

ITC Holdings Corp.  
Form S-4  
September 25, 2012  
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As filed with the U.S. Securities and Exchange Commission on September 24, 2012

Registration No. 333-

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM S-4**  
**REGISTRATION STATEMENT**

*UNDER*

*THE SECURITIES ACT OF 1933*

**ITC HOLDINGS CORP.**

(Exact name of registrant as specified in its charter)

Michigan  
(State or other jurisdiction of  
incorporation or organization)

4911  
(Primary Standard Industrial  
Classification Code Number)

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

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27175 Energy Way

Novi, Michigan 48377

(248) 946-3000

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Daniel J. Oginsky, Esq.

Senior Vice President and General Counsel

ITC Holdings Corp.

27175 Energy Way

Novi, Michigan 48377

(248) 946-3000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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**Approximate date of commencement of the proposed sale of the securities to the public:** As soon as practicable after this Registration Statement becomes effective and the date on which all other conditions to the merger described in the enclosed proxy statement/prospectus have been satisfied or waived.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, as amended, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

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

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):

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Large accelerated filer   
 Non-accelerated filer  (Do not check if a smaller reporting company)

Accelerated filer   
 Smaller reporting company

### CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per share	Proposed maximum aggregate offering price	Amount of registration fee
Common Stock, without par value	55,000,000 (1)	N/A	\$4,082,650,000 (2)	\$467,872 (3)

- (1) Represents the maximum number of shares of ITC Holdings Corp. common stock, without par value, estimated to be issuable upon the completion of the merger described herein.
- (2) Estimated solely for the purpose of calculating the registration fee required by Section 6(b) of the Securities Act and computed pursuant to Rule 457(f)(1) and 457(c) of the Securities Act. The proposed maximum aggregate offering price of the registrant's common stock was calculated based upon the average of the high and low prices of ITC Holdings Corp. common stock on the New York Stock Exchange on September 18, 2012.
- (3) Determined in accordance with Section 6(b) of the Securities Act at a rate equal to \$114.60 per \$1,000,000 of the proposed maximum aggregate offering price.

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

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**EXPLANATORY NOTE**

ITC Holdings Corp. ( ITC ) is filing this registration statement on Form S-4 to register shares of its common stock, without par value, that will be issued in connection with the merger of ITC Midsouth LLC (formerly known as Ibis Transaction Sub LLC) ( Merger Sub ), which is a wholly-owned subsidiary of ITC, with and into Mid South TransCo LLC ( TransCo ), which is currently a wholly-owned subsidiary of Entergy Corporation ( Entergy ), with TransCo surviving the merger as a wholly owned subsidiary of ITC. Pursuant to the instructions on Form S-4, the proxy statement/prospectus which forms a part of this registration statement is also deemed filed pursuant to ITC's obligations under Regulation 14A in connection with ITC's special meeting of ITC shareholders to approve the merger agreement and related proposals described herein. In addition, prior to the closing of the merger, TransCo will file a registration statement on the appropriate form to register its limited liability company membership common units ( TransCo common units ), which will be distributed to Entergy shareholders pursuant to a spin-off or split-off exchange offer in connection with the merger. The TransCo common units will be immediately converted into shares of ITC common stock in the merger.

Prior to the closing, Entergy will determine whether the TransCo common units will be distributed to Entergy's shareholders in a spin-off or a split-off exchange offer. In a spin-off, all of Entergy shareholders (with certain limited exceptions) would receive a *pro rata* number of shares. In a split-off exchange offer, Entergy shareholders would have the option to exchange their shares of Entergy common stock and receive TransCo common units, which will be immediately exchanged for shares of ITC common stock in the merger, resulting in a reduction in Entergy's outstanding shares. If the split-off exchange offer is consummated but less than all TransCo common units owned by Entergy are exchanged for any reason, the remaining TransCo common units owned by Entergy will then be distributed *pro rata* to the holders of shares of Entergy common stock (with certain limited exceptions). ITC is filing this registration statement under the assumption that the TransCo common units will be distributed to Entergy shareholders pursuant to a spin-off. Once a final decision is made regarding the manner of distribution of the TransCo common units, this registration statement on Form S-4 may be amended to reflect that decision. Entergy may determine to effectuate the distribution as a split-off exchange offer after the ITC special meeting has occurred; ITC does not intend to re-solicit the approval of its shareholders for the merger and related proposals covered by this proxy statement/prospectus because of that determination.

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**The information in this proxy statement/prospectus is not complete and may be changed. We may not sell the securities offered by this proxy statement/prospectus until the registration statement filed with the Securities and Exchange Commission is effective. This proxy statement/prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction where an offer or solicitation is not permitted.**

**PRELIMINARY SUBJECT TO COMPLETION DATED SEPTEMBER 24, 2012**

**MERGER PROPOSED YOUR VOTE IS IMPORTANT**

Dear Fellow Shareholders:

As previously announced, the board of directors of ITC Holdings Corp. ( "ITC" ) has approved a merger that will combine ITC with the transmission business of Entergy Corporation ( "Entergy" ). To facilitate this merger, Entergy will cause specific assets and liabilities of its transmission business in Louisiana, Arkansas, Mississippi, Missouri and Texas to be transferred to Mid South TransCo LLC ( "TransCo" ), a newly formed subsidiary of Entergy, and distribute the limited liability interests of TransCo to Entergy's shareholders. ITC Midsouth LLC (formerly known as Ibis Transaction Sub LLC), which is a wholly-owned subsidiary of ITC, will be merged with and into TransCo, with TransCo surviving such merger as a wholly-owned subsidiary of ITC.

The merger will result in ITC acquiring Entergy's transmission business, which includes over 15,800 circuit miles of transmission lines operated at 69kV to 500kV and 1,500 substations, as well as the employees and assets used to plan, operate and maintain that system. Following the merger, the combined company will continue to operate under the ITC name and its common stock will continue to be listed on the New York Stock Exchange under the ticker symbol "ITC". ITC's current management team will manage the combined company after the merger, but will be supplemented with certain key management personnel from Entergy's transmission business. In addition, the board of directors of ITC will continue to govern the combined business after the close of the merger. At the effective time of the merger, ITC's board of directors will cause two vacancies on the board to exist, which will be filled immediately following the merger with two new independent directors nominated by ITC's nominating/corporate governance committee. Among other qualifications, these new directors are expected to have transmission industry knowledge and familiarity with the region in which Entergy operates.

Pursuant to the merger agreement, ITC will issue an aggregate number of shares of its common stock to Entergy shareholders which will result in Entergy shareholders (and, if applicable, the exchange trust) owning approximately 50.1% of the shares of ITC common stock outstanding on a fully diluted basis upon the closing of the merger. The number of shares to be issued to Entergy shareholders is based on the exchange ratio set forth in the merger agreement multiplied by the number of shares of ITC common stock on a fully diluted basis. In addition, ITC will also assume approximately \$1.775 billion of debt from TransCo and its subsidiaries and issue approximately \$740 million of debt in support of the recapitalization it will undertake prior to the merger.

In addition, prior to closing the merger, ITC will effectuate a \$700 million recapitalization, which will take the form of a one-time special dividend to pre-merger ITC shareholders, a share repurchase or a combination thereof. The decision regarding the form of recapitalization will be made closer to the closing of the merger.

You are cordially invited to attend the ITC Holdings Corp. Special Meeting of Shareholders at [ ] local time, on [ ], 2013 at our corporate headquarters located at 27175 Energy Way, Novi, Michigan 48377.

At the special meeting, among other matters, we will ask you to consider and vote on the merger related proposals, including approving the merger agreement, approving an amendment to the ITC Holdings Corp. Articles of Incorporation to increase the number of authorized shares, and approving the issuance of ITC Holdings Corp. common stock pursuant to the merger agreement. A notice of the special meeting and proxy statement follow.

Your board of directors believes that the merger should enhance shareholder value by reinforcing our core strategy, validating the merits of the independent transmission model, strengthening our leading transmission platform, increasing our size and scale, enhancing our overall credit quality, diversifying our capital investment profile, and providing long-term sustainable growth, while providing tangible benefits to the customers and stakeholders of the Entergy transmission business. Your board of directors recommends that you vote "FOR" each proposal.

Your vote is very important. We cannot complete the merger unless all of the merger related proposals are approved by ITC shareholders at the special meeting. Please vote by completing, signing and dating the enclosed proxy card for the special meeting and mailing the proxy card to us,

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whether or not you plan on attending the special meeting. If you sign, date and mail your proxy card without indicating how you would like to vote, your proxy will be counted as a "FOR" each of the proposals presented at the special meeting. You can also vote your shares in person, or by phone or Internet. If you do not return your card, or vote in person or by phone or Internet or if you do not specifically instruct your broker how to vote any shares held for you in "street name", your shares will not be voted on the proposals relating to the merger at the special meeting.

This document is a proxy statement by ITC for use in soliciting proxies for the special meeting. This document answers questions about the proposed merger and the special meeting and includes a summary description of the merger. We urge you to review this entire document carefully. In particular, you should also consider the matters discussed under "Risk Factors" beginning on page 50.

We are very excited about the opportunities offered by the proposed transaction, and we thank you for consideration and ongoing support.

Sincerely,

Joseph L. Welch

Chairman, President & CEO

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued in connection with the merger and the other transactions contemplated by the merger agreement or the separation agreement or passed upon the adequacy or accuracy of this document. Any representation to the contrary is a criminal offense.**

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This document is dated [ ], 2012 and is first being mailed to ITC shareholders on or about [ ], 2012.

**ADDITIONAL INFORMATION**

The accompanying proxy statement/prospectus incorporates by reference important business and financial information about ITC Holdings Corp. ( ITC ) from documents that are not included in or delivered with the proxy statement/prospectus. This information is available to you without charge upon your written or oral request. You can obtain the documents incorporated by reference in the proxy statement/prospectus from the SEC's website at <http://www.sec.gov> or from ITC's website at [www.itc-holdings.com](http://www.itc-holdings.com) or by requesting them in writing or by telephone from ITC at the following address and telephone number:

**ITC Holdings Corp.**

27175 Energy Way

Novi, Michigan 48377

Attention: Investor Relations

Telephone: (248) 946-3000

In addition, if you have questions about the merger agreement, the merger and related transactions and agreements or the special meeting of ITC shareholders, or if you need to obtain copies of the accompanying proxy statement/prospectus, proxy cards, or other documents incorporated by reference in the proxy statement/prospectus, you may contact ITC's proxy solicitor, at the address and telephone number listed below. You will not be charged for any of the documents you request.

199 Water Street, 26<sup>th</sup> Floor

New York, NY 10038-3560

Banks and Brokers Call (212) 440-9800

All Others Call Toll-Free (800) 561-2871

**If you would like to request documents, please do so by [ ], 2012 in order to receive them before the special meeting of ITC shareholders.**

For a more detailed description of the information incorporated by reference in the accompanying proxy statement/prospectus and how you may obtain it, please see the section entitled "Where You Can Find More Information; Incorporation By Reference" beginning on page 235 of the accompanying proxy statement/prospectus.

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27175 ENERGY WAY

NOVI, MICHIGAN 48377

(248) 946-3000

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON \_\_\_\_\_, 2013**

TO THE SHAREHOLDERS:

NOTICE IS HEREBY GIVEN that a Special Meeting of Shareholders of ITC Holdings Corp. ( ITC ) will be held at our corporate headquarters located at 27175 Energy Way, Novi, Michigan 48377, on [ ], 2013, at [ ], local time, for the following purposes:

(1) *Merger Proposal.* To consider and vote upon a proposal to approve the Merger Agreement, dated as of December 4, 2011, as amended by Amendment No. 1, dated September 21, 2012, among Ennergy Corporation, Mid South TransCo LLC ( TransCo ), ITC and ITC Midsouth LLC (formerly known as Ibis Transaction Subsidiary LLC) ( Merger Sub ) (as the same may be amended from time to time, the merger agreement ), as required under Sections 703a and 754 of the Business Corporation Act of the State of Michigan, as amended, pursuant to which Merger Sub will merge with and into TransCo, with TransCo surviving as a wholly owned subsidiary of ITC;

(2) *Amendment of Articles of Incorporation Proposal.* To consider and vote upon a proposal to amend the Amended and Restated Articles of Incorporation of ITC to increase the number of authorized shares of ITC common stock from 100,000,000 to 300,000,000;

(3) *Stock Issuance Proposal.* To consider and vote upon a proposal to approve the issuance of ITC common stock pursuant to the merger agreement;

(4) *Merger-Related Executive Compensation Proposal.* To consider and vote upon a proposal to approve, by non-binding advisory vote, certain compensation arrangements for ITC s named executive officers in connection with the merger contemplated by the merger agreement; and

(5) *Adjournment Proposal.* To consider and vote upon a proposal to adjourn the special meeting if necessary or appropriate to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve proposals (1), (2) and (3).

Proposals (1) through (3) above are collectively referred to as the merger proposals.

The ITC board of directors has fixed the close of business on [ ], 2012 as the record date for the special meeting. Accordingly, only shareholders of record on the record date are entitled to notice of and to vote at the special meeting or at any adjournment of the special meeting. The list of shareholders entitled to vote at the special meeting will be available for review at the special meeting by any ITC shareholder entitled to vote at the special meeting.

**THE ITC BOARD OF DIRECTORS HAS APPROVED THE MERGER AGREEMENT, THE MERGER AND THE OTHER TRANSACTIONS CONTEMPLATED BY THE MERGER AGREEMENT AND RECOMMENDS THAT ITC SHAREHOLDERS VOTE FOR EACH PROPOSAL. SHAREHOLDER APPROVAL OF EACH MERGER PROPOSAL IS NECESSARY TO EFFECT THE MERGER. THE APPROVAL OF EACH MERGER PROPOSAL IS CONDITIONED UPON THE APPROVAL OF EACH OF THE OTHER MERGER PROPOSALS.**

By Order of the Board of Directors,

Wendy A. McIntyre

Corporate Secretary

Novi, Michigan



, 2012

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**YOUR VOTE IS IMPORTANT**

**YOUR VOTE IS IMPORTANT. PLEASE VOTE ON THE ENCLOSED PROXY CARD NOW EVEN IF YOU PLAN TO ATTEND THE SPECIAL MEETING. YOU CAN VOTE BY SIGNING, DATING AND RETURNING YOUR PROXY CARD BY MAIL IN THE ENCLOSED RETURN ENVELOPE, WHICH REQUIRES NO ADDITIONAL POSTAGE IF MAILED IN THE UNITED STATES, OR BY TELEPHONE OR INTERNET BY FOLLOWING THE INSTRUCTIONS ON THE PROXY CARD. IF YOU DO ATTEND THE SPECIAL MEETING, YOU MAY REVOKE YOUR PROXY AND VOTE IN PERSON IF YOU ARE A SHAREHOLDER OF RECORD OR HAVE A LEGAL PROXY FROM A SHAREHOLDER OF RECORD.**

ITC's shareholders who do not vote in favor of the proposal to approve the merger agreement will have the right to seek appraisal of the fair value of their shares if the merger is completed, but only if they perfect their appraisal rights by complying with all of the required procedures under Michigan law. See The Transactions Dissenters Rights beginning on page 150 of the accompanying proxy statement/prospectus and Annex F to the accompanying proxy statement/prospectus.

The accompanying proxy statement/prospectus provides a detailed description of the merger agreement, the merger, the merger proposals and related agreements and transactions. We urge you to read the accompanying proxy statement/prospectus, including any documents incorporated by reference into the accompanying proxy statement/prospectus, and its annexes carefully and in their entirety. If you have any questions concerning the merger, the merger proposals, the other proposals or the accompanying proxy statement/prospectus, would like additional copies of the accompanying proxy statement/prospectus or need help voting your shares, please contact ITC's proxy solicitor at the address and telephone number listed below:

199 Water Street, 26<sup>th</sup> Floor

New York, NY 10038-3560

Banks and Brokers Call (212) 440-9800

All Others Call Toll-Free (800) 561-2871

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Certain abbreviations and terms used in the text and notes are defined below:

<b>Abbreviation/Term</b>	<b>Description</b>
APSC	Arkansas Public Service Commission
City Council	City Council for the City of New Orleans
Code	The Internal Revenue Code of 1986, as amended
The debt exchange	The planned exchange by Entergy of the TransCo debt securities previously issued to Entergy in full or partial satisfaction of the Entergy exchangeable debt. In the debt exchange (should the debt exchange occur), the unrelated creditor or creditors that hold the Entergy exchangeable debt will receive the TransCo debt securities and Entergy will receive the Entergy exchangeable debt.
DGCL	General Corporation Law of the State of Delaware
The distribution	The distribution by Entergy, pursuant to the merger agreement, of 100% of the TransCo common units (excluding any TransCo common units to be contributed to the exchange trust in the event Entergy makes the exchange trust election) to Entergy's shareholders through a spin-off, a split-off exchange offer or a combination of the two.
E-RSC	Entergy Regional State Committee
Entergy	Entergy Corporation
Entergy Arkansas	Entergy Arkansas, Inc.
The Entergy exchangeable debt	New debt issued by Entergy to one or more unrelated creditors or existing Entergy debt held by one or more unrelated creditors that is expected to be tendered in the debt exchange.
Entergy Gulf States Louisiana	Entergy Gulf States Louisiana, L.L.C.
Entergy Louisiana	Entergy Louisiana, LLC
Entergy Mississippi	Entergy Mississippi, Inc.
Entergy New Orleans	Entergy New Orleans, Inc.
Entergy Texas	Entergy Texas, Inc.
Entergy's Transmission Business (or Transmission Business of Entergy Corporation and Subsidiaries)	The transmission business currently held indirectly by Entergy. Entergy's Transmission Business consists of the Entergy transmission system, which is comprised of over 15,800 circuit miles of transmission lines operated at 69kV to 500kV and 1,500 substations, as well as the employees and assets used to plan, operate and maintain that system. The Entergy transmission system spans portions of Arkansas, Louisiana, Mississippi, Missouri and Texas covering 114,000 square miles. Under the terms of the separation agreement, specified assets and liabilities used in Entergy's transmission business as described in this proxy statement/prospectus would transfer to ITC in connection with the separation, distribution and merger.

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ESI	Entergy Services, Inc., which is a service company that provides services to the Utility Operating Companies and which also owns certain assets related to the operation of Entergy's Transmission Business
The exchange trust	An irrevocable trust to be formed in the event that Entergy makes the exchange trust election under Delaware law into which Entergy will transfer the retained TransCo common units
The exchange trust election	Entergy's exercisable right to, at least thirty (30) business days prior to the closing of the merger, retain up to the number of TransCo common units that would convert in the merger into up to 4.9999% of the total number of shares of ITC common stock outstanding on a fully diluted basis immediately following the consummation of the merger that otherwise would have been distributed in the distribution.
FERC	Federal Energy Regulatory Commission
HSR Act	The Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended
ICT	Independent coordinator of transmission
IRS	Internal Revenue Service
IRS rulings	Private letter rulings from the IRS with respect to the anticipated non-taxable nature of the transactions
ITC	ITC Holdings Corp.
ISO	Independent system operator that coordinates, controls and monitors the operation of large parts of the transmission system, usually within a single state, but sometimes across multiple states
kV or Kilovolt(s)	A common measure of electric potential, which equals one thousand volts
LPSC	Louisiana Public Service Commission
The merger	The merger of Merger Sub with and into TransCo, with TransCo surviving the merger as a wholly owned subsidiary of ITC, as contemplated by the merger agreement
MBCA	The Business Corporation Act of the State of Michigan
Merger Sub	ITC Midsouth LLC (formerly known as Ibis Transaction Sub LLC), which is a wholly owned subsidiary of ITC
MISO	Midwest Independent Transmission System Operator, Inc., a regional transmission organization
MPSC	Mississippi Public Service Commission
MW or Megawatt(s)	A common measure of electric power, which equals one thousand kilowatts
NYSE	The New York Stock Exchange

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OATT	Open Access Transmission Tariff, which is a pricing schedule required by FERC to prevent undue discrimination or preference in the transmission of electricity in interstate commerce
PUCT	Public Utility Commission of Texas
RTOs	Regional transmission organizations that administer the transmission grid on a regional basis throughout North America
The separation	The internal restructuring to separate and consolidate specified assets and liabilities used in Entergy's Transmission Business under TransCo pursuant to the separation agreement by and among Entergy, ITC, TransCo, each of the Utility Operating Companies and ESI
SPP	Southwest Power Pool
The transactions	The separation, the distribution and the merger and related transactions
TransCo	Mid South TransCo LLC, which is currently a wholly-owned subsidiary of Entergy Corporation
TransCo common units	Limited liability company membership interests in TransCo
TransCo debt securities	Senior securities of TransCo issued to Entergy in partial consideration for the contribution of equity interests of the TransCo Subs to TransCo
TransCo Subs	The following newly formed subsidiaries of Entergy's Utility Operating Companies, the equity interests of which are to be transferred to TransCo pursuant to the separation: Transmission Company Arkansas, LLC; Transmission Company Louisiana I, LLC; Transmission Company Louisiana II, LLC; Transmission Company Mississippi, LLC; Transmission Company New Orleans, LLC and Transmission Company Texas, LLC.
TransCo Subs Financing	Bridge facility of the TransCo Subs, the proceeds of which will be distributed to Utility Operating Companies in connection with the contribution of each Utility Operating Company's transmission business to its respective TransCo Sub
U.S. GAAP	United States generally accepted accounting principles
Utility Operating Company (or Utility Operating Companies)	The following six companies that, prior to consummation of the transactions described in this proxy statement/prospectus, own the Entergy transmission system assets that are located in their respective service areas: Entergy Arkansas, Inc., Entergy Gulf States Louisiana, L.L.C., Entergy Louisiana, LLC, Entergy Mississippi, Inc., Entergy New Orleans, Inc. and Entergy Texas, Inc.

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**QUESTIONS AND ANSWERS ABOUT THE TRANSACTIONS AND THE SPECIAL MEETING**

**Q: What are ITC shareholders being asked to vote on at the special meeting?**

A: In order to implement the merger, ITC shareholders are being asked to consider and vote on a proposal to approve the merger agreement, a proposal to amend ITC's amended and restated articles of incorporation to increase the number of authorized shares of ITC common stock to effectuate the merger and a proposal to approve the issuance of ITC common stock pursuant to the merger agreement (these proposals are collectively referred to as the merger proposals). Approval of each of the merger proposals by ITC shareholders is required for the completion of the merger. The approval of each of the merger proposals is conditioned upon the approval of each of the other merger proposals, and the merger will not occur unless all of the merger proposals are approved. ITC shareholders are also being asked to consider and vote on a proposal to approve, by non-binding advisory vote, certain compensation arrangements for ITC's named executive officers in connection with the merger contemplated by the merger agreement and to vote on the adjournment proposal.

**Q: When and where is the special meeting of ITC shareholders?**

A: The special meeting of ITC shareholders will be held at [ ], local time, on [ ], 2013, at ITC corporate headquarters located at 27175 Energy Way, Novi, Michigan 48377.

**Q: Who can vote at the special meeting of ITC shareholders?**

A: Holders of ITC common stock can vote their shares at the special meeting if they are holders of record of those shares at the close of business on [ ], 2012, the record date for the special meeting.

**Q: What vote is required to approve each proposal?**

A: The proposal to approve the merger agreement and the proposal to amend ITC's amended and restated articles of incorporation to increase the number of authorized shares of ITC common stock each require the affirmative vote of holders of a majority of the outstanding shares of ITC common stock entitled to vote at the meeting. The proposal to approve the issuance of ITC common stock pursuant to the merger agreement requires the affirmative vote of a majority of the votes cast, in person or by proxy, at the special meeting. However, the approval of each of the merger proposals is conditioned upon the approval of each of the other merger proposals, and the merger will not occur unless all of the merger proposals are approved. The proposal to approve, by non-binding advisory vote, certain compensation arrangements for ITC's named executive officers in connection with the merger and the proposal to approve the adjournment proposal requires the affirmative vote of a majority of the votes cast, in person or by proxy, at the special meeting.

**Q: How do ITC shareholders vote?**

A: ITC shareholders may submit a proxy to vote before the special meeting in one of the following ways:

calling the toll-free number shown on the proxy card to submit a proxy by telephone;

visiting the website shown on the proxy card to submit a proxy via the Internet; or

completing, signing, dating and returning the enclosed proxy card in the enclosed postage-paid envelope.

ITC shareholders may also vote in person by attending the special meeting and voting their shares.

**Q: If an ITC shareholder is not going to attend the special meeting, should that shareholder return his or her proxy card or otherwise vote his or her shares?**

A: Yes. Completing, signing, dating and returning the proxy card by mail or submitting a proxy by calling the toll-free number shown on the proxy card or submitting a proxy by visiting the website shown on the proxy card





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ensures that the shareholder's shares will be represented and voted at the special meeting, even if the shareholder is unable to or does not attend.

**Q: If an ITC shareholder's shares are held in street name by his or her broker, will the broker vote the shares for the ITC shareholder?**

A: A broker will vote a shareholder's shares only if the shareholder provides instructions to the broker on how to vote. ITC shareholders should follow the directions provided by their brokers regarding how to instruct the broker to vote their shares. Without instructions, the shares will not be voted, which will have the effect of a vote against the approval of the merger agreement, the amendment of ITC's amended and restated articles of incorporation to increase the number of authorized shares of ITC common stock and the approval, by non-binding advisory vote, of certain compensation arrangements for ITC's named executive officers in connection with the merger (though it will have no effect on the vote to approve the issuance of ITC common stock pursuant to the merger agreement or the adjournment proposal), and may result in the failure to establish a quorum for the special meeting.

**Q: Can ITC shareholders change their vote?**

A: Yes. Holders of record of ITC common stock who have properly completed and submitted their proxy card or proxy by telephone or Internet can change their vote in any of the following ways:

sending a written notice to the ITC Corporate Secretary that is received prior to the special meeting stating that the ITC shareholder revokes his or her proxy;

properly completing, signing and dating a new proxy card bearing a later date and properly submitting it so that it is received prior to the special meeting;

visiting the website shown on the proxy card and submitting a new proxy in the same manner that the shareholder would to submit his or her proxy via the Internet or by calling the toll-free number shown on the proxy card to submit a new proxy by telephone; or

attending the special meeting in person and voting their shares.

Simply attending the special meeting will not revoke a proxy.

An ITC shareholder whose shares are held in street name by his or her broker and who has directed that person to vote his or her shares should instruct that person in order to change his or her vote.

**Q: What if ITC shareholders do not vote or abstain from voting?**

A: If a holder of ITC common stock fails to submit his or her proxy or vote his or her shares or fails to instruct his or her broker or other nominee how to vote on the proposals to approve the merger agreement and to amend ITC's amended and restated articles of incorporation to increase the number of authorized shares of ITC common stock, that failure will have the same effect as a vote against those proposals. If a holder of ITC common stock fails to submit his or her proxy or vote his or her shares or fails to instruct his or her broker or other nominee how to vote on the proposal to issue shares of ITC common stock pursuant to the merger agreement, the proposal to approve, by non-binding advisory vote, certain compensation arrangements for ITC's named executive officers in connection with the merger or the adjournment proposal, that failure will have no effect on those proposals, assuming a quorum is present at the special meeting.

Holders of ITC common stock who submit proxy cards but do not indicate how they want to vote on a particular proposal will have their proxies counted as votes in favor of that proposal.

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**Q: Does the ITC board of directors support the merger?**

A: Yes. The ITC board of directors has approved the merger agreement and the merger and recommends that ITC shareholders vote FOR the merger proposals.

**Q: What should ITC shareholders do now?**

A: After carefully reading and considering the information contained in this proxy statement/prospectus, ITC shareholders should submit a proxy by mail, via the Internet or by telephone to vote their shares as soon as possible so that their shares will be represented and voted at the special meeting. ITC shareholders should follow the instructions set forth on the enclosed proxy card or on the voting instruction form provided by the record holder if their shares are held in the name of a broker or other nominee.

**Q: What are the transactions described in this proxy statement/prospectus?**

A: The transactions are designed to effect the transfer of Entergy's Transmission Business to ITC. References to the transactions are to the separation, distribution, merger and related transactions to be entered into by Entergy, ITC, Merger Sub and TransCo, including their respective affiliates, as described under "The Transactions" and elsewhere in this proxy statement/prospectus.

**Q: What will happen in the separation?**

A: Prior to the merger, certain subsidiaries of Entergy will undergo an internal restructuring to separate and consolidate Entergy's Transmission Business under TransCo pursuant to the separation agreement by and among Entergy, ITC, TransCo, each of Entergy's Utility Operating Companies and Entergy Services, Inc. ("ESI"), a service company that provides services to the Utility Operating Companies. Entergy's transmission assets and liabilities are currently owned by Entergy's Utility Operating Companies and ESI. In the separation, each Utility Operating Company will transfer its respective specified transmission assets and liabilities to a newly formed subsidiary of such Utility Operating Company (such newly formed subsidiaries are referred to as the TransCo Subs) and ESI will transfer its specified transmission assets to TransCo or one or more TransCo Subs. Immediately thereafter, the Utility Operating Companies and certain other intermediate holding companies of Entergy will distribute the equity interests of the TransCo Subs so that Entergy will be the direct holder of the equity interests of each TransCo Sub. Entergy will then contribute the equity interests in each TransCo Sub to TransCo in exchange for TransCo common units and TransCo debt securities. See "The Transactions Overview" beginning on page 102 and "The Transactions The Separation and Distribution" beginning on page 106.

**Q: What will happen in the distribution that occurs prior to the merger?**

A: After the Utility Operating Companies and ESI transfer their respective specified assets and liabilities related to Entergy's Transmission Business to TransCo and its subsidiaries, Entergy will distribute 100% of the TransCo common units (excluding any TransCo common units to be contributed to an exchange trust in the event Entergy makes the exchange trust election as described below and elsewhere in this proxy statement/prospectus) to Entergy's shareholders through a spin-off, a split-off exchange offer or a combination of both. The distribution agent will hold such shares for the benefit of Entergy shareholders that are entitled to the TransCo common units. In accordance with the terms of the merger agreement, the TransCo common units delivered to the distribution agent will be converted into ITC common stock at the effective time of the merger. Accordingly, in lieu of delivering TransCo common units to Entergy shareholders that are entitled to the TransCo common units in the distribution, the distribution agent will distribute to Entergy shareholders shares of ITC common stock into which the TransCo common units will have converted at the time of the merger and cash in lieu of fractional shares (if any). Entergy currently intends to effectuate the distribution through a spin-off but, pursuant to the merger agreement, will advise ITC of the final form of the distribution no later than 30 business days prior to the closing. See "The Transactions Overview" beginning on page 102 and "The Transactions The Separation and Distribution" beginning on page 106.

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**Q: What are the exchange trust and the exchange trust election as referenced in the preceding question?**

A: Pursuant to the terms of the merger agreement, Entergy may elect, at least thirty (30) business days prior to the closing of the merger, to retain up to the number of TransCo common units that would convert in the merger into up to 4.9999% of the total number of shares of ITC common stock outstanding on a fully diluted basis immediately following the consummation of the merger that otherwise would have been distributed in the distribution. Such election is referred to as the exchange trust election. If Entergy makes the exchange trust election, Entergy will transfer the retained TransCo common units to an irrevocable trust, referred to as the exchange trust. The TransCo common units transferred to the exchange trust will not be distributed to the distribution agent on behalf of Entergy shareholders in the distribution. At the closing of the merger, the TransCo common units transferred to the trust will convert to ITC common stock. The trustee of the exchange trust will own and hold legal title to the TransCo common units or ITC common stock for the benefit of Entergy and Entergy shareholders; provided, however, in no event will the ITC common stock held by the exchange trust be transferred to Entergy. Upon delivery of notice by Entergy, the trustee of the exchange trust will conduct an exchange offer (referred to as the exchange trust exchange offer) pursuant to which Entergy shareholders may exchange Entergy common stock for the ITC common stock held by the exchange trust pursuant to irrevocable terms contained in the trust agreement at the time it is entered into. Any ITC common stock remaining in the exchange trust after six months following the completion of the merger will be distributed to Entergy shareholders *pro rata* (this distribution is referred to as a mandatory trust distribution). See The Transactions Exchange Trust beginning on page 109 and Additional Material Agreements Agreements Related to the Exchange Trust and Exchange Offer Exchange Trust Agreement beginning on page 193.

**Q: What will happen in the merger?**

A: In accordance with the terms of the merger agreement, Merger Sub, a wholly owned subsidiary of ITC, will be merged with and into TransCo with TransCo surviving the merger as a wholly owned subsidiary of ITC. Pursuant to the merger, the TransCo common units held by the distribution agent (and, if applicable, the exchange trust) will be converted into the number of shares of ITC common stock such that immediately after the merger Entergy shareholders (and, if applicable, the exchange trust) will collectively own approximately 50.1% of ITC common stock on a fully diluted basis, and ITC shareholders will collectively own approximately 49.9% of ITC common stock on a fully diluted basis. In no event will Entergy shareholders (and, if applicable, the exchange trust) hold less than 50.1% of the outstanding common stock of ITC immediately after the merger. See The Transactions The Merger beginning on page 107 and The Transactions Calculation of the Merger Consideration beginning on page 108.

**Q: What will be the indebtedness of ITC and the former transmission business of Entergy, referred to as the combined company, following completion of the transactions?**

A: By virtue of the transactions, TransCo is expected to incur a maximum of \$1.775 billion of indebtedness, as may be adjusted pursuant to the merger agreement and the separation agreement. This indebtedness is expected to consist of \$575 million of senior debt securities of TransCo and \$1.2 billion in the form of a 366-day bridge facility. It is expected that after the merger the TransCo Subs will issue first mortgage bonds to replace the bridge facility. The senior debt securities will be issued by TransCo to Entergy in partial consideration for the equity interests of the TransCo Subs contributed by Entergy to TransCo. At the request of ITC, Entergy will use its reasonable best efforts to cause TransCo to arrange a working capital revolving credit facility in a principal amount mutually determined by ITC and Entergy, which TransCo will not draw upon without the consent of ITC. Furthermore, ITC expects to issue approximately \$740 million of new indebtedness to fund the \$700 million one-time special dividend and/or share repurchase it will complete in connection with the merger, with the remaining approximately \$40 million to be used for general corporate purposes and payment of transaction-related costs. The combined company will also retain the obligation of ITC's indebtedness existing prior to the merger. Based upon ITC's outstanding indebtedness as of June 30, 2012 of approximately \$2.96 billion, ITC expects that, immediately following the merger, the combined company will have approximately \$5.48 billion in total debt. See The Financings beginning on page 154.

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**Q: Why has Entergy decided to separate its Transmission Business?**

A: Entergy's board of directors believes that the transactions will accomplish a number of important business objectives and benefits. Certain of these objectives and benefits as they relate to TransCo include enhancing transparency to customers from independent planning and operation of the transmission system; strengthening and improving overall system performance; achieving the optimal structure for the transmission system as an independent transmission company that is a member of an RTO, such as the proposed membership in the Midwest ISO; improving access to capital; and utilizing ITC's experience, track record of safe and reliable operations, and unique position as an independent transmission company. See *The Transactions Entergy's Reasons for the Separation, Distribution and the Merger* beginning on page 138.

**Q: What will ITC shareholders receive in the merger?**

A: Immediately after the merger, ITC shareholders will continue to own shares in ITC, which will then include the specified assets and liabilities from Entergy's Transmission Business. However, pre-merger ITC shareholders will collectively hold approximately 49.9% of ITC common stock on a fully diluted basis after the merger. In no event will Entergy shareholders (and, if applicable, the exchange trust) hold less than 50.1% of the outstanding common stock of ITC following the merger. In addition, under the terms of the merger agreement, prior to closing the merger, ITC may, in ITC's sole discretion, elect to (i) pay a \$700 million one-time special dividend to its pre-merger shareholders, (ii) repurchase \$700 million of ITC common stock or (iii) undertake a combination of both (not to exceed \$700 million in the aggregate). See *The Transactions The Merger* beginning on page 107, *The Transactions ITC's Dividend Policy and \$700 Million Recapitalization* beginning on page 152 and *Risk Factors* beginning on page 50.

**Q: What will Entergy shareholders receive in the transactions?**

A: Each Entergy shareholder (other than certain holders of Entergy restricted common stock) will ultimately receive shares of ITC common stock in the merger. A holder of restricted Entergy common stock will not be entitled to any TransCo common units in any distribution in respect of his or her Entergy restricted common stock. However, Entergy restricted common stock held by employees who will be transferred to TransCo will be converted into similarly restricted shares of ITC common stock. Entergy shareholders will not be required to pay for the TransCo common units distributed in the distribution or the shares of ITC common stock issued in the merger. Entergy shareholders will receive cash from the distribution agent in lieu of any fractional shares of ITC common stock to which such shareholders would otherwise be entitled. All shares of ITC common stock issued in the merger will be issued in book entry form. For more information, see *The Transactions The Merger* beginning on page 107 and *The Transactions Calculation of the Merger Consideration* beginning on page 108.

**Q: Will Entergy shareholders who sell their shares of Entergy common stock shortly before the completion of the distribution and merger still be entitled to receive shares of ITC common stock with respect to the shares of Entergy common stock that were sold?**

A: Entergy common stock is currently listed on the NYSE and CHX under the ticker symbol ETR. In the event the distribution is effectuated as a spin-off, it is currently expected that beginning not earlier than two (2) business days before the record date to be established for the distribution, and continuing through the closing date of the merger, there will be two markets in Entergy common stock on the NYSE and CHX: a regular way market and an ex-distribution market.

If an Entergy shareholder sells shares of Entergy common stock in the regular way market under the symbol ETR during this time period, that Entergy shareholder will be selling both his or her shares of Entergy common stock and the right to receive TransCo common units that will be converted into

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shares of ITC common stock, and cash in lieu of fractional shares (if any), at the closing of the merger. Entergy shareholders should consult their brokers before selling their shares of Entergy common stock in the regular way market during this time period to be sure they understand the effect of the NYSE and CHX due-bill procedures.

If an Entergy shareholder sells shares of Entergy common stock in the ex-distribution market during this time period, that Entergy shareholder will be selling only his or her shares of Entergy common stock, and will retain the right to receive TransCo common units that will be converted into shares of ITC common stock, and cash in lieu of fractional shares (if any), at the closing of the merger.

After the closing date of the merger, shares of Entergy common stock will no longer trade in the ex-distribution market, and shares of Entergy common stock that are sold in the regular way market will no longer reflect the right to receive TransCo common units that will be converted into shares of ITC common stock, and cash in lieu of fractional shares (if any), at the closing of the merger. See The Transactions Trading Markets beginning on page 109.

