after taking into account their respective funding requirements, the terms of their respective indebtedness, the regulations of the FERC under the FPA, and applicable state laws. In addition, there are practical limitations on using the net assets of each of our Regulated Operating Subsidiaries as of December 31, 2014 for dividends based on management's intent to maintain the FERC-approved capital structure targeting 60% equity and 40% debt for each of our Regulated Operating Subsidiaries. Management does not expect maintaining this targeted capital structure to have an impact on the Company's ability to pay dividends at the current level in the foreseeable future. Each of our subsidiaries, however, is legally distinct from us and has no obligation, contingent or otherwise, to make funds available to us.

**2. DEBT**

As of December 31, 2014, the maturities of our debt outstanding were as follows:

<b>(In thousands)</b>	
2015	\$ —
2016	300,344
2017	50,000
2018	385,000
2019	53,500
2020 and thereafter	1,350,340
<b>Total</b>	<b>\$ 2,139,184</b>

Refer to Note 8 to the consolidated financial statements for a description of the ITC Holdings Senior Notes, the ITC Holdings Revolving and Term Loan Credit Agreements and related items.

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 the ITC Holdings Senior Notes was \$2,126.1 million and \$1,864.7 million at December 31, 2014 and 2013, respectively. The total book value of the ITC Holdings Senior Notes, net of discount, was \$1,920.7 million and \$1,741.9 million at December 31, 2014 and 2013, respectively. At December 31, 2014, we had a total of \$214.5 million outstanding under our revolving and term loan credit agreements, which is a variable rate loan. At December 31, 2013, we had a total of \$140.0 million outstanding under our term loan credit agreement. No amount was outstanding under our revolving credit agreement at December 31, 2013. 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 in Note 12 to the consolidated financial statements.

**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 and paying

dividends. In addition, the covenants require us to meet certain financial ratios, such as maintaining certain debt to capitalization ratios. At December 31, 2014, we were not in violation of any debt covenant.

### **3. RELATED-PARTY TRANSACTIONS**

During 2014, 2013 and 2012, we made equity contributions to our subsidiaries of \$348.7 million, \$339.8 million and \$337.6 million, respectively. ITCTransmission, MTH, ITC Midwest and other subsidiaries paid cash dividends to ITC Holdings totaling \$224.2 million, \$170.0 million and \$127.4 million in 2014, 2013 and 2012, respectively. ITCTransmission, MTH, ITC Midwest and other subsidiaries provided a return of capital to ITC Holdings totaling \$126.9 million, \$96.1 million and \$91.4 million in 2014, 2013 and 2012, respectively.

Additionally, ITCTransmission paid \$38.1 million, \$39.1 million and \$18.9 million to ITC Holdings under an intercompany tax sharing arrangement during 2014, 2013 and 2012, respectively. MTH paid \$41.4 million, \$30.0 million and \$17.6 million to ITC Holdings under an intercompany tax sharing arrangement during 2014, 2013 and 2012, respectively. ITC Midwest paid \$34.3 million, \$33.6 million and \$37.2 million to ITC Holdings under an intercompany tax sharing arrangement during 2014, 2013 and 2012, respectively. ITC Great Plains paid \$10.6 million, \$9.4 million and \$4.3 million to ITC Holdings under an intercompany tax sharing arrangement during 2014, 2013 and 2012, respectively. The total tax payments received from subsidiaries pursuant to the intercompany tax sharing arrangements is presented as a cash inflow from operating activities in the condensed parent company statements of cash flows. Other reconciling items between the parent company and the consolidated tax liabilities are presented as deferred and other income taxes in the adjustments to reconcile net income to net cash provided by operating activities.



**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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 in the City of Novi, State of Michigan, on February 26, 2015 .

**ITC HOLDINGS CORP.**

By: /s/ JOSEPH L. WELCH  
 Joseph L. Welch  
 Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ JOSEPH L. WELCH</u> Joseph L. Welch	Chairman, President and Chief Executive Officer (principal executive officer)	February 26, 2015
<u>/s/ REJJI P. HAYES</u> Rejji P. Hayes	Senior Vice President, Chief Financial Officer and Treasurer (principal financial and accounting officer)	February 26, 2015
<u>/s/ ALBERT ERNST</u> Albert Ernst	Director	February 26, 2015
<u>/s/ CHRISTOPHER H. FRANKLIN</u> Christopher H. Franklin	Director	February 26, 2015
<u>/s/ EDWARD G. JEPSEN</u> Edward G. Jepsen	Director	February 26, 2015
<u>/s/ DAVE R. LOPEZ</u> Dave R. Lopez	Director	February 26, 2015
<u>/s/ WILLIAM J. MUSELER</u> William J. Museler	Director	February 26, 2015
<u>/s/ HAZEL R. O'LEARY</u> Hazel R. O'Leary	Director	February 26, 2015
<u>/s/ THOMAS G. STEPHENS</u> Thomas G. Stephens	Director	February 26, 2015
<u>/s/ GORDON BENNETT STEWART, III</u> Gordon Bennett Stewart, III	Director	February 26, 2015
<u>/s/ LEE C. STEWART</u> Lee C. Stewart	Director	February 26, 2015

## EXHIBITS

The following exhibits are filed as part of this report or filed previously and incorporated by reference to the filing indicated. Our SEC file number is 001-32576.

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
3.1	Amended and Restated Articles of Incorporation of the Registrant, as amended (filed with Registrant's 2013 Form 10-K)
3.2	Fifth Amended and Restated Bylaws of Registrant dated as of February 24, 2015
4.1	Form of Certificate of Common Stock (filed with Registrant's Registration Statement on Form S-1, as amended, Reg. No. 333-123657)
4.3	Indenture, dated as of July 16, 2003, between the Registrant and BNY Midwest Trust Company, as trustee (filed with Registrant's Registration Statement on Form S-1, as amended, Reg. No. 333-123657)
4.4	First Supplemental Indenture, dated as of July 16, 2003, supplemental to the Indenture dated as of July 16, 2003, between the Registrant and BNY Midwest Trust Company, as trustee (filed with Registrant's Registration Statement on Form S-1, as amended, Reg. No. 333-123657)
4.5	First Mortgage and Deed of Trust, dated as of July 15, 2003, between International Transmission Company and BNY Midwest Trust Company, as trustee (filed with Registrant's Registration Statement on Form S-1, as amended, Reg. No. 333-123657)
4.6	First Supplemental Indenture, dated as of July 15, 2003, supplementing the First Mortgage and Deed of Trust dated as of July 15, 2003, between International Transmission Company and BNY Midwest Trust Company, as trustee (filed with Registrant's Registration Statement on Form S-1, as amended, Reg. No. 333-123657)
4.7	Second Supplemental Indenture, dated as of July 15, 2003, supplementing the First Mortgage and Deed of Trust dated as of July 15, 2003, between International Transmission Company and BNY Midwest Trust Company, as trustee (filed with Registrant's Registration Statement on Form S-1, as amended, Reg. No. 333-123657)
4.8	Amendment to Second Supplemental Indenture, dated as of January 19, 2005, between International Transmission Company and BNY Midwest Trust Company, as trustee (filed with Registrant's Registration Statement on Form S-1, as amended, Reg. No. 333-123657)
4.9	Second Amendment to Second Supplemental Indenture, dated as of March 24, 2006, between International Transmission Company and The Bank of New York Trust Company, N.A. (as successor to BNY Midwest Trust Company, as trustee (filed with Registrant's Form 8-K filed on March 30, 2006)
4.10	Third Supplemental Indenture, dated as of March 28, 2006, supplementing the First Mortgage and Deed of Trust dated as of July 15, 2003, between International Transmission Company and BNY Midwest Trust Company, as trustee (filed with Registrant's Form 8-K filed on March 30, 2006)
4.12	Second Supplemental Indenture, dated as of October 10, 2006, supplemental to the Indenture dated as of July 16, 2003, between the Registrant and The Bank of New York Trust Company, N.A., (as successor to BNY Midwest Trust Company, as trustee) (filed with Registrant's Form 8-K filed on October 10, 2006)
4.14	First Mortgage Indenture between Michigan Electric Transmission Company, LLC and JPMorgan Chase Bank, dated as of December 10, 2003 (filed with Registrant's Form 10-Q for the quarter ended September 30, 2006)
4.15	First Supplemental Indenture, dated as of December 10, 2003, supplemental to the First Mortgage Indenture between Michigan Electric Transmission Company, LLC and JPMorgan Chase Bank, dated as of December 10, 2003 (filed with Registrant's Form 10-Q for the quarter ended September 30, 2006)
4.16	Second Supplemental Indenture, dated as of December 10, 2003, supplemental to the First Mortgage Indenture between Michigan Electric Transmission Company, LLC and JPMorgan Chase Bank, to the First Mortgage Indenture between Michigan Electric Transmission Company, LLC and JPMorgan Chase Bank, dated as of December 10, 2003 (filed with Registrant's Form 10-Q for the quarter ended September 30, 2006)

- 4.17 ITC Holdings Corp. Note Purchase Agreement, dated as of September 20, 2007 (filed with Registrant's Form 10-Q for the quarter ended September 30, 2007)
- 4.18 Third Supplemental Indenture, dated as of January 24, 2008, supplemental to the Indenture dated as of July 16, 2003, between the Registrant and The Bank of New York Trust Company, N.A. (as successor to BNY Midwest Trust Company), as trustee (filed with Registrant's Form 8-K filed on January 25, 2008)