**Q: In what ways will being a shareholder of both Entergy and ITC differ from being an Entergy shareholder?**

A: Following the separation, distribution and merger, Entergy shareholders will continue to own all of their shares of Entergy common stock. Their rights as Entergy shareholders will not change, except that their shares of Entergy common stock will represent an interest in Entergy that no longer indirectly owns or operates Entergy's Transmission Business. Entergy shareholders will also separately own stock of ITC as owner and operator of the former transmission business of Entergy and the currently owned transmission business of ITC (referred to in this proxy statement/prospectus as the combined company). For more information, see Comparison of Rights of Shareholders Before and After the Merger beginning on page 210.

For a more complete description of the characteristics of the combined company's business, see Business of the Combined Company beginning on page 88.

**Q: Will the separation, distribution or merger affect employees and former employees of Entergy who hold Entergy restricted common stock?**

A: Yes. Entergy has agreed that restricted stock held by an Entergy employee who transfers employment to TransCo will be converted into a number of similarly restricted shares of ITC common stock based on the ratio of the closing per share trading price of Entergy common stock in the regular way trading market on the day before the distribution date which price should reflect the entitlement to receive TransCo common units in the distribution to the closing per share trading price of ITC common stock on the closing date. Accordingly, a holder of restricted Entergy common stock whose employment is transferred to TransCo will not be entitled to any TransCo common units in any spin-off distribution in respect of his or her restricted Entergy common stock. As of the date of this proxy statement/prospectus, the Entergy compensation committee has not made a determination regarding the nature of the adjustment to be made to restricted Entergy common stock held by any employee not transferring employment to TransCo. The Entergy equity incentive compensation plans generally prohibit the holder of any Entergy restricted common stock from transferring such stock before the applicable forfeiture restrictions lapse. If Entergy elects to effectuate the distribution with a split-off exchange offer, any holder of Entergy restricted common stock would be precluded from participating in such split-off exchange offer with respect to his or her restricted common stock. See The Transactions Effects of the Distribution and the Merger on Entergy Equity-Based Awards/Plans beginning on page 141.

**Q: Will the separation, distribution or merger affect employees and former employees of Entergy who hold other Entergy equity-based awards?**

A: Yes. Certain employees of Entergy hold options to purchase its common stock and units that may be settled in, or whose value is otherwise determined by reference to the value of, Entergy common stock. Each Entergy

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stock option held by an Entergy employee who transfers employment to TransCo will be converted into an option to purchase a number of shares of ITC common stock equal to the number of shares of Entergy common stock subject to the option multiplied by the same ratio used to convert restricted Entergy common stock (rounded down to the nearest number of whole shares) at an exercise price per share equal to the per-share exercise price under the Entergy option divided by such ratio (rounded up to the nearest cent), all subject to the same terms and conditions (including those related to vesting and post-employment exercise provisions) as were applicable under the Entergy option. In addition, each Entergy stock unit will be converted into a number of ITC restricted stock and/or ITC restricted stock units units that may be settled in, or whose value is otherwise determined by reference to the value of, ITC common stock equal to such ratio, all subject to restrictions and other terms and conditions substantially identical to those that applied to the corresponding Entergy units immediately before the closing. As of the date of this proxy statement/prospectus, the Entergy compensation committee has not made a determination regarding the nature of the adjustment to be made to Entergy stock options and units held by any employee not transferring employment to TransCo.

**Q: Has Entergy set a record date for the distribution of the TransCo common units?**

A: No. Entergy will publicly announce the record date for the distribution when the record date has been determined. This announcement will be made prior to the completion of the distribution and the merger.

**Q: What are the material United States federal income tax consequences to ITC shareholders and Entergy shareholders resulting from the separation, distribution, merger, exchange trust exchange offer, and mandatory trust distribution?**

A: Entergy shareholders are not expected to recognize any gain or loss for U.S. federal income tax purposes as a result of the separation, distribution, merger, exchange trust exchange offer, and mandatory trust distribution except for any gain or loss attributable to the receipt of cash in lieu of a fractional share of ITC common stock in the merger, exchange trust exchange offer, or mandatory trust distribution or cash, if any, received by an Entergy shareholder in addition to the shares of ITC common stock in an exchange trust exchange offer or mandatory trust distribution (other than cash received instead of fractional shares). ITC shareholders are not expected to recognize any gain or loss as a result of any of the aforementioned transactions. The material U.S. federal income tax consequences of the separation, distribution, merger, exchange trust exchange offer, and mandatory trust distribution are described in more detail under Material United States Federal Income Tax Consequences of the Transactions.

**Q: Are Entergy shareholders required to do anything?**

A: No. Entergy shareholders are not required to take any action in connection with the separation, distribution, or merger, and no action by Entergy shareholders is required to participate in these transactions. However, Entergy shareholders should carefully read this proxy statement/prospectus, which contains important information about the transactions, Entergy, ITC and TransCo.

ENERGY SHAREHOLDERS WILL NOT BE REQUIRED TO SURRENDER THEIR SHARES OF ENTERGY COMMON STOCK IN THE DISTRIBUTION OR THE MERGER, AND THEY SHOULD NOT RETURN THEIR ENTERGY STOCK CERTIFICATES. THE SEPARATION, DISTRIBUTION AND MERGER WILL NOT RESULT IN ANY CHANGE IN ENTERGY SHAREHOLDERS OWNERSHIP OF ENTERGY COMMON STOCK FOLLOWING THE MERGER (OTHER THAN WITH RESPECT TO SOME OR ALL HOLDERS OF ENTERGY RESTRICTED COMMON STOCK).

**Q: Are there risks associated with the merger?**

A: Yes. ITC may not realize the expected benefits of the merger because of the risks and uncertainties discussed in the section entitled Risk Factors beginning on page 50 and the section entitled Cautionary Statement Concerning Forward-Looking Statements beginning on page 61. Those risks include, among others, risks relating to the uncertainty that the merger will close, the uncertainty that ITC will be able to integrate the transmission assets and liabilities received in the merger successfully.

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**Q: Will the instruments that govern the rights of ITC and Entergy shareholders with respect to their shares of ITC common stock after the merger be different from those that govern the rights of current ITC shareholders?**

A: No. The rights of ITC shareholders with respect to their shares of ITC common stock after the merger will continue to be governed by applicable laws and ITC's current governing documents, including:

the Business Corporation Act of the State of Michigan, as amended (the "MBCA");

ITC's articles of incorporation (as amended in connection with the merger); and

ITC's bylaws.

**Q: Who will serve on the ITC board of directors following completion of the merger?**

A: The directors of ITC immediately prior to the closing of the merger are expected to be the directors of ITC immediately following the closing of the merger, except that at the effective time of the merger, ITC has agreed that there will be at least two vacancies on the ITC board of directors pursuant to the merger agreement, which vacancies will be filled immediately after the effective time of the merger with two independent directors nominated by ITC's nominating/corporate governance committee. Among other qualifications, nominees are expected to have transmission industry knowledge and familiarity with the region in which Entergy operates. Entergy will be entitled to offer to ITC's nominating/corporate governance committee suggestions on candidates to fill such vacancies in connection with the search process. Any decision with respect to Entergy's candidates, however, will be made solely by ITC's nominating/corporate governance committee.

**Q: Will ITC's current senior management team manage the business of ITC after the transactions?**

A: Yes. It is expected that ITC's management team will remain intact for the combined business and the executive officers of ITC immediately prior to the closing of the merger are expected to be the executive officers of ITC immediately following the closing of the merger. The merger agreement provides that ITC and TransCo will take all necessary action to appoint certain specified individuals to management positions at ITC or TransCo as of the effective time of the merger.

**Q: Does ITC have to pay anything to Entergy if the merger agreement is not approved by the ITC shareholders or if the merger agreement is otherwise terminated?**

A: Depending on the reasons for termination of the merger agreement prior to the closing date, ITC may have to pay Entergy a termination fee of \$113,570,800 in specified limited circumstances. For a discussion of the circumstances under which the termination fee is payable by ITC to Entergy, see "The Merger Agreement" beginning on page 156.

**Q: Can Entergy or ITC shareholders demand appraisal rights of their shares?**

A: Entergy shareholders do not have appraisal rights under Delaware law in connection with the distribution or the merger. ITC shareholders may have appraisal rights under the MBCA in connection with the merger. Each ITC shareholder who objects to the merger and complies with the provisions of the MBCA concerning the rights of ITC shareholders to dissent from the merger and require appraisal of its shares of ITC common stock and has not effectively withdrawn or lost such right as of the effective time will be entitled to such rights as are granted by the MBCA as further described under "The Transactions Dissenters' Rights" beginning on page 150.

**Q: What is the current relationship between TransCo and ITC?**

A: TransCo is currently a wholly owned subsidiary of Entergy and was formed as a Delaware limited liability corporation in December 2011 to effectuate the separation, distribution and merger. Other than in connection with the transactions, there is no relationship between TransCo and ITC.





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**Q: When will the merger be completed?**

A: ITC and Entergy are working to complete the merger as quickly as possible after receipt of applicable regulatory approvals, the last of which is currently expected to be received in 2013. In addition to regulatory approvals, and assuming that the merger proposals are approved by the ITC shareholders at the special meeting, other important conditions to the closing of the separation and merger exist, including, among other things, the completion of the financings, the internal restructuring necessary to separate Entergy's transmission assets and liabilities from Entergy's other business, and the receipt of the IRS rulings and tax opinions regarding the tax-free treatment of certain aspects of the transactions. However, it is possible that factors outside ITC's and Entergy's control could require Entergy to complete the separation and distribution and ITC and Entergy to complete the merger at a later time or not complete them at all. For a discussion of the conditions to the separation and the merger, see "The Transactions Regulatory Approvals" beginning on page 145, "The Merger Agreement Conditions to the Merger" beginning on page 171, and "The Separation Agreement Conditions to the Separation" beginning on page 186.

**Q: Who can answer my questions?**

A: If you are an ITC shareholder and you have any questions about the merger, please contact ITC's proxy solicitor:

199 Water Street, 26<sup>th</sup> Floor

New York, NY 10038-3560

Banks and Brokers Call (212) 440-9800

All Others Call Toll-Free (800) 561-2871

If you are an Entergy shareholder and you have any questions about the separation, distribution or merger or you would like to request additional documents, including copies of this proxy statement/prospectus, please contact Entergy's Investor Relations information line at 1-888-ENTERGY (368-3749) or Entergy Corporation, Investor Relations, P.O. Box 61000, New Orleans, LA 70161.

**Q: Who is the transfer agent for ITC common stock and the distribution agent for the distribution?**

A: Computershare Trust Company, N.A. is the transfer agent for ITC common stock. [ ] is the distribution agent for the distribution.

**Q: Where can I find more information about Entergy, ITC, TransCo and the transactions?**

A: You can find out more information about Entergy, ITC, TransCo and the transactions by reading this proxy statement/prospectus and, with respect to Entergy and ITC, from various sources described in "Where You Can Find More Information; Incorporation By Reference" beginning on page 235.

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**SUMMARY**

This summary, together with the section titled "Questions and Answers About the Transactions and the Special Meeting" immediately preceding this summary, provides a summary of the material terms of the separation, distribution and merger. These sections highlight selected information contained in this proxy statement/prospectus and may not include all the information that is important to you. To better understand the proposed separation, distribution and merger, and the risks related to these transactions, you should read this entire proxy statement/prospectus carefully, including the annexes, as well as those additional documents to which this proxy statement/prospectus refers you. See also "Where You Can Find More Information; Incorporation By Reference."

**Information on ITC (page 68)**

ITC Holdings Corp.

27175 Energy Way

Novi, Michigan 48377

(248) 946-3000

ITC Holdings Corp., referred to as ITC, and its subsidiaries are engaged in the transmission of electricity in the United States. ITC's current operating subsidiaries include International Transmission Company ("ITC Transmission"), Michigan Electric Transmission Company, LLC ("METC"), ITC Midwest LLC ("ITC Midwest") and ITC Great Plains, LLC ("ITC Great Plains"). ITC Transmission, METC, ITC Midwest and ITC Great Plains are collectively referred to as ITC's regulated operating subsidiaries. Through ITC's regulated operating subsidiaries, ITC operates high-voltage systems in Michigan's Lower Peninsula and portions of Iowa, Minnesota, Illinois, Missouri, Oklahoma and Kansas that transmit electricity from generating stations to local distribution facilities connected to ITC's systems. ITC's 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 ITC's transmission systems. ITC also is pursuing development projects not within ITC's 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. For more information on ITC, see "Information on ITC."

ITC Midsouth LLC

c/o ITC Holdings Corp.

27175 Energy Way

Novi, Michigan 48377

(248) 946-3000

ITC Midsouth LLC (formerly known as Ibis Transaction Sub LLC), referred to as Merger Sub, is a wholly owned subsidiary of ITC. Merger Sub was organized on December 1, 2011 for the purposes of merging with and into TransCo in the merger. Merger Sub has not carried on any activities other than in connection with the merger agreement and the transactions and approvals contemplated therein.

**Information on Entergy (page 75)**

Entergy Corporation

639 Loyola Avenue

New Orleans, Louisiana 70113

(504) 576-4000

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Entergy Corporation, referred to as Entergy, is an integrated energy company engaged primarily in the electric power production and retail distribution operations. Entergy, through its subsidiaries, owns and operates power plants with approximately 30,000 megawatts of electric generating capacity, including more than 10,000

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megawatts of nuclear power, making it one of the nation's leading nuclear generators. Entergy delivers electricity to 2.8 million utility customers in Arkansas, Louisiana, Mississippi and Texas. Entergy has annual revenues of more than \$11 billion and approximately 15,000 employees. Entergy operates its business in two segments: the utility business segment and the Entergy wholesale commodities businesses segment. For more information on Entergy, see [Information on Entergy](#).

Mid South TransCo LLC

c/o Entergy Corporation

639 Loyola Avenue

New Orleans, Louisiana 70113

(504) 576-4000

Mid South TransCo LLC, referred to as TransCo, was organized on December 2, 2011 and is currently a wholly owned subsidiary of Entergy. In connection with the separation and distribution, Entergy will cause specified assets and liabilities used in Entergy's Transmission Business to be transferred to TransCo and then distribute all of the limited liability company interests in TransCo, referred to as the TransCo common units, to Entergy shareholders (excluding any TransCo common units to be contributed to the exchange trust in the event Entergy makes the exchange trust election, as further described below under [The Exchange Trust](#)).

The Entergy transmission business, referred to as Entergy's Transmission Business, consists of the Entergy transmission system, which is comprised of over 15,800 circuit miles of transmission lines operated at 69kV to 500kV and 1,500 substations, as well as the employees and assets used to plan, operate and maintain that system. The Entergy transmission system spans portions of Arkansas, Louisiana, Mississippi, Missouri and Texas covering 114,000 square miles. The Entergy transmission system moves high voltage bulk electric power from generating plants of the Utility Operating Companies and other third parties across an interconnected system of transmission lines and substations to distribution points for delivery to wholesale customers such as municipalities and cooperatives, as well as to the approximately 2.8 million retail customers of the Utility Operating Companies. For more information on Entergy's Transmission Business, see [Information on Entergy's Transmission Business](#).

**The Transactions (See [The Transactions](#) beginning on page 102)**

On December 4, 2011, ITC and Entergy agreed to enter into transactions to effect the transfer of Entergy's Transmission Business to ITC. These transactions provide for the separation of Entergy's Transmission Business into TransCo, the distribution of TransCo and the subsequent merger of Merger Sub with and into TransCo, with TransCo surviving as a wholly owned subsidiary of ITC. As a result of and immediately following these transactions, Entergy shareholders (and, if applicable, the exchange trust) will collectively own approximately 50.1% of ITC common stock on a fully diluted basis, and existing ITC shareholders will collectively own approximately 49.9% of ITC common stock on a fully diluted basis. In no event will Entergy shareholders (and, if applicable, the exchange trust) hold less than 50.1% of the outstanding common stock of ITC immediately after the merger. Entergy shareholders will retain their shares of Entergy common stock.

In order to effect the separation, distribution and merger, ITC, Merger Sub, Entergy and TransCo entered into the merger agreement; Entergy, ITC, TransCo, each of Entergy's Utility Operating Companies and ESI entered into the separation agreement and Entergy, ITC and TransCo entered into the employee matters agreement. In addition, ITC, Entergy, TransCo or their respective affiliates will also enter into a series of ancillary agreements in connection with the transactions. These agreements, which are described in greater detail in this proxy statement/prospectus, will govern the relationship among ITC, Entergy, TransCo and their respective affiliates after the separation and distribution. For a more complete discussion of the transaction agreements, see [The Merger Agreement](#), [The Separation Agreement](#), and [Additional Agreements](#).

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***Transaction Timeline*** (See The Transactions Transaction Timeline beginning on page 102)

Below is a step-by-step list illustrating the material events relating to the separation, distribution and merger:

**Step #1 *Entergy Exchangeable Debt.*** At least fourteen (14) days prior to the debt exchange, Entergy will issue or unrelated creditors will purchase Entergy exchangeable debt (as described below under The Financings ). The amount of Entergy exchangeable debt to be issued or purchased is expected to be \$575 million, but in any case will be of equal aggregate principal amount as the TransCo debt securities.

**Step #2 *ITC Financing, ITC Special Dividend and/or Share Repurchase.*** Prior to the merger, ITC may, in its sole discretion, elect to (i) declare a one-time special dividend payable to pre-merger ITC shareholders, (ii) effect a share repurchase of ITC common stock or (iii) undertake a combination of a one-time special dividend and share repurchase of ITC common stock. The aggregate amount payable to ITC shareholders in connection with a one-time special dividend or share repurchase or a combination of both will not exceed \$700 million. Prior to the merger, ITC expects to enter into debt financings to fund any such transactions.

**Step #3 *Entergy Corporate Reorganization.*** On or prior to the separation date, Entergy, the Utility Operating Companies and other Entergy affiliates will effectuate a series of restructuring transactions. Such restructuring transactions will include (i) each Utility Operating Company redeeming its outstanding preferred equity interests, if any, and (ii) each Utility Operating Company merging with and into a newly formed, directly or indirectly, wholly owned limited liability company of Entergy with such limited liability company surviving.

**Step #4 *TransCo Subs Financing; Utility Operating Companies Contribution of Transmission Assets.*** The TransCo Subs will effectuate the TransCo Subs Financing (as described below under The Financings ). The aggregate amount of the TransCo Subs Financing is expected to be \$1.2 billion. Simultaneously with or immediately after the TransCo Subs Financing, each Utility Operating Company (now in limited liability company form) will transfer its respective specified transmission assets and liabilities to its respective TransCo Sub and, as part of the consideration for such transfer, each Utility Operating Company will receive its respective portion of the net proceeds of the TransCo Sub Financing.

**Step #5 *Distribution of TransCo Subs to Entergy.*** All of the equity interests in each respective TransCo Sub will be distributed to Entergy.

**Step #6 *Entergy Contribution.*** Entergy will contribute to TransCo all of the equity interests of each TransCo Sub and cash in exchange for (i) the number of TransCo common units determined pursuant to the merger agreement and (ii) the TransCo debt securities (as described below under The Financings ).

**Step #7 *Transfer of ESI Assets to TransCo or one or more TransCo Subs.*** Using the cash received in Step #6, TransCo or one or more TransCo Subs will purchase certain assets owned by ESI.

**Step #8 *The Distribution.*** Entergy will effect the distribution of the TransCo common units to the Entergy shareholders through a spin-off, split-off exchange offer or a combination of a spin-off and split-off exchange offer. At the closing of the distribution, the TransCo common units will be delivered to the distribution agent, who will hold such shares for the benefit of Entergy shareholders. In the event Entergy makes the exchange trust election, Entergy will contribute the TransCo common units to be held by the exchange trust at or prior to the distribution.

**Step #9 *The Debt Exchange.*** At the time of the separation, it is expected that Entergy will effect an exchange of the TransCo debt securities for the Entergy exchangeable debt.

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Step #10 *The Merger*. Merger Sub will be merged with and into TransCo with TransCo surviving the merger as a wholly owned subsidiary of ITC. In the merger, the TransCo common units held by the distribution agent will be converted into the number of shares of ITC common stock such that immediately after the merger, Entergy shareholders (and, if applicable, the exchange trust) will collectively own approximately 50.1% of ITC common stock on a fully diluted basis, and existing ITC shareholders will collectively own approximately 49.9% of ITC common stock on a fully diluted basis. In no event will Entergy shareholders (and, if applicable, the exchange trust) hold less than 50.1% of the outstanding common stock of ITC immediately after the merger.

Step #11 *Distribution of ITC Common Stock to Entergy Shareholders*. The distribution agent will distribute shares of ITC common stock and cash in lieu of fractional share interests to Entergy shareholders on a *pro rata* (with certain limited exceptions) basis in accordance with the terms of the merger agreement (assuming Entergy elects to effectuate the distribution through a spin-off).

*The Separation and Distribution* (See The Transactions The Separation and Distribution beginning on page 106)

Prior to the merger of Merger Sub with and into TransCo, Entergy will undergo an internal restructuring to separate and consolidate Entergy's Transmission Business under TransCo pursuant to the terms of the separation agreement.

On or prior to the separation date, Entergy, the Utility Operating Companies and other Entergy affiliates will effectuate a series of restructuring transactions. Such restructuring transactions will include (i) each Utility Operating Company redeeming its outstanding preferred equity interests, if any, and (ii) each Utility Operating Company merging with and into a newly formed, directly or indirectly, wholly-owned limited liability company of Entergy with such limited liability company surviving.

Simultaneously with or immediately after the TransCo Subs Financing, each Utility Operating Company will transfer its respective specified transmission assets and liabilities to its respective TransCo Sub, referred to as the Utility Operating Companies contributions. In consideration of the Utility Operating Companies contributions, each Utility Operating Company will receive the net proceeds of the respective TransCo Sub Financing.

Immediately thereafter, the Utility Operating Companies and certain other intermediate holding companies of Entergy will distribute the equity interests of the TransCo Subs so that Entergy will be the direct holder of the equity interests of each TransCo Sub. Immediately thereafter, Entergy will contribute cash to certain TransCo Subs, and such TransCo Subs will purchase certain assets of ESI.

Immediately thereafter, Entergy will contribute all the equity interests in each TransCo Sub to TransCo in exchange for (i) a number of TransCo common units not to be less than the number which will be necessary for the Entergy shareholders (and, if applicable, the exchange trust) immediately prior to the merger to constitute the holders of at least 50.1% of the outstanding ITC common stock immediately following the merger and (ii) TransCo debt securities.

Pursuant to the merger agreement and prior to the merger, Entergy will distribute 100% of the TransCo common units (excluding any TransCo common units to be contributed to the exchange trust in the event Entergy makes the exchange trust election) to Entergy's shareholders through a spin-off, a split-off exchange offer or a combination of the two, referred to as the distribution.

If the distribution includes a spin-off, each record holder of Entergy common stock (other than restricted Entergy common stock) will be entitled to receive its *pro rata* share of TransCo common units subject to the spin-off.

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If the distribution includes a split-off exchange offer of TransCo common units for currently outstanding shares of Entergy common stock, in the event that there are unsubscribed TransCo common units resulting from such split-off exchange offer, Entergy will distribute them to Entergy shareholders, a transaction referred to as the clean-up spin-off. In a clean-up spin-off, each record holder of Entergy common stock (other than Entergy restricted common stock) will be entitled to receive its *pro rata* share of TransCo common units subject to the clean-up spin-off.

**Conditions to the Separation** (See The Separation Agreement Conditions to the Separation beginning on page 186).

The obligations of Entergy to effect the separation pursuant to the separation agreement are subject to fulfillment (or waiver by Entergy) at or prior to the separation date of the conditions that:

each of the conditions to Entergy's obligation to effect the closing of the transactions contemplated by the merger agreement (as more fully described below in Conditions to the Merger and in The Merger Agreement Conditions to the Merger), have been satisfied or waived (other than conditions that, by their nature, are to be satisfied between the separation time and closing or contemporaneously with closing);

ITC shall have irrevocably confirmed to Entergy that each condition to ITC's obligation to effect the closing of the transactions contemplated by the merger agreement (as more fully described below in Conditions to the Merger and in The Merger Agreement Conditions to the Merger) have been satisfied or waived (other than conditions that, by their nature, are to be satisfied between the separation time and closing or contemporaneously with closing); and

the financings will have been completed in accordance with and subject to the terms of the separation agreement, and the sum of the principal amount of the TransCo debt securities issued to Entergy and the TransCo Subs Financing principal amount is at least equal to \$1.775 billion, subject to specified adjustments pursuant to the merger agreement.

**The Merger; Merger Consideration** (See The Transactions The Merger beginning on page 107 and The Transactions Calculation of the Merger Consideration beginning on page 108)

In accordance with the merger agreement and Delaware law, immediately following the distribution, Merger Sub will merge with and into TransCo. As a result of the merger, the separate corporate existence of Merger Sub will cease and TransCo will continue as the surviving entity and will become a wholly-owned direct subsidiary of ITC. Following the merger, ITC will continue the combined business operations of TransCo and ITC.

The merger agreement provides that each TransCo common unit issued and outstanding immediately before the effective time of the merger (which calculation is described below) will automatically convert at the effective time of the merger into the right to receive one fully paid and nonassessable share of ITC common stock. However, each TransCo common unit that is owned, directly or indirectly, by ITC or Merger Sub or held by TransCo, immediately prior to the effective time of the merger, will be automatically cancelled at the effective time of the merger. Holders of Entergy common stock (who following the distribution will have become holders of TransCo common units) will not be required to pay for the shares of ITC common stock they receive and will also retain all of their Entergy common stock. Existing shares of ITC common stock will remain outstanding.

No fractional shares of ITC common stock will be issued in the merger to holders of fractional TransCo common units. Instead, within 30 business days following the effective time of the merger, the exchange agent will aggregate all fractional shares of ITC common stock and sell them on behalf of those Entergy shareholders who otherwise would be entitled to receive a fractional share of ITC common stock. Those Entergy shareholders will then receive a cash payment in an amount equal to their *pro rata* share of the total net proceeds of those



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sales. The receipt of cash in lieu of fractional shares generally will be taxable to the recipient shareholders as described in Material United States Federal Income Tax Consequences of the Transactions.

As further described above under The Separation and Distribution and under The Merger Agreement, in the separation, TransCo will issue to Entergy a number of TransCo common units equal to the sum of:

the number obtained by multiplying (i) 1.00400801603206 by (ii) the number of ITC shares of common stock on a fully diluted basis (calculated as detailed in the merger agreement and as summarized below), on the estimation date (as defined below), less the number of common units of TransCo outstanding immediately prior to such calculation (which are estimated to be approximately 1,000); plus

the number obtained by dividing the aggregate disqualified share number (as defined below) by 49.9% (provided that such number will not exceed an amount that would reduce the transaction maximum principal amount by more than \$100 million).

The term fully diluted basis means Entergy and ITC's estimate of the number of shares of ITC common stock that will be outstanding on the closing date of the merger, together with the estimated amount of shares of ITC common stock that will be issuable on the closing date of the merger upon the exercise of any options, rights or units based on the treasury stock method (other than the shares of ITC common stock issued or to be issued in the merger, including pursuant to the employee matters agreement) as further detailed in the merger agreement.

The estimation date will be the nearest reasonably practicable date prior to the last trading day that ends at least 20 trading days prior to the date the distribution will be expected to occur, as mutually agreed by Entergy and ITC.

The aggregate disqualified share number means ITC's and Entergy's best estimate of the number of shares of ITC common stock issuable upon the conversion of Entergy stock options and restricted shares to ITC stock options and restricted shares that are reasonably likely to be treated as being issued as part of a plan or series of related events for U.S. federal income tax purposes that would cause the spin-off to be treated as a taxable event.

The merger agreement also provides that the number of TransCo common units to be issued to Entergy will in no event be less than that number which will be necessary for the Entergy shareholders (and, if applicable, the exchange trust) immediately prior to the merger to constitute the holders of at least 50.1% of the outstanding common stock immediately following the merger, as determined under U.S. federal income tax rules to ensure that the spin-off or split-off exchange offer is not taxable to Entergy.

***Conditions to the Merger*** (See The Merger Agreement Conditions to the Merger beginning on page 171)

As more fully described in this proxy statement/prospectus, the obligations of each of the parties to effect the closing of the merger are subject to the satisfaction or waiver of a number of conditions, including those described below.

***Mutual Conditions.*** The obligations of Entergy, TransCo, Merger Sub and ITC to effect the merger are subject to the satisfaction (or waiver by all parties) of the following conditions:

the absence of any temporary restraining orders or injunctions that would prevent the consummation of the merger or the transactions;

the occurrence of the transfer of Entergy's Transmission Business to TransCo and the distribution in accordance with the terms of the separation agreement;



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the approval of the merger proposals by ITC shareholders at the special meeting;

the authorization for listing on the NYSE of the ITC common stock to be issued pursuant to the merger agreement;

the effectiveness of the registration statement of which this proxy statement/prospectus is part and any registration statements filed by TransCo, as applicable;

the expiration of any offer period or notice period related to a split-off exchange offer or spin-off, as the case may be;

the absence of any temporary restraining order, injunction or other order issued in connection with any of the required regulatory approvals that would impose an ITC burdensome condition;

the receipt by Entergy of all necessary approvals from state and federal regulatory authorities to allow Entergy's Transmission Business to become a member of an acceptable RTO; and

the completion of the financings pursuant to the separation agreement.

*ITC Conditions.* The obligation of each of ITC and Merger Sub to effect the merger is further subject to the satisfaction of the following conditions (each of which is for the exclusive benefit of ITC and Merger Sub and may be waived by ITC):

performance by Entergy and TransCo, in all material respects, of their respective obligations and compliance with all covenants required by the merger agreement and the other transaction agreements to be performed on or before the closing;

the accuracy of Entergy's representations and warranties set forth in the merger agreement, generally both when made and at the time of the closing, subject to certain specified materiality standards;

the absence of any Transmission Business MAE (as defined in the section entitled "The Merger Agreement") having occurred from the date of the merger agreement through the closing date;

Entergy will have delivered to ITC an officer's certificate to the effect that each of the conditions set forth in the three bullet points immediately above are satisfied;

the receipt of a written tax opinion from Simpson Thacher & Bartlett LLP, stating that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code;

the receipt of IRS rulings, requested by Entergy, regarding the tax-free treatment of certain aspects of the transactions;

the absence of any changes in, revocation of, or amendment to the IRS rulings or change in law that, in the reasonable judgment of ITC, has a materially adverse impact on ITC or TransCo, and the tax opinion from counsel to be obtained by Entergy regarding the

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tax-free nature of certain aspects of the transactions being in form and substance reasonably acceptable to ITC;

the receipt of the required regulatory approvals, including approval of the FERC, the Arkansas Public Service Commission, the Louisiana Public Service Commission, the Mississippi Public Service Commission, the Public Utility Commission of Texas, the Missouri Public Service Commission and the Council for the City of New Orleans, as well as the expiration of the applicable waiting period under the HSR Act, and such approvals will have become final orders which do not impose terms or conditions that, individually or in the aggregate, would reasonably be expected to have an ITC burdensome condition;

the completion of the ITC financing and the one-time special dividend, share repurchase or both, as the case may be, pursuant to the terms of the merger agreement;

in the event that the integration of the Utility Operating Companies into an acceptable RTO has not been fully completed as of the closing date, arrangements reasonably acceptable to ITC will have been

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made such that neither ITC nor any of its affiliates (including TransCo and the TransCo Subs) would be responsible for performing generator dispatch, for economics or market operations, following the consummation of the merger; and

the execution by Entergy, TransCo or any affiliate of Entergy who is a party to the ancillary agreements of each of the ancillary agreements.

*Entergy Conditions.* The obligation of each of Entergy and TransCo to effect the merger is further subject to the satisfaction of the following conditions (each of which is for the exclusive benefit of Entergy and TransCo and may be waived by Entergy):

performance of ITC and Merger Sub in all material respects, of their respective obligations and compliance with all covenants required by the merger agreement and the other transaction agreements to be performed on or before the closing;

the accuracy of the representations and warranties of ITC set forth in the merger agreement, generally both when made and at the time of the closing, subject to certain specified materiality standards;

the absence of any ITC MAE (as defined in the section entitled "The Merger Agreement") having occurred from the date of the merger agreement through the closing date;

ITC will have delivered to Entergy an officer's certificate to the effect that each of the conditions set forth in the three bullet points immediately above are satisfied;

the Entergy board of directors will have received an opinion from a nationally recognized solvency valuation firm, that, after giving effect to the transactions (including the anticipated financings), the transactions will not leave TransCo insolvent or otherwise unable to pay its obligations as they come due;

Entergy will have received the IRS rulings to be requested by Entergy regarding the tax-free treatment of certain aspects of the transactions and tax opinions from counsel; provided that Entergy will not be permitted to avoid closing as a result of any failure of Entergy to receive favorable IRS rulings or tax opinion with respect to the tax-free treatment of its debt exchange or the exchange trust arrangements;

the absence of any change in, revocation of, or amendment to the IRS rulings or change in law that could, in the reasonable judgment of counsel to Entergy, affect the validity of the IRS rulings in a manner that is materially adverse to Entergy;

the receipt of the required regulatory approvals, including approval of the FERC, the Nuclear Regulatory Commission, the Arkansas Public Service Commission, the Louisiana Public Service Commission, the Mississippi Public Service Commission, the Public Utility Commission of Texas, the Missouri Public Service Commission and the Council for the City of New Orleans, as well as the expiration of the applicable waiting period under the HSR Act, and such approvals will have become final orders which do not impose terms or conditions that, individually or in the aggregate, would reasonably be expected to have an Entergy burdensome condition or an ITC burdensome condition; and

the execution by ITC of each of the ancillary agreements to which it is a party.

***The Exchange Trust*** (See "The Transactions" "The Exchange Trust" beginning on page 109)

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Pursuant to the terms of the merger agreement, Entergy may elect, at least 30 business days prior to the closing of the merger to retain up to the number of TransCo common units that would convert in the merger to up to 4.9999% of the total number of shares of ITC common stock outstanding immediately following the consummation of the merger that otherwise would have been distributed in the distribution, such election is referred to as the exchange trust election. If Entergy makes an exchange trust election, and subject to the conditions in the merger agreement, Entergy, TransCo, ITC and a trustee will enter into a trust agreement,

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referred to as the exchange trust agreement. Under the terms of the exchange trust agreement, at the time of the distribution, Entergy will transfer such TransCo common units to an irrevocable Delaware trust, referred to as the exchange trust. The TransCo common units transferred to the exchange trust will not be distributed to Entergy shareholders in the distribution and, at the closing of the merger, will subsequently be converted into ITC common stock in the merger. The trustee of the trust will own and hold legal title to the TransCo common units or ITC common stock. Pursuant to the exchange trust agreement, the exchange trust will hold the shares for the benefit of Entergy and Entergy shareholders; provided, however, in no event will the ITC common stock held by the exchange trust be transferred to Entergy. Upon delivery of notice by Entergy, the trustee will conduct an exchange offer whereby Entergy shareholders may exchange Entergy common stock for the ITC common stock held by the exchange trust pursuant to irrevocable terms contained in the trust agreement at the time it is entered into, referred to as the exchange trust exchange offer. Pursuant to the exchange trust agreement, any ITC common stock remaining in the exchange trust after six months following the completion of the merger will be distributed to Entergy shareholders *pro rata*. If Entergy makes an exchange trust election, Entergy, ITC and the trustee of the exchange trust will also enter into a registration rights agreement whereby ITC will provide the trustee and Entergy certain registration rights with respect to the retained equity.

For additional information on the exchange trust agreement and the registration rights agreement, see [Additional Agreements Exchange Trust Agreement](#) and [Additional Agreements Registration Rights Agreement](#).

***Opinions of ITC's Financial Advisors*** (See [The Transactions Opinion of J.P. Morgan](#) beginning on page 123 and [The Transactions Opinion of Barclays](#) beginning on page 131)

Opinion of J.P. Morgan

In deciding to approve the merger, the merger agreement, the separation agreement, the employee matters agreement and the other transactions contemplated thereby, the ITC board of directors considered the opinion delivered to it on December 4, 2011 by J.P. Morgan Securities LLC, its financial advisor, which we refer to herein as J.P. Morgan, that, as of the date of the opinion, and based upon and subject to the various factors, procedures, assumptions, limitations and qualifications set forth in its opinion, the aggregate consideration (consisting of the issuance of one share of ITC common stock in exchange for each TransCo common unit, plus the payment of cash in lieu of any fractional shares) to be paid by ITC in the proposed transactions was fair, from a financial point of view, to ITC. **The full text of the written opinion of J.P. Morgan, dated December 4, 2011, which sets forth the assumptions made, matters considered and qualifications and limitations on the opinion and the review undertaken by J.P. Morgan is attached as Annex D to this proxy statement/prospectus and is incorporated by reference herein in its entirety. You are encouraged to read the opinion and the description included in this proxy statement/prospectus carefully in their entirety. The summary and the description of the opinion are qualified in their entirety by reference to the full text of the opinion. J.P. Morgan's opinion is limited to the fairness, from a financial point of view, to ITC of the aggregate consideration to be paid by ITC in the proposed transactions and J.P. Morgan expressed no opinion as to any other matter. The opinion does not constitute a recommendation to any shareholder as to how such shareholder should vote with respect to the proposed transactions or any other matter. See [The Transactions Opinion of J.P. Morgan](#).**

Opinion of Barclays

In deciding to approve the merger, the merger agreement, the separation agreement, the employee matters agreement and the other transactions contemplated thereby, the ITC board of directors considered the opinion, dated December 4, 2011, of Barclays Capital Inc., referred to herein as Barclays, as to the fairness, from a financial point of view and as of the date of such opinion and subject to the qualifications, limitations and

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assumptions stated in such opinion, to ITC of the exchange ratio in the merger, which means the right, pursuant to the merger, of holders of TransCo units to receive one share of ITC common stock in exchange for each TransCo common unit they hold. The full text of Barclays' written opinion is attached as Annex E to this proxy statement/prospectus and is incorporated herein by reference. The written opinion sets forth, among other things, the assumptions made, procedures followed, factors considered and limitations on the review undertaken by Barclays in rendering its opinion. This summary of Barclays' written opinion is qualified in its entirety by reference to the full text of the opinion. **Barclays' opinion, the issuance of which was approved by Barclays' fairness opinion committee, was addressed to the ITC board of directors for its use and benefit in connection with its evaluation of the exchange ratio and related only to the fairness, from a financial point of view, to ITC of the exchange ratio in the merger. Barclays was not requested to opine as to, and its opinion did not in any manner address, ITC's underlying business decision to proceed with or effect the transactions or the likelihood of consummation of the transactions. The opinion was not intended to be and does not constitute a recommendation to any shareholder of ITC as to how such shareholder should vote or act with respect to the transactions or any related matter.** See the section entitled "The Transactions - Opinion of Barclays."

***Board of Directors and Management of ITC Following the Merger*** (See "Information on ITC - Directors and Executive Officers of ITC Before and After the Merger" beginning on page 69 and "The Transactions - Board of Directors and Management of ITC Following the Merger" beginning on page 141)

The directors of ITC immediately prior to the closing of the merger are expected to be the directors of ITC immediately following the closing of the merger, except that at the effective time of the merger, ITC has agreed that there will be at least two vacancies on the ITC board of directors pursuant to the merger agreement, which vacancies will be filled immediately after the effective time of the merger with two independent directors nominated by ITC's nominating/corporate governance committee. Among other qualifications, nominees are expected to have transmission industry knowledge and familiarity with the region in which Entergy operates. Entergy will be entitled to offer to ITC's nominating/corporate governance committee suggestions on candidates to fill such vacancies in connection with the search process. Any decision with respect to Entergy's candidates, however, will be made solely by ITC's nominating/corporate governance committee.

The executive officers of ITC immediately prior to the closing of the merger are expected to be the executive officers of ITC immediately following the closing of the merger. The merger agreement provides that ITC and TransCo will take all necessary action to appoint certain specified individuals to management positions at ITC or TransCo as of the effective time of the merger.

***Interests of Certain Persons in the Merger*** (See "The Transactions - Interests of Certain Persons in the Merger" beginning on page 142)

In considering the ITC board of directors' determination to approve the merger agreement, the merger and the other transactions contemplated by the merger agreement and to recommend that ITC shareholders vote in favor of the merger proposals, ITC shareholders should be aware that certain officers and directors of ITC may have certain interests in the merger and related transactions that are different from, or in addition to, the interests of ITC shareholders, see "The Transactions - Interests of Certain Persons in the Merger." The ITC board of directors was aware of these interests and considered them, among other matters, in approving the merger agreement, the merger and the other transactions contemplated by the merger agreement, including the acceleration of certain vesting terms under ITC's 2006 Long Term Incentive Plan.

Except with respect to the treatment of Entergy restricted common stock, the directors and officers of Entergy and TransCo will receive no extra or special benefit that is not shared on a *pro rata* basis by all other Entergy shareholders in connection with the transactions. For more information on the treatment of Entergy restricted common stock, see "The Transactions - Effects of the Distribution and the Merger on Entergy Equity Awards/Plans."



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**Regulatory Approvals** (See The Transactions Regulatory Approvals beginning on page 145, The Merger Agreement Antitrust Matters beginning on page 167 and The Merger Agreement Efforts to Close beginning on page 167)

As further described in this proxy statement/prospectus, to complete the separation, the distribution and the merger, there are certain filings, notices and waiting periods required in order for ITC and Entergy to obtain required authorizations, approvals and/or consents from a number of federal and state public utilities, antitrust and other regulatory authorities, including the FERC, the Nuclear Regulatory Commission, the Arkansas Public Service Commission, the Louisiana Public Service Commission, the Mississippi Public Service Commission, the Public Utility Commission of Texas, the City Council for the City of New Orleans, and the Nuclear Regulatory Commission (the NRC), as well as the expiration of the applicable waiting period under the HSR Act. For additional information, see The Transactions Regulatory Approvals.

As further described in this proxy statement/prospectus, the merger agreement generally provides that Entergy and ITC will file all required notifications under the HSR Act with the Federal Trade Commission (the FTC) and the Department of Justice (the DOJ). The parties currently expect to make such filings no later than December 31, 2012. Each party has agreed, subject to certain limitations, to use its reasonable best efforts to obtain early termination of any waiting period under the HSR Act and supply each other, the FTC and the DOJ with any information reasonably required in connection with such filings. In addition, the merger agreement generally provides that Entergy and ITC will use their respective reasonable best efforts (as specified in the merger agreement and subject to certain exceptions specified therein) to consummate the transactions, including using reasonable best efforts to file any applications, notices, registrations, filings, reports, petitions and other documents required to be filed with any governmental authority necessary or advisable to consummate the transactions, obtain each required approval, consent, ratification, permission and waiver of authorization from governmental authorities and parties to any material contractual obligations, cooperate with and provide notice to each other and lift any restraint, injunction or other legal bar to the transactions. For additional information, see The Merger Agreement Antitrust Matters and The Merger Agreement Efforts to Close.

**Dissenters Rights** (See The Transactions Dissenters Rights beginning on page 150).

Under the MBCA, each ITC shareholder who objects to the merger and complies with the provisions of the MBCA concerning the rights of ITC shareholders to dissent from the merger and require appraisal of its shares of ITC common stock and has not effectively withdrawn or lost such right as of the effective time will be entitled to such rights as are granted by the MBCA. Any payments made with respect to such dissenting shares will be made by or on behalf of ITC. If any such dissenting shareholder, at any time prior to payment for such dissenting shares, effectively withdraws or loses (through failure to perfect or otherwise) the right to payment as such dissenting shareholder, such holder will forfeit such holder's rights as such dissenting shareholder and continue to hold the shares of ITC common stock as such holder held such shares immediately prior to the effective time of the merger. Each such dissenting shareholder who becomes entitled to payment for any such dissenting shares pursuant to the MBCA will, after such payment is made, cease to be a holder of ITC common stock for all purposes under the MBCA.

To exercise dissenters' rights, an ITC shareholder must not vote in favor of the merger and must strictly comply with all of the procedures required under Sections 761 through 774 of the MBCA. A copy of Sections 761 through 774 of the MBCA relating to dissenters' rights is included as Annex F to this proxy statement/prospectus.

**The Financings** (See The Financings beginning on page 154 and The Separation Agreement The Financings beginning on page 184)

**Entergy Exchangeable Debt.** At least fourteen days prior to the debt exchange, Entergy will issue debt to one or more unrelated creditors or one or more unrelated creditors will purchase existing Entergy corporate debt,

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in each case, such debt is referred to as Entergy exchangeable debt. As described below, assuming that the desired private letter ruling from the IRS with respect to the financings is obtained, the amount of Entergy exchangeable debt to be issued or purchased is expected to be \$575 million, but in any case will be of equal aggregate principal amount as the TransCo debt securities.

*Issuance of TransCo Debt Securities.* In partial consideration for the equity interests of the TransCo Subs contributed by Entergy to TransCo in the Entergy contribution, TransCo will issue to Entergy debt of TransCo, referred to as TransCo debt securities, in an aggregate principal amount, when combined with the TransCo Subs Financing, of \$1.775 billion (as may be adjusted pursuant to the merger agreement), referred to as the transaction maximum principal amount. It is currently expected that the aggregate principal amount of the TransCo debt securities will be \$575 million, but in any case will be of equal aggregate principal amount as the Entergy exchangeable debt.

*The Debt Exchange.* At the time of the separation, it is expected that Entergy will effect an exchange with the holders of the Entergy exchangeable debt for the TransCo debt securities previously issued to Entergy. In the exchange (should the exchange occur), the unrelated creditor or creditors that hold the Entergy exchangeable debt will receive the TransCo debt securities and Entergy will receive the Entergy exchangeable debt. TransCo will not receive any proceeds from the issuance of the TransCo debt securities or the debt exchange.

*Working Capital Facility.* At the request of ITC, Entergy will use its reasonable best efforts to cause TransCo to arrange a working capital revolving credit facility in a principal amount mutually determined by ITC and Entergy. TransCo will not draw down on the working capital facility without the consent of ITC.

*TransCo Subs Financing.* Entergy will use its reasonable best efforts to cause the TransCo Subs to arrange a 366-day bridge facility, referred to as the TransCo Subs Financing, based on a targeted capital structure for each TransCo Sub of 40% debt and 60% equity (provided that if the desired private letter ruling from the Internal Revenue Service with respect to the financings cannot be obtained without adjusting the principal amount of the TransCo Subs Financing, then the parties will have the right to increase or decrease the principal amount of the TransCo Subs Financing to an amount equal to the aggregate tax basis of the transmission assets). It is expected that after the merger the TransCo subs will issue first mortgage bonds to refinance the bridge facility. Assuming the desired private letter ruling from the IRS with respect to the financings is obtained, the aggregate amount of the TransCo Subs Financing is expected to be \$1.2 billion. No TransCo Sub will retain any proceeds from the TransCo Subs Financing.

For more information on the contractual obligations of Entergy, TransCo and ITC with respect to the financings, see [The Separation Agreement](#) [Financings](#).

*ITC Recapitalization.* Prior to the merger, ITC may, in its sole discretion, elect to (i) declare a one-time special dividend payable to pre-merger ITC shareholders, (ii) effect a share repurchase of ITC common stock, or (iii) undertake a combination of a one-time special dividend and share repurchase of ITC common stock. The aggregate amount payable to ITC shareholders in connection with a one-time special dividend or share repurchase or a combination of both will not exceed \$700 million. Such transactions are expected to be funded by debt securities to be issued by ITC prior to the merger.

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**Termination** (See The Merger Agreement Termination of the Merger Agreement beginning on page 173)

The merger agreement may be terminated at any time prior to the closing date of the merger by the mutual written consent of ITC and Entergy. In addition, either Entergy or ITC may terminate the merger agreement prior to the closing date of the merger if:

the merger has not been completed by June 30, 2013, referred to as the outside date, which date may be extended up to six months by Entergy or ITC in circumstances where all the closing conditions except specified closing conditions have been satisfied (or are capable of being satisfied by such date);

the transactions are enjoined or prohibited, or if a final non-appealable order has been entered into that prohibits any material component of the transactions or would impose an ITC burdensome condition, unless the action is due to the failure of the party seeking to terminate pursuant to this provision to perform the covenants described under The Merger Agreement Efforts to Close; Antitrust Clearance ;

the ITC shareholder meeting regarding the merger proposals has been concluded and the ITC shareholders did not approve the merger proposals; or

upon breach or failure to perform by the other party in any material respect of any of its representations, warranties, covenants or other agreements contained in the merger agreement or the separation agreement, which gives rise to the failure of a joint condition or a condition of the other party in the merger agreement or a condition in the separation agreement and such breach or failure to perform cannot be or has not been cured prior to the earlier of 60 days after written notice of such breach or failure to perform or the outside date.

In addition, ITC may terminate the merger agreement if:

at any time prior to obtaining the ITC shareholder approval of the merger proposals, in order to enter into a written definitive agreement for an ITC superior proposal, if ITC has complied with its obligations in the merger agreement regarding an ITC change of recommendation and ITC pays to Entergy the termination fee described below; or

Entergy takes any action, without the prior written consent of ITC, with respect to any proposal, condition or limitation that arises in a proceeding with a governmental authority in connection with obtaining the necessary regulatory approvals to effect the migration of Entergy's Transmission Business to an acceptable RTO, that could reasonably be expected to have a material and adverse financial or operational impact on TransCo or its subsidiaries or ITC or any of its other affiliates after the closing and which impact was not expressly contemplated in Entergy's disclosure letter.

In addition, Entergy may terminate the agreement if:

ITC or any of its subsidiaries, representatives or affiliates willfully breaches in any material respect any of their non-solicitation obligations described under The Merger Agreement No Solicitation by ITC and Change of ITC Board Recommendation and such breach cannot or has not been cured prior to the earlier of 10 days after written notice of such breach and the outside date;

if there has been an ITC change of recommendation; or

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any law makes the completion of the transactions illegal or otherwise prohibited (other than those having only an immaterial effect and that do not impose criminal liability or penalties) or any governmental authority takes any action permanently restraining, enjoining or otherwise prohibiting any material component of the transactions or imposing an Entergy burdensome condition and such action becomes final and non-appealable, unless the action is due to the failure of Entergy to perform the covenants described under The Merger Agreement Efforts to Close; Antitrust Clearance.

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**Termination Fees** (See The Merger Agreement Termination Fee beginning on page 174)

ITC has agreed to pay Entergy a termination fee of \$113,570,800 in the event that the merger agreement is terminated:

by Entergy if there has been an ITC change of recommendation;

by ITC, at any time prior to obtaining the ITC shareholder approval of the merger proposals, in order to enter into a written definitive agreement for an ITC superior proposal, if ITC has complied with its obligations in the merger agreement regarding an ITC change of recommendation; or

by Entergy if ITC or any of its subsidiaries, representatives or affiliates willfully breach in any material respect any of their non-solicitation obligations described under The Merger Agreement No Solicitation by ITC and Change of ITC Board of Directors Recommendation, or by ITC or Entergy if the ITC shareholder meeting regarding the merger proposals has been concluded and the ITC shareholders did not approve the merger proposals; and, in either case, prior to any such termination any third party has made an ITC takeover proposal which has been publicly announced or disclosed and not publicly withdrawn or abandoned by such third party at least five business days prior to the ITC shareholders meeting and ITC has entered into an agreement to consummate or has consummated an ITC takeover transaction within 12 months of any such termination. For purposes of this provision only, ITC takeover transaction has the same meaning as defined under The Merger Agreement No Solicitation by ITC and Change of ITC Board of Directors Recommendation, except that 15% or more is changed to more than 50% .

**Required Vote** (See The Special Meeting of ITC Shareholders Required Vote beginning on page 64)

The affirmative vote of a majority of the outstanding shares of ITC common stock entitled to vote at the special meeting is required to approve the merger agreement. The affirmative vote of a majority of the outstanding shares of ITC common stock entitled to vote at the special meeting is required to approve the proposal to amend the amended and restated articles of incorporation of ITC to increase the number of authorized shares of ITC common stock. The affirmative vote of a majority of the votes cast, in person or by proxy, at the special meeting by holders of shares of ITC common stock is required to approve the proposal to issue shares of ITC common stock pursuant to the merger agreement. In accordance with Section 14A of the Securities Exchange Act of 1934, as amended (the Exchange Act ), ITC is providing its shareholders with the opportunity to approve, by non-binding, advisory vote, certain compensation payments for ITC's named executive officers in connection with the merger, as reported in the section of this proxy statement/prospectus entitled Advisory Vote on Merger-Related Compensation for ITC's Named Executive Officers. The affirmative vote of a majority of the votes cast, in person or by proxy, at the special meeting by holders of shares of ITC common stock is required to approve this merger-related executive compensation proposal. The affirmative vote of a majority of the votes cast, in person or by proxy, at the special meeting by holders of shares of ITC common stock is required to approve the proposal to permit adjournment of the special meeting.

The approval of each of the merger proposals (which are the proposal to approve the merger agreement, the amendment of the articles of incorporation proposal and the stock issuance proposal) is conditioned upon the approval of each of the other merger proposals, and the merger will not occur unless all of the merger proposals are approved.

No vote of Entergy shareholders is required or being sought in connection with either the spin-off or the split-off exchange offer, the merger or the other transactions described in this proxy statement/prospectus.

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**Voting by ITC Executive Officers and Directors** (See The Special Meeting of ITC Shareholders Certain Ownership of ITC Common Stock beginning on page 67)

As of the record date, ITC's executive officers and directors beneficially owned [ ] shares of ITC common stock, representing approximately [ ]% of the shares outstanding as of such date. ITC currently expects that each of its directors and executive officers will vote their shares of ITC common stock in favor of all proposals, although none of them has entered into an agreement requiring them to do so.

**Material United States Federal Income Tax Consequences of the Transactions** (See Material United States Federal Income Tax Consequences of the Transactions beginning on page 224)

Entergy shareholders are not expected to recognize any gain or loss for U.S. federal income tax purposes as a result of the separation, distribution, merger, exchange trust exchange offer and mandatory trust distribution except for any gain or loss attributable to the receipt of cash in lieu of a fractional share of ITC common stock in the merger, exchange trust exchange offer, or mandatory trust distribution or cash, if any, received by an Entergy shareholder in addition to the shares of ITC common stock in an exchange trust exchange offer or mandatory trust distribution (other than cash received instead of fractional shares). ITC shareholders are not expected to recognize any gain or loss as a result of any of the aforementioned transactions.

**Risk Factors** (See Risk Factors beginning on page 50)

ITC and Entergy shareholders should carefully consider the matters described in the section Risk Factors, as well as other information included in this proxy statement/prospectus and the other documents to which they have been referred.

**Table of Contents****SUMMARY HISTORICAL AND PRO FORMA FINANCIAL DATA**

The following summary historical combined financial data of Entergy's Transmission Business, summary historical consolidated financial data of ITC, summary unaudited condensed combined pro forma financial data of ITC and comparative historical and pro forma per share data of ITC are being provided to help you in your analysis of the financial aspects of the transaction. You should read this information in conjunction with the financial information included elsewhere and incorporated by reference in this document. See [Where You Can Find More Information](#); [Incorporation By Reference](#), [Information on ITC](#), [Information on Entergy's Transmission Business](#) and [Selected Financial Statements Data](#).

**Summary of Historical Combined Financial Data of Entergy's Transmission Business**

Entergy's Transmission Business combined statement of income data for the three years ended December 31, 2011, 2010 and 2009 and the combined balance sheet data as of December 31, 2011 and 2010 have been derived from Entergy's Transmission Business audited combined financial statements, included elsewhere in this document. The summary combined financial data below is not necessarily indicative of the results that may be expected for any future period. This information is only a summary and should be read in conjunction with the financial statements of Entergy's Transmission Business and the accompanying notes and the related [Management's Discussion and Analysis of Financial Condition and Results of Operations](#) for Entergy's Transmission Business thereto included elsewhere in the document.

The financial information of Entergy's Transmission Business included in this document has been derived from the consolidated financial statements and accounting records of Entergy and reflects assumptions and allocations made by Entergy. The financial position, results of operations and cash flows of Entergy's Transmission Business presented may be different from those that would have resulted had Entergy's Transmission Business been operated as a stand-alone company. Additionally, the financial position, results of operations and cash flows of Entergy's Transmission Business presented reflects its existing state and local jurisdictional rate regulation as a component of the Utility Operating Companies as compared to the FERC rate regulation expected for Entergy's Transmission Business under ITC's ownership. As a result, the historical financial information of Entergy's Transmission Business is not a reliable indicator of future results. See [Risk Factors](#).

	<b>Entergy's Transmission Business</b>		
	<b>Year Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>(In thousands)</b>			
<b>Statement of Income Data:</b>			
Operating revenues	\$ 652,792	\$ 631,742	\$ 582,847
Operating expenses	396,982	381,903	335,374
Operating income	255,810	249,839	247,473
Other expenses (income) net	46,526	72,112	68,842
Income before income taxes	209,284	177,727	178,631
Income taxes	74,460	67,166	68,205
Net income	\$ 134,824	\$ 110,561	\$ 110,426

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(In thousands)	Entergy's Transmission Business		
	2011	As of December 31, 2010	2009 (unaudited)
<b>Balance Sheet Data:</b>			
Total assets	\$ 4,015,404	\$ 3,669,588	\$ 3,450,333
Long-term debt			
Total equity	2,862,465	2,551,097	2,340,668

(In thousands)	Entergy's Transmission Business		
	2011	Year Ended December 31, 2010	2009
<b>Statement of Cash Flows Data:</b>			
Cash provided by (used in):			
Operating activities	\$ 238,244	\$ 278,662	\$ 288,600
Investing activities	(415,621)	(377,781)	(268,316)
Financing activities	177,385	99,421	(20,624)
Depreciation and amortization expense	132,302	127,738	110,294
Expenditures for property, plant and equipment	(415,621)	(377,781)	(268,316)

**Summary of Historical Consolidated Financial Data of ITC**

ITC's summary historical consolidated financial data presented below have been derived from, and should be read in conjunction with ITC's consolidated financial statements and the accompanying notes and the related Management's Discussion and Analysis of Financial Condition and Results of Operations sections in ITC's Annual Report on Form 10-K, as amended by the Annual Report on Form 10-K/A, for the year ended December 31, 2011 (which is incorporated herein by reference). The data shown below is not necessarily indicative of results to be expected for any future period. To find where you can obtain copies of ITC's documents that have been incorporated by reference, see [Where You Can Find More Information; Incorporation By Reference](#).

(In thousands)	ITC		
	2011	Year Ended December 31, 2010	2009
<b>Statement of Operations Data:</b>			
Operating revenues	\$ 757,397	\$ 696,843	\$ 621,015
Operating expenses (a) (b) (c) (d)	359,645	339,522	294,148
Operating income	397,752	357,321	326,867
Other expenses (income) net	131,318	129,389	118,395
Income before income taxes	266,434	227,932	208,472
Income tax provision	94,749	82,254	77,572
Net income	\$ 171,685	\$ 145,678	\$ 130,900



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(In thousands)	ITC		
	2011	As of December 31, 2010	2009
<b>Balance Sheet Data:</b>			
Total assets	\$ 4,823,366	\$ 4,307,873	\$ 4,029,716
Long-term debt	2,645,022	2,496,896	2,434,398
Total stockholders' equity	1,258,892	1,117,433	1,011,523

(In thousands)	ITC		
	2011	Year Ended December 31, 2010	2009
<b>Statement of cash flows Data:</b>			
Cash provided by (used in):			
Operating activities	\$ 380,916	\$ 423,333	\$ 267,935
Investing activities	(560,195)	(388,861)	(408,962)
Financing activities	142,514	(14,216)	157,770
Depreciation and amortization expense	94,981	86,976	85,949
Expenditures for property, plant and equipment	(556,931)	(388,401)	(404,514)

- (a) The reduction in expenses for 2009 was due, in part to efforts to achieve short-term reductions in operation and maintenance expenses and general and administrative expenses to offset the impact of lower network load on cash flows and any potential revenue accrual relating to 2009.
- (b) During 2011 and 2009, we recognized \$2.0 million and \$10.0 million, respectively, of regulatory assets associated with the development activities of ITC Great Plains as well as certain pre-construction costs for the Kansas V-Plan and Kansas Electric Transmission Authority ( KETA ) projects. Upon initial establishment of these regulatory assets in 2011 and 2009, \$1.9 million and \$8.0 million, respectively, of general and administrative expenses were reversed of which \$1.4 million and \$5.9 million were incurred in periods prior to 2011 and 2009, respectively. No initial establishment of regulatory assets occurred in 2010 that resulted in reversal of expenses.
- (c) During 2011, we expensed external legal, advisory and financial services fees of \$7.0 million relating to the Entergy transaction recorded within general and administrative expenses of which certain amounts are not expected to be deductible for income tax purposes.
- (d) In 2009, the FERC accepted the depreciation studies filed by ITCTransmission and METC that revised their depreciation rates. In 2010, the FERC accepted a depreciation study filed by ITC Midwest which revised its depreciation rates. These changes in accounting estimates resulted in lower composite depreciation rates for ITCTransmission, METC and ITC Midwest primarily due to the revision of asset service lives and cost of removal values. The revised estimate of annual depreciation expense was reflected in 2009 for ITCTransmission and METC and in 2010 for ITC Midwest.

**Summary Unaudited Condensed Combined Pro Forma Financial Data**

The summary unaudited condensed combined pro forma financial data presented below have been prepared by ITC and are being provided for illustrative purposes only and are not necessarily indicative of what the operating results or financial position of ITC or Entergy's Transmission Business would have been had the transaction been completed at the beginning of the periods or on the dates indicated, nor are they necessarily indicative of any future operating results or financial position. The results of operations and cash flows of the acquired business reflect its existing state and local jurisdictional rate regulation as a component of the Utility Operating Companies, as compared to the FERC rate regulation expected for Entergy's Transmission Business under ITC's ownership. The pro forma financial statements do not reflect the impact of transitioning Entergy's Transmission Business to FERC rate regulation under ITC ownership. The selected unaudited pro forma

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combined consolidated financial information has been derived from, and should be read in conjunction with, the Unaudited Pro Forma Condensed Combined Consolidated Financial Statements and related notes beginning on page 38 of this proxy statement/prospectus.

	<b>For the Six-Months Ended June 30, 2012 for Pro Forma Combined Entergy's Transmission Business and ITC</b>	<b>For the Year Ended December 31, 2011 for Pro Forma Combined Entergy's Transmission Business and ITC</b>
<b>(In thousands, except per share data)</b>		
<b>Statement of Operations Data:</b>		
Operating revenues	\$ 711,233	\$ 1,410,189
Operating income	336,679	671,016
Net income	142,370	287,164
<b>Other Data (a):</b>		
Net income per share of common stock, basic	\$ 1.37	\$ 2.77
Net income per share of common stock, diluted	1.36	2.75
Weighted-average shares of common stock outstanding, basic	103,942,743	103,542,760
Weighted-average shares of common stock outstanding, diluted	104,716,013	104,339,661
<b>Balance Sheet Data (at period end):</b>		
Cash and cash equivalents	\$ 78,518	
Total assets	11,393,707	
Long-term debt	5,478,304	
Total stockholders' equity	3,828,135	

- (a) The share and per share information is based on the \$700 million recapitalization taking the form of a one-time special dividend to ITC's pre-merger shareholders. Refer to The Financings ITC Recapitalization for more information regarding the recapitalization and Note 6, Common Stock Shares Outstanding within the Notes to the Unaudited Pro Forma Condensed Combined Consolidated Financial Statements for the share and per share impact of the \$700 million recapitalization in the form of a share repurchase of ITC common stock from its shareholders.

**Comparative Historical and Pro Forma Per Share Data**

The following tables set forth historical and pro forma per share data of ITC. The ITC historical data have been derived from, and should be read in conjunction with, the audited consolidated financial statements of ITC and the related notes thereto included in ITC's Annual Report on Form 10-K, as amended by the Annual Report on Form 10-K/A, for the year ended December 31, 2011 and the unaudited financial statements of ITC and related notes thereto included in ITC's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, each of which is incorporated by reference into this document.

This summary of comparative historical and pro forma per share data is being provided for illustrative purposes only and is not necessarily indicative of the results that would have been achieved had the transaction been completed during the period presented, nor are they necessarily indicative of any future results. ITC and Entergy's Transmission Business may have performed differently had the transaction occurred prior to the period presented. The results of operations and cash flows of the acquired business reflect its existing state and local jurisdictional rate regulation as a component of the Utility Operating Companies, as compared to the FERC rate regulation expected for Entergy's Transmission Business under ITC's ownership. The pro forma financial statements do not reflect the impact of transitioning Entergy's Transmission Business to FERC rate regulation under ITC ownership. You should not rely on the pro forma per share data presented as being indicative of the results that would have been achieved had ITC and Entergy's Transmission Business been combined during the period presented or of the future results of ITC following the transaction.



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The following table presents certain historical and pro forma per share data for ITC:

	As of and for the Six Months Ended June 30, 2012		As of and for the Year Ended December 31, 2011	
	Historical	Pro Forma (a) unaudited	Historical	Pro Forma (a) unaudited
<b>ITC:</b>				
<b>Earnings Per Share Data:</b>				
Basic	\$ 1.72	\$ 1.37	\$ 3.36	\$ 2.77
Diluted	\$ 1.70	\$ 1.36	\$ 3.31	\$ 2.75
<b>Weighted-average common stock outstanding:</b>				
Basic	50,689,888	103,942,743	50,289,905	103,542,760
Diluted	51,448,604	104,716,013	51,078,823	104,339,661
Book value per share of common stock	\$ 25.92	\$ 36.83	\$ 25.03	
Cash dividends declared per share of common stock	\$ 0.7050	\$ 0.7050	\$ 1.375	\$ 1.375

- (a) The share and per share information is based on the \$700 million recapitalization taking the form of a one-time special dividend to ITC's pre-merger shareholders. Refer to "The Financings - ITC Recapitalization" for more information regarding the recapitalization and Note 6, "Common Stock Shares Outstanding" within the Notes to the Unaudited Pro Forma Condensed Combined Consolidated Financial Statements for the share and per share impact of the \$700 million recapitalization in the form of a share repurchase of ITC common stock from its shareholders.

**Table of Contents****HISTORICAL MARKET PRICE DATA AND DIVIDEND INFORMATION****Historical Market Price Data**

Historical market price data for TransCo has not been presented because TransCo is currently a wholly-owned subsidiary of Entergy and its equity interests are not publicly traded.

ITC common stock is listed and traded on the NYSE under the symbol ITC. The following table sets forth, for the periods indicated, the high and low sales prices per share of ITC common stock, as reported on the NYSE. In addition, the table also sets forth the quarterly cash dividends per share declared by ITC with respect to its common stock. On [ ], 2012, the last practicable trading day prior to the date of this proxy statement/prospectus, there were [ ] shares of ITC common stock outstanding.

	ITC		Dividends Declared
	High	Low	
<b>Calendar Year Ended December 31, 2010</b>			
First Quarter	\$ 56.04	\$ 50.75	\$ 0.3200
Second Quarter	\$ 56.66	\$ 21.80(a)	\$ 0.3200
Third Quarter	\$ 63.89	\$ 51.65	\$ 0.3350
Fourth Quarter	\$ 63.17	\$ 59.77	\$ 0.3350
<b>Calendar Year Ended December 31, 2011</b>			
First Quarter	\$ 70.28	\$ 61.76	\$ 0.3350
Second Quarter	\$ 74.67	\$ 67.46	\$ 0.3350
Third Quarter	\$ 78.89	\$ 64.88	\$ 0.3525
Fourth Quarter	\$ 81.90	\$ 70.00	\$ 0.3525
<b>Calendar Year Ended December 31, 2012</b>			
First Quarter	\$ 78.51	\$ 71.65	\$ 0.3525
Second Quarter	\$ 78.86	\$ 66.30	\$ 0.3525
Third Quarter (through September 21, 2012)	\$ 75.87	\$ 69.10	\$ 0.3775

- (a) The low sales price per share for the quarter ended June 30, 2010 occurred on May 6, 2010, the day when security prices on the NYSE experienced an intraday decline of over 1,000 points within a few minutes before partially recovering. Excluding the sales price per share that occurred on May 6, 2010, the lowest sales price per share for the quarter ended June 30, 2010 was \$47.45.

The following table presents the last reported sale price of a share of ITC common stock, as reported on the NYSE on December 2, 2011, the last full trading day prior to the public announcement of the proposed transactions, and on [ ], 2012, the last practicable trading day prior to the date of this proxy statement/prospectus:

	ITC
December 2, 2011	\$ 73.78
[ ], 2012	\$ [ ]

**Dividend Policy**

The declaration and payment of dividends is subject to the discretion of the ITC board of directors and depends on various factors, including ITC's net income, financial condition, cash requirements, future prospects and other factors deemed relevant by the ITC board of directors. The debt agreements to which ITC is a party contain financial covenants that could limit ITC's ability to pay dividends, as well as covenants that prohibit ITC



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from paying dividends if ITC is in default under its revolving credit facilities. The ITC board of directors intends to adjust the dividend rate from time to time, subject to prevailing business conditions, applicable restrictions on dividend payments, the availability of capital resources and ITC's investment opportunities.

In connection with the transactions, prior to closing the merger, ITC expects to effectuate a \$700 million recapitalization, which may take the form of a one-time special dividend to ITC's pre-merger shareholders, a repurchase of ITC common stock from the ITC shareholders, or a combination of a one-time special dividend and a share repurchase.

Following the date of the merger agreement and prior to the effective time of the merger, ITC will not pay any dividends with respect to any shares of its capital stock other than (i) quarterly cash dividends not to exceed the amounts set forth on ITC's confidential disclosure letter, declared and paid in the ordinary course and with record dates and payment dates consistent with past practice, (ii) dividends payable by a wholly owned subsidiary of ITC to ITC or another wholly owned subsidiary and (iii) if elected, a one-time special dividend to ITC's pre-merger shareholders in accordance with the merger agreement.

For more information on ITC's dividend policy, see [The Transactions](#), [ITC's Dividend Policy](#) and [\\$700 Million Recapitalization](#).

**Table of Contents****SELECTED FINANCIAL STATEMENT DATA****Selected Historical Combined Financial Data of Entergy's Transmission Business**

Entergy's Transmission Business selected combined statement of income data for the three years ended December 31, 2011, 2010 and 2009 and combined balance sheet data as of December 31, 2011 and 2010 have been derived from Entergy's Transmission Business audited combined financial statements, included elsewhere in this proxy statement/prospectus. Entergy's Transmission Business selected combined balance sheet data as of December 31, 2009, 2008, and 2007 and its selected statements of income data presented below for the years ended December 31, 2008 and 2007 have been derived from Entergy's Transmission Business historical accounting records, which are unaudited and are not included in this proxy statement/prospectus. Entergy's Transmission Business selected combined statement of income data for the six months ended June 30, 2012 and 2011 and selected combined balance sheet data as of June 30, 2012 have been derived from Entergy's Transmission Business unaudited condensed combined financial statements, included elsewhere in this proxy statement/prospectus. The selected historical combined financial data below is not necessarily indicative of the results that may be expected for any future period. This information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations for Entergy's Transmission Business and the financial statements of Entergy's Transmission Business and the notes thereto included elsewhere in this proxy statement/prospectus.

The financial information of Entergy's Transmission Business included in this proxy statement/prospectus has been derived from the financial statements and accounting records of Entergy and reflects assumptions and allocations made by Entergy. The financial position, results of operations and cash flows of Entergy's Transmission Business presented may be different from those that would have resulted had Entergy's Transmission Business been operated as a stand-alone company. Additionally, the financial position, results of operations and cash flows of Entergy's Transmission Business presented reflect its existing state and local jurisdictional rate regulation as a component of the Utility Operating Companies, as compared to the FERC rate regulation expected for Entergy's Transmission Business under ITC's ownership. As a result, the historical financial information of Entergy's Transmission Business is not a reliable indicator of future results. See Risk Factors.

	Entergy's Transmission Business						
	Six Months Ended June 30, 2012      2011 (unaudited)		2011	Year Ended December 31, 2010      2009      2008 (unaudited)			2007 (unaudited)
<b>(In thousands)</b>							
<b>Statement of Income Data:</b>							
<b>Operating revenues</b>	\$ 310,994	\$ 314,803	\$ 652,792	\$ 631,742	\$ 582,847	\$ 569,507	\$ 569,998
<b>Operating expenses</b>							
Operation and maintenance	102,527	105,865	218,929	212,113	186,734	189,959	168,151
Depreciation and amortization	71,072	64,977	132,302	127,738	110,294	97,287	94,908
Taxes other than income taxes	25,407	21,494	45,751	42,052	38,346	36,473	33,668
<b>Total operating expenses</b>	<b>199,006</b>	<b>192,336</b>	<b>396,982</b>	<b>381,903</b>	<b>335,374</b>	<b>323,719</b>	<b>296,727</b>
<b>Operating income</b>	<b>111,988</b>	<b>122,467</b>	<b>255,810</b>	<b>249,839</b>	<b>247,473</b>	<b>245,788</b>	<b>273,271</b>
<b>Other expenses (income)</b>							
Interest expense	40,327	36,285	63,247	79,041	79,734	70,782	59,415
Allowance for equity funds used during construction	(5,771)	(7,020)	(15,122)	(8,388)	(6,195)	(8,439)	(11,894)
Other expense (income)	(281)	(2,077)	(1,599)	1,459	(4,697)	(12,921)	(2,608)
<b>Total other expenses (income)</b>	<b>34,275</b>	<b>27,188</b>	<b>46,526</b>	<b>72,112</b>	<b>68,842</b>	<b>49,422</b>	<b>44,913</b>
<b>Income before income taxes</b>	<b>77,713</b>	<b>95,279</b>	<b>209,284</b>	<b>177,727</b>	<b>178,631</b>	<b>196,366</b>	<b>228,358</b>
<b>Income taxes</b>	<b>17,901</b>	<b>34,392</b>	<b>74,460</b>	<b>67,166</b>	<b>68,205</b>	<b>72,265</b>	<b>84,362</b>
<b>Net income</b>	<b>\$ 59,812</b>	<b>\$ 60,887</b>	<b>\$ 134,824</b>	<b>\$ 110,561</b>	<b>\$ 110,426</b>	<b>\$ 124,101</b>	<b>\$ 143,996</b>





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(In thousands)	Entergy's Transmission Business					
	As of June 30, 2012 (unaudited)	2011	2010	As of December 31, 2009 (unaudited)	2008 (unaudited)	2007 (unaudited)
<b>Balance Sheet Data:</b>						
Property, plant and equipment net	\$ 3,792,178	\$ 3,666,387	\$ 3,369,025	\$ 3,134,123	\$ 2,981,331	\$ 2,825,203
Total assets	\$ 4,163,701	\$ 4,015,404	\$ 3,669,588	\$ 3,450,333	\$ 3,308,492	\$ 3,160,214
Long-term debt						

**Selected Consolidated Historical Financial Data of ITC**

The selected consolidated financial data presented below have been derived from, and should be read together with, ITC's consolidated financial statements and the accompanying notes and the related Management's Discussion and Analysis of Financial Condition and Results of Operations and Selected Financial Data sections included in ITC's Annual Report on Form 10-K, as amended by the Annual Report on Form 10-K/A, for the year ended December 31, 2011 and in ITC's Quarterly Report on Form 10-Q for the six months ended June 30, 2012, which are incorporated by reference into this proxy statement/prospectus. The summary consolidated financial data below is not necessarily indicative of the results that may be expected for any future period. To find out where you can obtain copies of ITC's documents that have been incorporated by reference, see Where You Can Find More Information; Incorporation By Reference.