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<u>Exhibit No.</u>	<u>Description of Exhibit</u>
4.19	First Mortgage and Deed of Trust, dated as of January 14, 2008, between ITC Midwest LLC and The Bank of New York Trust Company, N.A., as trustee (filed with Registrant's Form 8-K filed on February 1, 2008)
4.20	First Supplemental Indenture, dated as of January 14, 2008, supplemental to the First Mortgage Indenture between ITC Midwest LLC and The Bank of New York Trust Company, N.A., as trustee, First Mortgage and Deed of Trust, dated as of January 14, 2008 (filed with Registrant's Form 8-K filed on February 1, 2008)
4.21	Fourth Supplemental Indenture, dated as of March 25, 2008, between International Transmission Company and The Bank of New York Trust Company, N.A., as trustee, to the First Mortgage and Deed of Trust dated as of July 15, 2003 (filed with Registrant's Form 8-K filed on March 27, 2008)
4.22	Fourth Supplemental Indenture, dated as of December 11, 2008, between METC and The Bank of New York Mellon Trust Company, N.A. (as successor to JPMorgan Chase Bank, N.A.), as trustee, to the First Mortgage Indenture between Michigan Electric Transmission Company, LLC and JPMorgan Chase Bank, dated as of December 10, 2003 (filed with Registrant's Form 8-K filed on December 23, 2008)
4.23	Second Supplemental Indenture, dated as of December 15, 2008, 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, to the First Mortgage and Deed of Trust, dated as of January 14, 2008 (filed with Registrant's Form 8-K filed on December 23, 2008)
4.24	Third Supplemental Indenture, dated as of November 25, 2008, between METC and The Bank of New York Mellon Trust Company, N.A. (as successor to JPMorgan Chase Bank, N.A.), as trustee, to the First Mortgage Indenture between Michigan Electric Transmission Company, LLC and JPMorgan Chase Bank, dated as of December 10, 2003 (filed with Registrant's Form 8-K filed on December 23, 2008)
4.25	Fourth Supplemental Indenture, dated as of December 11, 2009, between ITC Holdings Corp. and The Bank of New York Mellon Trust Company, N.A. (f.k.a. The Bank of New York Trust Company, N.A., as successor to BNY Midwest Trust Company), as trustee (filed with Registrant's Form 8-K filed on December 14, 2009)
4.26	Fourth Supplemental Indenture, dated as of December 10, 2009, 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 December 17, 2009)
4.27	Fifth Supplemental Indenture, dated as of April 20, 2010, between Michigan Electric Transmission Company, LLC and The Bank of New York Mellon Trust Company, N.A. (as successor to JPMorgan Chase Bank), as trustee (filed with Registrant's Form 8-K filed on May 10, 2010)
4.28	Third Supplemental Indenture, dated as of December 15, 2008, between ITC Midwest LLC and The Bank of New York Mellon Trust Company, N.A. (The Bank of New York Trust Company, N.A.), as trustee (filed with Registrant's Form 10-Q for the quarter ended June 30, 2011)
4.29	Fifth Supplemental Indenture, dated as of July 15, 2011, 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 10-Q for the quarter ended June 30, 2011)
4.30	Sixth Supplemental Indenture, dated as of November 29, 2011, 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 December 1, 2011)
4.31	Sixth Supplemental Indenture, dated as of October 5, 2012, between Michigan Electric Transmission Company, LLC and The Bank of New York Mellon Trust Company, N.A. (as successor to JPMorgan Chase Bank), as trustee (filed with Registrant's Form 8-K filed on October 29, 2012)
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)
4.33	Indenture, dated as of April 18, 2013, between ITC Holdings Corp. and Wells Fargo Bank, National Association, as trustee (including form of note) (filed with Registrant's Form S-3 on April 18, 2013)

- 4.34 First Supplemental Indenture, dated as of July 3, 2013 , between ITC Holdings Corp and Wells Fargo Bank, National Association, as trustee (including forms of notes) (filed with Registrant's Form 8-K on July 3, 2013)
- 4.35 Fifth Supplemental Indenture, dated as of August 7, 2013, between International Transmission Company and The Bank of New York Mellon Trust Company, N.A. (as successor to BNY Midwest Trust Company), as trustee (including form of bonds) (filed with Registrant ' s Form 8-K on August 16, 2013)

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<u>Exhibit No.</u>	<u>Description of Exhibit</u>
4.36	Fifth Supplemental Indenture, dated May 16, 2014, between ITC Holdings Corp. and The Bank of New York Mellon Trust Company, N.A. (f.k.a. The Bank of New York Trust Company, N.A., as successor to BNY Midwest Trust Company), as Trustee (filed with Registrant's Form 8-K on May 16, 2014)
4.38	Second Supplemental Indenture, dated as of June 4, 2014 between ITC Holdings Corp. and Wells Fargo Bank, National Association, as trustee, together with form of 3.65% Senior Note due 2024 (filed with Registrant's Form 8-K on June 4, 2014)
4.39	Sixth Supplemental Indenture, dated as of May 23, 2014, between International Transmission Company and The Bank of New York Mellon Trust Company, N.A. (as successor to BNY Midwest Trust Company), as trustee (filed with Registrant's Form 8-K on June 10, 2014)
4.40	First Mortgage and Deed of Trust, dated as of November 12, 2014, between ITC Great Plains, LLC and Wells Fargo Bank, National Association, as trustee (filed with Registrant's Form 8-K on November 26, 2014)
4.41	First Supplemental Indenture, dated as of November 12, 2014, between ITC Great Plains, LLC and Wells Fargo Bank, National Association, as trustee (filed with Registrant's Form 8-K on November 26, 2014)
4.42	Seventh Supplemental Indenture, dated as of December 5, 2014, between Michigan Electric Transmission Company, LLC and The Bank of New York Mellon Trust Company, N.A. (as successor to JPMorgan Chase Bank), as trustee (filed with Registrant's Form 8-K on December 22, 2014)
*10.13	Amended and Restated 2003 Stock Purchase and Option Plan for Key Employees of the Registrant and its Subsidiaries (filed with Registrant's Registration Statement on Form S-1, as amended, Reg. No. 333-123657)
*10.27	Deferred Compensation Plan (filed with Registrant's Registration Statement on Form S-1, as amended, Reg. No. 333-123657)
10.28	Service Level Agreement— Construction and Maintenance/Engineering/System Operations, dated February 28, 2003, between The Detroit Edison Company and International Transmission Company (filed with Registrant's Registration Statement on Form S-1, as amended, Reg. No. 333-123657)
*10.34	Form of stock option agreement for executive officers under Amended and Restated 2003 Stock Purchase and Option Plan for Key Employees of the Registrant and its subsidiaries (filed with Registrant's Form 10-Q for the quarter ended September 30, 2005)
*10.38	Amendment No. 1 dated as of February 8, 2006, to Amended and Restated 2003 Stock Purchase and Option Plan for Key Employees of the Registrant (filed with Registrant's Form 8-K filed on February 14, 2006)
*10.45	Form of Restricted Stock Award Agreement for Employees under the Registrant's 2006 Long Term Incentive Plan (filed with Registrant's Form 8-K filed on August 18, 2006)
*10.46	Form of Stock Option Agreement for Employees under the Registrant's 2006 Long Term Incentive Plan (filed with Registrant's Form 8-K filed on August 18, 2006)
*10.48	Summary of Stock Ownership Guidelines, effective August 16, 2006, for Registrant's Directors and Executive Officers (filed with Registrant's Form 8-K filed on August 18, 2006)
10.51	Form of Amended and Restated Easement Agreement between Consumers Energy Company and Michigan Electric Transmission Company (filed with Registrant's Form 10-Q for the quarter ended September 30, 2006)
10.52	Amendment and Restatement of the April 1, 2001 Operating Agreement by and between Michigan Electric Transmission Company and Consumers Energy Company, effective May 1, 2002 (filed with Registrant's Form 10-Q for the quarter ended September 30, 2006)
10.53	Amendment and Restatement of the April 1, 2001 Purchase and Sale Agreement for Ancillary Services between Consumers Energy Company and Michigan Electric Transmission Company, effective May 1, 2002 (filed with Registrant's

Form 10-Q for the quarter ended September 30, 2006)

- 10.61 Form of Distribution-Transmission Interconnection Agreement, by and between ITC Midwest LLC, as Transmission Owner and Interstate Power and Light Company, as Local Distribution Company, dated as of December 17, 2007 (filed with Registrant's Form 8-K filed on December 21, 2007)
- \*10.64 Form of Amended and Restated Executive Group Special Bonus Plan of the Registrant, dated November 12, 2007 (filed with Registrant's 2007 Form 10-K)
- \*10.71 Form of Amendment to Stock Option Agreement under 2003 Plan (Initial Option) (August 2008) (filed with Registrant's Form 8-K filed on August 19, 2008)



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<u>Exhibit No.</u>	<u>Description of Exhibit</u>
*10.72	Form of Amendment to Stock Option Agreement under 2003 Plan (IPO Option) (August 2008) (filed with Registrant's Form 8-K filed on August 19, 2008)
*10.75	Form of Amendment to Stock Option Agreement under 2006 LTIP (August 2008) (filed with Registrant's Form 8-K filed on August 19, 2008)
*10.76	Form of Amendment to Restricted Stock Agreement under 2006 LTIP) (August 2008) (filed with Registrant's Form 8-K filed on August 19, 2008)
*10.77	Form of Stock Option Agreement under 2006 LTIP (August 2008) (filed with Registrant's Form 8-K filed on August 19, 2008)
*10.78	Form of Restricted Stock Award Agreement under 2006 LTIP (August 2008) (filed with Registrant's Form 8-K filed on August 19, 2008)
*10.79	Form of Restricted Stock Award Agreement for Non-employee Directors under Amended and Restated 2003 Stock Purchase and Option Plan for Key Employees of the Registrant and its subsidiaries (filed with Registrant's 2008 Form 10-K)
*10.80	Management Supplemental Benefit Plan (filed with Registrant's 2008 Form 10-K)
*10.81	Executive Supplemental Retirement Plan (filed with Registrant's 2008 Form 10-K)
*10.97	Second Amended and Restated 2006 Long Term Incentive Plan effective May 26, 2011 (filed with Registrant's Form 8-K on June 1, 2011)
*10.98	ITC Holdings Corp. Employee Stock Purchase Plan, as amended and restated May 26, 2011 (filed with Registrant's Form 8-K on June 1, 2011)
10.10	Form of Stock Option Agreement for Executive Officers under Second Amended and Restated 2006 LTIP (May 2012) (filed with Registrant's Form 10-Q for the quarter ended June 30, 2012)
10.11	Form of Restricted Stock Award Agreement for Executive Officers under Second Amended and Restated 2006 LTIP (May 2012) (filed with Registrant's Form 10-Q for the quarter ended June 30, 2012)
*10.108	Employment Agreement between ITC Holdings Corp. and Joseph L. Welch, effective as of December 21, 2012 (filed with Registrant's Form 8-K on December 26, 2012)
*10.109	Employment Agreement between ITC Holdings Corp. and Linda H. Blair, effective as of December 21, 2012 (filed with Registrant's Form 8-K on December 26, 2012)
*10.110	Employment Agreement between ITC Holdings Corp. and Jon E. Jipping, effective as of December 21, 2012 (filed with Registrant's Form 8-K on December 26, 2012)
*10.111	Employment Agreement between ITC Holdings Corp. and Daniel J. Oginsky, effective as of December 21, 2012 (filed with Registrant's Form 8-K on December 26, 2012)
*10.112	Retention Compensation Agreement between ITC Holdings Corp. and Joseph L. Welch, dated as of December 21, 2012 (filed with Registrant's Form 8-K on December 26, 2012)
*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)
*10.120	First Amendment to Executive Supplemental Retirement Plan, dated as of May 16, 2013 (filed with Registrant's Form 10-Q for the quarter ended June 30, 2013)

- \*10.122 Recoupment Policy and Related Consent, effective January 1, 2014 (filed with Registrant's Form 8-K on December 2, 2013)
- 10.123 ITC Holdings 2013 Term Loan Credit Agreement, dated as of December 20, 2013, among ITC Holdings Corp., the various financial institutions and other persons from time to time parties thereto as lenders, Wells Fargo Bank, National Association, as administrative agent for the Lenders, Wells Fargo Securities, LLC, J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated as joint lead arrangers and joint bookrunners, Bank of America, N.A., as documentation agent, and JPMorgan Chase Bank, N.A., as syndication agent (filed with Registrant's Form 8-K on December 20, 2013)
- 10.124 METC 2014 Term Loan Credit Agreement dated as of January 31, 2014, among Michigan Electric Transmission Company, LLC, the various financial institutions and other persons from time to time parties thereto as lenders, and Goldman Sachs Bank USA, as administrative agent for the Lenders and as sole lead arranger and sole bookrunner (filed with Registrant's Form 8-K on January 31, 2014)
- 10.125 Amended and Restated Large Interconnection Agreement, entered into by the Midcontinent Independent System Operator, Inc., Interstate Power and Light Company and ITC Midwest dated August 6, 2013 (filed with Registrant's 2013 Form 10-K)