(In thousands)	ITC (a)						
	Six Months Ended June 30, 2012		2011	Year Ended December 31,			
	(unaudited)			2010	2009	2008	2007
<b>Statement of Operations Data:</b>							
<b>Operating revenues</b>	\$ 394,088	\$ 364,484	\$ 757,397	\$ 696,843	\$ 621,015	\$ 617,877	\$ 426,249
<b>Operating expenses</b>							
Operation and maintenance (b)	58,770	55,121	129,288	126,528	95,730	113,818	81,406
General and administrative (b) (c) (d)	50,885	35,869	82,790	78,120	69,231	81,296	62,089
Depreciation and amortization (e)	50,987	46,440	94,981	86,976	85,949	94,769	67,928
Taxes other than income taxes (f)	29,465	27,164	53,430	48,195	43,905	41,180	33,340
Other operating income and expense net	(396)	(316)	(844)	(297)	(667)	(809)	(688)
Total operating expenses	189,711	164,278	359,645	339,522	294,148	330,254	244,075
<b>Operating income</b>	204,377	200,206	397,752	357,321	326,867	287,623	182,174
<b>Other expenses (income)</b>							
Interest expense	77,994	72,754	146,936	142,553	130,209	122,234	81,863
Allowance for equity funds used during construction	(10,178)	(7,609)	(16,699)	(13,412)	(13,203)	(11,610)	(8,145)
Loss on extinguishment of debt					1,263		349
Other income	(1,287)	(718)	(2,881)	(2,340)	(2,792)	(3,415)	(3,457)
Other expense	1,058	2,269	3,962	2,588	2,918	3,944	1,618
Total other expenses (income)	67,587	66,696	131,318	129,389	118,395	111,153	72,228
<b>Income before income taxes</b>	136,790	133,510	266,434	227,932	208,472	176,470	109,946
<b>Income tax provision (f)</b>	48,353	48,512	94,749	82,254	77,572	67,262	36,650
<b>Net income</b>	\$ 88,437	\$ 84,998	\$ 171,685	\$ 145,678	\$ 130,900	\$ 109,208	\$ 73,296



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	ITC (a)							
	Six Months Ended June 30,			Year Ended December 31,				
	2012 (unaudited)	2011	2011	2010	2009	2008	2007	
Basic earnings per share	\$ 1.72	\$ 1.67	\$ 3.36	\$ 2.89	\$ 2.62	\$ 2.22	\$ 1.72	
Diluted earnings per share	\$ 1.70	\$ 1.64	\$ 3.31	\$ 2.84	\$ 2.58	\$ 2.18	\$ 1.68	
Weighted-average basic shares	50,689,888	50,082,531	50,289,905	49,526,580	49,196,470	48,592,534	42,298,478	
Weighted-average diluted shares	51,448,604	50,870,174	51,078,823	50,398,039	50,077,433	49,627,887	43,454,115	
Dividends declared per share	\$ 0.7050	\$ 0.6700	\$ 1.3750	\$ 1.3100	\$ 1.2500	\$ 1.1900	\$ 1.1300	

(In thousands)	ITC (a)							
	As of June 30,			As of December 31,				
	2012 (unaudited)	2011	2011	2010	2009	2008	2007	
<b>Balance Sheet Data:</b>								
Cash and cash equivalents	\$ 38,518	\$ 81,235	\$ 58,344	\$ 95,109	\$ 74,853	\$ 58,110	\$ 2,616	
Working capital (deficit)	(125,050)	3,799	(113,939)	69,338	147,335	1,095	(30,370)	
Property, plant and equipment net	3,798,197	3,097,923	3,415,823	2,872,277	2,542,064	2,304,386	1,960,433	
Total assets	5,254,224	4,544,334	4,823,366	4,307,873	4,029,716	3,714,565	3,213,297	
Long-term debt:								
ITC Holdings	1,615,459	1,459,388	1,459,599	1,459,178	1,458,757	1,327,741	1,687,193	
Regulated Operating Subsidiaries	1,347,845	1,106,381	1,185,423	1,037,718	975,641	920,512	556,231	
Total long-term debt	2,963,304	2,565,769	2,645,022	2,496,896	2,434,398	2,248,253	2,243,424	
Total stockholders equity	1,313,906	1,190,152	1,258,892	1,117,433	1,011,523	929,063	563,075	

(In thousands)	ITC (a)							
	Six Months Ended June 30,			Year Ended December 31,				
	2012 (unaudited)	2011	2011	2010	2009	2008	2007	
<b>Other Data:</b>								
Expenditures for property, plant and equipment	\$ 435,745	\$ 228,028	\$ 556,931	\$ 388,401	\$ 404,514	\$ 401,840	\$ 287,170	
Interest paid (net of interest capitalized)	59,607	71,168	142,101	135,771	125,254	102,149	73,489	
Income taxes paid	24,733	14,196	34,127	8,844	1,971	2,012	2,058	

- (a) ITC Midwest's results of operations, cash flows and balances are included for the periods presented subsequent to its acquisition of the electric transmission assets of Interstate Power and Light on December 20, 2007.
- (b) The reduction in expenses for 2009 compared to 2008 was due in part to efforts to achieve short-term reductions in operation and maintenance expenses and general and administrative expenses to offset the impact of lower network load on cash flows and any potential revenue accrual relating to 2009.
- (c) During 2011 and 2009, we recognized \$2.0 million and \$10.0 million, respectively, of regulatory assets associated with the development activities of ITC Great Plains as well as certain pre-construction costs for the Kansas V-Plan and Kansas Electric Transmission Authority ( KETA ) projects. Upon initial establishment of these regulatory assets in 2011 and 2009, \$1.9 million and \$8.0 million, respectively, of general and administrative expenses were reversed of which \$1.4 million and \$5.9 million were incurred in periods prior to 2011 and 2009, respectively. No initial establishment of regulatory assets occurred in 2010 that resulted in a reversal of expenses.



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- (d) During 2011 and the six months ended June 30, 2012, we expensed external legal, advisory and financial services fees of \$7.0 million and \$6.5 million, respectively, relating to the Entergy transaction recorded primarily within general and administrative expenses of which certain amounts are not expected to be deductible for income tax purposes.
- (e) In 2009, the FERC accepted the depreciation studies filed by ITCTransmission and METC that revised their depreciation rates. In 2010, the FERC accepted a depreciation study filed by ITC Midwest which revised its depreciation rates. These changes in accounting estimates resulted in lower composite depreciation rates for ITCTransmission, METC and ITC Midwest primarily due to the revision of asset service lives and cost of removal values. The revised estimate of annual depreciation expense was reflected in 2009 for ITCTransmission and METC and in 2010 for ITC Midwest.
- (f) The increase in the income tax provision for 2008 compared to 2007 was due in part to the implementation of the Michigan Business Tax, which was in effect from 2008 through 2011 and was accounted for as an income tax, compared to the Michigan Single Business Tax in effect prior to 2008 that was accounted for as a tax other than income tax.

**Selected Unaudited Pro Forma Condensed Combined Consolidated Information**

The unaudited pro forma condensed combined consolidated financial statements (which we refer to as the pro forma financial statements) combine the historical consolidated financial statements of ITC and the historical combined financial statements of Entergy's Transmission Business to illustrate the effect of the merger. The pro forma financial statements were based on and should be read in conjunction with:

accompanying notes to the unaudited pro forma financial statements;

ITC's consolidated financial statements for the year ended December 31, 2011 and as of and for the six months ended June 30, 2012 and the notes relating thereto, incorporated herein by reference; and

Entergy's Transmission Business's combined financial statements for the year ended December 31, 2011 and as of and for the six months ended June 30, 2012 and the notes relating thereto included in this proxy statement/prospectus.

The unaudited pro forma condensed consolidated statement of operations (which we refer to as the pro forma statement of operations) for the year ended December 31, 2011 and for the six months ended June 30, 2012, give effect to the merger as if it occurred on January 1, 2011. The unaudited pro forma condensed consolidated balance sheet (which we refer to as the pro forma balance sheet) as of June 30, 2012, gives effect to the merger as if it occurred on June 30, 2012.

The pro forma financial statements have been presented for informational purposes only and are not indicative of the operating results or financial position that would have occurred if the merger had been consummated on the dates indicated, nor are indicative of any future operating results or financial position of the combined business. The results of operations and cash flows of the acquired business reflect its existing state and local jurisdictional rate regulation as a component of the Utility Operating Companies, as compared to the FERC rate regulation expected for Entergy's Transmission Business under ITC's ownership. The pro forma financial statements do not reflect the impact of transitioning Entergy's Transmission Business to FERC rate regulation under ITC ownership.

The merger has not been consummated as of the date of the preparation of these pro forma financial statements and there can be no assurances that the merger will be consummated. See Risk Factors for additional discussion of risk factors associated with the pro forma financial statements.

**Table of Contents****ITC AND ENTERGY'S TRANSMISSION BUSINESS****UNAUDITED PRO FORMA CONDENSED COMBINED CONSOLIDATED BALANCE SHEET**

As of June 30, 2012

(In thousands)	ITC (Historical) (a)	Entergy's Transmission Business (Historical) (a)	Pro Forma Adjustments	Pro Forma Combined
<b>Assets</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 38,518	\$ 1,242	\$ (1,242)(b) 40,000 (c)	\$ 78,518
Accounts receivable	110,458	26,652	(26,652)(b) 43,635 (d)	154,093
Inventory	35,045	36,159		71,204
Deferred income taxes	21,503		1,822 (f)	23,325
Regulatory assets - revenue accruals, including accrued interest	6,163			6,163
Prepaid assets	19,327			19,327
Other	37			37
Total current assets	231,051	64,053	57,563	352,667
<b>Property, plant and equipment (net)</b>	<b>3,798,197</b>	<b>3,796,931</b>	<b>(47,799)(b)</b>	<b>7,547,329</b>
<b>Other assets</b>				
Goodwill	950,163	38,494	(38,494)(d) 2,064,509 (d)	3,014,672
Intangible assets (net)	46,113			46,113
Regulatory assets - revenue accruals, including accrued interest	10,940			10,940
Other regulatory assets	170,320	257,720	(80,555)(b)	347,485
Deferred financing fees (net)	20,477		20,558 (c)	41,035
Other	26,963	6,503		33,466
Total other assets	1,224,976	302,717	1,966,018	3,493,711
<b>Total assets</b>	<b>\$ 5,254,224</b>	<b>\$ 4,163,701</b>	<b>\$ 1,975,782</b>	<b>\$ 11,393,707</b>
<b>Liabilities and stockholders' equity</b>				
<b>Current liabilities</b>				
Accounts payable	\$ 128,239	\$ 35,056	\$ (5,380)(b)	\$ 157,915
Accrued payroll	14,300	9,184		23,484
Accrued interest	59,844			59,844
Accrued taxes	30,460	27,669	(27,669)(b)	30,460
Regulatory liabilities - revenue deferrals, including accrued interest	49,206			49,206
Refundable deposits from generators for transmission network upgrades	59,363			59,363
Other	14,689	10,649	7,058 (c) 41,117 (e)	73,513
Total current liabilities	356,101	82,558	15,126	453,785
<b>Accrued pension and other postretirement liabilities</b>	<b>41,689</b>	<b>98,942</b>	<b>(65,634)(b)</b>	<b>74,997</b>
<b>Deferred income taxes</b>	<b>416,521</b>	<b>929,686</b>	<b>(21,489)(b) (14,391)(f)</b>	<b>1,293,110</b>
<b>Regulatory liabilities - revenue deferrals, including accrued interest</b>	<b>36,299</b>			<b>36,299</b>
<b>Regulatory liabilities - accrued asset removal costs</b>	<b>80,607</b>	<b>63,513</b>		<b>144,120</b>
<b>Refundable deposits from generators for transmission network upgrades</b>	<b>2,296</b>			<b>2,296</b>
<b>Other</b>	<b>43,501</b>	<b>21,943</b>		<b>82,661</b>
<b>Long-term debt</b>	<b>2,963,304</b>		<b>2,515,000 (c)</b>	<b>5,478,304</b>
<b>Stockholders' equity</b>				

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Common stock	950,383		3,244,339 (g)	3,847,627
			(347,095)(j)	
Net parent investment		2,969,529	(2,969,529)(h)	
Retained earnings	383,015		(30,110)(i)	
			(352,905)(j)	
Accumulated other comprehensive loss	(19,492)	(2,470)	2,470 (h)	(19,492)
Total stockholders' equity	1,313,906	2,967,059	(452,830)	3,828,135
Total liabilities and stockholders' equity	\$ 5,254,224	\$ 4,163,701	\$ 1,975,782	\$ 11,393,707

**See notes to the unaudited pro forma condensed combined consolidated financial statements.**



**Table of Contents****ITC AND ENTERGY S TRANSMISSION BUSINESS****UNAUDITED PRO FORMA CONDENSED COMBINED CONSOLIDATED****STATEMENTS OF OPERATIONS****For the Six Months Ended June 30, 2012**

	ITC (Historical) (a)	Entergy s Transmission Business (Historical) (a)	Pro Forma Adjustments	Pro Forma Combined
<b>(In thousands, except share and per share data)</b>				
<b>Operating revenues</b>	\$ 394,088	\$ 310,994	\$ 6,151 (f)	\$ 711,233
<b>Operating expenses</b>				
Operation and maintenance	58,770	61,825		120,595
General and administrative	50,885	40,702	(4,707)(b)	80,322
			(6,558)(e)	
Depreciation and amortization	50,987	71,072	(2,898)(b)	119,161
Taxes other than income taxes	29,465	25,407		54,872
Other operating income and expense net	(396)			(396)
Total operating expenses	189,711	199,006	(14,163)	374,554
<b>Operating income</b>	204,377	111,988	20,314	336,679
<b>Other expenses (income)</b>				
Interest expense	77,994	40,327	14,905 (c)	133,226
Allowance for equity funds used during construction	(10,178)	(5,771)		(15,949)
Other income	(1,287)	(893)		(2,180)
Other expense	1,058	612		1,670
Total other expenses (income)	67,587	34,275	14,905	116,767
<b>Income before income taxes</b>	136,790	77,713	5,409	219,912
<b>Income tax provision</b>	48,353	17,901	11,288 (f)	77,542
<b>Net income</b>	\$ 88,437	\$ 59,812	\$ (5,879)	\$ 142,370
Weighted-average shares of common stock outstanding (Note 6):				
Basic	50,689,888			103,942,743
Diluted	51,448,604			104,716,013
Basic earnings per common share (Note 6)	\$ 1.72			\$ 1.37
Diluted earnings per common share (Note 6)	\$ 1.70			\$ 1.36

**See notes to the unaudited pro forma condensed combined consolidated financial statements.**

**Table of Contents****ITC AND ENTERGY S TRANSMISSION BUSINESS****UNAUDITED PRO FORMA CONDENSED COMBINED CONSOLIDATED****STATEMENTS OF OPERATIONS****For the Year Ended December 31, 2011**

(In thousands, except share and per share data)	ITC (Historical) (a)	Entergy s Transmission Business (Historical) (a)	Pro Forma Adjustments	Pro Forma Combined
<b>Operating revenues</b>	\$ 757,397	\$ 652,792	\$	\$ 1,410,189
<b>Operating expenses</b>				
Operation and maintenance	129,288	133,949		263,237
General and administrative	82,790	84,980	(5,152)(b)	155,618
			(7,000)(c)	
Depreciation and amortization	94,981	132,302	(5,302)(b)	221,981
Taxes other than income taxes	53,430	45,751		99,181
Other operating income and expense net	(844)			(844)
Total operating expenses	359,645	396,982	(17,454)	739,173
<b>Operating income</b>	397,752	255,810	17,454	671,016
<b>Other expenses (income)</b>				
Interest expense	146,936	63,247	47,216(c)	257,399
Allowance for equity funds used during construction	(16,699)	(15,122)		(31,821)
Other income	(2,881)	(2,741)		(5,622)
Other expense	3,962	1,142		5,104
Total other expenses (income)	131,318	46,526	47,216	225,060
<b>Income before income taxes</b>	266,434	209,284	(29,762)	445,956
<b>Income tax provision</b>	94,749	74,460	(10,417)(f)	158,792
<b>Net income</b>	\$ 171,685	\$ 134,824	\$ (19,345)	\$ 287,164
Weighted-average shares of common stock outstanding (Note 6):				
Basic	50,289,905			103,542,760
Diluted	51,078,823			104,339,661
Basic earnings per common share (Note 6)	\$ 3.36			\$ 2.77
Diluted earnings per common share (Note 6)	\$ 3.31			\$ 2.75

**See notes to the unaudited pro forma condensed combined consolidated financial statements.**

**Table of Contents****ITC AND ENTERGY S TRANSMISSION BUSINESS NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED CONSOLIDATED FINANCIAL STATEMENTS****Note 1. Description of the Merger**

As of December 4, 2011, Entergy and ITC executed definitive agreements under which Entergy will separate and then merge its electric transmission business with a wholly-owned subsidiary of ITC.

Entergy's Transmission Business consists of the Entergy transmission system, which comprises over 15,800 circuit miles of 69kV to 500kV transmission lines and 1,500 substations over a 114,000-square mile service territory. The Entergy transmission system spans portions of Arkansas, Louisiana, Mississippi, Missouri and Texas.

The terms of the transaction agreements call for Entergy to separate its electric transmission business into a newly-formed entity, TransCo, and TransCo's subsidiaries, and distribute the equity interests in TransCo (excluding any equity interests in TransCo to be contributed to an exchange trust in the event Entergy makes the exchange trust election) to Entergy's shareholders in the form of a tax-free spin-off or split-off exchange offer or a combination of both. TransCo will then merge with a newly-created merger subsidiary of ITC in an all-stock, Reverse Morris Trust transaction, and will survive the merger as a wholly owned subsidiary of ITC. Prior to the merger, under the terms of the merger agreement, ITC may, in ITC's sole discretion, elect to (i) pay a \$700 million one-time special dividend to its pre-merger shareholders, (ii) repurchase \$700 million of ITC common stock or (iii) undertake a combination of both (not to exceed \$700 million in the aggregate). Such election is referred to as the ITC recapitalization. The ITC recapitalization is expected to be funded by approximately \$740 million of debt securities issued by ITC prior to the merger with the remaining \$40 million to be used for general corporate purposes and payment of transaction-related costs. As a result of and immediately following the merger, Entergy shareholders (and, if applicable, the exchange trust) will collectively own approximately 50.1% of ITC common stock on a fully diluted basis, and existing ITC shareholders will collectively own approximately 49.9% of ITC common stock on a fully diluted basis. In no event will Entergy shareholders (and, if applicable, the exchange trust) hold less than 50.1% of the outstanding common stock of ITC immediately after the merger. In addition, Entergy will receive senior securities of TransCo and gross cash proceeds from indebtedness that will be incurred by TransCo and its subsidiaries prior to the merger in an aggregate amount of \$1.775 billion. This indebtedness will be assumed by ITC. Entergy expects that these proceeds will be used to reduce outstanding Entergy or Utility Operating Company debt or for other corporate purposes.

Upon completion of the merger, Entergy equity-based awards held by employees of Entergy's Transmission Business will generally convert to equivalent ITC equity-based awards, after giving effect to an equity exchange ratio. As defined in the employee matters agreement, the equity exchange ratio is defined as the quotient of (i) the per share closing trading price of Entergy common stock trading in the Regular Way trading market on the NYSE on the day before the distribution date and (ii) the per share closing trading price of ITC common stock trading on the NYSE on the closing date of the merger. For purposes of the per share trading prices for the pro forma financial statements, September 18, 2012<sup>4</sup> has been used as both the distribution and closing date.

Completion of the merger is expected in 2013 subject to the satisfaction of specified closing conditions, including the necessary approvals of Entergy's retail regulators, the FERC and ITC's shareholders. There can be no assurance the merger will be consummated. See Risk Factors.

<sup>4</sup> September 18, 2012 share price was used as a reasonable date prior to the filing of the Form S-4 Registration Statement. The share price will be updated with each subsequent Form S-4 amendment based on a reasonable recent date prior to the filing.

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**Note 2. Basis of Pro Forma Presentation**

The pro forma financial statements were derived from historical consolidated financial statements of ITC and the historical combined financial statements of Entergy's Transmission Business. Certain reclassifications have been made to Entergy's Transmission Business' financial statements to conform to ITC's historical presentation.

The historical consolidated financial statements have been adjusted in the pro forma financial statements to give effect to pro forma events that are (1) directly attributable to the merger, (2) factually supportable, and (3) with respect to the pro forma statement of operations, expected to have a continuing impact on the combined results. The pro forma financial statements reflect the impact of:

the assets and liabilities of Entergy's Transmission Business that will not be transferred to ITC pursuant to the separation agreement;

the issuance of 52,725,291 shares of ITC common stock to the shareholders of Entergy in connection with the merger and the issuance of 153,556 shares of ITC common stock as replacement awards for Entergy equity-based awards held by employees of Entergy's Transmission Business;

the additional indebtedness to be incurred with the related financing transactions;

the recapitalization which will take the form of one of the following: (i) a one-time special dividend payable to pre-merger ITC shareholders or (ii) a share repurchase of ITC common stock, or (iii) a combination of a one-time special dividend and share repurchase of ITC common stock; and

other adjustments described in the notes to this section.

The following matters have not been reflected in the pro forma financial statements as they do not meet the aforementioned criteria:

Fair value adjustments for assets or liabilities subject to rate-setting provisions for Entergy's regulated entities operating Entergy's Transmission Business. These operations are subject to the rate-setting authority of the FERC and other local regulators. The rate-setting and cost recovery provisions currently in place for Entergy's Transmission Business regulated operations provide revenues derived from costs including a return on investment of assets and liabilities included in rate base. The fair values of Entergy's Transmission Business assets and liabilities subject to these rate-setting provisions approximate their carrying values and therefore the pro forma financial statements do not reflect any net adjustments related to these amounts.

Cost savings (or associated costs to achieve such savings) from operating efficiencies, synergies or other restructuring that could result from the merger. The timing and effect of actions associated with integration are currently uncertain.

Adjustments to the operating expenses recorded in Entergy's Transmission Business' historical financial statements associated with Entergy's MISO integration of \$3.3 million and \$7.0 million for the six months ended June 30, 2012 and the year ended December 31, 2011, respectively.

The \$200 million Term Loan Credit Agreement entered into by ITC Holdings on August 23, 2012, the proceeds of which were used for the repayment of borrowings under revolving credit agreements and for general corporate purposes and was unrelated to the transaction financings.

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The transaction is being accounted for using the acquisition method of accounting for business combinations with ITC as the acquirer for accounting purposes. Accordingly, ITC's cost to acquire Entergy's Transmission Business will be allocated to the assets acquired and the liabilities assumed based upon their respective fair values on the date the merger is completed. Under the acquisition method of accounting, the total estimated consideration transferred is allocated to Entergy's Transmission Business' net tangible and intangible assets and liabilities based on their estimated fair values as of the date of consummation of the merger. The pro forma

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adjustments included herein may be revised as additional information becomes available and as additional analyses are performed. See Note 4 Estimated Consideration Transferred and Preliminary Allocation of Consideration Transferred below for the estimate of the consideration transferred allocation.

**Note 3. Significant Accounting Policies**

Based upon ITC's initial review of the summary of significant accounting policies for Entergy's Transmission Business, as disclosed in the notes to the combined financial statements included in this proxy statement/prospectus, as well as preliminary discussions with the management of Entergy's Transmission Business, the pro forma combined consolidated financial statements assume there will be no significant adjustments necessary to conform Entergy's Transmission Business' accounting policies to ITC's accounting policies. Upon completion of the merger and a more comprehensive comparison and assessment, differences may be identified that would necessitate changes to Entergy's Transmission Business' future accounting policies and such changes could result in material differences in future reported results of operations and financial position for Entergy's Transmission Business' operations as compared to historically reported amounts.

**Note 4. Estimated Consideration Transferred and Preliminary Allocation of Consideration Transferred**

Entergy shareholders (and, if applicable, the exchange trust) are to receive approximately 50.1% of ITC's common stock on a fully diluted basis in connection with the merger. In no event will Entergy shareholders (and, if applicable, the exchange trust) hold less than 50.1% of the outstanding common stock of ITC immediately after the merger. The preliminary consideration transferred was computed using the number of shares of ITC common stock outstanding as of June 30, 2012, adjusted for the 50.1% ownership of Entergy as follows (dollars in thousands):

	Number of Shares/Awards Issued	Total Estimated Fair Value
Issuance of ITC common stock to Entergy's shareholders	52,725,291	\$ 3,237,596
Issuance of ITC equity awards to replace existing earned equity awards of Entergy's Transmission Business	153,556	1,537
Transactional cash (Note 5(d))		(43,635)
<b>Total estimated consideration transferred</b>		<b>\$ 3,195,498</b>
<b>Preliminary Allocation of Consideration Transferred</b>		
Current assets	\$ 64,053	
Property, plant and equipment	3,796,931	
Goodwill	2,064,509	
Other long-term assets, excluding goodwill	277,723	
<b>Total assets</b>	<b>6,203,216</b>	
Current liabilities	82,558	
Deferred credits and other liabilities	1,114,084	
Long-term debt (assumed by ITC Note 5(c))	1,775,000	
<b>Total liabilities</b>	<b>2,971,642</b>	
Net assets and liabilities not transferred (Note 5(b))	(36,076)	
<b>Total estimated consideration transferred</b>	<b>\$ 3,195,498</b>	

The estimated fair value of the shares of ITC common stock issued to Entergy shareholders was based on the number of shares issued multiplied by the closing price of ITC common stock (\$75.00 on September 18, 2012), adjusted by \$13.60 per share for the effects of the \$700 million special dividend as described in Note 1, "Description of the Merger", as if that dividend were paid on ITC's outstanding shares of common stock at June 30, 2012 that were eligible for dividends. For purposes of these pro forma financial statements, it has been assumed



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that the ITC recapitalization will take the form of a special dividend. Additionally, the preliminary consideration transferred reflects the total estimated fair value of Entergy's Transmission Business share-based compensation awards outstanding as of June 30, 2012, converted to ITC common shares based on the equity exchange ratio (described in Note 5(g), *Common Stock* below). If ITC were to effectuate its recapitalization in the form of a repurchase of ITC common stock outstanding prior to the closing date instead of the special dividend as described above, the total estimated consideration transferred would be the same amount, \$3,195.5 million, assuming the share repurchase was effectuated at the closing price of ITC common stock of \$75.00 on September 18, 2012 multiplied by the number of shares expected to be issued after the \$700 million repurchase.

The final allocation of the consideration transferred will be determined after the merger is completed and after completion of a final analysis to determine the fair values of Entergy's Transmission Business assets and liabilities as of the date of consummation of the merger. Accordingly, the final acquisition accounting adjustments may be materially different from the pro forma adjustments presented in this document.

The consideration transferred will fluctuate with the market price of ITC's common stock until it is reflected on an actual basis when the merger is completed. An increase or decrease of 15% in ITC's common share price from the price used above would increase or decrease the consideration transferred by approximately \$485.5 million. Assessing sensitivity at 15% rate of change is consistent with the differential between the most recent 52-week high and low closing prices of ITC's common stock.

**Note 5. Pro Forma Adjustments to Financial Statements**

The pro forma adjustments included in the pro forma financial statements are as follows:

(a) *ITC and Entergy's Transmission Business historical presentation* Certain financial statement line items or components of financial statement line items included in Entergy's Transmission Business historical presentation have been reclassified to conform to ITC's historical presentation. These reclassifications had no impact on the historical operating income, net income or total equity reported by Entergy's Transmission Business. The adjustments to total assets and liabilities were not material to Entergy's Transmission Business balance sheet.

(b) *Assets and Liabilities Not Transferred* Pursuant to the separation agreement, certain assets and liabilities will not be transferred to ITC and will be retained by Entergy. The pro forma balance sheet includes the following pro forma adjustments to reflect assets, liabilities and associated deferred taxes not transferred pursuant to the separation agreement (in thousands):

	As of June 30, 2012
Cash and cash equivalents	\$ (1,242)
Accounts receivable (net)	(26,652)
Property, plant and equipment (net) (1)	(47,799)
Other regulatory assets (2)	(80,555)
<b>Total assets</b>	<b>\$ (156,248)</b>
Accounts payable	\$ (5,380)
Accrued taxes	(27,669)
Accrued pension and other postretirement liabilities (2)	(65,634)
Deferred income taxes	(21,489)
<b>Total liabilities</b>	<b>\$ (120,172)</b>
<b>Net Assets Not Transferred</b>	<b>\$ (36,076)</b>

- (1) The pro forma statements of operations include pro forma adjustments to depreciation and amortization expense of \$2.9 million and \$5.3 million for the six months ended June 30, 2012 and the year ended December 31, 2011, respectively, to reflect a decrease in ongoing depreciation expense for the assets not transferred.





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(2) As the combined company will not have responsibility for the inactive and retired employees under the previous Entergy benefit plans pursuant to the employee matters agreement, the pro forma statements of operations include pro forma adjustments to general and administrative expenses of \$4.7 million and \$5.2 million for the six months ended June 30, 2012 and the year ended December 31, 2011, respectively, to reflect a decrease in the ongoing expense relating to these employees.

(c) *Debt* As described in Note 1, "Description of the Merger", the pro forma balance sheet includes the following pro forma adjustment (in thousands):

	As of June 30, 2012
Preacquisition debt assumed by ITC	\$ 1,775,000
New ITC debt	740,000
<b>Pro forma debt adjustment</b>	<b>\$ 2,515,000</b>

Prior to the closing of the merger, Entergy's Transmission Business is expected to obtain an additional \$1.775 billion in debt financing that will be assumed by ITC. The \$1.775 billion is included in the calculation of goodwill. Additionally, \$740 million of new ITC debt is expected to be issued, with \$40 million recorded as an increase to cash to be used for general corporate purposes and payment of transaction-related costs and \$700 million to be used to finance the recapitalization of ITC, described below in Note 5(j), *Recapitalization*. In addition, the pro forma balance sheet includes pro forma adjustments to record \$20.6 million of deferred financing fees of which \$13.5 million will be paid by Entergy's Transmission Business. The remaining \$7.1 million to be paid by ITC is included as an increase to other current liabilities. The pro forma statements of operations include pro forma adjustments to reflect the increase in interest expense of \$14.9 million and \$47.2 million for the six months ended June 30, 2012 and the year ended December 31, 2011, respectively, consisting of interest expense on the new debt issuances described above, partially offset by removing Entergy's Transmission Business' previously recorded interest expense. An interest rate of 5.05% was used to calculate the pro forma interest expense on the new ITC debt as well as the TransCo securities to be assumed by ITC and an interest rate of 3.50% was used to calculate the pro forma interest expense on the TransCo Subs Financing to be assumed by ITC. The effect of a 0.125% change in interest rates would result in an annual change in the interest expense adjustment of approximately \$3.1 million.

(d) *Goodwill* The pro forma balance sheet includes a preliminary estimate of goodwill. Goodwill represents the excess of consideration transferred over the estimated fair value of the identifiable assets acquired and liabilities assumed in addition to an adjustment to remove Entergy's Transmission Business' existing goodwill balance. The consideration transferred of \$3,195.5 million includes: (1) ITC common stock issued to Entergy; (2) ITC equity awards issued to replace existing earned awards of Entergy's Transmission Business; and (3) a reduction for transactional cash (recorded as an increase to accounts receivable of \$43.6 million). The amount of transactional cash paid to ITC from Entergy is equal to the balance of Entergy's Transmission Business' customer deposits and accounts payable related to capital assets. The transactional cash is expected to be paid at or shortly after the closing of the transaction and is recorded in accounts receivable on the pro forma balance sheet.

Total estimated consideration transferred (Note 4)	\$ 3,195,498
Net book value of assets of Entergy's Transmission Business	2,980,559
<i>Adjustments to Fair Value of net assets acquired</i>	
Less: Net assets not transferred per the separation agreement (Note 5(b))	(36,076)
Less: Existing Goodwill of Entergy's Transmission Business	(38,494)
Less: Preacquisition debt assumed by ITC (Note 5(c))	(1,775,000)
<b>Net fair value of assets assumed by ITC</b>	<b>1,130,989</b>
Estimated goodwill from acquisition	\$ 2,064,509

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(e) *Merger Transaction Costs* The pro forma balance sheet includes a pro forma adjustment to reflect ITC's estimated merger transaction costs for periods subsequent to June 30, 2012 of \$41.1 million. Merger transaction costs primarily include costs related to investment banking, legal, accounting, and consulting services. The pro forma statements of operations include the pro forma adjustments to eliminate the merger transaction costs incurred by ITC of \$6.6 million for the six months ended June 30, 2012 and \$7.0 million for the year ended December 31, 2011. Entergy's Transmission Business has not recorded any merger transaction costs in its historical financial statements. ITC's estimated merger transaction costs have been excluded from the pro forma statements of operations as they reflect non-recurring charges not expected to have a continuing impact on the combined results.

(f) *Income Taxes* The pro forma balance sheet includes a pro forma adjustment to reflect the estimated deferred income tax impact of \$14.4 million for merger transaction costs (as described in Note 5(e), *Merger Transaction Costs*) and \$1.8 million for accelerated vesting of share-based awards (as described below in Note 5(g), *Common Stock*), based on the federal statutory rate of 35%.

The total pro forma adjustments for income taxes in the pro forma statements of operations are \$11.3 million for the six months ended June 30, 2012 and \$10.4 million for the year ended December 31, 2011. The pro forma adjustments are tax-effected at the federal statutory rate of 35%.

Included in the pro forma adjustment of \$11.3 million for the six months ended June 30, 2012 is a reversal of the tax benefit recorded for the partial settlement of Entergy's Transmission Business uncertain tax positions of \$9.4 million. As these tax attributes will not be transferred pursuant to the Separation Agreement, the associated tax benefit has been removed from the pro forma statement of operations. Refer to Note 8 in the condensed combined financial statements of Entergy's Transmission Business for the six months ended June 30, 2012 and 2011 included elsewhere in this proxy statement/prospectus. The \$6.2 million adjustment to operating revenue in the pro forma statement of operations for the six months ended June 30, 2012 reverses the reduction of revenues recorded in Entergy's Transmission Business statement of operations that recognized its obligation to share the tax benefits relating to this uncertain tax position with customers.

(g) *Common Stock* The pro forma balance sheet includes adjustments to common stock of \$3,244.3 million related to the issuance of 52,725,291 shares of ITC common stock to the shareholders of Entergy (and, if applicable, the exchange trust) in order to receive approximately 50.1% of the shares of pro forma ITC and 153,556 shares related to the issuance of ITC equity awards (as authorized by the proposed amendment to the Amended and Restated Articles of Incorporation as noted above under Notice of Special Meeting of Shareholders ) to replace existing awards, held by employees of Entergy's Transmission Business as described in Note 1, Description of the Merger.

For the replacement awards, each Entergy share award held by an employee of Entergy's Transmission Business will be converted to an ITC equity award. The fair value of the replacement awards which are considered vested under Entergy's share-based compensation plans at the effective time of the merger has been attributed to pre-combination service and reflected in the consideration transferred. Unvested share-based awards are considered post-combination service. These estimates are preliminary, subject to change and could vary materially from the actual adjustments at the time the merger is completed, driven by various factors including changes in ITC and Entergy share prices as compared to September 18, 2012 share prices that were used for purposes of determining these pro forma adjustments.

In accordance with our Second Amended and Restated 2006 Long-Term Incentive Plan, the vesting period for certain grants issued to ITC employees prior to June 30, 2012 will be accelerated upon the transfer of shares in connection with the merger transaction. The pro forma adjustment to common stock of \$3,244.3 million includes \$5.2 million related to the impact of the accelerated vesting, with a corresponding decrease to retained earnings (as described below in Note 5(i), *Retained Earnings*) and increase to deferred income tax assets (as described in Note 5(f), *Income Taxes*).

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(h) *Net Parent Investment and Accumulated Other Comprehensive Loss* The pro forma balance sheet reflects the elimination of the historical net parent investment and accumulated other comprehensive loss of Entergy's Transmission Business.

(i) *Retained Earnings* The pro forma balance sheet adjustment to retained earnings of \$30.1 million consists of \$26.7 million related to the merger transaction costs (net of tax) and \$3.4 million related to the accelerated vesting of ITC common stock (net of tax).

(j) *Recapitalization* ITC's \$700 million recapitalization described in Note 1, Description of the Merger, may take the form of a one-time special dividend to ITC's pre-merger shareholders, a repurchase of ITC common stock from its shareholders, or a combination of a special dividend and share repurchase. For purposes of these pro forma financial statements, we have assumed that the recapitalization will take the form of a one-time special dividend of \$700 million, which is reflected as a reduction to common stock and retained earnings of \$347.1 million and \$352.9 million, respectively. If ITC's \$700 million recapitalization were to take the form of a share repurchase, the pro forma financial statements would reflect a reduction in common stock of \$700 million. The impact of effectuating a share repurchase instead of a special dividend on pro forma basic and diluted earnings per share is described in Note 6, Common Stock Shares Outstanding.

**Note 6. Common Stock Shares Outstanding**

The pro forma weighted-average number of basic shares outstanding is calculated by adding (i) the shares issued in connection with the transaction and (ii) the shares to be issued for accelerated vesting of restricted stock awards (as described above in Note 5(g), *Common Stock*) to ITC's weighted-average number of basic shares of common stock outstanding for the six months ended June 30, 2012 and the year ended December 31, 2011. The pro forma weighted-average number of diluted shares outstanding is calculated by adding (i) the weighted-average basic shares, (ii) ITC's incremental shares for stock options and the employee stock purchase plan for the six months ended June 30, 2012 and the year ended December 31, 2011; and (iii) the shares for stock options and restricted shares held by employees of Entergy's Transmission Business. The dilutive Entergy Transmission Business securities are translated into ITC shares for stock options and restricted shares at the equity exchange ratio of 1.110 calculated pursuant to the employee matters agreement. The following table illustrates these computations:

	Six Months Ended June 30, 2012	Year Ended December 31, 2011
<b>Basic:</b>		
ITC common shares issued in the transaction	52,725,291	52,725,291
ITC weighted-average basic common shares	50,689,888	50,289,905
Accelerated vesting of restricted stock	527,564	527,564
<b>Pro forma weighted-average basic common shares</b>	<b>103,942,743</b>	<b>103,542,760</b>
<b>Diluted:</b>		
ITC incremental shares for stock options and employee stock purchase plan	758,716	788,918
Shares for stock options and restricted shares held by employees of Entergy's Transmission Business	13,106	7,189
Equity Exchange ratio	1.110	1.110
<b>Equivalent ITC incremental shares</b>	<b>14,554</b>	<b>7,983</b>
<b>Pro forma weighted-average diluted common shares</b>	<b>104,716,013</b>	<b>104,339,661</b>

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ITC's historical earnings per share were calculated based on the two-class method due to our restricted stock containing rights to receive nonforfeitable dividends. As a result of the accelerated vesting of the restricted stock awards at the merger date, the use of the two class method did not have a material impact on pro forma earnings per share.

If the \$700 million recapitalization took the form of a share repurchase instead of a special dividend, the pro forma weighted average basic and diluted common shares would decrease by 9,333,333 shares for the six months ended June 30, 2012 and the year ended December 31, 2011. For the six months ended June 30, 2012, pro forma basic and diluted earnings per share would increase by \$0.13. For the year ended December 31, 2011, pro forma basic and diluted earnings per share would increase by \$0.28 and \$0.27, respectively.

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**RISK FACTORS**

You should carefully consider the following risks, together with the other information contained in this proxy statement/prospectus and the annexes hereto. For a discussion of additional uncertainties associated with (1) ITC's businesses and (2) forward-looking statements in this document, please see the section entitled "Cautionary Statement Concerning Forward-Looking Statements." In addition, you should consider the risks associated with ITC's business that appear in ITC's Annual Report on Form 10-K, as amended by the Annual Report on Form 10-K/A, for the year ended December 31, 2011, which is incorporated by reference into this proxy statement/prospectus.

**Risks Related to the Transactions**

*ITC and Entergy may be unable to satisfy the conditions or obtain the approvals required to complete the merger or such approvals may contain material restrictions or conditions.*

The consummation of the merger is subject to numerous conditions, as described in this proxy statement/prospectus, including (i) consummation of certain transactions and financings contemplated by the merger agreement and the separation agreement (such as the separation of Entergy's Transmission Business from Entergy's other business), (ii) the receipt of ITC shareholder approval of the merger proposals and (iii) the receipt of certain regulatory approvals in a form that will not impose a burdensome condition on ITC or Entergy (as described under the heading "The Merger Agreement"). ITC can make no assurances that the merger and related transactions will be consummated on the terms or timeline currently contemplated, or at all. ITC has and will continue to expend management's time and resources and incur expenses due to legal, advisory and financial services fees related to the proposed transactions.

Governmental agencies may not approve the merger or the related transactions necessary to complete the merger or may impose conditions to the approval of such transactions or require changes to the terms of such transactions. Any such conditions or changes could have the effect of delaying completion of the merger, imposing costs on or limiting the revenues of the combined company following the merger or otherwise reducing the anticipated benefits of the merger. Any condition or change which results in a burdensome condition on Entergy's Transmission Business and/or ITC under the merger agreement might cause Entergy and/or ITC to restructure or terminate the merger or the related transactions.

*If completed, the merger may not be successful or achieve its anticipated benefits.*

If the merger is completed ITC may not be able to successfully realize anticipated growth opportunities or integrate ITC's business and operations with the TransCo business and operations. After the merger, ITC will have significantly more revenue, expenses, assets, debt and employees than ITC did prior to the merger. In the separation, ITC will also be assuming certain liabilities of Entergy's Transmission Business and taking on other obligations (including collective bargaining agreements and certain pension obligations with respect to transferred employees). ITC may not successfully or cost-effectively integrate Entergy's Transmission Business and operations into ITC's existing business and operations. Even if the combined company is able to integrate the transmission businesses and operations successfully, this integration may not result in the realization of the full benefits of the growth opportunities that ITC currently expects from the merger within the anticipated time frame, or at all.

*The merger agreement contains provisions that may discourage other companies from trying to merge with ITC.*

The merger agreement contains provisions that may discourage a third party from submitting a business combination proposal to ITC prior to the closing of the merger that might result in greater value to ITC shareholders than the merger. The merger agreement generally prohibits ITC from soliciting any alternative acquisition proposal, although ITC may terminate the merger agreement prior to the special meeting in order to

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accept an unsolicited alternative transaction proposal that the ITC board of directors determines is superior to the merger. In addition, before the ITC board of directors may withdraw or modify its recommendation contained in this proxy statement/prospectus or ITC may terminate the merger agreement to enter into a transaction that the ITC board of directors determines is superior to the merger, Entergy has the opportunity to negotiate with ITC to modify the terms of the merger in response to any competing acquisition proposals that may be made. If the merger agreement is terminated by ITC or Entergy in certain limited circumstances, ITC may be obligated to pay a termination fee to Entergy, which would represent an additional cost for a potential third party seeking a business combination with ITC.

***Failure to complete the merger could adversely affect the market price of ITC common stock as well as ITC's business, financial condition and results of operations.***

If the merger is not completed for any reason, the price of ITC common stock may decline to the extent that the market price of ITC common stock reflects positive market assumptions that the merger will be completed and the related benefits will be realized. Significant expenses such as legal, advisory and financial services, many of which will be incurred regardless of whether the merger is completed, must be paid. Under the merger agreement, under certain limited circumstances, ITC must pay Entergy a termination fee.

***Investors holding shares of ITC common stock immediately prior to the completion of the merger will, in the aggregate, have a significantly reduced ownership and voting interest in ITC after the merger and will exercise less influence over management.***

Investors holding shares of ITC common stock immediately prior to the completion of the merger will, in the aggregate, own a significantly smaller percentage of the combined company immediately after the completion of the merger. Immediately following the completion of the merger, it is expected that current Entergy shareholders (and, if applicable, the exchange trust) will hold approximately 50.1% of ITC common stock on a fully diluted basis and existing ITC shareholders will hold approximately 49.9% of ITC common stock on a fully diluted basis. In no event will Entergy shareholders (and, if applicable, the exchange trust) hold less than 50.1% of the outstanding common stock of ITC immediately after the merger. Consequently, ITC shareholders, collectively, will be able to exercise less influence over the management and policies of the combined company than they are able to exercise over ITC's management and policies immediately prior to the completion of the merger.

***The merger consideration payable in the merger will not be adjusted in the event the value of Entergy's Transmission Business or its assets declines before the merger is completed. As a result, at the time ITC shareholders vote on the merger proposals at the special meeting, they will not know the final value of Entergy's Transmission Business or its assets that will be acquired in the merger. The value of Entergy's Transmission Business and its assets may have a negative effect on the value of ITC common stock following completion of the merger.***

The calculation of the number of shares of ITC common stock to be issued to Entergy shareholders pursuant to the merger agreement will not be adjusted in the event the value of Entergy's Transmission Business or assets declines, including as a result of the regulatory approval process. If the value of Entergy's Transmission Business or assets declines after the ITC shareholders approve the merger proposals, the market price of the common stock of the combined company following completion of the merger may be less than ITC shareholders anticipated when they considered the merger proposals. Further, any amounts paid, payable or forgone by ITC or Entergy pursuant to orders or settlements or agreements that are issued or entered into in order to obtain the regulatory approvals that are required to complete the merger may decrease the market value of the combined company after completion of the merger. Any costs incurred to comply with the terms and conditions of regulatory approvals that are required to complete the merger (but which are not sufficiently significant to result in an Entergy burdensome condition or an ITC burdensome condition, as more fully described in the section "The Merger Agreement") will be shared equally by Entergy and its affiliates and ITC and its affiliates. ITC may not be permitted to terminate the merger agreement because of changes in the value of Entergy's Transmission

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Business or its assets, including due to amounts paid, payable or forgone in connection with government approvals that do not rise to the level of a burdensome condition. ITC will not be permitted to terminate the merger agreement solely because of changes in the market price of ITC common stock.

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

The shares of ITC common stock to be issued in the merger to Entergy shareholders will generally be eligible for immediate resale. The market price of ITC common stock could decline as a result of sales of a large number of shares of ITC common stock in the market after the completion of the merger or the perception in the market that these sales could occur.

Immediately following the completion of the merger, it is expected that former Entergy shareholders (and, if applicable, the exchange trust) will hold approximately 50.1% of ITC's common stock on a fully diluted basis and existing ITC shareholders will hold approximately 49.9% of ITC's common stock on a fully diluted basis. In no event will Entergy shareholders (and, if applicable, the exchange trust) hold less than 50.1% of the outstanding common stock of ITC immediately after the merger. Certain former Entergy shareholders (such as certain index funds and institutional investors with specific investment guidelines that do not pertain to the stock of the combined company) who receive shares of ITC common stock pursuant to the merger agreement may be required to sell their shares of ITC common stock immediately after the merger, which may negatively affect the price of ITC's common stock following the merger.

*The historical financial information of Entergy's Transmission Business may not be representative of its results if it had been operated independently of Entergy and, as a result, may not be a reliable indicator of its future results.*

The historical financial information of Entergy's Transmission Business has been derived from the consolidated financial statements and accounting records of Entergy and reflects assumptions and allocations made by Entergy. The financial position, results of operations and cash flows of Entergy's Transmission Business presented may be different from those that would have resulted had Entergy's Transmission Business been operated as a standalone company or by a company other than Entergy. For example, in preparing Entergy's Transmission Business financial statements, Entergy made an allocation of costs and expenses that are attributable to Entergy's Transmission Business. However, these costs and expenses reflect the costs and expenses attributable to Entergy's Transmission Business operated as part of a larger organization and do not reflect costs and expenses that would be incurred by Entergy's Transmission Business had it been operated independently and may not reflect costs and expenses that would have been incurred had Entergy's Transmission Business been supported as a subsidiary of ITC. As a result, the historical financial information of Entergy's Transmission Business may not be a reliable indicator of future results.

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

The merger agreement and the separation agreement impose certain ongoing restrictions on ITC to ensure that applicable statutory requirements under the Internal Revenue Code of 1986, as amended (the Code) and applicable Treasury regulations are met so that the distribution, exchange trust exchange offer, and the trust distribution, together with certain related transactions qualify as tax-free to Entergy and its shareholders. As a result of these restrictions, ITC's ability to engage in certain transactions, such as the redemption of ITC common stock or the issuance of ITC equity securities (subject to certain exceptions generally relating to compensation) may be limited until two years and one day following the closing of the merger (excluding the \$700 million recapitalization in the form of a one-time special dividend and/or share repurchase to be completed in connection with the merger).

If ITC takes any of an enumerated list of actions and omissions that would cause the distribution, exchange trust exchange offer, and the trust distribution to become taxable, ITC generally will be required to bear the cost



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of any resulting tax liability. If the distribution, exchange trust exchange offer, and the trust distribution became taxable, Entergy would be expected to recognize a substantial amount of income, which would result in a material amount of taxes. Any such taxes allocated to ITC would be expected to be material to ITC, and could cause ITC's business, financial condition and operating results to suffer. These restrictions may reduce ITC's ability to engage in certain business transactions that otherwise might be advantageous to ITC.

***If the distribution, exchange trust exchange offer, and the trust distribution, together with certain related transactions do not qualify as tax-free under Sections 355 and 368(a)(1)(D) of the Code, including as a result of subsequent acquisitions of stock of Entergy or ITC, then Entergy and Entergy shareholders may be required to pay substantial U.S. federal income taxes, and ITC may be obligated to indemnify Entergy for such taxes imposed on Entergy.***

The distribution, exchange trust exchange offer, and the trust distribution, together with certain related transactions and the merger are conditioned upon Entergy's receipt of a private letter ruling from the IRS and of the opinion of Entergy's counsel, Cooley LLP (Cooley), to the effect that the distribution, exchange trust exchange offer, and the trust distribution, together with certain related transactions will qualify as tax-free to Entergy, TransCo, other Entergy subsidiaries and the Entergy shareholders, as applicable, for U.S. federal income tax purposes (such rulings contained in the private letter ruling, the IRS rulings). A private letter ruling from the IRS generally is binding on the IRS. However, the IRS rulings will not rule that the distribution, exchange trust exchange offer, and the trust distribution, together with certain related transactions satisfy every requirement for a tax-free distribution, and the parties will rely solely on the opinion of counsel for comfort that such additional requirements are satisfied.

The IRS rulings and the opinion of Entergy's counsel will be based on, among other things, certain representations and assumptions as to factual matters made by ITC and Entergy. The failure of any factual representation or assumption to be true, correct and complete in all material respects could adversely affect the validity of the IRS rulings or the opinion of counsel. In addition, the opinion of Entergy's counsel will be based on, among other things, the IRS rulings. An opinion of counsel represents counsel's best legal judgment, is not binding on the IRS or the courts, and the IRS or the courts may not agree with the opinion. In addition, the IRS rulings and the opinion will be based on current law, and cannot be relied upon if current law changes with retroactive effect.

The distribution, exchange trust exchange offer, and the trust distribution will be taxable to Entergy pursuant to Section 355(e) of the Code if there is a 50% or greater change in ownership of either Entergy or TransCo, directly or indirectly, as part of a plan or series of related transactions that include the distribution, exchange trust exchange offer, and the trust distribution. A Section 355(e) change of ownership would not make the distribution, exchange trust exchange offer, and the trust distribution taxable to the Entergy shareholders. Because Entergy shareholders will collectively be treated as owning more than 50% of the ITC common stock following the merger, the merger alone should not cause the distribution, exchange trust exchange offer, and the trust distribution to be taxable to Entergy under Section 355(e). However, Section 355(e) might apply if other acquisitions of stock of Entergy before or after the merger, or of ITC after the merger, are considered to be part of a plan or series of related transactions that include the distribution, exchange trust exchange offer, and the trust distribution, together with certain related transactions. If Section 355(e) applied, Entergy might recognize a very substantial amount of taxable gain.

Under the separation agreement, in certain circumstances, and subject to certain limitations, ITC is required to indemnify Entergy against taxes on the distribution, exchange trust exchange offer, and the trust distribution, together with certain related transactions that arise as a result of any of an enumerated list of actions or omissions by ITC. ITC is required to abide by potentially significant restrictions which could limit ITC's ability to undertake certain corporate actions (such as the issuance of ITC common stock or the undertaking of a merger or consolidation) that otherwise could be advantageous. In some cases, however, Entergy might recognize gain on the distribution, exchange trust exchange offer, and the trust distribution, together with certain related transactions without being entitled to an indemnification payment under the separation agreement.

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See Material United States Federal Income Tax Consequences of the Transactions.

*If the merger does not qualify as a tax-free reorganization under Section 368 of the Code, the shareholders of Entergy may be required to pay substantial U.S. federal income taxes.*

The obligations of Entergy and ITC to consummate the merger are conditioned, respectively, on Entergy's receipt of an opinion of Cooley, counsel to Entergy, and ITC's receipt of an opinion of Simpson Thacher & Bartlett LLP, counsel to ITC, in each case to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code. These opinions will be based upon, among other things, certain representations and assumptions as to factual matters made by ITC and Entergy. The failure of any factual representation or assumption to be true, correct and complete in all material respects could adversely affect the validity of the opinions. An opinion of counsel represents counsel's best legal judgment, is not binding on the IRS or the courts, and the IRS or the courts may not agree with the opinion. In addition, the opinions will be based on current law, and cannot be relied upon if current law changes with retroactive effect. If the merger were taxable, TransCo common unit holders would be considered to have made a taxable sale of their TransCo common units to ITC, and TransCo common unit holders would recognize taxable gain or loss on their receipt of ITC common stock in the merger.

**Risks Related to the Combined Company's Business Following the Transactions**

*Certain elements of ITC's regulated operating subsidiaries and the TransCo Subs' cost recovery through rates can be challenged, which could result in lowered rates and/or refunds of amounts previously collected and thus have an adverse effect on the combined company's business, financial condition, results of operations and cash flows. ITC has also made certain commitments to federal and state regulators with respect to, among other things, rates in connection with recent acquisitions (including ITC Midwest's acquisition of IP&L's electric transmission assets) that could have an adverse effect on the combined company's business, financial condition, results of operations and cash flows.*

ITC's regulated operating subsidiaries provide, and it is expected that the TransCo Subs will provide, transmission service under rates regulated by the FERC. The FERC has approved the cost-based formula rate templates used by ITC's regulated operating subsidiaries, but it does not expressly approve the amount of actual capital and operating expenditures used in the formula rates. All aspects of ITC's regulated operating subsidiaries' rates approved by the FERC, including the formula rate templates, ITCTransmission's, METC's, ITC Midwest's and ITC Great Plains' respective allowed 13.88%, 13.38%, 12.38% and 12.16% rates of return on the actual equity portion of their respective capital structures, and the data inputs provided by ITC's regulated operating subsidiaries for calculation of each year's rate, are subject to challenge by interested parties at the FERC in a proceeding under Section 206 of the FPA. If a challenger can establish that any of these aspects are unjust, unreasonable, unduly discriminatory or preferential, and that a different rate is just and reasonable, then the FERC will make appropriate prospective adjustments to the ITC regulated operating subsidiary formula rates and/or disallow any of ITC's regulated operating subsidiaries' inclusion of those aspects in their rates. It is anticipated that the TransCo Subs will operate under similar formula rates and will also be subject to such challenges. This could result in lowered rates and/or refunds of amounts collected after the date that a Section 206 challenge is filed.

The FERC's 2006 order approving ITC's acquisition of METC was conditioned upon ITCTransmission and METC not recovering merger-related costs in their rates, as described in the order, unless a separate informational filing is submitted to the FERC. The informational filing, which could be challenged by interested parties, would need to identify the costs sought to be recovered and show that such costs are exceeded by the savings of the acquisition. Determinations by ITCTransmission or METC that expenses included in their formula rate template for recovery are not acquisition related costs are also subject to challenge by interested parties at the FERC under Section 206 of the Federal Power Act. If challenged at the FERC and ITCTransmission or METC fail to show that costs included for recovery are not merger-related, this also could result in lowered rates and/or refunds of amounts collected. ITC has not sought recovery of merger-related costs at ITCTransmission or METC.

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Under the FERC's 2007 order approving ITC Midwest's asset acquisition, ITC Midwest agreed to a hold harmless commitment in which no acquisition premium will be recovered in rates, nor will ITC Midwest recover through transmission rates any transaction-related costs that exceed demonstrated transaction related savings for a period of five years. If during the five year period ITC Midwest seeks to recover transaction-related costs through its formula rate, ITC Midwest must make an informational filing at the FERC that identifies the transaction-related costs sought to be recovered and demonstrates that those costs are exceeded by transaction-related savings. If challenged at the FERC and ITC Midwest fails to show that transaction-related costs included for recovery do not exceed transaction-related savings, ITC Midwest could be subject to lowered rates and/or refunds of amounts previously collected. Additionally, in Iowa and Minnesota, as part of the regulatory approval process, ITC Midwest committed not to recover the first \$15.0 million in transaction-related costs under any circumstances. ITC has not sought recovery of transaction-related costs at ITC Midwest.

In the Minnesota regulatory proceeding to approve ITC Midwest's December 2007 acquisition of the transmission assets of IP&L, ITC Midwest also agreed to build two transmission projects intended to improve the reliability and efficiency of ITC's electric transmission system. Specifically, ITC Midwest made commitments to use commercially reasonable best efforts to complete these projects prior to December 31, 2009 and 2011, respectively. In the event ITC Midwest is found to have failed to meet these commitments, the allowed 12.38% rate of return on the actual equity portion of ITC Midwest's capital structure would be reduced to 10.39% until such time as ITC Midwest completes these projects, and ITC Midwest would refund with interest any amounts collected since the closing date of the transaction that exceeded what would have been collected if the 10.39% return on equity had been used. The project that was required to be completed prior to December 31, 2009 was completed by that deadline. With respect to the second project, the 345 kV Salem-Hazelton line, certain regulatory approvals were needed from the IUB before construction of the project could commence, but due to the IUB's case schedule, these approvals were not received until the second quarter of 2011. As a result of the delay in the receipt of the necessary regulatory approvals, the project was not completed by December 31, 2011.

Any of the events described above could have a material adverse effect on the combined company's business, financial condition, results of operations and cash flows.

***ITC's regulated operating subsidiaries and the TransCo Subs' actual capital expenditures may be lower than planned, which would decrease expected rate base and therefore expected revenues and earnings. In addition, ITC expects to invest in strategic development opportunities to improve the efficiency and reliability of the transmission grid, but cannot assure you that it will be able to initiate or complete any of these investments.***

Each of ITC's regulated operating subsidiaries and the TransCo Subs' rate base, revenues and earnings are or will be determined in part by additions to property, plant and equipment when placed in service. The combined company expects to make significant capital investments over the next five years which include estimated transmission network upgrades for generator interconnections. The amounts for network upgrades could change significantly due to factors beyond the combined company's control, such as changes in the MISO queue for generation projects and whether the generator meets the various criteria of Attachment FF of the MISO Open Access Transmission, Energy, and Operating Reserve Markets Tariff for the project to qualify as a refundable network upgrade, among other factors. If ITC's regulated operating subsidiaries or the TransCo Subs' capital expenditures and the resulting in-service property, plant and equipment are lower than anticipated for any reason, ITC's regulated operating subsidiaries and TransCo Subs will have a lower than anticipated rate base thus causing their revenue requirements and future earnings to be potentially lower than anticipated.

In addition, ITC is pursuing broader strategic development investment opportunities for transmission construction related to building regional transmission facilities, interconnections for generating resources, and other investment opportunities. The incumbent utilities or other entities with transmission development initiatives may compete with the combined company by deciding to pursue capital projects that it pursues. These estimates of potential investment opportunities are based primarily on foreseeable transmission needs and general transmission construction costs, not necessarily on particular project cost estimates.

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Any capital investment at ITC's regulated operating subsidiaries or the TransCo Subs, or as a result of the combined company's broader strategic development initiatives, may be lower than expected 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, the combined company's ability to obtain financing for such expenditures, if necessary, limitations on the amount of construction that can be undertaken on the combined company's system or transmission systems owned by others 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. The combined company's 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 the combined company to initiate construction, the combined company's achieving status as the builder of the project in some circumstances and other factors. Therefore, ITC can provide no assurance as to the actual level of investment the combined company may achieve at ITC's regulated operating subsidiaries or TransCo Subs, or as a result of the broader strategic development initiatives.

***The regulations to which ITC is subject may limit the combined company's ability to raise capital and/or pursue acquisitions, development opportunities or other transactions or may subject the combined company to liabilities.***

Each of ITC's regulated operating subsidiaries is, and each TransCo Sub is expected to be, 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 may also be required to acquire securities in 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 ITC's regulated operating subsidiaries and TransCo Subs must also seek approval by the FERC under Section 204 of the FPA for issuances of its securities (including debt securities).

ITC is also pursuing strategic development opportunities for construction of transmission facilities and interconnections with generating resources. These projects may require approval by the FERC, applicable RTOs and state and local regulatory agencies. Failure to secure such regulatory approval for new strategic development projects could adversely affect the combined company's ability to grow its business and increase its revenues. If the combined company fails to obtain these approvals when necessary, it may incur liabilities for such failure.

***Changes in federal energy laws, regulations or policies could impact cash flows and could reduce the dividends the combined company may be able to pay its shareholders.***

The formula rate templates used by ITC's regulated operating subsidiaries and expected to be used by the TransCo Subs to calculate their respective annual revenue requirements will be used by ITC's regulated operating subsidiaries and TransCo Subs for that purpose until and unless the FERC determines that such formula rates are unjust and unreasonable and that another rate is just and reasonable. Such a determination could result from challenges initiated at the FERC by interested parties or by the FERC on its own initiative in a proceeding under Section 206 of the FPA. An existing formula rate also could be replaced by a successful application initiated by any of ITC's regulated operating subsidiaries or TransCo Subs under Section 205 of the FPA. 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 ITC's regulated operating subsidiaries and TransCo Subs, particularly if rates for delivered electricity increase substantially.

Each of ITC's regulated operating subsidiaries is, and each TransCo Sub will be, regulated by the FERC as a public utility under the FPA and is a transmission owner in MISO or SPP. ITC cannot predict whether the approved rate methodologies for any of ITC's regulated operating subsidiaries or expected rate methodologies for the TransCo Subs will be changed. In addition, the U.S. Congress periodically considers enacting energy legislation that could shift new responsibilities to the FERC, modify provisions of the FPA or provide the FERC

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or another entity with increased authority to regulate transmission matters. ITC cannot predict whether, and to what extent, the combined company may be affected by any such changes in federal energy laws, regulations or policies in the future.

***If amounts billed for transmission service for ITC's regulated operating subsidiaries or TransCo Subs transmission systems are lower than expected, or expenses of ITC's regulated operating subsidiaries or the TransCo Subs are higher than expected, the timing of collection of the combined company's 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 ITC's regulated operating subsidiaries or TransCo Subs transmission systems due to, a weak economy, changes in the nature or composition of the transmission assets of ITC's regulated operating subsidiaries or TransCo Subs and surrounding areas, poor transmission quality of neighboring transmission systems, or for any other reason, the timing of the collection of ITC's regulated operating subsidiaries and TransCo Subs revenue requirements would likely be delayed until collections are adjusted through the true-up mechanism in the formula rate templates. In addition, if expenses of ITC's regulated operating subsidiaries or the TransCo Subs are higher than expected due to the occurrence of hurricanes and other storms and disasters, or for any other reason, the timing of the collection of ITC's regulated operating subsidiaries and TransCo Subs revenue requirements would likely be delayed until such circumstances are reflected through the true-up mechanism in ITC's regulated operating subsidiaries, and TransCo Subs expected, formula rate templates. The effect of such under-collection would be to reduce the amount of the combined company's available cash resources from what it had expected, until such under-collection is corrected through the true-up mechanism in the formula rate template, which may require it to increase its outstanding indebtedness, reduce its available borrowing capacity, and may require it to pay interest at a rate that exceeds the interest to which it is entitled in connection with the operation of the true-up mechanism.

***Each of ITCTransmission, METC and ITC Midwest depends, and each TransCo Sub will depend, on its primary customer for a substantial portion of its revenues, and any material failure by those primary customers to make payments for transmission services would adversely affect the combined company's revenues and ability to service its debt obligations and affect its ability to pay dividends.***

ITCTransmission derives a substantial portion of its revenues from the transmission of electricity to Detroit Edison's local distribution facilities. Detroit Edison accounted for 78.5% of ITCTransmission's total operating revenues for the year ended December 31, 2011 and is expected to constitute the majority of ITCTransmission's revenues for the foreseeable future. Detroit Edison is rated BBB+/stable and Baa1/stable by Standard & Poor's Ratings Services (S&P) and Moody's Investors Services, Inc. (Moody's), respectively. Similarly, Consumers Energy accounted for 79.0% of METC's total operating revenues for the year ended December 31, 2011 and is expected to constitute the majority of METC's revenues for the foreseeable future. Consumers Energy is rated BBB-/stable and Baa2/stable by S&P and Moody's, respectively. Further, IP&L accounted for 78.9% of ITC Midwest's total operating revenues for the year ended December 31, 2011 and is expected to constitute the majority of ITC Midwest's revenues for the foreseeable future. IP&L is rated BBB+/stable and A3/negative by S&P and Moody's, respectively. These percentages of total operating revenues of Detroit Edison, Consumers Energy and IP&L include an estimate for the 2011 revenue accrual and deferrals that were included in ITC's 2011 operating revenues, but will not be billed to its customers until 2013. ITC has assumed that the revenues billed to these customers in 2013 would be in the same proportion of the respective percentages of network and regional cost sharing revenues billed to them in 2011. In addition, each TransCo Sub will derive a substantial portion of its revenues from the transmission of electricity to the local distribution facilities of Entergy's Utility Operating Companies and is expected to continue to do so for the foreseeable future.

Any material failure by Detroit Edison, Consumers Energy, IP&L or Entergy's Utility Operating Companies to make payments for transmission services could adversely affect the combined company's financial condition and results of operations and the combined company's ability to service its debt obligations, and could impact the amount of dividends it pays to its shareholders.

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***A significant amount of the land on which ITC's regulated operating subsidiaries' assets are, and the TransCo Subs' assets will be, located is subject to easements, mineral rights and other similar encumbrances. As a result, ITC's regulated operating subsidiaries and the TransCo Subs 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 ITC Transmission's, ITC Midwest's, ITC Great Plains' and the TransCo Subs' assets are or will be 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.

***ITC's regulated operating subsidiaries contract, and the TransCo Subs will contract, with third parties to provide services for certain aspects of their businesses. If any of these agreements are terminated, ITC's regulated operating subsidiaries and the TransCo Subs may face a shortage of labor or replacement contractors to provide the services formerly provided by these third parties.***

ITC's regulated operating subsidiaries enter into, and the TransCo Subs will enter into, various agreements and arrangements with third parties to provide services for the operation of certain aspects of their businesses, which, if terminated could result in a shortage of a readily available workforce to provide these services. ITC Midwest and IP&L have entered into the Operations Services Agreement for 34.5 kV Transmission Facilities (the OSA), under which IP&L performs certain operations functions for ITC Midwest's 34.5 kV transmission system. The OSA's term is from January 1, 2011 until December 31, 2015, and by its terms will remain in full force and effect from year to year thereafter until terminated by either party upon not less than one year's prior written notice to the other party. If the OSA is terminated for any reason or at a time when ITC Midwest is unprepared for such termination, ITC Midwest may face difficulty finding a qualified replacement work force to provide such services, which could have a material adverse effect on its ability to carry on its business and on its results of operations.

The TransCo Subs and certain affiliates of Entergy will enter into two transition services agreements at the time of the merger. Under the transition services agreements, each party will provide the other party, on a cost basis, with specified services for a limited time following the completion of the merger, including the following: field support services, engineering support services, site access services and corporate support services. The initial term of each transition services agreement will be for a period of one year, unless earlier terminated pursuant to its terms. Each of the service recipients will have the option of extending the services two times for a period of up to six months (maximum one year extension). If either of these agreements were terminated or failed to be renewed for any reason at any time when the TransCo Subs are unprepared for such termination, the TransCo Subs may face difficulty finding a qualified replacement workforce to provide such services.

***Hazards associated with high-voltage electricity transmission may result in suspension of ITC's regulated operating subsidiaries' or the TransCo Subs' operations or the imposition of civil or criminal penalties.***

The operations of ITC's regulated operating subsidiaries are, and the TransCo Subs will be, subject to the usual hazards associated with high-voltage electricity transmission, including explosions, fires, inclement weather (including hurricanes and other storms), 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. ITC's regulated operating subsidiaries maintain, and it is

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expected that the TransCo Subs will maintain, property and casualty insurance, but are not fully insured against all potential hazards incident to their business, such as damage to poles, towers and lines or losses caused by outages.

***ITC's regulated operating subsidiaries are, and the TransCo Subs will be, subject to environmental regulations and to laws that can give rise to substantial liabilities from environmental contamination.***

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

ITC's regulated operating subsidiaries have incurred expenses in connection with environmental compliance, and ITC anticipates that each such entity and the TransCo Subs will continue to do so in the future. Failure to comply with the extensive environmental laws and regulations applicable to each could result in significant civil or criminal penalties and remediation costs. ITC's regulated operating subsidiaries and the TransCo Subs' assets and operations also involve the use of materials classified as hazardous, toxic, or otherwise dangerous. Some of ITC's regulated operating subsidiaries and TransCo Subs' facilities and properties are located near environmentally sensitive areas such as wetlands and habitats of endangered or threatened species. In addition, certain properties in which ITC's regulated operating subsidiaries operate and the TransCo Subs will operate are, are suspected of being, or may be affected by environmental contamination. Compliance with these laws and regulations, and liabilities concerning contamination or hazardous materials, may adversely affect the combined company's costs and, therefore, its 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. ITC cannot assure you that such claims will not be asserted against the combined company or that, if determined in a manner adverse to its interests, such claims would not have a material adverse effect on the combined company's business, financial condition and results of operations.

***ITC's regulated operating subsidiaries are, and the TransCo Subs will be, 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 the combined company's financial condition, results of operations and cash flows.***

The various regulatory requirements to which ITC's regulated operating subsidiaries are, and the TransCo Subs will be, 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

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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 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 ITC's regulated operating subsidiaries or TransCo Subs 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 the combined company's financial condition, results of operations and cash flows.

ITC's regulated operating subsidiaries are, and the TransCo Subs will be, 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 the combined company's financial condition, results of operations and cash flows.

***Acts of war, terrorist attacks and threats, including cyber attacks or threats, or the escalation of military activity in response to such attacks or otherwise may negatively affect the combined company's business, financial condition and cash flows.***

Acts of war, terrorist attacks and threats, including cyber attacks or threats, or the escalation of military activity in response to such attacks or otherwise may negatively affect the combined company's business, financial condition and cash flows in unpredictable ways, such as increased security measures and disruptions of markets. Strategic targets, such as energy related assets, including, for example, ITC's regulated operating subsidiaries and the TransCo Subs' transmission facilities and Detroit Edison's, Consumers Energy's, IP&L's and Entergy's Utility Operating Companies' generation and distribution facilities, may be at risk of future terrorist attacks or threats, including cyber attacks or threats. In addition to the increased costs associated with heightened security requirements, such events may have an adverse effect on the economy in general. A lower level of economic activity could result in a decline in energy consumption, which may adversely affect the combined company's business, financial condition and cash flows.

***The pro forma financial statements included in this proxy statement/prospectus are presented for illustrative purposes only and may not be an indication of our financial condition or results of operations following the transactions.***

The pro forma financial statements included in this proxy statement/prospectus are presented for illustrative purposes only, are based on various adjustments, assumptions and preliminary estimates, and may not be an indication of our financial condition or results of operations following the merger for several reasons. See Unaudited Pro Forma Condensed Combined Consolidated Financial Statements. ITC's actual financial condition and results of operations following the merger may not be consistent with, or evident from, these pro forma financial statements. In addition, the assumptions used in preparing the pro forma financial information may not prove to be accurate, and other factors may affect our financial condition or results of operations following the merger. Any potential decline in our financial condition or results of operations may cause significant variations in ITC's stock price.



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**CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS**

This proxy statement/prospectus (including information included or incorporated by reference herein) contains certain statements that describe ITC's management's beliefs concerning future business conditions and prospects, growth opportunities, the outlook for ITC's business and the electric transmission industry and the transactions described in this proxy statement/prospectus 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, ITC has identified these forward-looking statements by words such as will, may, anticipates, believes, intends, estimates, expects, similar phrases. Forward-looking statements included or incorporated by reference in this proxy statement/prospectus include, but are not limited to, statements set forth under Management's Discussion and Analysis of Financial Condition and Results of Operations in ITC's Annual Report on Form 10-K, as amended by the Annual Report on Form 10-K/A, for the year ended December 31, 2011 and in ITC's Quarterly Report on Form 10-Q for the quarters ended March 31, 2012 and June 30, 2012 (which are incorporated herein by reference) and any risks set forth in ITC's other filings with the SEC that are incorporated herein by reference. These forward-looking statements are based upon assumptions ITC's management believes are reasonable. Such forward-looking statements are subject to risks and uncertainties which could cause ITC's actual results, performance and achievements to differ materially from those expressed in, or implied by, these statements, including, among other things:

Certain elements of ITC's regulated operating subsidiaries' cost recovery through rates can be challenged, which could result in lowered rates and/or refunds of amounts previously collected and thus have an adverse effect on ITC's business, financial condition, results of operations and cash flows;

ITC's regulated operating subsidiaries' actual capital expenditures may be lower than planned, which would decrease expected rate base and therefore expected revenues and earnings. In addition, ITC expects to invest in strategic development opportunities to improve the efficiency and reliability of its transmission grid, but ITC cannot assure you that ITC will be able to initiate or complete any of these investments;

The regulations to which ITC is subject may limit ITC's ability to raise capital and/or pursue acquisitions, development opportunities or other transactions or may subject ITC to liabilities;

Changes in federal energy laws, regulations or policies could impact cash flows and could reduce the dividends ITC may be able to pay its shareholders;

If the amounts billed for transmission service for ITC's regulated operating subsidiaries' transmission systems are lower than expected, the timing of collection of revenues would be delayed;

Each of ITC's 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 would adversely affect ITC's revenues and ITC's ability to service its debt obligations and affect ITC's ability to pay dividends;

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

ITC's regulated operating subsidiaries contract with third parties to provide services for certain aspects of their businesses. If any of these agreements are terminated, ITC's regulated operating subsidiaries may face a shortage of labor or replacement contractors to

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provide the services formerly provided by these third parties;

Hazards associated with high-voltage electricity transmission may result in suspension of ITC's regulated operating subsidiaries operations or the imposition of civil or criminal penalties;

ITC's regulated operating subsidiaries are subject to environmental regulations and to laws that can give rise to substantial liabilities from environmental contamination;

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ITC's regulated operating subsidiaries are subject to various regulatory requirements, including reliability standards; contract filing requirements; reporting, record keeping 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 ITC's financial condition, results of operations and cash flows;

Acts of war, terrorist attacks and threats, including cyber attacks or threats, or the escalation of military activity in response to such attacks or otherwise may negatively affect ITC's business, financial condition and cash flows;

ITC is a holding company with no operations, and unless it receives dividends or other payments from its subsidiaries, it may be unable to pay dividends and fulfill its other cash obligations;

ITC is highly leveraged and ITC's dependence on debt may limit its ability to fulfill its debt obligations and/or to obtain additional financing;

Certain provisions in ITC's debt instruments limit ITC's financial flexibility;

Adverse changes in ITC's credit ratings may negatively affect ITC;

Provisions in ITC's articles of incorporation and bylaws, Michigan corporate law and ITC's debt agreements may impede efforts by ITC shareholders to change the direction or management of ITC;

Provisions in ITC's articles of incorporation restrict market participants from voting or owning 5% or more of the outstanding shares of ITC capital stock;

ITC may be unable to satisfy the conditions or obtain the approvals required to complete the merger or such approvals may contain material restrictions or conditions;

If completed, the merger may not be successful or achieve its anticipated benefits;

The merger agreement contains provisions that may discourage other companies from trying to acquire ITC;

Failure to complete the merger could adversely affect the market price of ITC common stock as well as ITC's business, financial condition and results of operations;

Investors holding shares of ITC common stock immediately prior to the completion of the merger will, in the aggregate, have a significantly reduced ownership and voting interest in ITC after the merger and will exercise less influence over ITC's management;

ITC is required to abide by potentially significant restrictions which could limit ITC's ability to undertake certain corporate actions (such as the issuance of ITC common stock or the undertaking of a merger or consolidation) that otherwise could be advantageous; and

Other risk factors discussed herein and listed from time to time in ITC's public filings with the SEC. In addition, other factors besides those listed here could adversely affect ITC's business and results of operations.

Because ITC's forward-looking statements are based on estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond ITC's control or are subject to change, actual results could be materially different and any or all of ITC's 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 ITC might make or by known or unknown risks and uncertainties. Many factors mentioned in this proxy statement/prospectus and in ITC's annual and quarterly reports will be important in determining future results. Consequently, ITC cannot assure you that ITC's expectations or forecasts expressed in such forward-looking statements will be achieved. Actual future results may vary materially. Except as required by law, ITC undertakes no obligation to publicly update any of ITC's forward-looking or other statements, whether as a result of new information, future events, or otherwise.

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**THE SPECIAL MEETING OF ITC SHAREHOLDERS**

This proxy statement/prospectus is furnished in connection with the solicitation of proxies by the ITC board of directors for use at the special meeting of ITC's shareholders and any adjournments or postponements of the special meeting. When this proxy statement/prospectus refers to the special meeting, it is also referring to any adjournments or postponements of the special meeting. ITC intends to begin mailing this proxy statement/prospectus, the attached Notice of Special Meeting of Shareholders and the accompanying proxy card on or about [ ], 2012.

**Date, Time and Place of the Special Meeting**

The special meeting of ITC's shareholders will be held on [ ], 2013, at [ ], local time, at ITC's corporate headquarters located at 27175 Energy Way, Novi, Michigan 48377.

**Purpose of the Special Meeting**

At the special meeting, ITC shareholders will be asked:

1. To consider and vote upon a proposal to approve the merger agreement.
2. To consider and vote upon a proposal to amend the amended and restated articles of incorporation of ITC to increase the number of authorized shares of ITC common stock from 100,000,000 to 300,000,000.
3. To consider and vote upon a proposal to approve the issuance of ITC common stock pursuant to the merger agreement.
4. To consider and vote upon a proposal to approve, by non-binding advisory vote, certain compensation arrangements for ITC's named executive officers in connection with the merger contemplated by the merger agreement.
5. To consider and vote upon a proposal to adjourn the special meeting if necessary or appropriate to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve proposals (1), (2) and (3).