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<u>Exhibit No.</u>	<u>Description of Exhibit</u>
10.126	ITC Holdings Revolving Credit Agreement, dated as of March 28, 2014, among ITC Holdings Corp., the various financial institutions and other persons from time to time parties thereto as lenders, JPMorgan Chase Bank, N.A., as administrative agent, J.P. Morgan Securities LLC, Barclays Bank PLC and Wells Fargo Securities, LLC, as joint lead arrangers and joint bookrunners, and Barclays Bank PLC and Wells Fargo Bank, National Association, as syndication agents (filed with Registrant's Form 8-K on March 28, 2014)
10.127	ITC Transmission Revolving Credit Agreement, dated as of March 28, 2014, among International Transmission Company, the various financial institutions and other persons from time to time parties thereto as lenders, JPMorgan Chase Bank, N.A., as administrative agent, J.P. Morgan Securities LLC, Barclays Bank PLC and Wells Fargo Securities, LLC, as joint lead arrangers and joint bookrunners, and Barclays Bank PLC and Wells Fargo Bank, National Association, as syndication agents (filed with Registrant's Form 8-K on March 28, 2014)
10.128	METC Revolving Credit Agreement, dated as of March 28, 2014, among Michigan Electric Transmission Company, LLC, the various financial institutions and other persons from time to time parties thereto as lenders, JPMorgan Chase Bank, N.A., as administrative agent, J.P. Morgan Securities LLC, Barclays Bank PLC and Wells Fargo Securities, LLC, as joint lead arrangers and joint bookrunners, and Barclays Bank PLC and Wells Fargo Bank, National Association, as syndication agents (filed with Registrant's Form 8-K on March 28, 2014)
10.129	ITC Midwest Revolving Credit Agreement, dated as of March 28, 2014, among ITC Midwest LLC, the various financial institutions and other persons from time to time parties thereto as lenders, JPMorgan Chase Bank, N.A., as administrative agent, J.P. Morgan Securities LLC, Barclays Bank PLC and Wells Fargo Securities, LLC, as joint lead arrangers and joint bookrunners, and Barclays Bank PLC and Wells Fargo Bank, National Association, as syndication agents (filed with Registrant's Form 8-K on March 28, 2014)
10.130	ITC Great Plains Revolving Credit Agreement, dated as of March 28, 2014, among ITC Great Plains, LLC, the various financial institutions and other persons from time to time parties thereto as lenders, JPMorgan Chase Bank, N.A., as administrative agent, J.P. Morgan Securities LLC, Barclays Bank PLC and Wells Fargo Securities, LLC, as joint lead arrangers and joint bookrunners, and Barclays Bank PLC and Wells Fargo Bank, National Association, as syndication agents (filed with Registrant's Form 8-K on March 28, 2014)
*10.131	Summary of Annual Corporate Performance Bonus Plan for Executives as of February 2014 (filed with Registrant's Form 10-Q for the quarter ended March 31, 2014)
10.132	Amended and Restated Generator Interconnection Agreement entered into by and among Midcontinent Independent System Operator, Inc., Michigan Electric Transmission Company, LLC and Consumers Energy Company, effective May 2, 2014 (filed with Registrant's Form 10-Q for quarter ended June 30, 2014)
*10.133	Form of Notice and Amendment to Stock Option Agreement for Executive Officers under Amended and Restated 2003 Stock Purchase and Option Plan, as amended (May 2014) (filed with Registrant's Form 10-Q for quarter ended June 30, 2014)
*10.134	Form of Notice and Amendment to Stock Option Agreement for Executive Officers under Second Amended and Restated 2006 LTIP (May 2014) (filed with Registrant's Form 10-Q for quarter ended June 30, 2014)
*10.135	Form of Stock Option Agreement for Executive Officers under Second Amended and Restated 2006 LTIP (May 2014) (filed with Registrant's Form 10-Q for quarter ended June 30, 2014)
*10.136	Form of Stock Award Agreement for Executive Officers under Second Amended and Restated 2006 LTIP (May 2014) (filed with Registrant's Form 10-Q for quarter ended June 30, 2014)
*10.137	Employment Agreement between ITC Holdings Corp. and Rejji P. Hayes, effective as of December 21, 2012 (filed with Registrant's Form 10-Q for quarter ended September 30, 2014)
*10.138	Employment Agreement between ITC Holdings Corp. and Rejji P. Hayes, effective as of October 27, 2014 (filed with Registrant's Form 8-K on October 29, 2014)
*10.139	ITC Holdings Corp. Employee Stock Purchase Plan, as amended May 21, 2014 (filed with Registrant's Form 10-Q for quarter ended June 30, 2014)

- 12.1 Ratio of Earnings to Fixed Charges for ITC Holdings Corp.
- 21 List of Subsidiaries
- 23.1 Consent of Deloitte & Touche LLP relating to the Registrant and subsidiaries
- 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

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<u>Exhibit No.</u>	<u>Description of Exhibit</u>
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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\* Management contract or compensatory plan or arrangement.

**FIFTH AMENDED AND RESTATED BYLAWS  
OF  
ITC HOLDINGS CORP.  
(THE “CORPORATION”)**

**ARTICLE I  
OFFICES**

1.01 **Principal Office.** The principal office of the Corporation shall be at such place as the board of directors shall from time to time determine.

1.02 **Other Offices.** The Corporation also may have offices at such other places as the board of directors from time to time determines or the business of the Corporation requires.

**ARTICLE II  
SEAL**

2.01 **Seal.** The Corporation may have a seal in the form that the board of directors may from time to time determine. The seal may be used by causing it or a facsimile to be impressed, affixed or otherwise reproduced. Documents otherwise properly executed on behalf of the corporation shall be valid and binding upon the corporation without a seal whether or not one is in fact designated by the board of directors.

**ARTICLE III  
CAPITAL STOCK**

3.01 **Issuance of Shares.** The shares of capital stock of the Corporation shall be issued in the amounts, at the times, for the consideration, and on the terms and conditions that the board of directors shall deem advisable, subject to the articles of incorporation and any requirements of the laws of the state of Michigan.

3.02 **Certificates for Shares.** The certificated shares of the Corporation shall be represented by certificates signed by the chairperson of the board of directors, the president, or a vice president, and also may be signed by the treasurer, assistant treasurer, secretary, or assistant secretary, and may be sealed with the seal of the Corporation, if any, or a facsimile of it. The signatures of the officers may be facsimiles if the certificate is countersigned by a transfer agent or registered by a registrar other than the corporation itself or its employee. In case an officer who has signed or whose facsimile signature has been placed upon a certificate ceases to be such officer before the certificate is issued, it may be issued by the Corporation with the same effect as if he or she were such officer at the date of issuance. A certificate representing shares shall state on its face that the Corporation is formed under the laws of the state of Michigan and shall also state the name of the person to whom it is issued, the number and class of shares and the designation of the series, if any, that the certificate represents, and any other provisions that may be required by the laws of the state of Michigan. Notwithstanding the foregoing, the board of directors may authorize the issuance of some or all of the shares without certificates to the fullest extent permitted by law. Within a reasonable time after the issuance or transfer of shares without certificates, the Corporation shall send the shareholder a written statement of the information required on certificates by applicable law.

3.03 **Transfer of Shares.** The certificated shares of the capital stock of the Corporation are transferable only on the books of the Corporation upon surrender of the certificate for the shares, properly

endorsed for transfer, and the presentation of the evidences of ownership and validity of the assignment that the Corporation may require. Transfers of uncertificated shares shall be made by such evidence of ownership and validity as the Corporation or its agents may reasonably require.

3.04 **Registered Shareholders.** The Corporation shall be entitled to treat the person in whose name any share of stock is registered as the owner of it for the purpose of dividends, other distributions, recapitalizations, mergers, plans of share exchange, reorganizations and liquidations, for the purpose of votes, approvals and consents by shareholders, for the purpose of notices to shareholders, and for all other purposes whatever, and shall not be bound to recognize any equitable or other claim to or interest in the shares by any other person, whether or not the Corporation shall have notice of it, except as expressly required by the laws of the state of Michigan.

3.05 **Lost or Destroyed Certificates.** On the presentation to the Corporation of a proper affidavit attesting to the loss, destruction, or mutilation of any certificate or certificates for shares of stock of the Corporation and such other evidence as the Corporation or its transfer agent may require, the board of directors, or any officer to whom authority is delegated, shall direct the issuance of a new certificate or certificates to replace the certificates so alleged to be lost, destroyed, or mutilated. The Corporation may require as a condition precedent to the issuance of new certificates a bond or agreement of indemnity, in the form and amount and with or without sureties, as the board of directors, or any officer to whom authority is delegated, may direct or approve.

3.06 **Transfer Agents and Registrars.** The board of directors may, in its discretion, appoint one or more banks or trust companies as the board of directors may deem advisable, from time to time, to act as transfer agents and registrars of the shares of the Corporation; and upon such appointments being made, no certificate representing shares shall be valid until countersigned by one of such transfer agents and registered by one of such registrars.

## **ARTICLE IV SHAREHOLDERS AND MEETINGS OF SHAREHOLDERS**

4.01 **Place of Meetings.** All meetings of shareholders shall be held at the principal office of the Corporation or at any other place that shall be determined by the board of directors and stated in the meeting notice or, at the direction of the board of directors to the extent permitted by applicable law, may be held by remote communication if stated in the meeting notice. The board of directors may allow participation at any meeting of shareholders by remote communication.

4.02 **Annual Meeting.** The annual meeting of the shareholders of the Corporation shall be held at such time as the board of directors may select. Directors shall be elected at each annual meeting and such other business transacted as may come before the meeting. The board of directors acting by resolution may postpone and reschedule any previously scheduled annual meeting of shareholders. Any annual meeting of shareholders may be adjourned by the person presiding at the meeting or pursuant to a resolution of the board of directors.

### **4.03 Special Meetings.**

(a) Special meetings of shareholders may be called by (1) the board of directors, (2) the chairperson of the board of directors (if the office is filled) or (3) the president, and shall be called by the president or the secretary under the circumstances provided in Section 4.03(b).



(b) A special meeting of shareholders shall be called if one or more requests for a special meeting (each, a “Special Meeting Request” and, collectively, the “Special Meeting Requests”) are signed by shareholders of record that are not Market Participants (as defined in the articles of incorporation) (each a “Requesting Person”) who own of record at least twenty-five percent (25%) of the outstanding shares of common stock of the Corporation entitled to vote at such meeting (the “Minimum Ownership”) and have a combined Net Long Beneficial Ownership (as defined below) of at least the Minimum Ownership continuously held for at least one year, and are delivered in proper form as required by this Section 4.03 to the secretary at the corporation’s principal executive offices. Only Requesting Persons who are shareholders of record and who are not Market Participants at the time the related Special Meeting Request is delivered shall be entitled to sign a Special Meeting Request.

(c) In determining whether a special meeting has been properly requested by Requesting Persons that have a combined Net Long Beneficial Ownership of at least the Minimum Ownership continuously held for at least one year, multiple Special Meeting Requests delivered to the secretary will be considered together only if (i) each Special Meeting Request identifies the same matter(s) proposed to be acted on at the special meeting (in each case as determined in good faith by the board), and (ii) such Special Meeting Requests have been dated and delivered to the secretary within sixty (60) days of the earliest dated Special Meeting Request. To be in proper form, such Special Meeting Request(s) shall: (1) be in writing and signed by such Requesting Person, or a duly authorized agent; (2) state the name and address of such Requesting Person and, if such Requesting Person is a record holder holding shares of the Corporation’s common stock on behalf of a beneficial holder who has directed it to make the Special Meeting Request, the name and address of such beneficial holder (each, a “Related Beneficial Owner”); (3) state the number of shares of the Corporation’s common stock owned beneficially and of record by the Requesting Person and by any Related Beneficial Owner and attach reasonably reliable documentary evidence of such ownership as of the date the Special Meeting Request is received by the secretary and that the Requesting Person and any Related Beneficial Owner have maintained such ownership continuously for at least one year; (4) certify that neither the Requesting Person nor any Related Beneficial Owner is a Market Participant; (5) include the information required by Section 4.11 of these bylaws; and (6) acknowledge that any reduction in such Requesting Person’s or Related Beneficial Owner’s Net Long Beneficial Ownership with respect to which a Special Meeting Request relates following the delivery of such Special Meeting Request to the secretary shall constitute a revocation of such Special Meeting Request to the extent of such reduction. The information required in the foregoing sentence shall be updated in writing by the Requesting Persons so that it is true and correct as of the record date and as of the date that is ten 10 business days prior to the special meeting (or any adjournment or postponement thereof) by delivering any such updated information to the secretary not later than two (2) business days after the record date for the meeting (in the case of the update and supplement required to be made as of the record date) and not later than eight (8) business days prior to the date for the meeting or any adjournment or postponement thereof (in the case of the update and supplement required to be made as of ten (10) business days prior to the meeting or any adjournment or postponement thereof). “Net Long Beneficial Ownership” shall mean those shares of common stock of the Corporation as to which the Requesting Person or the Related Beneficial Owner, as applicable, possesses (i) the sole power to vote or direct the voting, (ii) the sole economic incidents of ownership (including the sole right to profits and the sole risk of loss), and (iii) the sole power to dispose of or direct the disposition; provided that the number of shares calculated in accordance with clauses (i), (ii) and (iii) shall not include any “call equivalent position” (as such term is defined in Rule 16a-1(b) under the Exchange Act) that is, directly or indirectly, held or maintained by such Requesting Person or Related Beneficial Owner with respect to any shares of any class or series of shares of the Corporation.

(d) A special meeting requested by shareholders shall be held at such date, time and place as may be fixed by the board not later than ninety (90) days after receipt by the secretary of Shareholder

Meeting Requests in proper form from the holders of the Minimum Ownership threshold. However, a Special Meeting Request may be disregarded by the president and secretary for purposes of Section 4.03(b) if (1) the board has called or calls for an annual or special meeting of shareholders and the purposes of such annual meeting include the purpose specified in the request; (2) the request is received within ninety (90) days prior to the one year anniversary of the prior year's annual meeting of shareholders; (3) a shareholders meeting was held not more than 120 days before the request to call the special meeting was received which included an item of business that is substantially similar to an item of business specified in the Special Meeting Request (for purposes of this clause (3), the nomination, election or removal of directors shall be deemed "an item of business that is substantially similar" with respect to all items of business involving the nomination, election or removal of directors, the changing of the size of the board of directors and the filling of vacancies and/or newly created directorships); (4) the request is not in proper form; (5) notice of the matter or matters to be brought before the meeting was not properly given pursuant to these bylaws; (6) the business specified in the Special Meeting Request is not a proper subject for shareholder action under applicable law; or (7) the Special Meeting Request was made in a manner that involved a violation of Regulation 14A under the Securities Exchange Act of 1934, as amended, or other applicable law. A Requesting Person may revoke its Special Meeting Request at any time by delivering a written revocation to the secretary. If, following such revocation, or any deemed revocation as a result of any reduction in a Requesting Person's or Related Beneficial Owner's Net Long Beneficial Ownership with respect to which a Special Meeting Request relates following which the Requesting Persons have a Net Long Beneficial Ownership in the aggregate less than the Minimum Ownership threshold at any time prior to the meeting, the board of directors, in its discretion, may cancel the special meeting.

(e) Business transacted at a special meeting of shareholders shall be limited to the purposes stated in the shareholders' request for such special meeting, if any, and such matters as the board, chairperson or president may determine to submit to shareholders at such meeting. Nothing in this Section 4.03 shall be deemed to modify or supersede, in whole or in part, the requirements of Section 4.11 or any other provision of these bylaws with respect to matters to be brought before or transacted at the special meeting by shareholders. For the avoidance of doubt, in accordance with Section 4.11, if a Requesting Person or a Requesting Person's duly qualified representative does not attend the meeting and present to the meeting the item or items of business set forth in the Special Meeting Request, the chair may determine that such item or items of business have not been properly brought before the meeting and, in such case, such item or items shall not be voted upon regardless of whether proxies have been solicited in connection therewith.

**4.04 Notice of Meetings.** Except as otherwise provided by statute, written notice of the time, place, if any, and purposes of a shareholders meeting shall be given not less than 10 nor more than 60 days before the date of the meeting to each shareholder of record entitled to vote at the meeting, either personally or by mailing the notice to his or her last address as it appears on the books of the Corporation, or by a form of electronic transmission to which the shareholder has consented. The notice shall include notice of proposals from shareholders that are proper subjects for shareholder action and are intended to be presented by shareholders who have so notified the Corporation in accordance with applicable law. If a shareholder may be present and vote at the meeting by remote communication, the means of remote communication allowed shall be included in the notice. No notice need be given of an adjourned meeting of the shareholders provided that the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken, and at the adjourned meeting the only business to be transacted is business that might have been transacted at the original meeting. However, if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each shareholder of record entitled to notice on the new record date as provided in this bylaw.

4.05 **Record Dates.** The board of directors may fix in advance a record date for the purpose of determining shareholders entitled to notice of and to vote at a meeting of shareholders or an adjournment of the meeting or to express consent to or to dissent from a proposal without a meeting; for the purpose of determining shareholders entitled to receive payment of a dividend or an allotment of a right; or for the purpose of any other action. The date fixed shall not be more than 60 nor less than 10 days before the date of the meeting, nor more than 60 days before any other action. In such case only the shareholders that shall be shareholders of record on the date so fixed and that are entitled to vote with respect to the matters to be considered at such meeting shall be entitled to notice of and to vote at the meeting or an adjournment of the meeting or to express consent to or to dissent from the proposal; to receive payment of the dividend or the allotment of rights; or to participate in any other action, notwithstanding any transfer of any stock on the books of the Corporation, after any such record date. If a record date is not fixed, (a) the record date for determination of shareholders entitled to notice of or to vote at a meeting of shareholders shall be the close of business on the date next preceding the date on which notice is given, or, if no notice is given, the day next preceding the day on which the meeting is held, and (b) the record date for determining shareholders for any purpose other than that specified in item (a) shall be the close of business on the day on which the resolution of the board of directors relating thereto is adopted. Nothing in this bylaw shall affect the rights of a shareholder and his or her transferee or transferor as between themselves.

4.06 **List of Shareholders.** The secretary or the agent of the Corporation having charge of the stock transfer records for shares of the Corporation shall make and certify a complete list of the shareholders entitled to vote at a shareholders meeting or any adjournment of it. The list shall be arranged alphabetically within each class and series and include the address of, and the number of shares held by, each shareholder; be produced at the time and place of the meeting; be subject to inspection by any shareholder during the whole time of the meeting; and be prima facie evidence of which shareholders are entitled to examine the list or vote at the meeting. If the meeting is held solely by means of remote communication, the list shall be open to the examination of any shareholder during the entire meeting by posting the list on a reasonably accessible electronic network, and the information required to access the list shall be provided with the notice of the meeting.

4.07 **Quorum; Adjournment; Attendance by Remote Communication.**

(a) Unless a greater or lesser quorum is required in the articles of incorporation or by the laws of the state of Michigan, the shareholders present at a meeting in person or by proxy who, as of the record date for the meeting, were holders of a majority of the outstanding shares of the Corporation entitled to vote at the meeting, shall constitute a quorum at the meeting. When the holders of a class or series of shares are entitled to vote separately on an item of business, this bylaw applies in determining the presence of a quorum of the class or series for transacting the item of business. The shareholders present, in person or by proxy, at such meeting may continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to have less than a quorum.

(b) Whether or not a quorum is present, a meeting of shareholders may be adjourned by a vote of the shares present in person or by proxy.

(c) Subject to any guidelines and procedures adopted by the board of directors, shareholders and proxy holders not physically present at a meeting of shareholders may participate in the meeting by means of remote communication, are considered present in person for all relevant purposes, and may vote at the meeting if all of the following conditions are satisfied: (1) the Corporation implements reasonable measures to verify that each person considered present and permitted to vote at the meeting by means of remote communication is a shareholder or proxy holder, (2) the Corporation implements reasonable measures to provide each shareholder and proxy holder with a reasonable opportunity to participate in the

meeting and to vote on matters submitted to the shareholders, including an opportunity to read or hear the proceedings of the meeting substantially concurrently with the proceedings, and (3) if any shareholder or proxy holder votes or takes other action at the meeting by means of remote communication, a record of the vote or other action is maintained by the Corporation.

(d) A shareholder or proxy holder may be present and vote at the adjourned meeting by means of remote communication if he or she was permitted to be present and vote by that means of remote communication in the original meeting notice.

4.08 **Proxies.** A shareholder entitled to vote at a shareholders meeting or to express consent or to dissent without a meeting may authorize other persons to act for the shareholder by proxy. A proxy shall be in writing and shall be signed by the shareholder or the shareholder's authorized agent or representative or shall be transmitted electronically to the person who will hold the proxy or to an agent fully authorized by the person who will hold the proxy to receive that transmission and include or be accompanied by information from which it can be determined that the electronic transmission was authorized by the shareholder. A complete copy, fax, or other reliable reproduction of the proxy may be substituted or used in lieu of the original proxy for any purpose for which the original could be used. A proxy shall not be valid after the expiration of three years from its date unless otherwise provided in the proxy. A proxy is revocable at the pleasure of the shareholder executing it except as otherwise provided by the laws of the state of Michigan.