**APPROVAL OF EACH OF THE PROPOSALS SET FORTH IN ITEMS 1, 2 AND 3 ABOVE IS REQUIRED FOR COMPLETION OF THE MERGER.**

**THE ITC BOARD OF DIRECTORS HAS APPROVED THE MERGER AGREEMENT, THE MERGER AND THE OTHER TRANSACTIONS CONTEMPLATED BY THE MERGER AGREEMENT AND RECOMMENDS THAT ITC SHAREHOLDERS VOTE FOR EACH PROPOSAL. SHAREHOLDER APPROVAL OF EACH MERGER PROPOSAL IS NECESSARY TO EFFECT THE MERGER. THE APPROVAL OF EACH MERGER PROPOSAL IS CONDITIONED UPON THE APPROVAL OF EACH OF THE OTHER MERGER PROPOSALS.**

**Record Date and Outstanding Shares**

The ITC board of directors has fixed the close of business on [ ], 2012 (the record date) as the record date for the special meeting. Accordingly, only ITC shareholders of record on the record date are entitled to notice of and to vote at the special meeting or at any adjournment of the special meeting.

As of the close of business on the record date, there were approximately [ ] shares of ITC common stock outstanding and entitled to vote at the special meeting.

A list of ITC shareholders as of the record date will be available for review during the special meeting to any shareholder present at the special meeting.



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Record holders of ITC common stock on the record date may vote their shares of ITC common stock in person at the special meeting or by proxy as described below under **Voting by Proxy or in Person**.

### **Quorum**

The required quorum for the special meeting is a majority of the shares outstanding and entitled to vote as of the record date. There must be a quorum present for the meeting to be held. All shares represented at the special meeting in person or by proxy (including those voted by telephone or the Internet) will be counted toward the quorum.

### **Required Vote**

**Merger Agreement Proposal.** The affirmative vote of a majority of the outstanding shares of ITC common stock entitled to vote at the special meeting is required to approve the merger agreement.

**Amendment of Articles of Incorporation Proposal.** The affirmative vote of a majority of the outstanding shares of ITC common stock entitled to vote at the special meeting is required to approve the proposal to amend the amended and restated articles of incorporation of ITC to increase the number of authorized shares of ITC common stock.

**Stock Issuance Proposal.** The affirmative vote of a majority of the votes cast, in person or by proxy, at the special meeting by holders of shares of ITC common stock is required to approve the proposal to issue shares of ITC common stock pursuant to the merger agreement.

**Merger-Related Executive Compensation Proposal.** In accordance with Section 14A of the Exchange Act, ITC is providing its shareholders with the opportunity to approve, by non-binding, advisory vote, certain compensation payments for ITC's named executive officers in connection with the merger, as reported in the section of this proxy statement/prospectus entitled **Advisory Vote on Merger-Related Compensation for ITC's Named Executive Officers**. The affirmative vote of a majority of the votes cast, in person or by proxy, at the special meeting by holders of shares of ITC common stock is required to approve this merger-related executive compensation proposal.

**Adjournment Proposal.** The affirmative vote of a majority of the votes cast, in person or by proxy, at the special meeting by holders of shares of ITC common stock is required to approve the proposal to permit adjournment of the special meeting.

The approval of each of the merger proposals (which are the proposal to approve the merger agreement, the amendment of articles of incorporation proposal and the stock issuance proposal) is conditioned upon the approval of each of the other merger proposals, and the merger will not occur unless all of the merger proposals are approved.

Because the required vote for the approval of the merger agreement and the amendment of articles of incorporation proposal is based on the number of outstanding shares of ITC common stock entitled to vote at the special meeting, rather than on the number of shares actually voted, the failure by the holder of any such shares to submit a proxy by mail, by telephone or over the Internet or to vote in person at the special meeting, including abstentions and broker non-votes, will have the same effect as a vote against such proposals. However, failure by the holder of such shares to respond with a vote or to instruct his or her broker or other nominee how to vote on the stock issuance proposal, merger-related executive compensation proposal and the adjournment proposal will have no effect on such proposals, assuming a quorum is present at the special meeting.

No vote of Entergy shareholders is required or being sought in connection with either the spin-off or the split-off exchange offer, the merger or the other transactions described in this proxy statement/prospectus.

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### **Voting by Proxy or in Person**

Giving a proxy means that an ITC shareholder authorizes the persons named in the enclosed proxy card to vote his or her shares at the special meeting in the manner such shareholder directs. An ITC shareholder may cause his or her shares to be voted by granting a proxy or by voting in person at the meeting. Follow the instructions on the enclosed proxy card to vote on the matters to be considered at the special meeting.

ITC shareholders may vote their shares as follows:

- (1) **Telephone**, using the toll-free number 1-800-652-VOTE (8683), which is also listed on each proxy card. Please follow the instructions on your proxy card. If you vote using the telephone, do not mail in your proxy card.
- (2) **Internet**, go to the voting site at [www.investorvote.com](http://www.investorvote.com) and follow the instructions outlined on the secured website using certain information provided on the front of the proxy card. If you vote using the Internet, do not mail in your proxy card.
- (3) **Signing, dating and mailing** the proxy card and returning it in the envelope provided.
- (4) **Attending the special meeting** and voting in person if you are a shareholder of record or if you are a beneficial owner and have a legal proxy from the shareholder of record.

Submitting a proxy by Internet or by telephone provides the same authority to vote shares as if the shareholder had returned his or her proxy card by mail.

Each properly signed proxy received prior to the special meeting and not revoked before the vote at the special meeting will be voted at the special meeting according to the instructions indicated on the proxy or, **if no instructions are given on a properly signed proxy, the shares represented by such proxy will be voted FOR the merger proposal, FOR the amendment to the articles of incorporation proposal, FOR the stock issuance proposal, FOR the merger-related executive compensation proposal and FOR the proposal to adjourn the special meeting if necessary or appropriate to permit further solicitation of proxies for the approval of the merger proposals, if such a proposal is submitted to a vote of shareholders.**

ITC requests that ITC shareholders complete and sign the accompanying proxy card and return it to ITC in the enclosed postage-paid envelope or submit the proxy by telephone or the Internet as soon as possible.

If an ITC shareholder's shares are held in street name by a broker or other nominee, such shareholder must obtain a vote instruction form from the institution that holds such shares and follow the voting instructions given by that institution.

If an ITC shareholder plans to attend the special meeting and wishes to vote in person, such shareholder will be given a ballot at the special meeting. If an ITC shareholder's shares are held in street name (through a bank, broker or other nominee), such shareholder must obtain a proxy from the record holder to vote such shares in person at the special meeting. Whether or not an ITC shareholder plans to attend the special meeting, ITC requests that each ITC shareholder complete, sign, date and return the enclosed proxy card as soon as possible in the enclosed postage-paid envelope, or submit a proxy through the Internet or by telephone as described in the instructions accompanying this proxy statement/prospectus. This will not prevent any ITC shareholder from voting in person at the special meeting but will assure that the shareholder's vote is counted if such shareholder is unable to attend the special meeting.

### **Revocability of Proxies and Changes to an ITC Shareholder's Vote**

ITC shareholders may revoke their proxies and change their votes at any time prior to the time their shares are voted at the special meeting. An ITC shareholder can revoke his or her proxy or change his or her vote by:



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- (1) notifying ITC's Corporate Secretary in writing (at ITC's address set forth in this proxy statement/prospectus);

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- (2) voting again by telephone or Internet (prior to [ ], 2013 at 11:59 p.m. Eastern Daylight Time), since only the latest vote will be counted;
- (3) signing and returning, prior to the special meeting, another proxy card that is dated after the date of the first proxy card; or
- (4) voting in person at the special meeting (if such shareholder is a shareholder of record or has a legal proxy from a shareholder of record).

Attendance at the special meeting will not, by itself, revoke your proxy or change your vote. If your shares are held in street name, you must contact your broker or nominee to revoke your proxy.

**Abstentions and Broker Non-Votes**

Abstentions will have the effect of a vote against the merger proposal and the amendment to the articles of incorporation proposal. Under the rules applicable to broker-dealers, brokers, banks and other nominee record holders holding shares in street name have the authority to vote on routine proposals when they have not received instructions from beneficial owners. However, brokers, banks and other nominee record holders are precluded from exercising their voting discretion with respect to the approval of non-routine matters such as the merger proposals and the merger-related executive compensation proposal set forth in this proxy statement/prospectus. As a result, absent specific instructions from the beneficial owner, brokers, banks and other nominee record holders are not empowered to vote those street name shares in connection with the merger proposals.

Since the vote required for each of the merger proposal and the amendment to the articles of incorporation proposal is based on a percentage of the ITC shares of common stock outstanding, abstentions and broker non-votes will have the same effect as a vote against these proposals. However, abstentions and broker non-votes will have no effect on the outcome of the vote for the stock issuance proposal, the merger-related executive compensation proposal and the adjournment proposal because the vote required for approval of each of these proposals is based on the number of shares actually voted, whether in person or by proxy.

**All beneficial owners of ITC common stock are urged to submit their proxy to indicate their votes or to contact the record holder of their shares to determine how to vote.**

**Solicitation of Proxies**

This proxy statement/prospectus is being furnished in connection with the solicitation of proxies by the ITC board of directors. All costs of soliciting proxies, including reimbursement of fees of certain brokers, fiduciaries and nominees in obtaining voting instructions from beneficial owners and the preparation, assembly, printing and mailing of this proxy statement/prospectus and any additional materials furnished to ITC shareholders, will be borne by ITC, other than fees and expense of printers, which shall be shared equally by ITC and Entergy.

In addition, ITC has retained Georgeson Inc. to assist in the solicitation of proxies for a fee of approximately \$20,000, plus reimbursement of expenses.

Proxies may be solicited by mail, telephone, facsimile and other forms of electronic transmission and may also be solicited by directors, officers and other employees of ITC without additional compensation. Copies of solicitation materials will be furnished to banks, brokerage houses and other agents holding shares in their names that are beneficially owned by others so that they may forward this solicitation material to these beneficial owners. In addition, if asked, ITC will reimburse these persons for their reasonable expenses in forwarding the solicitation material to the beneficial owners. ITC has requested banks, brokerage houses and other custodians, nominees and fiduciaries to forward all solicitation materials to the beneficial owners of the shares they hold of record.

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**Certain Ownership of ITC Common Stock**

As of the record date, ITC's executive officers and directors beneficially owned [ ] shares of ITC common stock, representing approximately [ ]% of the shares outstanding as of such date.

ITC currently expects that each of its directors and executive officers will vote their shares of ITC common stock **FOR** the merger proposal, **FOR** the amendment to the articles of incorporation proposal, **FOR** the stock issuance proposal, **FOR** the merger-related executive compensation proposal and **FOR** the adjournment proposal, although none of them has entered into an agreement requiring them to do so.

**Other Matters**

As of the date of this proxy statement/prospectus, the ITC board of directors knows of no other matters that will be presented for consideration at the special meeting other than as described in this proxy statement/prospectus.

This proxy statement/prospectus and the proxy card are first being sent to ITC shareholders on or about [ ], 2012.

**The matters to be considered at the special meeting are of great importance to ITC shareholders. Accordingly, ITC shareholders are urged to read and carefully consider the information presented in this proxy statement/prospectus and the attachments hereto, and to complete, date, sign and promptly return the enclosed proxy in the enclosed postage-paid envelope.**

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**INFORMATION ON ITC**

**Description of ITC**

ITC Holdings Corp. is incorporated under the laws of the state of Michigan. ITC's principal executive offices are located at 27175 Energy Way, Novi, Michigan 48377, and ITC's telephone number at that address is (248) 946-3000. ITC's website is located at [www.itc-holdings.com](http://www.itc-holdings.com). The information on ITC's website is not incorporated by reference into this proxy statement/prospectus nor should it otherwise be considered part of this proxy statement/prospectus.

ITC and its subsidiaries are engaged in the transmission of electricity in the United States. ITC's existing operating subsidiaries include International Transmission Company (ITCTransmission), Michigan Electric Transmission Company, LLC (METC), ITC Midwest LLC (ITC Midwest) and ITC Great Plains, LLC (ITC Great Plains). ITCTransmission, METC, ITC Midwest and ITC Great Plains are collectively referred to as ITC's regulated operating subsidiaries. Through ITC's regulated operating subsidiaries, ITC operates high-voltage systems in Michigan's Lower Peninsula and portions of Iowa, Minnesota, Illinois, Missouri, Oklahoma and Kansas that transmit electricity from generating stations to local distribution facilities connected to ITC's systems. ITC's 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 ITC's transmission systems. ITC also is pursuing development projects not within ITC's 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.

ITC's regulated operating subsidiaries are independent electric transmission utilities, with rates regulated by the FERC and established on a cost-of-service model. ITCTransmission'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 ITCTransmission'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 Midwest Independent Transmission System Operator, Inc. (MISO) bills and collects revenues from ITCTransmission, METC, and ITC Midwest customers. The Southwest Power Pool, Inc. (SPP) bills and collects revenue from ITC Great Plains customers.

ITC's 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. As transmission-only companies, ITC's 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 ITC's regulated operating subsidiaries is a central function to the provision of electricity to residential, commercial and industrial end-use consumers.

ITC's regulated operating subsidiaries derive nearly all of their revenues from providing network transmission service, point-to-point transmission service and other related services over ITC's regulated operating subsidiaries' transmission systems to investor owned utilities, such as The Detroit Edison Company (Detroit Edison), Consumers Energy and Interstate Power and Light Company (IP&L) and to other entities such as alternative electricity suppliers, power marketers and electric cooperatives that provide electricity to end-use consumers and from transaction-based capacity reservations on ITC's transmission systems.

ITC's regulated operating subsidiaries' assets include transmission systems and related assets, that interconnect ITC's regulated operating subsidiaries' transmission facilities or connect ITC's regulated operating subsidiaries' facilities with third party generation and distribution facilities.

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For a description of ITC's business, financial condition, results of operations and other important information, see ITC's filings with the SEC incorporated by reference herein. For instructions on how to find copies of those and ITC's other filings incorporated by reference herein, see the section entitled "Where You Can Find More Information; Incorporation By Reference."

### **Directors and Executive Officers of ITC Before and After the Merger**

#### ***Board of Directors***

The directors of ITC immediately prior to the closing of the merger are expected to be the directors of ITC immediately following the closing of the merger, except that at the effective time of the merger, ITC has agreed that there will be at least two vacancies on the ITC board of directors pursuant to the merger agreement, which vacancies will be filled immediately after the effective time of the merger with two independent directors nominated by ITC's nominating/corporate governance committee (after engaging an executive search firm to assist the nominating/corporate governance committee in identifying two candidates to fill such vacancies), as further described under the heading "The Transactions Board of Directors and Management of ITC Following the Merger."

Listed below is the biographical information for each person who is currently a member of the ITC board of directors.

*Christopher H. Franklin, 47.* Mr. Franklin became a director of ITC in August 2011. Mr. Franklin currently serves as President and Chief Operating Officer, Regulated Operations at Aqua America, Inc., a water and wastewater utility holding company, a position he has held since December 2011. Prior to this appointment, Mr. Franklin served as Regional President, Midwest and Southern Operations and Senior Vice President of Corporate and Public Affairs from 2010 to 2011 and Regional President, Southern Operations and Senior Vice President of Customer Operations & Public Affairs from 2007 to 2010 and has served in a variety of other operations, customer service and public affairs positions since joining Aqua America, Inc. in 1993. Prior to joining Aqua America, Inc., Mr. Franklin served as Regional Civic and Economic Development Officer for Peco Energy (Exelon) from 1990 to 1992. He began his career in 1987 as Congressional Aide to U.S. Congressman Richard Schulze. Mr. Franklin currently sits on the Board of the Magee Rehabilitation Hospital and the Walnut Street Theatre. He also has served as a director on the Southeastern Pennsylvania Transportation Authority. The ITC board of directors selected Mr. Franklin to serve as a director due to his significant experience in the utility industry, as well as his knowledge of public policy matters.

*Edward G. Jepsen, 69.* Mr. Jepsen became a director of ITC in July 2005. Since December 2010, Mr. Jepsen has served as the Chairman and CEO of Coburn Technologies, Inc., a privately held manufacturer and servicer of ophthalmic lens processing equipment. Mr. Jepsen currently serves as a director and is chair of the audit committee and a member of the compensation committee of the board of directors of Amphenol Corporation, a publicly traded manufacturer of electrical, electronic and fiber optic connectors, interconnect systems and cable. In the past five years, but not currently, Mr. Jepsen served as a director and chairman of the audit and finance committee and member of the compensation committee of Gerber Scientific, Inc. Mr. Jepsen served as Executive Vice President and Chief Financial Officer of Amphenol Corporation from 1989 to 2004. Prior to joining Amphenol Corporation, Mr. Jepsen worked at Price Waterhouse LLP from 1969 to 1988, ultimately attaining the position of partner. The ITC board of directors selected Mr. Jepsen to serve as a director because of the expansive financial and accounting experience he obtained as a chief financial officer and Certified Public Accountant. Mr. Jepsen is an audit committee financial expert as defined in applicable SEC and NYSE rules.

*Richard D. McLellan, 70.* Mr. McLellan became a director of ITC in November 2007. Mr. McLellan retired in April 2007 after 25 years as the director of the government policy department for the law firm of Dykema Gossett PLLC. He continues to consult and provide limited legal services to select clients under the name McLellan Law Offices. Mr. McLellan is currently chairman of the Michigan Law Revision Commission, a position he has held

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since 1986, and Chairman of the Board for the Council for Africa Infrastructure Development. Mr. McLellan has served as an Independent Trustee for Jackson National Life Series Trust, an open-ended variable annuity equity fund launched and managed by Jackson National Asset Management, LLC since December 2003. From June 2007 through December 2010, he was Special Counsel to the Chairman of the Michigan House Appropriations Committee. Mr. McLellan previously served two terms as a member of the Board of Commissioners of the State Bar of Michigan and served on the Board of Trustees of the Michigan State University College of Law. He is a member of the Advisory Board for the Michigan State University James H. and Mary B. Quello Center for Telecommunications Management and Law and teaches as an adjunct professor at Michigan State University's Department of Advertising, Public Relations and Retailing. The ITC board of directors selected Mr. McLellan to serve as a director because of his extensive knowledge of public policy matters as well as his decades of experience in the practice of law.

*William J. Museler, 71.* Mr. Museler is an independent energy consultant. He became a director of ITC in November 2006. Previously, he served as President and CEO of the New York Independent System Operator from 1999 to 2005. Prior to his service at NYISO, Mr. Museler held senior positions at the Tennessee Valley Authority from 1991 to 1999, Long Island Lighting Company from 1973 to 1991 and Brookhaven National Laboratory from 1967 to 1973. He has served as a federal representative for the North American Electric Reliability Council and as chairman of the Southeastern Electric Reliability Council. He was a member of the Secretary of Energy's Energy Advisory Board from 2001 to 2005 and is currently a director of the Independent Electric System Operator in Toronto, Ontario, Canada. The ITC board of directors selected Mr. Museler to serve as a director due to his lifelong career in the utility industry, as well as his invaluable experience with electric reliability matters.

*Hazel R. O'Leary, 75.* Ms. O'Leary became a director of ITC in July 2007. Since 2004, Ms. O'Leary has served as the President of Fisk University in Nashville, Tennessee and she currently serves on the boards of directors of the Nashville Alliance for Public Education, Nashville Business Community for the Arts, World Wildlife Fund, Arms Control Association and CAMAC Energy Inc. Ms. O'Leary served as an Assistant Attorney General and Assistant Prosecutor in the state of New Jersey and was appointed to the Federal Energy Administration under President Gerald Ford and to the United States Department of Energy under President Jimmy Carter. Ms. O'Leary worked in the private sector as a principal at the independent public accounting firm of Coopers and Lybrand from 1977 to 1979. In 1981 she was named Vice President and General Counsel of O'Leary and Associates, a company focused on international economics as related to energy issues. She served in that capacity until 1989 and then returned as President from 1997 to 2001. In 1989, she became Executive Vice President for Environmental and Public Affairs for the Minnesota Northern States Power Company and in 1992 she was promoted to President of the holding company's gas distribution subsidiary. Ms. O'Leary served as the United States Secretary of Energy from 1993 to 1997 and as President and Chief Operating Officer for the investment banking firm Blaylock and Partners in New York from 2000 to 2002. Ms. O'Leary also served on the board of directors of UAL Corporation from 1999 to 2005. The ITC board of directors selected Ms. O'Leary to serve as a director due to her unique combination of experience in government and in the utility industry.

*M. Michael Rounds, 57.* Mr. Rounds became a director of ITC in August 2011. Mr. Rounds is the President and Chief Executive Officer of Fischer, Rounds & Associates, an insurance and real estate business in South Dakota. Mr. Rounds has served in that position since April 2011. Previously, Mr. Rounds served as Governor of South Dakota from 2003 to 2011. While Governor, he served as Chairman of the Western Governors Association, Chairman of the Midwest Governors Association, Vice-Chair of the National Governors Association Economic Development and Commerce Committee, member of the Executive Committee of the National Governors Association, and National President of the Council of State Governments. Mr. Rounds also served as a South Dakota state senator from 1991 through 2000, serving as Senate Majority Leader from 1995 through 2000. Mr. Rounds is currently active in the Bipartisan Policy Council; Washington D.C., where he is a charter member of the Governors' Council made up of former governors, and also serves as a leader of the Health Project at the Bipartisan Policy Center. The ITC board of directors selected Mr. Rounds to serve as a director due to his experience in government and familiarity with the Midwestern and Great Plains states in which ITC operates and conducts business.

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*G. Bennett Stewart, III, 59.* \* Mr. Stewart became a director of ITC in July 2006. In 1982, he co-founded Stern Stewart & Co., a global management consulting firm, where he served as Senior Partner until March 2006. Since then, Mr. Stewart has served as Chief Executive Officer of EVA Dimensions, a firm that offers corporate financial benchmark data, software tools for corporate financial intelligence, performance management, valuation modeling and executive decision support, and equity research services. Mr. Stewart has written and lectured widely in his 30 year professional career on topics such as accounting for value and management incentive plans. The ITC board of directors selected Mr. Stewart to serve as a director because of his vast experience with executive compensation valuation and his unique insight into corporate governance matters.

*Lee C. Stewart, 64.* \* Mr. Stewart, an independent financial consultant, became a director of ITC in August 2005. Mr. Stewart currently serves as a director, chair of the nominating/corporate governance committee and member of the compensation and finance committees of P.H. Glatfelter Company and as a director, chair of the compensation committee and member of the audit committee of AEP Industries, Inc. Mr. Stewart also served as director, chair of the human resources and compensation committee and member of the audit committee of Marsulex, Inc. from 2000 to 2011. Previously, Mr. Stewart was Executive Vice President and Chief Financial Officer of Foamex International, Inc., a publicly traded manufacturer of flexible polyurethane and advanced polymer foam products, in 2001 and was Vice President responsible for all areas of Treasury at Union Carbide Corp., a chemicals and polymers company, from 1996 to 2001. Prior to that, Mr. Stewart was an investment banker for over 25 years. The ITC board of directors selected Mr. Stewart to serve as a director due to his extensive knowledge of finance and capital raising through his experience as a treasury officer and an investment banker, which are critical elements in the execution of ITC's business strategy. Mr. Stewart is also an audit committee financial expert as defined in applicable SEC and NYSE rules.

*J.C. Watts, Jr., 54.* Mr. Watts became a director of ITC in August 2011. Mr. Watts is Chairman and Founder of the J.C. Watts Companies, a multi-industry company headquartered in Washington, D.C. with operations in Texas and Oklahoma. Through J.C. Watts Companies, he has built a diverse business organization that includes Mustang Equipment, the first African-American owned John Deere dealership in America, J.C. Watts Holdings, a private investment firm, and Watts Partners, which provides consulting and advocacy services for government and public affairs. Mr. Watts has held this position since 2003. Mr. Watts served in the U.S. House of Representatives from 1995 through 2002 representing the 4<sup>th</sup> congressional district in central and southwest Oklahoma. He was elected chairman of the Republican Conference in the U.S. House of Representatives in 1998, served for eight years on the House Armed Services Committee, and authored legislation to create the House Select Committee on Homeland Security, on which he later served. Mr. Watts also served on the House Transportation and Infrastructure Committee and House Banking Committee. From 1987 through 1994, Mr. Watts served as youth minister at Sunnyside Baptist Church in Del City, Oklahoma, where he then became Associate Pastor. In 1990 he was elected to the Oklahoma State Corporation Commission and became chairman before running for Congress in 1994. Mr. Watts currently serves as director of Dillard's Departments Stores and CSX Corporation and also serves on the board of the Boys Scouts of America. The ITC board of directors selected Mr. Watts to serve as director due to his extensive understanding and knowledge of government and policy issues and his familiarity with the South Central states in which ITC operates and conducts business.

*Joseph L. Welch, 64.* Mr. Welch has been a director and the President and Chief Executive Officer of ITC since it began operations in 2003 and served as its Treasurer until April 2009. Mr. Welch has also served as Chairman of the ITC board of directors since May 2008. As the founder of ITCtransmission, Mr. Welch has had overall responsibility for ITC's vision, foundation and transformation into the first independently owned and operated electricity transmission company in the United States. Mr. Welch worked for Detroit Edison Company, or Detroit Edison, and subsidiaries of DTE Energy Company, from 1971 to 2003. During that time, he held positions of increasing responsibility in the electricity transmission, distribution, rates, load research, marketing and pricing areas, as well as regulatory affairs that included the development and implementation of regulatory strategies. The ITC board of directors selected Mr. Welch to serve as a director because he is ITC's President and Chief Executive Officer and he possesses unparalleled expertise in the electric transmission business.

\* G. Bennett Stewart, III and Lee C. Stewart are not related.

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***Executive Officers***

The executive officers of ITC immediately prior to the closing of the merger are expected to be the executive officers of ITC immediately following the closing of the merger.

Listed below is the biographical information for each person who is currently an executive officer of ITC.

*Joseph L. Welch.* Mr. Welch's background is described above under the heading "Directors and Executive Officers of ITC Before and After the Merger" Board of Directors.

*Cameron M. Bready.* Mr. Bready has served as ITC's Chief Financial Officer since April 2009 and was Senior Vice President from April 2009 until being named Executive Vice President in January 2011 and also served as Treasurer from April 2009 until February 2012. Mr. Bready is responsible for ITC's accounting, finance, treasury, and other related financial functions as well as ITC's development efforts. Prior to joining ITC, Mr. Bready served for one and a half years as vice president of finance at Northeast Utilities in Hartford, Connecticut, where he was responsible for the financial assessment and structuring of the company's FERC regulated transmission and state regulated distribution infrastructure investments in the Northeast. He also oversaw financial policy matters, including cost of capital and capital structure requirements and dividend policy, as well as all corporate financial planning and analysis functions. Prior to this post, Mr. Bready served for seven and a half years in various senior management positions at Mirant Corporation, a publicly traded wholesale electricity generator based in Atlanta, Georgia, and prior to Mirant, he worked for six years as a senior manager in the Transaction Advisory practice at Ernst & Young and as an audit manager for Arthur Andersen. Mr. Bready serves as a member of the Board of Trustees of Oglethorpe University and the Board of Trustees of the Judson Center.

*Linda H. Blair.* Ms. Blair has served as Executive Vice President and Chief Business Officer of ITC since June 2007. Ms. Blair is responsible for managing each of ITC's regulated operating companies and the necessary business support functions, including regulatory strategy, federal and state legislative affairs, community government affairs, human resources, and marketing and communications. Prior to this appointment, Ms. Blair served as ITC's Senior Vice President Business Strategy and was responsible for managing regulatory affairs, policy development, internal and external communications, community affairs and human resource functions. Ms. Blair was Vice President Business Strategy from March 2003 until she was named Senior Vice President in February 2006. Prior to joining ITC, Ms. Blair was the Manager of Transmission Policy and Business Planning at ITCTransmission when it was a subsidiary of DTE Energy and supervised Detroit Edison's regulatory affairs department.

*Jon E. Jipping.* Jon E. Jipping has served as ITC's Executive Vice President and Chief Operating Officer since June 2007. In this position, Mr. Jipping is responsible for transmission system planning, system operations, engineering, supply chain, field construction and maintenance, and information technology and facilities. Prior to this appointment, Mr. Jipping served as ITC's Senior Vice President Engineering and was responsible for transmission system design, project engineering and asset management. Mr. Jipping joined ITC as Director of Engineering in March 2003, was appointed Vice President Engineering in 2005 and was named Senior Vice President in February 2006. Prior to joining ITC, Mr. Jipping was Manager of Business Systems & Applications in DTE Energy's Service Center Organization, responsible for implementation and management of business applications across the distribution business unit, and held various other positions in DTE Energy's Transmission Operations and Transmission Planning department.

*Daniel J. Oginsky.* Mr. Oginsky has served as ITC's Vice President and General Counsel since November 2004 and was named Senior Vice President and General Counsel in May 2009. In this position, Mr. Oginsky is responsible for the legal affairs of ITC and oversees the legal department, which includes the legal, corporate secretary, real estate, contract administration and corporate compliance functions. Mr. Oginsky also served as ITC's Secretary from November 2004 until June 2007. Prior to joining ITC, Mr. Oginsky was an attorney in private practice for five years with various firms, where his practice focused primarily on representing ITCTransmission and other energy clients on regulatory, administrative litigation, transactional, property tax and legislative matters. Mr. Oginsky currently serves as a member of the Providence Health Foundation Board of Trustees, and a member of the Board of Visitors for James Madison College at Michigan State University.



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### **Compensation of ITC's Directors and Executive Officers**

Information on the compensation of ITC's directors and officers is described on pages 17 through 46 of ITC's definitive proxy statement with respect to the 2012 annual meeting of shareholders, which ITC filed on Schedule 14A with the SEC on April 12, 2012, which information is incorporated into this document by reference. For more information regarding how to obtain a copy of such documents, see [Where You Can Find More Information; Incorporation By Reference](#).

### **Certain Relationships and Related Party Transactions**

#### ***Code of Business Conduct and Ethics***

ITC has adopted a Code of Business Conduct and Ethics that applies to all of ITC's employees, executive officers and directors, including ITC's chief executive officer, chief financial officer and principal accounting officer. The Code of Business Conduct and Ethics, as currently in effect (together with any amendments that may be adopted from time to time), is available on ITC's website at [www.itc-holdings.com](http://www.itc-holdings.com) through the [Corporate Governance](#) link on the [Investors](#) page. In the future, to the extent any waiver is granted or amendment is made with respect to the Code of Business Conduct and Ethics that requires disclosure under applicable SEC rules, ITC intends to post information regarding such waiver or amendment on the [Corporate Governance](#) page of its website.

#### ***Related Person Transactions***

Pursuant to its charter, ITC's nominating/corporate governance committee is charged with monitoring and reviewing issues involving independence and potential conflicts of interest with respect to ITC's directors and executive officers. As required by applicable NYSE rules, ITC's nominating/corporate governance committee also determines whether or not a particular relationship serves the best interest of ITC and its shareholders and whether the relationship should be continued or eliminated. In addition, ITC's Code of Business Conduct and Ethics generally forbids conflicts of interest unless approved by the ITC board of directors or a designated committee.

Although ITC does not have a written policy with regard to the approval of transactions between ITC and its executive officers and directors, each director and officer must annually submit a form to ITC's General Counsel disclosing his or her conflicts or potential conflicts of interest or certifying that no such conflicts of interest exist. Throughout the year, if any transaction constituting a conflict of interest arises or circumstances otherwise change that would cause a director's or officer's annual conflict certification to become incorrect, such director or officer must inform ITC's General Counsel of such circumstances. ITC's nominating/corporate governance committee reviews existing conflicts as well as potential conflicts of interest and determines whether any further action is necessary, such as recommending to the ITC board of directors whether a director or officer should be requested to offer his or her resignation. Where the ITC board of directors makes a determination regarding a potential conflict of interest, a majority of the ITC board of directors (excluding any interested member or members) shall decide upon an appropriate course of action. Additionally, any director or officer who has a question about whether a conflict exists must bring it to the attention of ITC's General Counsel or chairperson of ITC's nominating/corporate governance committee.

With the approval of ITC's nominating/corporate governance committee, Clayton Welch, Jennifer Welch, Jessica Uher and Katie Welch (each of whom is a son, daughter or daughter-in-law of Joseph L. Welch, ITC's chief executive officer) were employed by ITC as a Senior Engineer, Fleet Manager, Manager of Warehouse and Logistics, and Senior Accountant, respectively, during 2011 and continue to be employed by ITC. These individuals are employed on an at will basis and compensated on the same basis as ITC's other employees of similar function, seniority and responsibility without regard to their relationship with Mr. Welch. These four individuals, none of whom resides with or is supported financially by Mr. Welch, received aggregate salary, bonus and taxable perquisites for services rendered in the above capacities totaling \$420,877 during 2011.

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**Material Transactions Between ITC and Entergy**

METC is party to a Generator Interconnection Agreement effective on January 19, 2011 with Entergy Nuclear Palisades, LLC ( Entergy Palisades ) and the MISO (the Palisades Generator Interconnection Agreement ). This three-party agreement governs the direct electricity interconnection of Entergy Palisades electricity generating asset to the METC transmission system for the purposes of transmitting electric power from electricity generating facilities. The term of the Palisades Generator Interconnection Agreement is thirty years unless otherwise terminated by one of the parties to the agreement as specified in the agreement (subject to notice and approval of the FERC).

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**INFORMATION ON ENTERGY**

Entergy, a Delaware corporation, is an integrated energy company engaged primarily in the electric power production and retail distribution operations. Entergy, through its subsidiaries, owns and operates power plants with approximately 30,000 megawatts of electric generating capacity, including more than 10,000 megawatts of nuclear power, making it one of the nation's leading nuclear generators. Entergy delivers electricity to 2.8 million utility customers in Arkansas, Louisiana, Mississippi and Texas. Entergy has annual revenues of more than \$11 billion and approximately 15,000 employees. Entergy operates its business in two segments: the utility business segment and the Entergy wholesale commodities businesses segment.

Entergy's internet address is [www.entergy.com](http://www.entergy.com). Please note that Entergy's internet address is included in this proxy statement/prospectus as an inactive textual reference only. The information contained on Entergy's website is not incorporated by reference into this proxy statement/prospectus or any future documents that may be filed by Entergy with the SEC and should not be considered a part of this document. Entergy makes available on this website free of charge, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonable practicable after it electronically files or furnishes such materials to the United States Securities and Exchange Commission. Investors may access these filings in the Investor Relations section of the Entergy website.

For a more detailed description of the business of Entergy, see Entergy's Annual Report for the year ended December 31, 2011 filed with the SEC on Form 10-K.

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**INFORMATION ON ENTERGY'S TRANSMISSION BUSINESS**

**Description of Entergy's Transmission Business**

***Overview***

The Entergy transmission business, referred to as Entergy's Transmission Business, consists of the Entergy transmission system, which is comprised of over 15,800 circuit miles of transmission lines operated at 69kV to 500kV and 1,500 substations, as well as the employees and assets used to plan, operate and maintain that system. The Entergy transmission system spans portions of Arkansas, Louisiana, Mississippi, Missouri and Texas, covers 114,000 square miles and is regulated by the FERC and five retail regulators including the Arkansas Public Service Commission ( APSC ), the Louisiana Public Service Commission ( LPSC ), the Mississippi Public Service Commission ( MPSC ), the City Council for the City of New Orleans (the City Council ) and the Public Utility Commission of Texas ( PUCT ). Entergy has not historically presented the Entergy's Transmission Business as a separate reportable segment.

The Utility Operating Companies own the transmission system assets that are located in their respective service areas. Entergy Services, Inc. ( ESI ), a service company that provides services to the Utility Operating Companies, also owns certain assets related to the operation of Entergy's Transmission Business. The personnel that plan, operate and maintain the Entergy transmission system are generally employed by ESI. Additionally, personnel that provide grid support services are generally employed by the individual Utility Operating Companies. Entergy's Transmission Business is currently headquartered in Jackson, Mississippi.

The Entergy transmission system is part of the Eastern Interconnection, the network of interconnected transmission systems that move bulk power throughout the eastern half of the United States and eastern Canada.

The Entergy transmission system moves high voltage bulk electric power from generating plants of the Utility Operating Companies and other third parties across an interconnected system of transmission lines and substations to distribution points for delivery to wholesale customers such as municipalities and cooperatives, as well as to the approximately 2.8 million retail customers of the Utility Operating Companies. As of June 30, 2012, the Entergy transmission system was interconnected to 22 adjacent balancing authority areas. As of June 30, 2012, approximately 100 generating facilities, with an approximate total capacity of 47,100 MW, were connected to the Entergy transmission system. These generators include network resources of the Utility Operating Companies and other network customers, merchant generation, and cogenerators/qualified facilities.

The provision of bundled retail transmission service to the retail customers of the Utility Operating Companies is regulated by the five retail regulators of those companies. The provision of transmission service to wholesale customers of the Utility Operating Companies is regulated by the FERC. Entergy provides wholesale transmission service pursuant to FERC-jurisdictional transmission agreements and tariffs, including the Entergy Open Access Transmission Tariff (the Entergy OATT ) filed in accordance with FERC's Order No. 888. In addition to wholesale transmission service, FERC also regulates the reliability of the bulk electric system, including Entergy's transmission system, pursuant to the Energy Policy Act of 2005.

The Utility Operating Companies have historically engaged in coordinated planning, construction, and operation of their transmission facilities under the terms of the Entergy System Agreement, which is a rate schedule subject to the jurisdiction of the FERC. The System Agreement remains in effect today, although Entergy Arkansas and Entergy Mississippi have provided notice that they will terminate their participation in the System Agreement effective as of December 18, 2013 and November 7, 2015, respectively.

In November 2006, the Utility Operating Companies installed Southwest Power Pool ( SPP ), as the independent coordinator of transmission ( ICT ) for the Entergy transmission system. Acting as the ICT, SPP independently administers the Entergy OATT, grants and denies transmission service requests, and performs certain reliability and planning functions. These matters are further described under the section Federal

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Regulation, below. The Entergy Regional State Committee ( E-RSC ), comprised of representatives from all of the Utility Operating Companies retail regulators, also provides oversight over the planning and operation of the Entergy transmission system. The E-RSC has authority to require the filing of proposed modifications to the cost allocation methodology for new transmission projects and to add transmission projects to the construction plan of the Utility Operating Companies.

On April 25, 2011, Entergy announced its plans for the Utility Operating Companies to join the MISO, an RTO that operates a Day 2 market, on or before December 2013. These matters are further described under the section Federal Regulation, below.

On December 5, 2011, Entergy and ITC announced a plan to spin off Entergy s Transmission Business and merge Entergy s Transmission Business into ITC. For more information, see The Transactions.

### ***Business Segments***

Entergy s Transmission Business is comprised of a single segment.