4.09 **Voting.** Each outstanding share is entitled to one vote on each matter submitted to a vote, unless the articles of incorporation provide otherwise. Votes may be cast orally or in writing, but if more than 25 shareholders of record are entitled to vote, then votes shall be cast in writing signed by the shareholder or the shareholder's proxy. When an action, other than the election of directors, is to be taken by a vote of the shareholders, it shall be authorized by a majority of the votes cast by the holders of shares entitled to vote on it, unless a greater vote is required by the articles of incorporation or by the laws of the state of Michigan. Except as otherwise provided by the articles of incorporation, directors shall be elected by a plurality of the votes cast by holders of common stock of the Corporation at any election.

4.10 **Conduct of Meeting.** At each meeting of shareholders, a chair shall preside. In the absence of a specific selection by the board of directors, the chair shall be the Chairperson of the board of directors as provided in Section 8.01. The chair shall determine the order of business and shall have the authority to establish rules for the conduct of the meeting which are fair to shareholders. The chair of the meeting shall announce at the meeting when the polls close for each matter voted upon. If no announcement is made, the polls shall be deemed to have closed upon the final adjournment of the meeting. After the polls close, no ballots, proxies or votes, nor any revocations or changes thereto may be accepted.

#### 4.11 **Advance Notice Provisions for Shareholder Business and Nominations.**

(a) Director Nominations.

(1) Only persons who are nominated in accordance with the procedures set forth in this Section 4.11(a) shall be eligible to serve as directors of the Corporation. Nominations of persons for election to the board of directors may be made at an annual or special meeting of shareholders (i) by or at the direction of the board of directors or any duly authorized committee thereof (including, without limitation, by making reference to the nominees in the proxy statement delivered to shareholders on behalf of the board of directors), or (ii) by any shareholder of the Corporation who was a shareholder of record both at the time of giving of notice provided for in this Section 4.11(a) and at the time of the shareholders meeting, who is entitled to vote at the meeting, who complies with the notice procedures set forth in this Section 4.11(a), who attends, or whose duly qualified representative attends, the meeting and makes such nomination(s) and, in

the case of nominations for election at a special meeting, only if the board of directors or a court has first determined that directors are to be elected at such meeting. Unless otherwise provided in the Corporation's articles of incorporation, Section 4.11(a)(1)(ii) shall be the exclusive means for a shareholder to propose or make any nomination of a person or persons for election to the board to be considered by the shareholders at an annual meeting or special meeting.

(2) Except as may be otherwise required by law, for nominations to be made by a shareholder at an annual meeting or, if the board of directors has first determined that directors are to be elected at a special meeting, at a special meeting, the shareholder must (i) provide Timely Notice thereof in writing and in proper form (as provided in Section 4.11(a)(3)) to the secretary of the Corporation at the Corporation's principal office and (ii) provide any updates or supplements to such notice at the times and in the form required by Section 4.11(c).

(3) To be in proper form for purposes of this Section 4.11(a), a shareholder's notice must set forth the following information:

(i) as to each person whom the shareholder proposes to nominate for election or reelection as a director (A) all information relating to such proposed nominee that would be required to be set forth in a shareholder's notice pursuant to this Section 4.11 if such proposed nominee were a Proposing Person, (B) all information relating to such proposed nominee that is required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors in a contested election pursuant to Section 14 under the Exchange Act and the rules and regulations thereunder (including such proposed nominee's written consent to being named in the proxy statement as a nominee and to serving as a director if elected), (C) a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three years, and any other material relationships, arrangements or understandings between or among any Proposing Person and each proposed nominee, and his or her respective affiliates and associates, and (D) an undertaking from each such person to be nominated that, if elected to the board of directors, they will comply with all corporate governance, conflict of interest, confidentiality and stock ownership and trading policies and guidelines and other policies of the Corporation that are generally applicable from time to time to directors who are not employees of the Corporation;

(ii) as to each Proposing Person, (A) the name and address of such Proposing Person and, as to the shareholder providing the notice, such name and address as they appear on the Corporation's books, (B) a statement describing and quantifying in reasonable detail any Material Ownership Interests, (C) the amount of any equity securities beneficially owned (as defined in Rule 13d-3 (or any successor thereof) under the Exchange Act) in any direct competitor of the Corporation or its operating subsidiaries if such ownership by the nominee(s) and the Proposing Persons, in the aggregate, beneficially own 5% or more of the class of equity securities, and (D) whether the Proposing Person intends to solicit proxies from shareholders in support of such nominee(s); and

(iii) a representation that the shareholder providing the notice intends to appear in person or by proxy at the meeting to nominate the person(s) named in its notice.

(4) The shareholder providing the notice shall furnish such other information as may reasonably be requested by the Corporation to determine the eligibility of such proposed nominee to serve as an independent director of the Corporation or that could be material to a reasonable shareholder's understanding of the independence or lack of independence of such nominee.



(5) Notwithstanding anything in the Timely Notice requirement in Section 4.11(a)(2) to the contrary, in the event that the number of directors to be elected to the board of directors is increased and there is no Public Announcement by the Corporation naming all of the nominees for director or, in the alternative, specifying the size of the increased board of directors at least 100 days prior to the first anniversary of the preceding year's annual meeting of shareholders, a shareholder's notice required by this Section 4.11 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to or mailed and received by the secretary at the principal executive offices of the Corporation not later than the close of business on the 10th day following the day on which such Public Announcement is first made by the Corporation.

(b) Other Business.

(1) At any annual or special meeting of shareholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before a shareholders meeting, business (except as provided in the next sentence), must be (A) specified in the notice of meeting given by or at the direction of the board of directors (or any duly authorized committee thereof), (B) brought before the meeting by or at the direction of the board of directors, the chairperson or the president, or (C) otherwise properly brought by any shareholder of the Corporation who was a shareholder of record both at the time of giving of notice provided for in this Section and at the time of the meeting of shareholders, who is entitled to vote at the meeting, who complies with the notice procedures set forth in this Section 4.11(b) and who attends, or whose duly qualified representative attends, the meeting and presents such business to the meeting. Except (i) for proposals made in accordance with the procedures and conditions set forth in Rule 14a-8 (or any successor thereof) under the Exchange Act and included in the notice of meeting and proxy statement given by or at the direction of the board of directors (or any duly authorized committee thereof), (ii) for director nominations (which shall be governed by Section 4.11(a)) and (iii) as otherwise required by applicable law, this Section 4.11(b) shall be the exclusive means for a shareholder to propose business to be brought before any meeting of shareholders.

(2) Except as may be otherwise required by law, for business to be properly brought before an annual or special meeting by a shareholder or shareholders pursuant to this Section 4.11(b), (i) the business must otherwise be a proper matter for shareholder action under applicable law and (ii) the shareholder must (A) provide Timely Notice thereof in writing and in proper form to the secretary of the Corporation at the Corporation's principal office and (B) provide any updates or supplements to such notice at the times and in the form required by Section 4.11 (c).

(3) To be in proper form for purposes of this Section 4.11(b), a shareholder's notice shall set forth the following information:

(i) a brief description of the business desired to be brought before the meeting (including the text of any resolutions or bylaw amendments proposed for consideration) and the reasons for conducting such business at the meeting;

(ii) all information relating to such proposed business that is required to be included in a proxy statement or other filings required to be made in connection with solicitations of proxies pursuant to Section 14 under the Exchange Act and the rules and regulations thereunder in connection with the meeting at which such proposed business is to be acted upon;

(iii) a brief description of any material interest in such business of each Proposing Person and a brief description of all agreements, arrangements and understandings between such

Proposing Person and any other person or persons (including their names) in connection with the proposal of such business;

(iv) as to each Proposing Person, (A) the name and address of such Proposing Person and, as to the shareholder providing the notice, such name and address as they appear on the Corporation's books, (B) a statement describing and quantifying in reasonable detail any Material Ownership Interests, and (C) whether the Proposing Person intends to solicit proxies from shareholders in support of such business; and

(v) a representation that the shareholder providing the notice intends to appear in person or by proxy at the meeting to propose the business identified in the shareholder's notice.

(c) Requirement to Update Information. A shareholder providing any notice as provided in Section 4.11(a) or (b) shall further update and supplement such notice, if necessary, so that the information provided or required to be provided in such notice pursuant to Section 4.11(a) or 4.11(b), as applicable, shall be true and correct as of the record date for the meeting and as of the date that is ten (10) business days prior to the meeting date or any adjournment or postponement thereof, and such update and supplement shall be delivered to or otherwise received by the secretary at the principal executive offices of the Corporation not later than two (2) business days after the record date for the meeting (in the case of the update and supplement required to be made as of the record date) and not later than eight (8) business days prior to the date for the meeting or any adjournment or postponement thereof (in the case of the update and supplement required to be made as of ten (10) business days prior to the meeting or any adjournment or postponement thereof).

(d) Determination of Improperly Brought Nomination or Business. The chairperson of the meeting shall, if the facts so warrant, determine and declare to the meeting that one or more nominations or other business was not properly brought before the meeting in accordance with the provisions of this Section 4.11 and, if the chairperson should so determine, the chairperson shall so declare to the meeting and any such defective nomination shall be disregarded and any such improperly brought business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the Corporation.

(e) Definitions. As used in this Section 4.11, the following terms have the meanings ascribed to them below.

(1) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(2) "Material Ownership Interests" means (i) the class or series and number of shares of the Corporation which are, directly or indirectly, owned beneficially (as defined in Rule 13d-3 (or any successor thereof) under the Exchange Act) and of record by such Proposing Person, (ii) any option, warrant, convertible security, stock appreciation right, or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of the Corporation or with a value derived in whole or in part from the value of any class or series of shares of the Corporation (a "Derivative Instrument") directly or indirectly owned beneficially by such Proposing Person, (iii) any proxy, contract, arrangement, understanding, or relationship pursuant to which such Proposing Person has a right to vote any shares of any security of the Corporation, (iv) any short interest beneficially owned or held by such Proposing Person in any security of the Corporation, (v) any rights to dividends on the shares of the Corporation owned beneficially by such Proposing Person that are separated or separable from the underlying shares of the Corporation, (vi) any proportionate interest in shares of the Corporation or Derivative Instruments held, directly or indirectly, by a (A) limited liability company in which the Proposing Person is a member or, directly or indirectly, beneficially owns an interest in a member, or (B) general or limited partnership in which such Proposing Person is a general partner or, directly or indirectly, beneficially owns



an interest in a general partner, and (vii) any performance related fees (other than an asset-based fee) to which such Proposing Person is entitled based on any increase or decrease in the value of shares of the Corporation or Derivative Instruments, if any, as of the date of such notice.

(3) "Proposing Person" means (i) the shareholder providing the notice of the nomination or business proposed to be made or presented at the meeting, (ii) the beneficial owner, if different, on whose behalf the nomination or business proposed to be made or presented at the meeting is made, (iii) any affiliate or associate of such beneficial owner (as such terms are defined in Rule 12b-2 (or any successor thereof) under the Exchange Act), and (iv) any other person with whom such shareholder or such beneficial owner (or any of their respective affiliates or associates) is acting in concert.