### ***Transmission Business Functions***

Entergy s Transmission Business is responsible for transmission planning, asset and configuration management, transmission operations, transmission policy, regulatory compliance, transmission design engineering, transmission project management and construction, and safety.

### ***Transmission Business Organization***

Entergy s Transmission Business is organized into six divisions: Asset Management, Project Management and Construction, Transmission Engineering, Transmission and Distribution Planning, Transmission Regulatory Compliance, and Operations.

Asset Management is responsible for maintenance management, maintenance support, right of way management and configuration management. Asset Management maintains an active maintenance program utilizing a substation work management system and line work management system to track preventative maintenance requirements of certain components of the Entergy transmission system. Asset Management employs third party contractors to perform some of its responsibilities including vegetation management, environmental services, transmission line maintenance and substation maintenance. Asset Management retains the technical expertise to effectively oversee and manage its third party contractors.

Project Management and Construction is responsible for project management, capital construction management and controls, right of way procurement, and storm tracking, reporting and system emergency planning and restoration coordination. Project Management and Construction employs third party contractors for the construction of certain projects and to support some of its responsibilities including environmental and surveying services. Project Management and Construction retains the technical expertise to effectively oversee and manage its third party contractors.

Transmission Engineering is responsible for transmission line design, substation design, system protection and control design, design engineering services, design basis, standards development and new technology application. Transmission Engineering employs third party contractors to perform some of its engineering and design work. Transmission Engineering retains the technical expertise to effectively oversee and manage its third party contractors.

Transmission and Distribution Planning is responsible for transmission system planning and distribution asset planning which includes the development of the five year transmission construction plan and a horizon plan for projects in years 6 through 10. The group also develops a five year distribution load forecast and integrates capacity/load growth needs of distribution and substations.

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Transmission Regulatory Compliance implements programs, procedures and controls to ensure the planning and operation of the Entergy transmission system satisfies regulatory requirements (including requirements of FERC, The Sarbanes-Oxley Act of 2002, records retention requirements, and electric reliability organization requirements and standards), is responsible for transmission regulatory policy development in support of the Entergy OATT, quality control, wholesale customer coordination and contracts, and administers the weekly procurement process.

Transmission Operations is responsible for transmission system security and regional reliability coordination, monitors and controls the Entergy transmission system, provides transmission billing and settlement and coordinates transmission outages and switching. Transmission Operations oversees the scheduling, dispatching, operational planning and secure and reliable real-time operation of the Entergy transmission system. Transmission Operations assures safe power dispatching practices, coordinates transmission facility outages, supervises transmission circuit loading and operating voltage levels, directs the development of switching and tagging procedures and assures proper training of dispatching personnel. Transmission Operations is also responsible for certain process controls and aspects of the administration of the Entergy OATT and operation of Entergy's OASIS node.

***Operation of the Transmission System***

The Entergy transmission system comprises over 15,800 circuit miles of 69kV to 500kV transmission lines and 1,500 substations located in Arkansas, Louisiana, Mississippi, Missouri and Texas. The system operations center ( SOC ) located in Pine Bluff, Arkansas has overall responsibility for operating the Entergy transmission system in real time. Certain responsibilities are shared with or delegated to five transmission operations centers (each a TOC ) for the Utility Operating Companies. The five TOCs are located in Beaumont, Texas; Gretna, Louisiana; Jackson, Mississippi; Little Rock, Arkansas; and Monroe, Louisiana.

The primary operational functions performed at the SOC include balancing authority functions and transmission operation functions.

Balancing Authority functions performed by operations personnel at the SOC include: monitoring frequency within acceptable limits during normal and emergency operating conditions, performing time error correction, calculating and monitoring area control errors and directing actions to maintain area control errors, coordinating with the reliability coordinator and neighboring balancing authorities for continued operation during normal and emergency conditions.

Transmission Operations functions performed at the SOC include: coordinating and directing actions to ensure reliability of the Entergy transmission system based on system conditions and contingency analysis results, coordinating generator and transmission outages with neighboring balancing authorities, transmission operators and the reliability coordinator, monitoring and directing actions to maintain transmission system within voltage and line loading limits, coordinate with the reliability coordinator to mitigate system operating limit and interconnected reliability operating limit violations.

Certain Transmission Operations planning activities including maintaining the off-line model, performing studies and coordinating transmission outages are also performed at the SOC.

The TOCs perform local monitoring and control of transmission system parameters such as voltage, equipment status and line flows, as well as working with the field personnel to perform equipment switching and operate transmission equipment.

Entergy performs the following North American Electric Reliability Corporation ( NERC ) registered functions: Balancing Authority (BA), Distribution Provider (DP), Generator Owner (GO), Generator Operator (GOP), Interchange Authority (IA), Load Serving Entities (LSE), Planning Authority (PA), Purchasing Selling Entity (PSE), Resource Planner (RP), Transmission Owner (TO), Transmission Operator (TOP), and Transmission Service Provider (TSP). In operating the Entergy transmission system, Entergy's Transmission Business performs a subset of these NERC registered functions, including PA, BA, IA, TO, TOP and TSP.

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### ***Transmission Business Customers***

The transmission system moves bulk power from generating plants to distribution points for delivery to wholesale customers and cooperatives as well as to the approximately 2.8 million retail customers of the Utility Operating Companies. Entergy's transmission system also delivers power directly to large commercial and industrial retail customers of the Utility Operating Companies. These customers include refineries, chemical plants, oil and gas processing facilities, pumping stations, and large manufacturing sites vital to the region and nation.

### ***Transmission Rates and Ratemaking***

The Utility Operating Companies are rate-regulated public utilities whose rates (i) are approved by a body empowered to set rates that bind customers (its regulator); (ii) are cost-based; and (iii) can be charged to and collected from customers. The Utility Operating Companies earn revenues and recover the cost of operating and maintaining the transmission system by charging retail and wholesale customers transmission rates based on ratemaking processes subject to the jurisdiction of the FERC and the retail regulators of the Utility Operating Companies.

Approximately 75% of Entergy's Transmission Business revenues earned by the Utility Operating Companies are derived from providing transmission services to the retail customers of those companies. Retail rates of the Utility Operating Companies are set on a bundled basis (including generation, transmission and distribution assets and associated operations and maintenance ( O&M ) and administrative and general ( A&G ) costs) and as a result, the Utility Operating Companies, do not have separately stated transmission rates. Retail rates are set utilizing the same transmission assets, O&M, and A&G costs of each Utility Operating Company that are used collectively to develop the Entergy Open Access Transmission Tariff ( OATT ) rate, but reflect each Utility Operating Company's authorized retail return on equity and capital structure.

The remaining approximately 25% of Entergy's Transmission Business revenues earned by the Utility Operating Companies are derived from providing transmission services to third party wholesale customers. No one third party wholesale customer accounted for more than ten percent of Entergy's Transmission Business's revenues. The Utility Operating Companies derive charges for service on Entergy's bulk transmission facilities through a formula rate contained in the Entergy OATT. In accordance with the Entergy OATT, the Utility Operating Companies submit an annual informational filing to the FERC that updates the charges that will apply for OATT service for the upcoming June 1 through May 31 period (a Rate Year ) using actual data from the immediately prior calendar year ( Annual Rate Update ). Specifically, the Annual Rate Update calculates charges for the upcoming Rate Year using historical, actual costs, loads and other inputs (e.g., revenue credits) as recorded for the year immediately prior to the Rate Year (e.g., 2010 actual costs as inputs for the 2011 Rate Year) in accordance with Appendix A to Schedule 7 (Firm Point-to-Point Transmission Service) and Attachment H (Network Service) to the Entergy OATT. The cost of constructing certain types of upgrades is recovered directly from the requesting customer pursuant to Attachment T to the Entergy OATT, not through the Annual Rate Update.

In addition to the OATT formula rate, the Utility Operating Companies also provide transmission service under other grandfathered agreements that pre-date FERC's Order No. 888. These agreements contain either a stated rate for transmission service or, in the case of one customer, a formula rate that is updated every year using actual data from the immediately prior calendar year.

Entergy's Transmission Business collects revenues based on these wholesale rates by billing wholesale transmission customers for the use of the Entergy transmission system pursuant to the transmission service rates set forth in the applicable grandfathered agreement or Entergy OATT. The revenue from the billings to wholesale customers under the OATT formula rate is distributed among the Utility Operating Companies based on responsibility ratio. Revenue from the billings to wholesale customers under grandfathered agreements is distributed to the Utility Operating Company that entered into that agreement.

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After Entergy's Transmission Business becomes a member of MISO and the merger occurs, the Utility Operating Companies will no longer be responsible for providing transmission service or billing wholesale customers. ITC will own and operate the former Entergy transmission system and will recover costs associated with those assets pursuant to the MISO OATT. Under this arrangement, MISO will be responsible for billing customers, including the Utility Operating Companies, pursuant to the formula rate in the MISO OATT and revenues will be passed on to the transmission business operated by ITC.

### ***Transmission Business Franchises***

Entergy Arkansas holds exclusive franchises to provide electric service including the transmission of electricity in approximately 307 incorporated cities and towns in Arkansas. These franchises are unlimited in duration and continue unless the municipalities purchase the utility property. In Arkansas, franchises are considered to be contracts and, therefore, are terminable pursuant to the terms of the franchise agreement and applicable statutes.

Entergy Gulf States Louisiana holds non-exclusive franchises to provide electric service including the transmission of electricity in approximately 56 incorporated municipalities and the unincorporated areas of approximately 18 parishes. Most of Entergy Gulf States Louisiana's franchises have a term of 60 years. Entergy Gulf States Louisiana's current electric franchises expire during 2015-2046.

Entergy Louisiana holds non-exclusive franchises to provide electric service including the transmission of electricity in approximately 116 incorporated Louisiana municipalities. Most of these franchises have 25-year terms. Entergy Louisiana also supplies electric service including the transmission of electricity in approximately 45 Louisiana parishes in which it holds non-exclusive franchises. Entergy Louisiana's electric franchises expire during 2015-2036.

Entergy Mississippi has received from the MPSC certificates of public convenience and necessity to provide electric service including the transmission of electricity to areas within 45 counties, including a number of municipalities, in western Mississippi. Under Mississippi statutory law, such certificates are exclusive. Entergy Mississippi may continue to serve in such municipalities upon payment of a statutory franchise fee, regardless of whether an original municipal franchise is still in existence.

Entergy New Orleans provides electric service including the transmission of electricity in the City of New Orleans pursuant to an indeterminate permit set forth in a city ordinance (except electric service in Algiers, which is provided by Entergy Louisiana). This ordinance contains a continuing option for the City of New Orleans to purchase Entergy New Orleans's electric properties.

Entergy Texas holds a certificate of convenience and necessity from the PUCT to provide electric service including the transmission of electricity to areas within approximately 27 counties in eastern Texas, and holds non-exclusive franchises to provide electric service including the transmission of electricity in approximately 68 incorporated municipalities. Entergy Texas was typically granted 50-year franchises, but recently has been receiving 25-year franchises. Entergy Texas's electric franchises expire during 2013-2058.

### ***Transmission Business Planning***

Entergy's Transmission Business annually conducts both local planning and regional planning related to the Entergy transmission system.

The primary goals of the local planning process are to ensure the continued reliable operation of the Entergy transmission system and to meet all firm load requirements, including serving the loads of the retail customers of the Utility Operating Companies. The local planning process takes into account the expected load growth and long-term firm transmission service using the Entergy transmission system. Entergy's Transmission Business also seeks input from stakeholders, state regulators, and the ICT. Potential projects are identified against



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Entergy's transmission planning criteria which include the NERC Reliability Standards, the SERC Reliability Corporation Supplements to the NERC Reliability Standards, and the Entergy Transmission Local Planning Criteria. The results of the annual local planning process are reflected in a Transmission Construction Plan and Horizon Plan, which encompass proposed, conceptual and approved transmission projects.

A Transmission Planning Summit is held annually at which Entergy's Transmission Business presents options for expanding and upgrading the Entergy transmission system.

In order to comply with regional coordination requirements of FERC Order No. 890, the Entergy's Transmission Business conducts regional planning by participating in the Entergy SPP Regional Planning Process ( ESRPP ) and the Southeast Inter-Regional Participation Process ( SIRPP ). These processes evaluate potential transmission projects to enhance transfer capabilities between the Entergy transmission system and neighboring systems within the SPP and SERC regions.

ESRPP was created to identify system enhancements that may relieve regional congestion between Entergy and the SPP. The process shares system plans to ensure that they are simultaneously feasible and otherwise use consistent assumptions and data.

The Regional Planning Parties (Entergy and SPP RTO) utilize the ESRPP to perform studies and coordinate regional stakeholder communication. Each party assesses the simultaneous feasibility of the expansion plans and the consistency of data and assumptions and reports any inconsistencies or incompatibilities to the coordinating party. The Regional Planning Parties conduct stakeholder requested studies intended to identify system enhancements that may relieve regional congestion. The main objectives of the ESRPP are to improve regional transfer capability, improve regional optimization, and relieve constraining flowgates. These objectives are combined in order to provide a more robust transmission system capable of more economic delivery of power across a regional transmission system.

SIRPP is an inter-regional planning process with participants from the various Southeastern interconnected transmission owners including the Utility Operating Companies. SIRPP relies on the existing planning processes of its participants. Using the plans developed from existing processes, participants in the SIRPP collectively conduct inter-regional reliability transmission assessments, which include the sharing of the individual transmission system plans of the participants, providing information on the assumptions and data inputs used in the development of those plans and assessing whether the plans are simultaneously feasible. The inter-regional planning process is performed annually.

The E-RSC also has authority to require the filing of proposed modifications to the cost allocation methodology for new transmission projects and to add transmission projects to the Transmission Construction Plan of the Utility Operating Companies.

Additional changes to the regional and interregional planning processes are contemplated in order to comply with FERC Order No. 1000. Entergy is currently in discussions with MISO and neighboring systems as compliance with Order 1000 will be affected by the Utility Operating Companies' proposal to join MISO.

### ***Capital Improvement Projects***

Capital improvement projects include upgrades to transmission facilities for reliability, economic transmission upgrades, upgrades necessary to grant firm transmission service, generation interconnection facilities, and new points of delivery. Related to capital improvement projects are planning, design, engineering, right-of-way acquisition, and project management. Capital improvement projects are identified and evaluated through a project planning process. Approved projects are designed and constructed pursuant to a project execution process.

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Also related to capital improvements are projects necessary to restore the transmission system following major storm events (e.g., ice storms, hurricanes, tornadoes). Restoration activities include pole, transformer, and line replacements, substation repairs, debris removal, and, coordinating mutual assistance aid from other utilities. Safety programs include training of personnel in the proper techniques and use of mechanical and personal safety equipment.

***Capital Investments***

Entergy's Transmission Business's capital investment over the past three years was \$1,061.7 million. Entergy's Transmission Business's capital investment and O&M expenses over the past three years was \$1,679.4 million.

<i>(in millions)</i>	2009	2010	2011	Subtotal
Total Capital Expenditures	\$ 268.3	\$ 377.8	\$ 415.6	\$ 1,061.7
Total O&M	\$ 186.7	\$ 212.1	\$ 218.9	\$ 617.7
<b>Total</b>	<b>\$ 455.0</b>	<b>\$ 589.9</b>	<b>\$ 634.5</b>	<b>\$ 1,679.4</b>

***Operation and Maintenance Expenses***

Typical operating and maintenance expenses of Entergy's Transmission Business include preventive and corrective maintenance programs, vegetation management, equipment replacement and repair, equipment testing, and system operations.

***Seasonality***

Entergy's Transmission Business's revenues are seasonal, in that revenues are typically higher in the winter and summer months when peak load is greater. The seasonal influences are mitigated from year to year because the rate test year is based on actual historical data of the immediate preceding rate year.

***Competition***

The business of transmitting electricity has historically been recognized as a natural monopoly. Accordingly, vertically integrated utilities that own transmission facilities operate in a highly regulated environment. At the state or local level, these utilities typically have an obligation to provide electric service to their customers in return for an exclusive franchise within their service territory with an opportunity to earn a regulated rate of return. At the federal level, the FERC regulates the rates, terms and conditions of wholesale transmission service and requires the provision of non-discriminatory, open access transmission service to eligible transmission customers. Entergy's Transmission Business, as part of the Utility Operating Companies, operates in a similar environment in which it is the only provider of transmission services within its service territories in Arkansas, Louisiana, Mississippi and Texas. Entergy's Transmission Business provides open access, non-discriminatory wholesale transmission service pursuant to FERC regulated tariffs and is regulated at the state/local level by five retail regulators.

***Federal Regulation*****Independent Coordinator of Transmission**

In 2000, the FERC issued an order encouraging utilities to voluntarily place their transmission facilities under the control of independent RTOs. Delays in implementing the FERC RTO order occurred due to a variety of reasons, including the fact that utilities, other stakeholders, and federal and state regulators have had to work to resolve various issues related to the establishment of such RTOs. In November 2006, the Utility Operating Companies installed SPP as the ICT for the Entergy transmission system. The ICT structure approved by FERC is not an RTO under FERC Order No. 2000 and installation of the ICT did not transfer control of the Entergy

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transmission system to the ICT. Instead, the ICT performs some, but not all, of the functions performed by a typical RTO, as well as certain functions unique to the Entergy transmission system. In particular, the ICT was vested with responsibility for:

granting or denying transmission service on the Entergy transmission system;

administering the Utility Operating Companies' OASIS node for purposes of processing and evaluating transmission service requests;

developing a base plan for Entergy's Transmission Business and deciding whether costs of transmission upgrades should be rolled into the Utility Operating Companies' transmission rates or directly assigned to an individual;

serving as the reliability coordinator for the Entergy transmission system;

overseeing the operation of the weekly procurement process (WPP); and

evaluating interconnection-related investments already made on the Entergy transmission system for certain cost allocation purposes. The FERC, in conjunction with the retail regulators of the Utility Operating Companies, hosted a conference on June 24, 2009, to discuss the ICT arrangement and transmission access on the Entergy transmission system. During the conference, several issues were raised by regulators and market participants, including the adequacy of the Utility Operating Companies' capital investment in the transmission system, the Utility Operating Companies' compliance with the existing NERC reliability planning standards, the availability of transmission service across the Entergy transmission system, and whether the Utility Operating Companies could have purchased lower cost power from merchant generators located on the Entergy transmission system rather than running their older generating facilities. On July 20, 2009, the Utility Operating Companies filed comments with the FERC responding to the issues raised during the conference. The comments explained that: 1) the Utility Operating Companies believe that the ICT arrangement has fulfilled its objectives; 2) the Utility Operating Companies' transmission planning practices comply with laws and regulations regarding the planning and operation of the Entergy transmission system; and 3) these planning practices have resulted in a transmission system that meets applicable reliability standards and is sufficiently robust to allow the Utility Operating Companies both to substantially increase the amount of transmission service available to third parties and to make significant amounts of economic purchases from the wholesale market for the benefit of the Utility Operating Companies' retail customers. The Utility Operating Companies also explained that, as with other transmission systems, there are certain times during which congestion occurs on the Entergy transmission system that limits the ability of the Utility Operating Companies as well as other parties to fully utilize the generating resources that have been granted transmission service. Additionally, the Utility Operating Companies committed in their response to exploring and working on potential reforms or alternatives for the ICT arrangement that could take effect following the initial term. The Utility Operating Companies' comments also recognized that NERC was in the process of amending certain of its transmission reliability planning standards and that the amended standards, if approved by the FERC, would result in more stringent transmission planning criteria being applicable in the future. The FERC may also make other changes to transmission reliability standards. These changes to the reliability standards would result in increased capital expenditures by the Utility Operating Companies.

In 2009, the E-RSC, which is comprised of representatives from all of the Utility Operating Companies' retail regulators, was formed to consider issues related to the ICT and the Entergy transmission system. Among other things, the E-RSC in concert with the FERC conducted a cost/benefit analysis comparing the ICT arrangement to other transmission proposals, including participation in an RTO.

In November 2010, the FERC issued an order accepting the Utility Operating Companies' proposal to extend the ICT arrangement with SPP until November 2012. In addition, in December 2010 the FERC issued an order that granted the E-RSC additional authority over transmission upgrades and cost allocation. On July 10, 2012, the LPSC approved, subject to conditions, Entergy Gulf States Louisiana's and Entergy Louisiana's

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request to extend the ICT arrangement and to transition to MISO as the provider of ICT services effective as of November 2012 (with the actual transition expected to occur December 1, 2012) and continuing until the Utility Operating Companies join the MISO RTO, or December 31, 2013, whichever occurs first. No other retail regulatory filings with respect to the extension of the ICT arrangement and the transition from SPP to MISO as ICT services provider are expected. On August 2, 2012, the Utility Operating Companies filed an application with FERC, seeking (a) an interim extension of the ICT arrangement through and until the earlier of December 31, 2014 or the date the proposed transfer of functional control of the Operating Companies' transmission assets to the MISO RTO is completed and (b) the transfer from SPP to MISO as the provider of ICT services, effective December 1, 2012. The August 2nd FERC filing requests FERC action with respect to the filing on or before October 2, 2012.

**Entergy's Proposal to Join MISO**

On April 25, 2011, Entergy announced that each of the Utility Operating Companies propose joining MISO, which is expected to provide long-term benefits for the customers of each of the Utility Operating Companies. MISO is an RTO that operates in eleven U.S. states (Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Montana, North Dakota, South Dakota, and Wisconsin) and also in Canada. Since 2011, each of the Utility Operating Companies has filed an application with its retail regulator concerning the proposal to join MISO and transfer control of each company's transmission assets to MISO. The applications to join MISO seek a finding that membership in MISO is in the public interest. Becoming a member of MISO will not affect the ownership by the Utility Operating Companies of their transmission facilities or the responsibility for maintaining those facilities. Once the Utility Operating Companies are fully integrated as members, however, MISO will assume control of transmission planning and congestion management and, through its Day 2 market, MISO will provide instructions for the commitment and dispatch of generation that is bid into MISO's markets.

The LPSC voted to grant Entergy Gulf States Louisiana's and Entergy Louisiana's application for transfer of control to MISO, subject to conditions, on May 23, 2012, and issued its order on June 28, 2012. Staff, advisors, and intervenors have filed testimony in the Entergy Arkansas, Entergy Mississippi, Entergy New Orleans, and Entergy Texas proceedings. Most parties were conditionally supportive of or did not oppose the requested transfer of control to MISO as in the public interest. A number of parties, including the MPSC staff, the City Council advisors, and the PUCT staff proposed various conditions to be included in the orders granting the requested change of control. The APSC staff argued Entergy Arkansas has yet to provide an RTO option that is in the public interest and noted that Entergy Arkansas should maintain the standalone option until uncertainties are resolved regarding possible RTO membership. The APSC conducted a hearing on the merits on May 30-31, 2012. The APSC issued an order on August 3, 2012 in which it stated that it was unable, at this time, to reach a finding that Entergy Arkansas's application is in the public interest. The order listed several conditions for Entergy Arkansas and MISO to meet before the APSC will approve Entergy Arkansas's application, including some conditions that are of concern to Entergy Arkansas. Entergy Arkansas intends to continue to pursue its proposal to join MISO, and on August 24, 2012, filed a motion requesting a finding of compliance with the August 3 order's conditions and approval of its application, or alternatively, requesting rehearing, as well as the compliance testimony of Hugh T. McDonald. By rule, the APSC has up to 30 days to rule on the motion for rehearing. On July 18, 2012, the MPSC issued an order postponing its hearing on Entergy Mississippi's change of control request, which had been scheduled for July 19-20, 2012, to allow parties additional time to conduct further analysis. On August 20, 2012, the MPSC issued an updated scheduling order, setting the hearing of Entergy Mississippi's application for September 21, 2012, and continuing on September 28, 2012, with a final order to be issued by November 6, 2012. The City Council has recently issued a resolution postponing the hearing on Entergy New Orleans' change of control application, which had been scheduled for September 18, 2012, until October 23, 2012. Entergy Texas submitted its change of control filing on April 30, 2012, and hearings in the PUCT proceeding regarding Entergy Texas's request were scheduled to begin on July 30, 2012. A settlement in principle was reached among several of the parties, however, pursuant to which Entergy Texas's membership in MISO would be found in the public interest subject to certain conditions. Entergy Texas and the other settling parties in the case filed a non-unanimous stipulation with the PUCT on August 6, 2012, and on August 24, 2012, a hearing on the non-unanimous stipulation was conducted.

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The FERC filings related to integrating the Utility Operating Companies into MISO are planned for late 2012 or early 2013. The target implementation date for joining MISO is December 2013. Entergy believes that the decision to join MISO should be evaluated separately from and independent of the decision regarding the ownership of the Entergy transmission system, and Entergy plans to pursue the MISO proposal and the planned spin-off or split-off exchange offer and merger of the Entergy's Transmission Business on parallel regulatory paths.

In June 2011, MISO filed with the FERC a request for a transitional waiver of provisions of its open access transmission, energy, and operating reserve markets tariff regarding allocation of transmission network upgrade costs, in order to establish a transition for the integration of the Utility Operating Companies. In September 2011 the FERC issued an order denying on procedural grounds MISO's request, further advising MISO that submitting modified tariff sheets is the appropriate method for implementing the transition that MISO seeks for the Utility Operating Companies. The FERC did not address the merits of any transition arrangements that may be appropriate to integrate the Utility Operating Companies into MISO. MISO worked with its stakeholders to prepare the appropriate changes to its tariff and filed the proposed tariff changes with the FERC in November 2011. On April 19, 2012, the FERC conditionally accepted MISO's proposal related to the allocation of transmission upgrade costs in connection with the transition and integration of the Utility Operating Companies into MISO. On May 21, 2012, MISO filed a compliance filing in accordance with the provisions of the FERC's April 19, 2012 Order. Westar Energy, Inc. and Arkansas Electric Cooperative Corporation filed requests for rehearing of the FERC's April 19, 2012 Order. On June 11, 2012, the FERC issued a tolling order granting the pending rehearing requests for purposes of further consideration.

In addition, the Utility Operating Companies have proposed giving authority to the E-RSC, upon unanimous vote and within the first five years after the Utility Operating Companies join the MISO RTO, (i) to require the Utility Operating Companies to file with the FERC a proposed allocation of certain transmission upgrade costs among the Utility operating companies' transmission pricing zones that would differ from the allocation that would occur under the MISO OATT and (ii) to direct the Utility Operating Companies as transmission owners to add projects to MISO's transmission expansion plan.

***Environmental Matters***

Entergy's Transmission Business must comply with environmental laws and regulations applicable to the handling and disposal of hazardous substances, such as the Comprehensive Environmental Remediation, Compensation, and Liability Act (CERCLA). Under these various laws and regulations, Entergy's Transmission Business could incur substantial costs to restore properties consistent with the various standards. Entergy's Transmission Business management conducts studies to determine the extent of any required remediation and has recorded reserves based upon its evaluation of the likelihood of loss and expected dollar amount for each issue. Additional sites could be identified which require environmental remediation for which Entergy's Transmission Business could be liable. The amounts of environmental reserves recorded can be significantly affected by the following external events or conditions:

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

The identification of additional sites or the filing of other complaints in which Entergy may be asserted to be a potentially responsible party.

The resolution or progression of existing matters through the court system or resolution by the EPA or the applicable state. Entergy's Transmission Business operates in some areas that are classified as wetlands or other waters of the United States subject to Section 404 of the federal Clean Water Act and the U.S. Corps of Engineers permitting program promulgated thereunder. Operations in these areas are subject to stringent environmental controls and permitting requirements regarding discharges, filling, and dredging. New projects, maintenance

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projects, and storm restoration projects in these areas often face enhanced administrative processes in relation to permitting, increased operational costs due to required environmental protection measures, and increased costs due to requirements for wetland mitigation.

Entergy's Transmission Business includes assets that, from time to time, cause bird and other animal mortalities. In some situations, these mortalities can constitute a violation of the Migratory Bird Treaty Act, the Endangered Species Act, the Bald and Golden Eagle Protection Act, and similar federal and state laws. Entergy's Transmission Business has developed an Avian Protection Plan (APP) concerning operations in sensitive habitat areas, retrofits to avian protective standards in areas of interaction, and standards for new construction. Failure to comply with the APP or the take of species protected by these laws could subject Entergy's Transmission Business to federal or state enforcement.

Entergy's Transmission Business includes assets which contain and use greenhouse gases, primarily in the form of sulfur hexafluoride (SF6) (a gaseous dielectric medium used in certain electrical equipment) and fleet vehicle emissions. The regulation of greenhouse gases continues to develop and Entergy's Transmission Business may be required to reduce its use or emissions of SF6 or other greenhouse gases or to purchase allowances for its emissions.

Entergy's Transmission Business includes assets which may contain and use dielectric fluid containing or contaminated with polychlorinated biphenyls (PCB), a highly-regulated substance that is controlled by the Toxic Substances Control Act (TSCA). Currently, the continued use of existing equipment containing PCBs is allowed under TSCA; however, efforts are being made to require the near-term removal and disposal of all such equipment. The change in the regulation of PCBs and PCB-containing equipment would require substantial capital and operational expenditures by Entergy's Transmission Business.

Entergy's Transmission Business includes assets classified as oil-filled operating equipment which may contain and use mineral oil dielectric fluids. Such fluids are classified by EPA as oils and, consequently, are subject to laws prohibiting and preventing their discharge to waters of the US, including the Oil Pollution Prevention Act.

Entergy's Transmission Business conducts operations from time to time that fall within the regulation of federal and state Clean Water Act programs governing storm water runoff management. Proposed EPA regulations could increase the stringency of these regulations and the cost of compliance.

## ***Employees***

As of July 2012, Entergy's Transmission Business utilized approximately 500 employees among (i) the six divisions of Entergy's Transmission Business: Asset Management, Project Management and Construction, Transmission Engineering, Transmission and Distribution Planning, Transmission Regulatory Compliance, and Operations and (ii) the Entergy employees who provided services and support functions to Entergy's Transmission Business. In both cases, these employees were primarily employed by ESI. The services and support functions provided to Entergy's Transmission Business include accounting, finance, investor relations, planning, legal, communications, governmental and regulatory affairs, and human resources, as well as information technology services and other shared services such as corporate security, facilities management, office support services and purchasing and logistics. As of July 2012, Entergy's Transmission Business was further supported by approximately 250 transmission grid employees that were employed by one of the several Utility Operating Companies. All of the craft employees of Entergy's Transmission Business (other than those craft employees employed by Entergy Louisiana and Entergy New Orleans) are bargaining unit employees represented by the International Brotherhood of Electrical Workers. The current management team of Entergy's Transmission Business believes that its relations with employees and their representative organizations are good.

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### **Properties**

The Entergy transmission system comprises over 15,800 circuit miles of 69kV to 500kV transmission lines and 1,500 substations located in Arkansas, Louisiana, Mississippi, Missouri and Texas. Approximately 102 miles of transmission lines are leased from third parties and Entergy Arkansas leases approximately 15 miles of transmission lines to a third party. The SOC is located in Pine Bluff, Arkansas and the five TOCs are located in Beaumont, Texas, Gretna, Louisiana, Jackson, Mississippi, Little Rock, Arkansas, and Monroe, Louisiana. The SOC and the TOCs located in Little Rock, Arkansas, Gretna, Louisiana and Monroe, Louisiana are leased. Entergy's Transmission Business operates from service centers and offices dedicated to transmission functions and from offices, warehouses and other facilities shared with other business functions within Entergy. Entergy's Transmission Business is currently headquartered in Jackson, Mississippi.

The transmission assets owned by the Utility Operating Companies are subject to mortgage liens, which will be released in connection with the merger. The transmission assets owned by Entergy New Orleans are subject to a continuing option for the City of New Orleans to purchase Entergy New Orleans's electric properties.

### **Legal Proceedings**

Entergy is regularly named as a defendant in a number of lawsuits regarding Entergy's Transmission Business involving employment, customers, and injuries and damages issues, among other matters. Entergy periodically reviews the cases involving Entergy's Transmission Business in which Entergy has been named as defendant and assesses the likelihood of loss in each case as probable, reasonably estimable, or remote and records reserves for cases which have a probable likelihood of loss and can be estimated. Given the environment in which Entergy's Transmission Business operates, and the unpredictable nature of many of the cases involving Entergy's Transmission Business in which Entergy is named as a defendant, the ultimate outcome of the litigation to which Entergy is exposed has the potential to materially affect the results of operations of Entergy's Transmission Business. Entergy uses legal and appropriate means to contest litigation threatened or filed against it regarding Entergy's Transmission Business. However, certain states in which Entergy's Transmission Business operates have proven to be unusually litigious environments and verdicts against defendants in personal injury, property damage and business tort cases have resulted in large damages, including punitive damages. The litigation environment in these states poses a significant business risk to Entergy's Transmission Business.

#### *U.S. Department of Justice Investigation*

In September 2010, Entergy was notified that the U.S. Department of Justice had commenced a civil investigation of competitive issues concerning certain generation procurement, dispatch, and transmission system practices and policies of the Utility Operating Companies. The investigation is ongoing.

#### *Notice to SERC Reliability Corporation Regarding Reliability Standards and FERC Investigation*

Entergy has notified the SERC Reliability Corporation (SERC) of potential violations of certain NERC reliability standards, including certain Critical Infrastructure Protection, Facilities Design, Connection and Maintenance, and System Protection and Control standards. Entergy is working with the SERC to provide information concerning these potential violations. In addition, FERC's Division of Investigations is conducting an investigation of certain issues relating to the Entergy Utility operating companies compliance with certain reliability standards related to protective system maintenance, facility ratings and modeling, training, and communications. The Energy Policy Act of 2005 provides authority to impose civil penalties for violations of the FPA and FERC regulations.

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**BUSINESS OF THE COMBINED COMPANY**

The combination of ITC and Entergy's Transmission Business is intended to strengthen ITC's leading independent transmission platform in the United States. The addition of Entergy's Transmission Business expands ITC's geographic reach from the Midwest to the Gulf Coast region and will add sizable new markets to ITC's current operating and development business both enhancing and diversifying ITC's growth prospects. Once the merger has been completed, ITC will become one of the largest electric transmission companies in the United States based on net property, plant and equipment and peak load served.

The combination of ITC and Entergy's Transmission Business furthers the objectives of the independent transmission model and ITC's business strategy by enhancing system integrity and reliability, reducing transmission congestion and allowing greater access to competitive generation sources to interconnect to the transmission systems in an RTO environment.

While ITC will retain the current Entergy's Transmission Business headquarters in Jackson, Mississippi as a regional headquarters for at least three years after the effective time of the merger, certain functions of Entergy's Transmission Business, which have been performed by Entergy's corporate headquarters, will be transitioned to ITC's corporate headquarters in Novi, Michigan. In order to manage an orderly transition in the operation of the Entergy's Transmission Business, ITC and Entergy will enter into transition services agreements as described in this proxy statement/prospectus.



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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS FOR ENTERGY'S TRANSMISSION BUSINESS**

**Introduction**

*The following discussion and analysis is intended to provide investors with an understanding of the historical performance of Entergy's Transmission Business and its financial condition. This discussion and analysis presents the factors that had a material effect on the results of operations of Entergy's Transmission Business during the years ended December 31, 2011, 2010, and 2009, and during the six months ended June 30, 2012 and 2011.*

*The financial statements of Entergy's Transmission Business have been derived from Entergy's historical accounting records and reflect significant allocations of revenues and expenses. All of the allocations and estimates in these financial statements are based on assumptions that management of Entergy's Transmission Business believes are reasonable. The financial statements do not necessarily represent, however, the results of operations or financial position of Entergy's Transmission Business had it been operated as a separate independent entity.*

*You should read this discussion in conjunction with the historical combined financial statements of Entergy's Transmission Business and the notes to those statements, the unaudited historical condensed combined financial statements of Entergy's Transmission Business and the notes to those statements and the unaudited pro forma condensed combined financial data and the notes to the pro forma condensed combined financial data of ITC included elsewhere in this document.*

*The following discussion and analysis contains forward-looking statements. See *Cautionary Statement Concerning Forward-Looking Statements* for a discussion of the uncertainties, risks and assumptions associated with these statements.*

**Overview**

In December 2011, Entergy announced that its board of directors approved a plan to spin off Entergy's Transmission Business and merge it with a newly formed subsidiary of ITC Holdings Corp. (ITC). Entergy's Transmission Business is not currently a separate stand-alone legal entity and has not historically been presented as a separate reportable segment. Entergy's Transmission Business consists of the Entergy transmission system, which is comprised of over 15,800 circuit miles of transmission lines operated at 69kV to 500kV and 1,500 substations, as well as the employees and assets used to plan, operate and maintain that system, which make up the electric transmission operations of the following companies (collectively referred to as the Utility Operating Companies):

Entergy Arkansas, Inc.,

Entergy Gulf States Louisiana, L.L.C.,

Entergy Louisiana, LLC,

Entergy Mississippi, Inc.,

Entergy New Orleans, Inc., and

Entergy Texas, Inc.

The Utility Operating Companies' electric utility businesses consist of integrated generation, transmission, distribution, and electric power sales operations.

## Edgar Filing: ITC Holdings Corp. - Form S-4

Entergy plans to contribute Entergy's Transmission Business to Mid South TransCo LLC ( TransCo ), a wholly owned subsidiary of Entergy, to spin-off TransCo to Entergy shareholders, and then to merge TransCo

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with the newly formed ITC subsidiary in a tax-free, all-stock transaction, which will result in Entergy's shareholders holding approximately 50.1% of ITC's common stock on a fully diluted basis. In no event will Entergy shareholders (and, if applicable, the exchange trust) hold less than 50.1% of the outstanding common stock of ITC immediately after the merger. The plan also includes TransCo and its subsidiaries consummating certain financing transactions totaling approximately \$1.775 billion pursuant to which (i) TransCo's subsidiaries will borrow through a 366-day bridge facility (the TransCo Subs Financing) and (ii) TransCo will issue senior securities of TransCo to Entergy (the TransCo debt securities). Neither Entergy nor the Utility Operating Companies will guarantee or otherwise be liable for the payment of the TransCo debt securities. Entergy will issue debt or enter into agreements under which certain unrelated creditors will agree to purchase existing corporate debt of Entergy, which will be exchangeable into the TransCo debt securities at closing. In addition, prior to the closing, TransCo may obtain a working capital revolving credit facility in a principal amount agreed to by Entergy and ITC.

The transaction is expected to be completed in 2013 subject to the satisfaction of certain closing conditions, including obtaining the necessary approvals of Entergy's state regulators, FERC, and ITC shareholders.