(4) "Public Announcement" means disclosure in a press release reported by the Dow Jones News Service, Associated Press, Prime Newswire, Marketwire, PR Newswire or comparable news service or in a document furnished to or filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act and publicly available.

(5) "Timely Notice."

(i) With respect to an annual meeting, a notice is a Timely Notice if it (A) is delivered to the secretary at the principal executive offices of the Corporation not earlier than the close of business on the 120<sup>th</sup> day and not later than the close of business on the 90th day prior to the one-year anniversary of the preceding year's annual meeting, and (B) contains all of the information required to be contained therein by the applicable provisions of this Section 4.11; provided, however, that in the event that the date of the annual meeting is advanced by more than 30 days or delayed by more than 70 days from such anniversary date or if the Corporation did not hold an annual meeting in the preceding fiscal year, notice by the shareholder to be timely must be so delivered not earlier than the close of business on the 120<sup>th</sup> day prior to such annual meeting and not later than the close of business on the 90th day prior to such annual meeting or, if later, the tenth day following the day on which a Public Announcement of the date of such meeting is first made by the Corporation.

(ii) With respect to a special meeting, a notice is a Timely Notice if it (A) (I) is delivered to the secretary at the principal executive offices of the Corporation not earlier than the close of business on the 120th day prior to such special meeting and not later than the close of business on the later of the 90th day prior to such special meeting or, if later, the tenth day following the day on which a Public Announcement is first made of the date of the special meeting, or (II) is delivered at the time a request for a special meeting is submitted in proper form to the secretary by Requesting Persons with the requisite ownership in accordance with Section 4.03 of these bylaws, if the special meeting is called at the request of shareholders and (B) contains all of the information required to be contained therein by the applicable provisions of Section 4.03 and this Section 4.11.

(iii) In no event shall the public announcement of a postponement or adjournment of an annual or special meeting to a later date or time commence a new time period for the giving of a shareholder's notice as described above.

(f) Compliance With Applicable Law. Notwithstanding the foregoing provisions of this Section 4.11, a shareholder shall also comply with all applicable requirements of state law and of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section. Nothing in this Section shall be deemed to affect any rights of (i) shareholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 (or any successor thereof) under the Exchange Act, or

(ii) the holders of any series of Preferred Stock to elect directors pursuant to any applicable provisions of the articles of incorporation.

4.12 **Inspectors of Election.** The board of directors, or the chair presiding at any shareholders meeting, may appoint one or more inspectors. If appointed, the inspectors shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum and the validity and effect of proxies, and shall receive votes, ballots or consents, hear and determine challenges or consents, determine the result, and do such acts as are proper to conduct the election or vote with fairness to all shareholders. On request of the person presiding at the meeting, the inspectors shall make and execute a written report to the person presiding at the meeting of any of the facts found by them and matters determined by them. The report shall be prima facie evidence of the facts stated and of the vote as certified by the inspectors.

## **ARTICLE V DIRECTORS**

5.01 **Number and Qualifications.** The business and affairs of the Corporation shall be managed by or under the direction of a board of not less than two (2) nor more than twelve (12) directors as shall be fixed from time to time by the board of directors. The directors need not be residents of Michigan or shareholders of the Corporation. No person shall be eligible to be nominated for election as a director (or for appointment by the board of directors to fill a vacancy or new directorship on the board of directors) unless such person shall have agreed in writing to comply with all corporate governance, conflict of interest, confidentiality, stock ownership and trading policies and guidelines and other policies of the Corporation that are from time to time generally applicable to directors.

5.02 **Election, Resignation, and Removal.** Unless otherwise provided in the articles of incorporation, directors shall be elected at each annual shareholders meeting, each director to hold office until the next annual shareholders meeting and until the director's successor is elected and qualified, or until the director's resignation or removal. Unless otherwise provided in the articles of incorporation, a director may resign by written notice to the Corporation. The resignation is effective on its receipt by the Corporation or at a subsequent time as set forth in the notice of resignation. A director or the entire board of directors may be removed, with or without cause, by vote of the holders of a majority of the shares entitled to vote at an election of directors. Cause for removal is defined as any director who has been judicially declared of unsound mind or who has been convicted of an offense punishable by imprisonment for a term of more than one year.

5.03 **Vacancies.** Vacancies in the board of directors occurring by reason of death, resignation, removal, increase in the number of directors, or otherwise shall be filled by the affirmative vote of a majority of the remaining directors though less than a quorum of the board of directors, unless filled by proper action of the shareholders of the Corporation. Unless otherwise provided in the articles of incorporation or elsewhere in these bylaws, each person so elected shall be a director for a term of office continuing only until the next election of directors by the shareholders. A vacancy that will occur at a specific date, by reason of a resignation effective at a later date or otherwise, may be filled before the vacancy occurs, but the newly elected director may not take office until the vacancy occurs.

5.04 **Annual Meeting.** The board of directors shall meet each year immediately before or after the annual meeting of the shareholders, or within three days of such time, excluding Sundays and legal holidays, if the later time is deemed advisable, at the place where the shareholders meeting has been held or any other place that the board of directors may determine or by remote communication, for the purpose of electing officers and considering such business that may properly be brought before the meeting; provided

that, if less than a majority of the directors appear for an annual meeting of the board of directors, the holding of the annual meeting shall not be required and the matters that might have been taken up in it may be taken up at any later regular, special or annual meeting, or by consent resolution.

5.05 **Regular and Special Meetings.** Regular meetings of the board of directors may be held at the times and places (or by remote communication) that the majority of the directors may from time to time determine at a prior meeting or as shall be directed or approved by the vote or written consent of all the directors; provided that the board of directors shall meet no fewer than once per fiscal quarter. Special meetings of the board of directors may be called by the chairperson of the board of directors (if the office is filled) or the president, and shall be called by the president or secretary on the written request of any two directors.

5.06 **Notices.** No notice shall be required for annual or regular meetings of the board of directors or for adjourned meetings, whether regular or special. Three days written notice, 24-hour telephonic notice, or 24-hour notice by electronic communication shall be given for special meetings of the board of directors, and the notice shall state the time, place, and purpose or purposes of the meeting.

5.07 **Quorum.** A majority of the board of directors then in office, or of the members of a board committee, constitutes a quorum for the transaction of business. The vote of a majority of the directors present at any meeting at which there is a quorum constitutes the action of the board of directors or of the committee, except when a larger vote may be required by the laws of the state of Michigan. A member of the board of directors or of a committee designated by the board of directors may participate in a meeting by conference telephone or other means of remote communication through which all persons participating in the meeting can communicate with each other. Participation in a meeting in this manner constitutes presence in person at the meeting.

5.08 **Dissents.** A director who is present at a meeting of the board of directors, or a board committee of which the director is a member, at which action on a corporate matter is taken, is presumed to have concurred in that action unless the director's dissent is entered in the minutes of the meeting or unless the director files a written dissent to the action with the person acting as secretary of the meeting before the adjournment of it or forwards the dissent by registered mail to the secretary of the Corporation promptly after the adjournment of the meeting. The right to dissent does not apply to a director who voted in favor of the action. A director who is absent from a meeting of the board of directors or a board committee of which the director is a member, at which any such action is taken, is presumed to have concurred in the action unless he or she files a written dissent with the secretary within a reasonable time after the director has knowledge of the action.

5.09 **Compensation.** The board of directors, by affirmative vote of a majority of directors in office and irrespective of any personal interest of any of them, may establish reasonable compensation of directors for services to the Corporation as directors, committee members or officers. Nothing herein shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

5.10 **Executive and Other Committees.** The board of directors may, by resolution passed by a majority of the whole board of directors, appoint three or more members of the board of directors as an executive committee to exercise all powers and authorities of the board of directors in managing the business and affairs of the Corporation, except that the executive committee shall not have power or authority to (a) amend the articles of incorporation, except that a committee may prescribe the relative rights and preferences of the shares of a series if the articles of incorporation authorize the board of directors to do so; (b) adopt an agreement of merger or plan of share exchange; (c) recommend to shareholders the sale, lease, or exchange of all or substantially all of the Corporation's property and assets; (d) recommend to shareholders a dissolution

of the Corporation or revocation of a dissolution; (e) amend these bylaws; (f) fill vacancies in the board of directors; or (g) unless expressly authorized by resolution of the board of directors, declare a dividend or authorize the issuance of stock.

The board of directors from time to time may, by like resolution, appoint any other committees of one or more directors to have the authority that shall be specified by the board of directors in the resolution making the appointments, subject to the limitations imposed in clauses (a) through (g) of the preceding paragraph. Committees and committee members serve as such at the pleasure of the board of directors. The board of directors may designate one or more directors as alternate members of any committee to replace an absent or disqualified member at any committee meeting.

5.11 **Retirement Policy.** The board of directors does not believe it should establish term limits other than the current annual terms of office. However, if the board of directors believes it is necessary that a director should not stand for reelection due to his or her age, the board of directors, through resolution, may act on establishing the appropriate term limit for the particular director.

5.12 **Action Without a Meeting.** Any action required or permitted at any meeting of directors or a committee of directors may be taken without a meeting, without prior notice and without a vote, if all of the directors or committee members entitled to vote on it consent to it in writing or, to the extent permitted by law, by electronic transmission, before or after the action is taken. Such consents shall be filed with the minutes of the proceedings of the board of directors or committee, as applicable.

## **ARTICLE VI NOTICES AND WAIVERS OF NOTICE**

6.01 **Notices.** All notices of meetings required to be given to shareholders, directors, or any committee of directors may be given personally or by mail, telecopy, or electronic transmission to any shareholder, director, or committee member at his or her last address as it appears on the books of the Corporation or by electronic transmission, but in the case of shareholders if notice is to be given by electronic transmission, only in the form consented to by the shareholder. The notice shall be deemed to be given at the time it is mailed or otherwise dispatched or, if given by electronic transmission, when electronically transmitted to the person entitled to the notice, but in the case of shareholders only if sent in a manner authorized by the shareholder. Telephonic notice may be given for special meetings of the board of directors as provided in Section 5.06.

6.02 **Waiver of Notice.** Notice of the time, place, and purpose of any meeting of shareholders, directors, or a committee of directors may be waived by telecopy or other writing, or by electronic transmission, either before or after the meeting, or in any other manner that may be permitted by the laws of the state of Michigan. Attendance of a person at any shareholders meeting, in person or by proxy, or at any meeting of directors or of a committee of directors, constitutes a waiver of notice of the meeting except as follows:

(a) In the case of a shareholder, unless the shareholder at the beginning of the meeting objects to holding the meeting or transacting business at the meeting, or unless with respect to consideration of a particular matter at the meeting that is not within the purpose or purposes described in the meeting notice, the shareholder objects to considering the matter when it is presented; or

(b) In the case of a director, unless he or she at the beginning of the meeting, or upon his or her arrival, objects to the meeting or the transacting of business at the meeting and does not thereafter vote for or assent to any action taken at the meeting.

A shareholder's attendance at a meeting of shareholders, whether in person or by proxy, will constitute (1) waiver of any objection to lack of notice or defective notice, unless the shareholder at the beginning of the meeting objects to holding the meeting or transacting business at the meeting, and (2) waiver of any objection to consideration of a particular matter at the meeting that is not within the purpose or purposes described in the meeting notice, unless the shareholder objects to considering the matter when it is presented.

## **ARTICLE VII OFFICERS**

7.01 **Number.** The board of directors shall elect or appoint a president, a secretary, and a treasurer, and may select a chairperson of the board of directors and one or more vice presidents, assistant secretaries, or assistant treasurers, and other officers as it shall deem appropriate. The chairperson of the board of directors, or the president if no chairperson has been selected, shall be a member of the board of directors. Any two or more of the preceding offices, except those of president and vice president, may be held by the same person.

7.02 **Term of Office, Resignation, and Removal.** An officer shall hold office for the term for which he or she is elected or appointed and until his or her successor is elected or appointed and qualified, or until his or her resignation or removal. An officer may resign by written notice to the Corporation. The resignation is effective on its receipt by the Corporation or at a subsequent time specified in the notice of resignation. An officer may be removed by the board of directors with or without cause. The removal of an officer shall be without prejudice to his or her contract rights, if any. The election or appointment of an officer does not of itself create contract rights.

7.03 **Vacancies.** The board of directors may fill any vacancies in any office occurring for whatever reason.

7.04 **Authority.** All officers, employees, and agents of the Corporation shall have the authority and perform the duties to conduct and manage the business and affairs of the Corporation that may be designated by the board of directors and these bylaws.

## **ARTICLE VIII DUTIES OF OFFICERS**

8.01 **Chairperson of the Board.** The chairperson of the board of directors, if the office is filled, shall preside at all meetings of the shareholders and of the board of directors at which the chairperson is present unless otherwise determined by the board of directors pursuant to Section 4.10.

8.02 **President.** The president shall be the chief executive officer of the Corporation. The president shall see that all orders and resolutions of the board of directors are carried into effect, and the president shall have the general powers of supervision and management usually vested in the chief executive officer of a corporation, including the authority to vote all securities of other corporations and business organizations held by the Corporation. In the absence or disability of the chairperson of the board of directors, or if that office has not been filled, the president also shall perform the duties of the chairperson of the board of directors as set forth in these bylaws.

8.03 **Vice Presidents.** The vice presidents, in order of their seniority, shall, in the absence or disability of the president, perform the duties and exercise the powers of the president and shall perform any other duties that the board of directors or the president may from time to time prescribe.

8.04 **Secretary.** The secretary shall attend all meetings of the board of directors and shareholders and shall record all votes and minutes of all proceedings in a book to be kept for that purpose; shall give or cause to be given notice of all meetings of the shareholders and the board of directors; and shall keep in safe custody the seal of the Corporation, if any, and, when authorized by the board of directors, affix it to any instrument requiring it, and when so affixed it shall be attested to by the signature of the secretary or by the signature of the treasurer or an assistant secretary. The secretary may delegate any of the duties, powers, and authorities of the secretary to one or more assistant secretaries, unless the delegation is disapproved by the board of directors.

8.05 **Treasurer.** The treasurer shall have the custody of the corporate funds and securities, shall keep full and accurate accounts of receipts and disbursements in the books of the Corporation, and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in the depositories that may be designated by the board of directors. The treasurer shall render to the president and directors, whenever they may require it, an account of his or her transactions as treasurer and of the financial condition of the Corporation. The treasurer may delegate any of his or her duties, powers, and authorities to one or more assistant treasurers unless the delegation is disapproved by the board of directors.

8.06 **Assistant Secretaries and Treasurers.** The assistant secretaries, in order of their seniority, shall perform the duties and exercise the powers and authorities of the secretary in case of the secretary's absence or disability. The assistant treasurers, in the order of their seniority, shall perform the duties and exercise the powers and authorities of the treasurer in case of the treasurer's absence or disability. The assistant secretaries and assistant treasurers shall also perform the duties that may be delegated to them by the secretary and treasurer, respectively, and also the duties that the board of directors may prescribe.

## **ARTICLE IX SPECIAL CORPORATE ACTS**

9.01 **Orders for Payment of Money.** All checks, drafts, notes, bonds, bills of exchange, and orders for payment of money of the Corporation shall be signed by the officer or officers or any other person or persons that the board of directors may from time to time designate.

9.02 **Contracts and Conveyances.** The board of directors of the Corporation may in any instance designate the officer(s) and/or agent(s) who shall have authority to execute any contract, conveyance, mortgage, or other instrument on behalf of the Corporation, or may ratify or confirm any execution. When the execution of any instrument has been authorized without specification of the executing officers or agents, the chairperson of the board of directors, the president, any vice president, the secretary, any assistant secretary, the treasurer and any assistant treasurer, or any one of them, may execute the instrument in the name and on behalf of the Corporation and may affix the corporate seal, if any, to it.

9.03 **Voting Securities.** Unless otherwise directed by the board, the president, any executive vice president and any senior vice president shall have full power and authority on behalf of the Corporation to act and to vote (grant a proxy to vote) on behalf of the Corporation at any meetings of security holders of corporations, limited liability companies and other entities in which the Corporation holds securities, and to execute in the name or on behalf of the Corporation one or more consents in lieu of meetings of such security holders. The board of directors by resolution from time to time may confer like power upon any other person or persons.

## **ARTICLE X BOOKS AND RECORDS**



10.01 **Maintenance of Books and Records.** The proper officers and agents of the Corporation shall keep and maintain the books, records, and accounts of the Corporation's business and affairs, minutes of the proceedings of its shareholders, board of directors, and committees, if any, and the stock ledgers and lists of shareholders, as the board of directors shall deem advisable and as shall be required by the laws of the state of Michigan and other states or jurisdictions empowered to impose such requirements. Books, records, and minutes may be kept within or without the state of Michigan in a place that the board of directors shall determine.

10.02 **Reliance on Books and Records.** In discharging his or her duties, a director or an officer of the Corporation, when acting in good faith, may rely on information, opinions, reports, or statements, including financial statements and other financial data, if prepared or presented by any of the following:

(a) One or more directors, officers, or employees of the Corporation, or of a business organization under joint control or common control, whom the director or officer reasonably believes to be reliable and competent in the matters presented;

(b) Legal counsel, public accountants, engineers, or other persons as to matters the director or officer reasonably believes are within the person's professional or expert competence; or

(c) A committee of the board of directors of which he or she is not a member if the director or officer reasonably believes the committee merits confidence.

A director or officer is not entitled to rely on the information set forth above if he or she has knowledge concerning the matter in question that makes such reliance unwarranted.

## **ARTICLE XI INDEMNIFICATION**

11.01 **Indemnification.** Subject to all of the other provisions of Article XI, the Corporation shall indemnify any person who was or is a party to or is threatened to be made a party to any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative and whether formal or informal, including any appeal, by reason of the fact that the person is or was a director or officer of the Corporation, or, while serving as a director or officer of the Corporation, is or was serving at the request of the Corporation as a director, officer, member, partner, trustee, employee, fiduciary or agent of another foreign or domestic corporation, partnership, limited liability company, joint venture, trust, or other enterprise, including service with respect to employee benefit plans or public service or charitable organizations, against expenses (including actual and reasonable attorney fees and disbursements), judgments, penalties, fines and amounts paid in settlement actually and incurred by him or her in connection with such action, suit, or proceeding, in each case to the maximum extent permitted by the Michigan Business Corporation Act ("MBCA"). The termination of any action, suit, or proceeding by judgment, order, settlement, conviction, or on a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that any person otherwise entitled to indemnification hereunder (i) did not act in good faith and in a manner that the person reasonably believed to be in or not opposed to the best interests of the Corporation or its shareholders, (ii) with respect to any criminal action or proceeding, had reasonable cause to believe that his or her conduct was unlawful, or (iii) received a financial benefit to which he or she is not entitled, intentionally inflicted harm on the Corporation or its shareholders, violated Section 551 of the MBCA or intentionally committed a criminal act.

11.02 **Expenses of Successful Defense.** To the extent that a director or officer of the Corporation has been successful on the merits or otherwise in defense of any action, suit, or proceeding referred to in



Section 11.01, or in defense of any claim, issue, or matter in the action, suit, or proceeding, the director or officer shall be indemnified against actual and reasonable expenses (including attorney fees) incurred by the person in connection with the action, suit, or proceeding and any action, suit, or proceeding brought to enforce the mandatory indemnification provided by this Section 11.02.

11.03 **Definitions.** For purposes of Article XI only:

(a) “serving at the request of the Corporation” shall include any service as a director, officer, employee, or agent of the Corporation that imposes duties on, or involves services by, the director or officer with respect to an employee benefit plan, its participants, or its beneficiaries; and a person who acted in good faith and in a manner the person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be considered to have acted in a manner “not opposed to the best interests of the Corporation or its shareholders;” and

(b) “independent director” shall have the meaning set forth in Section 107 of the MBCA.

11.04 **Contract Right; Limitation on Indemnity.** The right to indemnification conferred in Article XI shall be a contract right and shall apply to services of a director or officer as an employee or agent of the Corporation as well as in the person’s capacity as a director or officer. No amendment of these bylaws or the articles of incorporation shall eliminate or impair a right to indemnification or to advancement of expenses established herein or therein with respect to any action or omission occurring prior to such amendment. Except as otherwise expressly provided in this Article XI, the Corporation shall have no obligations under Article XI to indemnify any person in connection with any proceeding, or part thereof, initiated by the person without authorization by the board of directors.

11.05 **Determination That Indemnification Is Proper.**

(a) Except as provided in Section 11.05(b), any indemnification under Section 11.01 (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the person is proper in the circumstances because the person has met the applicable standard of conduct provided by applicable law, and upon an evaluation of the reasonableness of expense and amounts paid in settlement. The determination and evaluation shall be made in any of the following ways:

(1) By a majority vote of a quorum of the board of directors consisting of directors who are not parties or threatened to be made parties to the action, suit, or proceeding;

(2) If the quorum described in clause (1) above is not obtainable, then by majority vote of a committee of directors duly designated by the board of directors and consisting solely of two or more directors who are not at the time parties or threatened to be made parties to the action, suit, or proceeding;

(3) By independent legal counsel in a written opinion, which counsel shall be selected in one of the following ways: (i) by the board of directors or its committee in the manner prescribed in clause (1) or (2); or (ii) if a quorum of the board of directors cannot be obtained under clause (1) and a committee cannot be designated under clause (2), by the board of directors;

(4) By the shareholders, but shares held by directors, officers, employees, or agents who are parties or threatened to be made parties to the action, suit, or proceeding may not be voted; or

(5) By all independent directors who are not parties or threatened to be made parties to the action, suit, or proceeding.

(b) If the articles of incorporation of this Corporation include a provision eliminating or limiting the liability of a director pursuant to Section 209 of the MBCA, the Corporation shall indemnify a director for the expenses and liabilities described in this paragraph without a determination that the director has met the standard of conduct set forth in the MBCA, but no indemnification may be made except to the extent authorized in Section 564c of the MBCA, if the director received a financial benefit to which he or she was not entitled, intentionally inflicted harm on the Corporation or its shareholders, violated Section 551 of the MBCA, or intentionally violated criminal law. In connection with an action or suit by or in the right of the Corporation, indemnification may be for expenses, including attorneys' fees, actually and reasonably incurred. In connection with an action, suit or proceeding other than one by or in the right of the Corporation, indemnification may be for expenses, including attorneys' fees, actually and reasonably incurred, and for judgments, penalties, fines, and amounts paid in settlement actually and reasonably incurred.

**11.06 Authorizations of Payment.** Authorizations of payment under Section 11.01 shall be made in any of the following ways:

(a) by the board of directors:

(1) if there are two or more directors who are not parties or threatened to be made parties to the action, suit or proceeding, by a majority vote of all such directors (a majority of whom shall for this purpose constitute a quorum) or by a majority of the members of a committee of two or more directors who are not parties or threatened to be made parties to the action, suit or proceeding;

(2) if the Corporation has one or more independent directors who are not parties or threatened to be made parties to the action, suit or proceeding, by a majority vote of all such directors (a majority of whom shall for this purpose constitute a quorum); or

(3) if there are no independent directors and fewer than two directors who are not parties or threatened to be made parties to the action, suit or proceeding, by the vote necessary for action by the board of directors in accordance with Section 5.07, in which authorization all directors may participate; or

(b) by the shareholders, but shares held by directors, officers, employees, or agents who are parties or threatened to be made parties to the action, suit, or proceeding may not be voted on the authorization.

**11.07 Proportionate Indemnity.** If a person is entitled to indemnification under Section 11.01 for a portion of expenses, including attorney fees, judgments, penalties, fines, and amounts paid in settlement, but not for the total amount, the Corporation shall indemnify the person for the portion of the expenses, judgments, penalties, fines, or amounts paid in settlement for which the person is entitled to be indemnified.

**11.08 Expense Advance.** The Corporation shall pay or reimburse the reasonable expenses incurred by a person referred to in Section 11.01 who is a party or threatened to be made a party to an action, suit, or proceeding in advance of final disposition of the proceeding if the person furnishes the Corporation a written undertaking executed personally, or on his or her belief, to repay the advance if it is ultimately determined that he or she did not meet the standard of conduct, if any, required by the MBCA for the indemnification of the person under the circumstances. The Corporation shall make an evaluation of reasonableness under this Section 11.08 as specified in Section 11.05, and shall make an authorization in the manner specified in Section

11.06, unless the advance is mandatory. The Corporation may make an authorization of advances with respect to a proceeding and a determination of reasonableness of advances or selection of a method for determining reasonableness in a single action or resolution covering an entire proceeding. A provision in the articles of incorporation, these bylaws, a resolution by the board of directors or the shareholders, or an agreement making indemnification mandatory shall also make advancement of expenses mandatory unless the provision specifically provides otherwise.

11.09 **Non-Exclusivity of Rights.** The indemnification or advancement of expenses provided under this article is not exclusive of other rights to which a person seeking indemnification or advancement of expenses may be entitled under a contractual arrangement with the Corporation. However, the total amount of expenses advanced or indemnified from all sources combined shall not exceed the amount of actual expenses incurred by the person seeking indemnification or advancement of expenses.

11.10 **Indemnification of Employees and Agents of the Corporation.** The Corporation may, to the extent authorized from time to time by the board of directors, grant rights to indemnification and to the advancement of expenses to any employee or agent of the Corporation to the fullest extent of the provisions of Article XI with respect to the indemnification and advancement of expenses of directors and officers of the Corporation.

11.11 **Former Directors and Officers.** The indemnification provided in Article XI continues for a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors, and administrators of the person.

11.12 **Insurance.** The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, against any liability asserted against the person and incurred by him or her in any such capacity or arising out of his or her status as such, whether or not the Corporation would have power to indemnify the person against the liability under these bylaws or the laws of the state of Michigan. If the articles of incorporation of this Corporation include a provision eliminating or limiting the liability of a director pursuant to Section 209(1)(c) of the MBCA, such insurance may be purchased from an insurer owned by the Corporation, but such insurance may insure against monetary liability to the Corporation or its shareholders only to the extent to which the Corporation could indemnify the director under Section 11.05.

11.13 **Changes in Michigan Law.** If there is any change of the Michigan statutory provisions applicable to the Corporation relating to the subject matter of Article XI, then the indemnification to which any person shall be entitled under this article shall be determined by the changed provisions, but only to the extent that the change permits the Corporation to provide broader indemnification rights than the provisions permitted the Corporation to provide before the change. Subject to Section 11.14, the board of directors is authorized to amend these bylaws to conform to any such changed statutory provisions.

11.14 **Amendment or Repeal of Article XI.** No amendment or repeal of Article XI shall apply to or have any effect on any director or officer of the Corporation for or with respect to any acts or omissions of the director or officer occurring before the amendment or repeal.

11.15 **Enforcement of Rights.** Any determination with respect to indemnification or payment in advance of final disposition under this Article XI shall be made promptly, and in any event within 30 days, after written request to the corporation by the person seeking such indemnification or payment. If it is determined that such indemnification or payment is proper and if such indemnification or payment is

authorized (to the extent such authorization is required) in accordance with this Article XI, then such indemnification or payment in advance of final disposition under this Article XI shall be made promptly, and in any event within 30 days after such determination has been made, such authorization that may be required has been given and any conditions precedent to such indemnification or payment set forth in this Article XI, the articles of incorporation or applicable law have been satisfied. The rights granted by this Article XI shall be enforceable by such person in any court of competent jurisdiction.

## **ARTICLE XII AMENDMENTS**

12.01 **Amendments.** The bylaws of the Corporation may be amended, altered, or repealed, in whole or in part, by the shareholders or by the board of directors, provided that notice of any meeting at which an amendment, alteration or repeal would be acted upon shall include notice of the proposed amendment, alteration or repeal.

As adopted by the board of directors on February 24, 2015

## ITC HOLDINGS

## Computation of Ratios of Earnings to Fixed Charges

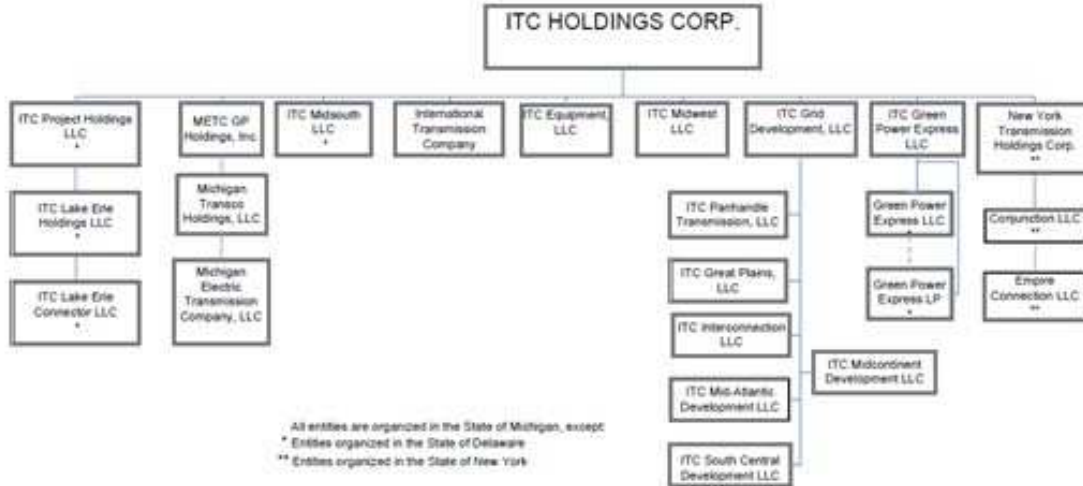
Our ratios of earnings to fixed charges were as follows for the periods indicated in the table below:

(In thousands, except ratio of earnings to fixed charges)	Year Ended December 31,				
	2014	2013	2012	2011	2010
Earnings are defined:					
Net income	\$ 244,083	\$ 233,506	\$ 187,876	\$ 171,685	\$ 145,678
Add: Income tax provision	150,322	118,862	108,632	94,749	82,254
Add: Fixed charges	191,755	176,298	162,728	151,586	146,406
Less: Capitalized interest	5,119	7,979	6,994	4,650	3,853
Earnings as defined	\$ 581,041	\$ 520,687	\$ 452,242	\$ 413,370	\$ 370,485
Fixed charges are defined:					
Interest expense — net	\$ 186,636	\$ 168,319	\$ 155,734	\$ 146,936	\$ 142,553
Add: Capitalized interest	5,119	7,979	6,994	4,650	3,853
Fixed charges as defined	\$ 191,755	\$ 176,298	\$ 162,728	\$ 151,586	\$ 146,406
Ratio of earnings to fixed charges	3.03	2.95	2.78	2.73	2.53

Our ratios of earnings to fixed charges were computed based on:

- “earnings,” which consist of net income before income taxes and fixed charges, excluding capitalized interest; and
- “fixed charges,” which consist of interest expense including capitalized interest.

**ITC HOLDINGS CORP. CORPORATE ORGANIZATION CHART**



**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement No. 333-153016, 333-141430, 333-138048, 333-136657, 333-126942, 333-126943 and 333-198442 on Form S-8 and Registration Statement No. 333-187994 on Form S-3 of our reports dated February 26, 2015 , relating to the consolidated financial statements and financial statement schedule of ITC Holdings Corp. and subsidiaries, and the effectiveness of ITC Holdings Corp. and subsidiaries' internal control over financial reporting, appearing in this Annual Report on Form 10-K of ITC Holdings Corp. for the year ended December 31, 2014 .

/s/ DELOITTE & TOUCHE LLP

Detroit, Michigan  
February 26, 2015



**CERTIFICATION PURSUANT TO RULE 13A-14(A) OR 15D-14(A), AS ADOPTED PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, Joseph L. Welch, certify that:

1. I have reviewed this annual report on Form 10-K of ITC Holdings Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 26, 2015

/s/ Joseph L. Welch

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Joseph L. Welch  
President and Chief Executive Officer

**CERTIFICATION PURSUANT TO RULE 13A-14(A) OR 15D-14(A), AS ADOPTED PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, Rejji P. Hayes, certify that:

1. I have reviewed this annual report on Form 10-K of ITC Holdings Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 26, 2015

/s/ Rejji P. Hayes

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Rejji P. Hayes  
Senior Vice President, Chief Financial Officer and Treasurer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of ITC Holdings Corp. (the "Registrant") on Form 10-K for the period ended December 31, 2014 as filed with the Securities and Exchange Commission on February 26, 2015 (the "Report"), we, Joseph L. Welch, President and Chief Executive Officer of the Registrant, and Rejji P. Hayes, Senior Vice President, Chief Financial Officer and Treasurer of the Registrant, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: February 26, 2015

/s/ Joseph L. Welch

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Joseph L. Welch  
President and Chief Executive Officer

/s/ Rejji P. Hayes

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Rejji P. Hayes  
Senior Vice President, Chief Financial Officer and Treasurer