**Basis of Presentation**

Entergy did not account for Entergy's Transmission Business, and the business was not operated, as a stand-alone company for the periods presented. The accompanying combined financial statements have been prepared in accordance with U.S. GAAP from the accounting records of Entergy using the historical results of operations and cost basis of the assets and liabilities of Entergy that comprise Entergy's Transmission Business. Entergy's Transmission Business's financial statements present the historical financial position, results of operations, and cash flows of the transmission-related business of Entergy's Utility operating segment as it has been historically operated and regulated, and are not indicative of the financial position, results of operations, or net cash flows that would have existed had Entergy's Transmission Business operated as an independent stand-alone company for any of the periods presented.

The accompanying combined financial statements include assets and liabilities that are specifically attributable to Entergy's Transmission Business, and revenues and costs directly related to the operations and maintenance of Entergy's Transmission Business. Revenues were either specifically identified with Entergy's Transmission Business for customers who were charged transmission-specific rates or were allocated to Entergy's Transmission Business for customers that were not charged transmission-specific rates. This revenue allocation was done by unbundling the revenue related to Entergy's Transmission Business from total Utility Operating Companies' revenue based on the underlying transmission-specific proportion of the Utility Operating Companies' cost of service. Regarding cost allocations, Entergy's Transmission Business receives services and support functions from Entergy. Entergy's Transmission Business's operations are dependent on Entergy's ability to perform these services and support functions, which include accounting, finance, investor relations, planning, legal, communications, governmental and regulatory affairs, and human resources, as well as information technology services and other shared services such as corporate security, facilities management, office support services, and purchasing and logistics. Specific identification of transmission-related costs and various allocation methodologies were used to disaggregate service and support functions between Entergy's Transmission Business and Entergy's non-transmission operations. Costs were primarily allocated based on either Entergy's Transmission Business's share of revenue, net plant-in-service, or payroll expense, depending on the nature of the costs.

Entergy has provided the necessary capital to finance Entergy's Transmission Business's operations. Net parent investment on the combined balance sheet represents the amount of capital investments made by Entergy in its transmission-related operations, Entergy's Transmission Business's accumulated net earnings after taxes, and the net effect of transactions with and allocations from Entergy. All Entergy funding to Entergy's Transmission Business since inception has been accounted for as contributions from Entergy and all cash remittances from Entergy's Transmission Business to Entergy have been accounted for as distributions to

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Entergy. None of Entergy's outstanding indebtedness can be specifically identified with Entergy's Transmission Business, but interest expense was allocated based on Entergy's Transmission Business's share of net plant.

**Results of Operations**

***Six Months Ended June 30, 2012 Compared to the Six Months Ended June 30, 2011***

Net income for the six months ended June 30, 2012 decreased \$1.1 million, or 1.8%, as compared to the six months ended June 30, 2011, primarily due to the reasons described below.

**Operating Revenues**

Operating revenues decreased by \$3.8 million, or 1.2%, for the six months ended June 30, 2012 compared to the six months ended June 30, 2011 as a \$6.6 million decline in retail revenues and a \$6.2 million regulatory charge were partially offset by a \$9.0 million increase in wholesale revenues. Retail revenues decreased primarily due to the effect of milder weather on residential and commercial sales. The regulatory charge is discussed in Note 8 to the unaudited condensed combined financial statements of Entergy's Transmission Business. Wholesale revenues increased primarily due to an increase in the OATT rate.

**Other Income Statement Items**

Operation expenses decreased \$2.2 million, or 2.7%, for the six months ended June 30, 2012 compared to the six months ended June 30, 2011 primarily due to the deferral, as approved by the FERC, and the LPSC for the Louisiana jurisdictions, of costs incurred through June 2012 related to the transition and implementation of joining the MISO RTO. The decrease was partially offset by an increase in compensation and benefits costs primarily due to decreasing discount rates and changes in certain actuarial assumptions resulting from a recent experience study.

Maintenance expenses decreased \$1.1 million, or 5.0%, for the six months ended June 30, 2012 compared to the six months ended June 30, 2011 primarily due to a decrease in vegetation management spending.

Taxes other than income taxes primarily consist of ad valorem taxes and increased \$3.9 million, or 18.2%, for the six months ended June 30, 2012 compared to the six months ended June 30, 2011.

Depreciation and amortization increased by \$6.1 million, or 9.4%, for the six months ended June 30, 2012 compared to the six months ended June 30, 2011 primarily due to an increase in plant in service.

Other income decreased by \$3.0 million, or 33.5%, for the six months ended June 30, 2012 compared to the six months ended June 30, 2011 primarily due to a decrease in the allowance for equity funds used during construction resulting from a decrease in construction activity and a decrease in tax gross-up income from prepaid construction projects.

Total interest expense increased by \$4.0 million, or 11.1%, for the six months ended June 30, 2012 compared to the six months ended June 30, 2011 primarily due to an increase in Entergy Utility operating company outstanding debt.

The effective income tax rates for the six months ended June 30, 2012 and 2011 were 23% and 36%, respectively. The decrease resulted primarily from the settlement with the IRS discussed in Note 8 to the unaudited condensed combined financial statements of Entergy's Transmission Business.

***Year Ended December 31, 2011 Compared to the Year Ended December 31, 2010***

Net income for the year ended December 31, 2011 increased \$24.3 million, or 22%, as compared to the year ended December 31, 2010, primarily due to the reasons described below.

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### **Operating Revenues**

Operating revenues increased by \$21.1 million, or 3%, for the year ended December 31, 2011 compared to the year ended December 31, 2010 due to increases in both wholesale and retail revenues. Wholesale revenues increased primarily due to an increase in the OATT rate. Retail revenues increased primarily due to rate increases at Entergy Arkansas, Entergy Louisiana, and Entergy Texas.

### **Other Income Statement Items**

Operation expenses increased \$8.3 million, or 5%, for the year ended December 31, 2011 compared to the year ended December 31, 2010 primarily due to an increase in costs for the transition and implementation of joining the MISO RTO.

Maintenance expenses decreased \$1.4 million, or 3%, for the year ended December 31, 2011 compared to the year ended December 31, 2010.

Taxes other than income taxes primarily consist of ad valorem taxes, and increased \$3.7 million, or 9%, for the year ended December 31, 2011 compared to the year ended December 31, 2010.

Depreciation and amortization increased by \$4.6 million, or 4%, for the year ended December 31, 2011 compared to the year ended December 31, 2010 primarily due to an increase in plant in service.

Other income increased by \$9.8 million, or 141.3%, for the year ended December 31, 2011 compared to the year ended December 31, 2010 primarily due to an increase in the allowance for equity funds used during construction resulting from an increase in construction activity throughout the year.

Total interest expense decreased by \$15.8 million, or 20.0%, for the year ended December 31, 2011 compared to the year ended December 31, 2010. The decrease primarily resulted from a credit to interest expense caused by the FERC's acceptance of a change in the treatment of funds received from independent power producers for transmission interconnection projects. An increase in the allowance for borrowed funds used during construction resulting from an increase in construction activity also reduced interest expense.

The effective income tax rates for the years ended December 31, 2011 and 2010 were 35.6% and 37.8%, respectively. See Note 6 to the audited combined financial statements of Entergy's Transmission Business for a reconciliation of the federal statutory rate of 35.0% to the effective income tax rates, and for additional discussion regarding income taxes.

### ***Year Ended December 31, 2010 Compared to the Year Ended December 31, 2009***

Net income for the year ended December 31, 2010 increased \$0.1 million, or less than 1%, as compared to the year ended December 31, 2009, and was affected by the activity described below.

### **Operating Revenues**

Operating revenues increased by \$48.9 million, or 8%, for the year ended December 31, 2010 compared to the year ended December 31, 2009 due to increases in both wholesale and retail revenues. Wholesale revenues increased primarily due to an increase in the OATT rate. Retail revenues increased primarily due to the effect of favorable weather and rate increases at Entergy Arkansas, Entergy Gulf States Louisiana, Entergy Louisiana, Entergy Mississippi, and Entergy Texas.

### **Other Income Statement Items**

Operation expenses increased \$19.5 million, or 14%, for the year ended December 31, 2010 compared to the year ended December 31, 2009 primarily due to an increase in compensation and benefits costs resulting from

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decreasing discount rates, the amortization of benefit trust asset losses, and an increase in the accrual for incentive-based compensation, along with increased costs incurred to validate the ratings of transmission facilities, provide additional critical infrastructure protection, and perform additional cyber security assessments.

Maintenance expenses decreased \$5.9 million, or 14%, for the year ended December 31, 2010 compared to the year ended December 31, 2009 due to increased vegetation management work.

Taxes other than income taxes primarily consist of ad valorem taxes, and increased \$3.7 million, or 10%, for the year ended December 31, 2010 compared to the year ended December 31, 2009.

Depreciation and amortization increased by \$17.4 million, or 16%, for the year ended December 31, 2010 compared to the year ended December 31, 2009 primarily due to an increase in plant in service.

Other income decreased by \$4.0 million, or 36.4%, for the year ended December 31, 2010 compared to the year ended December 31, 2009 primarily due to a decline in miscellaneous nonoperating income, partially offset by an increase in the allowance for equity funds used during construction resulting from an increase in construction activity.

Total interest expense decreased by \$0.7 million, or 1%, for the year ended December 31, 2010 compared to the year ended December 31, 2009.

The effective income tax rates for the years ended December 31, 2010 and 2009 were 37.8% and 38.2%, respectively. See Note 6 to the audited combined financial statements of Entergy's Transmission Business for a reconciliation of the federal statutory rate of 35.0% to the effective income tax rates, and for additional discussion regarding income taxes.

## **Liquidity and Capital Resources**

Historically, Entergy's Transmission Business has participated in Entergy's centralized cash management system. Cash receipts were remitted to Entergy on a regular basis and are reflected within net parent investment in the combined balance sheets. Similarly, Entergy's Transmission Business's cash disbursements were funded through Entergy's cash accounts. Entergy has provided the necessary capital to finance Entergy's Transmission Business's operations. Net parent investment on the combined balance sheet represents the amount of capital investments made by Entergy in its transmission-related operations, Entergy's Transmission Business's accumulated net earnings after taxes, and the net effect of transactions with and allocations from Entergy. All Entergy funding to Entergy's Transmission Business since inception has been accounted for as contributions from Entergy and all cash remittances from Entergy's Transmission Business to Entergy have been accounted for as distributions to Entergy. None of Entergy's outstanding indebtedness can be specifically identified with Entergy's Transmission Business, but interest expense was allocated based on Entergy's Transmission Business's share of Entergy's total utility plant assets. For all periods presented, Entergy's Transmission Business had net positive operating cash flow, which has been accounted for as distributions to Entergy.

**Table of Contents*****Cash Flow Activity***

As shown in the statements of cash flows, cash flows for the years ended December 31, 2011, 2010 and 2009 and the six months ended June 30, 2012 and 2011 were as follows:

	Six months ended June 30,		Year ended December 31,		
	2012	2011	2011	2010	2009
	(in millions)				
Cash and cash equivalents at beginning of period	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1
Cash flow provided by (used in):					
Operating activities	158	123	238	279	289
Investing activities	(202)	(226)	(415)	(378)	(268)
Financing activities	44	103	177	99	(21)
Net increase (decrease) in cash and cash equivalents					
Cash and cash equivalents at end of period	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1

**Operating Activities**

Cash flow provided by operating activities increased by \$35 million for the six months ended June 30, 2012 compared to the six months ended June 30, 2011 primarily due to income tax activity and reduced cash used in prepaid construction projects.

Cash flow provided by operating activities decreased by \$41 million for the year ended December 31, 2011 compared to the year ended December 31, 2010 primarily due to higher working capital demands, partially offset by an increase in net income.

Cash flow provided by operating activities decreased by \$10 million, less than 4%, for the year ended December 31, 2010 compared to the year ended December 31, 2009.

**Investing Activities**

Cash flow used in investing activities decreased by \$24 million for the six months ended June 30, 2012 compared to the six months ended June 30, 2011 due to lower capital expenditures. Entergy's Transmission Business's capital expenditure plans for 2012 through 2014 are described in Capital Expenditure Plans and Other Uses of Capital below.

Cash flow used in investing activities increased by \$37 million for the year ended December 31, 2011 compared to the year ended December 31, 2010 and increased by \$110 million for the year ended December 31, 2010 compared to the year ended December 31, 2009 primarily due to higher capital expenditures for transmission improvements and upgrades designed to provide greater transmission flexibility and spending to comply with current and anticipated North American Electric Reliability Corporation transmission planning requirements.

**Financing Activities**

Cash flow provided by financing activities decreased by \$59 million for the six months ended June 30, 2012 compared to the six months ended June 30, 2011, increased by \$78 million for the year ended December 31, 2011 compared to the year ended December 31, 2010, and increased by \$120 million for the year ended December 31, 2010 compared to the year ended December 31, 2009 due to fluctuations in Entergy's parent investment.

**Table of Contents****Capital Expenditure Plans and Other Uses of Capital**

Following are the amounts of Entergy's Transmission Business's planned construction and other capital investments for 2012 through 2014:

<b>Planned construction and capital investments</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
		(In Millions)	
Maintenance Capital	\$ 282	\$ 273	\$ 255
Capital Commitments	170	128	264
<b>Total</b>	<b>\$ 452</b>	<b>\$ 401</b>	<b>\$ 519</b>

Maintenance Capital refers to planned spending on routine capital projects that are necessary to support reliability of service, equipment, or systems and to support normal customer growth.

Capital Commitments refers to non-routine capital investments for which the business has Board approval or otherwise expects to make to satisfy regulatory or legal requirements. Amounts reflected in this category include transmission upgrades, spending to support Entergy's plan to join the MISO RTO by December 2013, and spending to comply with current and anticipated North American Electric Reliability Corporation transmission planning requirements.

**Summary of Contractual Obligations**

Contractual obligations specifically identifiable with Entergy's Transmission Business are as follows as of December 31, 2011:

<b>Contractual Obligations</b>	<b>2012</b>	<b>2013-2014</b>	<b>2015-2016</b>	<b>after 2016</b>	<b>Total</b>
			(In Millions)		
Long-term debt (1)	\$	\$	\$	\$	\$
Operating leases (2)	\$ 4	\$ 7	\$ 5	\$ 2	\$ 18
Purchase obligations (3)	\$	\$	\$	\$	\$

- (1) Entergy has provided the necessary capital to finance Entergy's Transmission Business's operations, and all Entergy funding to Entergy's Transmission Business since inception has been accounted for as contributions from Entergy and all cash remittances from Entergy's Transmission Business to Entergy have been accounted for as distributions to Entergy. None of Entergy's outstanding indebtedness can be specifically identified with Entergy's Transmission Business. As part of the plan to spin-off Entergy's Transmission Business to Entergy shareholders and then merge it with Merger Sub, a subsidiary of ITC, TransCo and its subsidiaries will consummate certain financing transactions totaling approximately \$1.775 billion pursuant to which (i) TransCo's subsidiaries will borrow through a 366-day bridge facility and (ii) TransCo will issue senior securities of TransCo to Entergy.
- (2) Lease obligations are discussed in Note 9 to the audited combined financial statements of Entergy's Transmission Business.
- (3) Purchase obligations represent minimum purchase obligations or cancellation charges for contractual obligations to purchase goods or services. Purchasing for Entergy's Transmission Business is performed under Entergy's centralized purchasing function and the amount of purchase obligations specifically identifiable with Entergy's Transmission Business is de minimis.

In addition to the contractual obligations, in 2012 Entergy's Transmission Business expects its contribution to pension plans to be approximately \$4.4 million and to other postretirement plans to be approximately \$0.7 million. Also in addition to the contractual obligations, Entergy's Transmission Business has \$5.8 million of unrecognized tax benefits for which the timing of payments beyond 12 months cannot be reasonably estimated due to uncertainties in the timing of effective settlement of tax positions. See Note 6 to the audited combined financial statements of Entergy's Transmission Business for additional information regarding unrecognized tax benefits.



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Entergy's Transmission Business does not have any off-balance sheet arrangements.

### **Regulatory Rate Proceedings**

Entergy's Transmission Business is a component of the Utility business of Entergy, and the revenues specifically identified with or allocated to Entergy's Transmission Business in the accompanying financial statements are affected by the regulatory proceedings that affect Entergy's Utility Operating Companies' rates and resulting revenues. The Utility business of Entergy's rate proceedings and cost recoveries include Entergy's Transmission Business as a part of Entergy's integrated Utility operations.

#### ***Open Access Transmission Tariff (OATT)***

The OATT determines the service charges for Point-to-Point Transmission and Network Integration Transmission Service for the use of Entergy's transmission facilities. These rates are updated and filed annually with the FERC in May of each year based on actual data for the immediately preceding calendar year.

In May 2012, Entergy submitted the 2012 annual rate update under the Entergy OATT, which reflected an estimated increase in revenues of approximately \$5.2 million. The update adjusts the charges applicable for OATT service from June 2012 through May 2013 based on historical 2011 cost data and other actual historical inputs. Discovery is currently ongoing.

In May 2011, Entergy submitted the 2011 annual rate update under the Entergy OATT, which reflected a rate increase. The update adjusted the charges applicable for OATT service for June 2011 through May 2012 based on historical 2010 cost data and other actual historical inputs, and the rate increase contributed increased revenue of approximately \$9 million for the period June 2011 through May 2012. In September 2011, five parties filed a complaint challenging the rates and charges proposed by Entergy on various grounds. In October 2011, Entergy filed an answer to the complaint responding to the complainants' allegations and asking that the complaint be dismissed. In January 2012, the FERC issued an order setting the rates for hearing and establishing settlement judge proceedings. A hearing has not been scheduled, the case is still in settlement judge proceedings, and on June 22, 2012, the settlement judge recommended that settlement judge proceedings continue.

In May 2010, Entergy submitted the 2010 annual rate update under the Entergy OATT, which reflected an estimated increase in revenues of approximately \$9.5 million. Prior to FERC action on the filing, the parties conducted settlement discussions and, in October 2010, the parties reached a settlement in principle on the rate as filed. The FERC approved the settlement in March 2011.

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***Retail Rate Proceedings***

The following chart summarizes Entergy’s Utility Operating Companies’ retail base rates effective as of December 31, 2011:

<b>Company</b>	<b>Authorized Return on Common Equity</b>	
Entergy Arkansas	10.2%	- Retail base rates implemented in the July 2010 billing cycle pursuant to a settlement approved by the APSC.
Entergy Gulf States Louisiana	9.9%-11.4%	- Retail base rates based on Entergy Gulf States Louisiana’s 2010 test year formula rate plan filing approved by the LPSC.
Entergy Louisiana	9.45%-11.05%	- Retail base rates based on Entergy Louisiana’s 2010 test year formula rate plan filing approved by the LPSC.
Entergy Mississippi	10.54%-12.72%	- Retail base rates reflect Entergy Mississippi’s 2010 test year formula rate plan filing and a stipulation approved by the MPSC.
Entergy New Orleans	10.7%-11.5%	- Retail base rates reflect Entergy New Orleans’s 2010 test year formula rate plan filing and a settlement approved by the City Council.
Entergy Texas	10.125%	- Retail base rates reflect Entergy Texas’s 2009 base rate case filing and a settlement approved by the PUCT.

For a discussion of the currently ongoing rate proceedings regarding the Utility operating companies’ retail base rates see Note 2 to the unaudited condensed combined financial statements of Entergy’s Transmission Business.

**Federal Regulation**

***Independent Coordinator of Transmission***

In 2000, the FERC issued an order encouraging utilities to voluntarily place their transmission facilities under the control of independent RTOs. Delays in implementing the FERC RTO order occurred due to a variety of reasons, including the fact that utilities, other stakeholders, and federal and state regulators have had to work to resolve various issues related to the establishment of such RTOs. In November 2006, the Utility Operating Companies installed SPP as the ICT for the Entergy transmission system. The ICT structure approved by FERC is not an RTO under FERC Order No. 2000 and installation of the ICT did not transfer control of the Entergy transmission system to the ICT. Instead, the ICT performs some, but not all, of the functions performed by a typical RTO, as well as certain functions unique to the Entergy transmission system. In particular, the ICT was vested with responsibility for:

granting or denying transmission service on the Entergy transmission system;

administering the Utility Operating Companies’ OASIS node for purposes of processing and evaluating transmission service requests;

developing a base plan for Entergy’s Transmission Business and deciding whether costs of transmission upgrades should be rolled into the Utility Operating Companies’ transmission rates or directly assigned to an individual;

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serving as the reliability coordinator for the Entergy transmission system;

overseeing the operation of the weekly procurement process (WPP); and

evaluating interconnection-related investments already made on the Entergy transmission system for certain cost allocation purposes.

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The FERC, in conjunction with the retail regulators of the Utility Operating Companies, hosted a conference on June 24, 2009, to discuss the ICT arrangement and transmission access on the Entergy transmission system. During the conference, several issues were raised by regulators and market participants, including the adequacy of the Utility Operating Companies' capital investment in the transmission system, the Utility Operating Companies' compliance with the existing NERC reliability planning standards, the availability of transmission service across the Entergy transmission system, and whether the Utility Operating Companies could have purchased lower cost power from merchant generators located on the Entergy transmission system rather than running their older generating facilities. On July 20, 2009, the Utility Operating Companies filed comments with the FERC responding to the issues raised during the conference. The comments explained that: 1) the Utility Operating Companies believe that the ICT arrangement has fulfilled its objectives; 2) the Utility Operating Companies' transmission planning practices comply with laws and regulations regarding the planning and operation of the Entergy transmission system; and 3) these planning practices have resulted in a transmission system that meets applicable reliability standards and is sufficiently robust to allow the Utility Operating Companies both to substantially increase the amount of transmission service available to third parties and to make significant amounts of economic purchases from the wholesale market for the benefit of the Utility Operating Companies' retail customers. The Utility Operating Companies also explained that, as with other transmission systems, there are certain times during which congestion occurs on the Entergy transmission system that limits the ability of the Utility Operating Companies as well as other parties to fully utilize the generating resources that have been granted transmission service. Additionally, the Utility Operating Companies committed in their response to exploring and working on potential reforms or alternatives for the ICT arrangement that could take effect following the initial term. The Utility Operating Companies' comments also recognized that NERC was in the process of amending certain of its transmission reliability planning standards and that the amended standards, if approved by the FERC, would result in more stringent transmission planning criteria being applicable in the future. The FERC may also make other changes to transmission reliability standards. These changes to the reliability standards would result in increased capital expenditures by the Utility Operating Companies.

In 2009, the E-RSC, which is comprised of representatives from all of the Utility Operating Companies' retail regulators, was formed to consider issues related to the ICT and the Entergy transmission system. Among other things, the E-RSC in concert with the FERC conducted a cost/benefit analysis comparing the ICT arrangement to other transmission proposals, including participation in an RTO.

In November 2010, the FERC issued an order accepting the Utility Operating Companies' proposal to extend the ICT arrangement with SPP until November 2012. In addition, in December 2010 the FERC issued an order that granted the E-RSC additional authority over transmission upgrades and cost allocation. On July 10, 2012, the LPSC approved, subject to conditions, Entergy Gulf States Louisiana's and Entergy Louisiana's request to extend the ICT arrangement and to transition to MISO as the provider of ICT services effective as of November 2012 (with the actual transition expected to occur December 1, 2012) and continuing until the Utility Operating Companies join the MISO RTO, or December 31, 2013, whichever occurs first. No other retail regulatory filings with respect to the extension of the ICT arrangement and the transition from SPP to MISO as ICT services provider are expected. On August 2, 2012, the Utility Operating Companies filed an application with FERC, seeking (a) an interim extension of the ICT arrangement through and until the earlier of December 31, 2014 or the date the proposed transfer of functional control of the Operating Companies' transmission assets to the MISO RTO is completed and (b) the transfer from SPP to MISO as the provider of ICT services, effective December 1, 2012. The August 2nd FERC filing requests FERC action with respect to the filing on or before October 2, 2012.

***Entergy's Proposal to Join MISO***

On April 25, 2011, Entergy announced that each of the Utility Operating Companies propose joining MISO, which is expected to provide long-term benefits for the customers of each of the Utility Operating Companies. MISO is an RTO that operates in eleven U.S. states (Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota,

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Missouri, Montana, North Dakota, South Dakota, and Wisconsin) and also in Canada. Since 2011, each of the Utility Operating Companies has filed an application with its retail regulator concerning the proposal to join MISO and transfer control of each company's transmission assets to MISO. The applications to join MISO seek a finding that membership in MISO is in the public interest. Becoming a member of MISO will not affect the ownership by the Utility Operating Companies of their transmission facilities or the responsibility for maintaining those facilities. Once the Utility Operating Companies are fully integrated as members, however, MISO will assume control of transmission planning and congestion management and, through its Day 2 market, MISO will provide instructions for the commitment and dispatch of generation that is bid into MISO's markets.

The LPSC voted to grant Entergy Gulf States Louisiana's and Entergy Louisiana's application for transfer of control to MISO, subject to conditions, on May 23, 2012, and issued its order on June 28, 2012. Staff, advisors, and intervenors have filed testimony in the Entergy Arkansas, Entergy Mississippi, Entergy New Orleans, and Entergy Texas proceedings. Most parties were conditionally supportive of or did not oppose the requested transfer of control to MISO as in the public interest. A number of parties, including the MPSC staff, the City Council advisors, and the PUCT staff proposed various conditions to be included in the orders granting the requested change of control. The APSC Staff argued Entergy Arkansas has yet to provide an RTO option that is in the public interest and noted that Entergy Arkansas should maintain the standalone option until uncertainties are resolved regarding possible RTO membership. The APSC conducted a hearing on the merits on May 30-31, 2012. The APSC issued an order on August 3, 2012 in which it stated that it was unable, at this time, to reach a finding that Entergy Arkansas's application is in the public interest. The order listed several conditions for Entergy Arkansas and MISO to meet before the APSC will approve Entergy Arkansas's application, including some conditions that are of concern to Entergy Arkansas. Entergy Arkansas intends to continue to pursue its proposal to join MISO, and on August 24, 2012, filed a motion requesting a finding of compliance with the August 3 order's conditions and approval of its application, or alternatively, requesting rehearing, as well as the compliance testimony of Hugh T. McDonald. By rule, the APSC has up to 30 days to rule on the motion for rehearing. On July 18, 2012, the MPSC issued an order postponing its hearing on Entergy Mississippi's change of control request, which had been scheduled for July 19-20, 2012, to allow parties additional time to conduct further analysis. On August 20, 2012, the MPSC issued an updated scheduling order, setting the hearing of Entergy Mississippi's application for September 21, 2012, and continuing on September 28, 2012, with a final order to be issued by November 6, 2012. The City Council recently issued a resolution postponing the hearing on Entergy New Orleans' change of control application, which has been scheduled for September 18, 2012, until October 23, 2012. Entergy Texas submitted its change of control filing on April 30, 2012, and hearings in the PUCT proceeding regarding Entergy Texas's request were scheduled to begin on July 30, 2012. A settlement in principle was reached among several of the parties, however, pursuant to which Entergy Texas's membership in MISO would be found in the public interest subject to certain conditions. Entergy Texas and the other settling parties in the case filed a non-unanimous stipulation with the PUCT on August 6, 2012 and an amended non-unanimous stipulation on August 8, 2012, and on August 24, 2012, a hearing on the non-unanimous stipulation was conducted.

The FERC filings related to integrating the Utility Operating Companies into MISO are planned for late 2012 or early 2013. The target implementation date for joining MISO is December 2013. Entergy believes that the decision to join MISO should be evaluated separately from and independent of the decision regarding the ownership of the Entergy transmission system, and Entergy plans to pursue the MISO proposal and the planned spin-off and merger of Entergy's Transmission Business on parallel regulatory paths.

In June 2011, MISO filed with the FERC a request for a transitional waiver of provisions of its open access transmission, energy, and operating reserve markets tariff regarding allocation of transmission network upgrade costs, in order to establish a transition for the integration of the Utility Operating Companies. In September 2011 the FERC issued an order denying on procedural grounds MISO's request, further advising MISO that submitting modified tariff sheets is the appropriate method for implementing the transition that MISO seeks for the Utility Operating Companies. The FERC did not address the merits of any transition arrangements that may be appropriate to integrate the Utility Operating Companies into MISO. MISO worked with its stakeholders to

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prepare the appropriate changes to its tariff and filed the proposed tariff changes with the FERC in November 2011. On April 19, 2012, the FERC conditionally accepted MISO's proposal related to the allocation of transmission upgrade costs in connection with the transition and integration of the Utility Operating Companies into MISO. On May 21, 2012, MISO filed a compliance filing in accordance with the provisions of the FERC's April 19, 2012 Order. Westar Energy, Inc. and Arkansas Electric Cooperative Corporation filed requests for rehearing of the FERC's April 19, 2012 Order. On June 11, 2012, FERC issued a tolling order granting the pending rehearing requests for purposes of further consideration.

In addition, the Utility Operating Companies have proposed giving authority to the E-RSC, upon unanimous vote and within the first five years after the Utility Operating Companies join the MISO RTO, (i) to require the Utility Operating Companies to file with the FERC a proposed allocation of certain transmission upgrade costs among the Utility operating companies' transmission pricing zones that would differ from the allocation that would occur under the MISO OATT and (ii) to direct the Utility Operating Companies as transmission owners to add projects to MISO's transmission expansion plan.

### ***Notice to SERC Reliability Corporation Regarding Reliability Standards and FERC Investigation***

Entergy has notified the SERC Reliability Corporation (SERC) of potential violations of certain NERC reliability standards, including certain Critical Infrastructure Protection, Facilities Design, Connection and Maintenance, and System Protection and Control standards. Entergy is working with the SERC to provide information concerning these potential violations. In addition, FERC's Division of Investigations is conducting an investigation of certain issues relating to the Utility Operating Companies compliance with certain reliability standards related to protective system maintenance, facility ratings and modeling, training, and communications. The Energy Policy Act of 2005 provides authority to impose civil penalties for violations of the FPA and FERC regulations.

### ***U.S. Department of Justice Investigation***

In September 2010, Entergy was notified that the U.S. Department of Justice had commenced a civil investigation of competitive issues concerning certain generation procurement, dispatch, and transmission system practices and policies of the Utility Operating Companies. The investigation is ongoing.

### **Market and Credit Risk Sensitive Instruments**

Entergy's Transmission Business has limited exposure to the effects of market risk because it operates primarily under cost-based rate regulation.

### **Critical Accounting Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to apply appropriate accounting policies and to make estimates and judgments that can have a significant effect on reported financial position, results of operations, and cash flows. Management has identified the following accounting policies and estimates as critical because they are based on assumptions and measurements that involve a high degree of uncertainty, and the potential for future changes in the assumptions and measurements that could produce estimates that would have a material effect on the presentation of financial position or results of operations.

### ***Rate Regulation***

Entergy's Transmission Business is subject to regulation by the FERC and state and local regulators. As a result, it applies accounting standards applicable to the effects of certain types of regulation. Use of this accounting guidance results in differences in the application of U.S. GAAP between regulated and non-regulated businesses and requires the recording of regulatory assets and liabilities for certain transactions that would have

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been treated as expense or revenue in non-regulated businesses. Future regulatory changes, changes in the competitive environment, or other business changes could affect the future application of the guidance for accounting for the effects of certain types of regulations.

***Qualified Pension and Other Postretirement Benefits***

Entergy's Transmission Business participates in Entergy-sponsored qualified, defined benefit pension plans which cover substantially all employees. Additionally, Entergy currently provides postretirement health care and life insurance benefits for substantially all employees who reach retirement age while still working for Entergy. The reported costs of providing these benefits are affected by numerous factors including the provisions of the plans, changing employee demographics, and various actuarial calculations, assumptions, and accounting mechanisms. Key actuarial assumptions utilized in determining these costs include: the discount rates used in determining the future benefit obligations; projected health care cost trend rates; the expected long-term rate of return on plan assets; and the rate of increase in future compensation levels. In selecting an assumed discount rate to calculate benefit obligations, market yields on high-quality corporate debt are reviewed and matched with the projected stream of benefit payments. Actual recent cost trends and projected future trends are reviewed in establishing health care cost trend rates. In determining the expected long-term rate of return on plan assets, past long-term performance, asset allocations, and long-term inflation assumptions are reviewed. These assumptions are reviewed annually and adjusted as necessary. For additional discussion of the accounting for and costs associated with qualified pension and other postretirement benefits, see Note 7 to the audited combined financial statements of Entergy's Transmission Business and Note 4 to the unaudited condensed combined financial statements of Entergy's Transmission Business.

***Contingent Obligations***

Entergy's Transmission Business is subject to a number of federal and state laws and regulations, as well as other factors and conditions, which potentially subject it to environmental, litigation, income tax and other risks. Exposure to such risks is evaluated periodically and reserves are recorded for those matters when a loss is considered probable and reasonably estimable in accordance with U.S. 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 the 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 potential lawsuits or complaints in which the business may be or has been named as a defendant.

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

**New Accounting Pronouncements**

The accounting standard-setting process, including projects between the FASB and the International Accounting Standards Board (IASB) to converge U.S. GAAP and International Financial Reporting Standards (IFRSs), is ongoing and the FASB and the IASB are each currently working on several projects that have not yet resulted in final pronouncements. Final pronouncements that result from these projects could have a material effect on Entergy's Transmission Business's future net income, financial position, or cash flows.

**Table of Contents****THE TRANSACTIONS****Overview**

On December 4, 2011, ITC and Entergy agreed to enter into transactions to effect the transfer of Entergy's Transmission Business to ITC. These transactions provide for the separation and distribution of Entergy's Transmission Business and the subsequent merger of Merger Sub with and into TransCo, with TransCo surviving as a wholly-owned subsidiary of ITC. In order to effect the separation, distribution and merger, ITC, Merger Sub, Entergy and TransCo entered into the merger agreement; Entergy, ITC, TransCo, each of Entergy's Utility Operating Companies and ESI entered into the separation agreement and Entergy, ITC and TransCo entered into the employee matters agreement. In addition, ITC, Entergy, TransCo or their respective affiliates will also enter into a series of ancillary agreements in connection with the transactions. These agreements, which are described in greater detail in this proxy statement/prospectus, govern the relationship among ITC, Entergy, TransCo and their respective affiliates after the separation. Entergy's transmission assets and liabilities are currently owned by Entergy's Utility Operating Companies and ESI. Each Utility Operating Company will transfer its specified transmission assets and liabilities to a newly formed subsidiary of such Utility Operating Company as follows: Entergy Arkansas to Transmission Company Arkansas, LLC, Entergy Gulf States Louisiana to Transmission Company Louisiana I, LLC, Entergy Louisiana to Transmission Company Louisiana II, LLC, Entergy Mississippi to Transmission Company Mississippi, LLC, Entergy New Orleans to Transmission Company New Orleans, LLC, and Entergy Texas to Transmission Company Texas, LLC, such subsidiaries are referred to as the TransCo Subs. Each of Entergy's Utility Operating Companies will distribute its respective TransCo Sub to Entergy, and Entergy will contribute the TransCo Subs to TransCo. ESI will transfer its specified transmission assets to one or more TransCo Subs. As partial consideration for the contribution of the TransCo Subs to TransCo, TransCo will issue additional TransCo common units to Entergy, which will be distributed to the distribution agent for the benefit of Entergy's shareholders in the distribution, and TransCo debt securities. The agreements also provide for Entergy's distribution of all of the TransCo common units to a third-party exchange agent to be held collectively for the benefit of Entergy shareholders, the merger of Merger Sub with and into TransCo, with TransCo continuing as the combined company and a wholly-owned subsidiary of ITC, and the conversion of the TransCo common units into shares of ITC common stock and the payment of cash in lieu of fractional shares. Under the terms of the merger agreement, Entergy may elect to retain a number of TransCo common units that would convert in the merger to up to 4.9999% of the total number of shares of ITC common stock outstanding immediately following the consummation of the merger and contribute such TransCo common units to an irrevocable trust and such TransCo common units will not be distributed to Entergy shareholders in the distribution. See Exchange Trust.

**Transaction Timeline**

Below is a step-by-step list illustrating the material events relating to the separation, distribution and merger. Each of these events is discussed in more detail elsewhere in this proxy statement/prospectus. ITC and Entergy anticipate that the steps will generally occur in the following order, although the exact order of any particular steps may vary:

**Step #1 *Entergy Exchangeable Debt.*** At least fourteen days prior to the debt exchange, Entergy will issue or unrelated creditors will purchase Entergy exchangeable debt (as more fully described in *The Financings Entergy Exchangeable Debt*). The amount of Entergy exchangeable debt to be issued or purchased is expected to be \$575 million, but in any case will be of equal aggregate principal amount as the TransCo debt securities.

**Step #2 *ITC Financing, ITC Special Dividend and/or Share Repurchase.*** Prior to the merger, ITC may, in its sole discretion, elect to (i) declare a one-time special dividend payable to pre-merger ITC shareholders, (ii) effect a share repurchase of ITC common stock, or (iii) undertake a combination of a one-time special dividend and share repurchase of ITC common stock. The aggregate amount payable to ITC shareholders in



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connection with a one-time special dividend or share repurchase or a combination of both will not exceed \$700 million. Prior to the merger, ITC expects to enter into debt financings to fund any such transactions.

**Step #3 *Entergy Corporate Reorganization.*** On or prior to the separation date, Entergy, the Utility Operating Companies and other Entergy affiliates will effectuate a series of restructuring transactions. Such restructuring transactions will include (i) each Utility Operating Company redeeming its outstanding preferred equity interests, if any, and (ii) each Utility Operating Company merging with and into a newly formed, directly or indirectly, wholly owned limited liability company of Entergy with such limited liability company surviving.

**Step #4 *TransCo Subs Financing; Utility Operating Companies Contribution of Transmission Assets.*** Each of the TransCo Subs will effectuate the TransCo Subs Financing (as more fully described in *The Financings TransCo Subs Financing* ). The aggregate amount of all TransCo Subs Financing is expected to be \$1.2 billion. Simultaneously with or immediately after the TransCo Subs Financing, each Utility Operating Company (now in limited liability company form) will transfer its respective specified transmission assets and liabilities to its respective TransCo Sub and, as part of the consideration for such transfer, each Utility Operating Company will receive the net proceeds of the respective TransCo Sub Financing.

**Step #5 *Distribution of TransCo Subs to Entergy.*** All of the equity interests in each respective TransCo Sub will be distributed to Entergy.

**Step #6 *Entergy Contribution.*** Entergy will contribute to TransCo all of the equity interests of each TransCo Sub and cash in exchange for (i) the number of TransCo common units determined pursuant to the merger agreement and (ii) the TransCo debt securities (as more fully described below and in *The Financings Issuance of TransCo Debt Securities* ).

**Step #7 *Transfer of ESI Assets to TransCo or One or More TransCo Subs.*** Using the cash received in Step #6 TransCo or one or more TransCo Subs will purchase certain assets owned by ESI.

**Step #8 *The Distribution.*** Entergy will effect the distribution of the TransCo common units to the Entergy shareholders through a spin-off, split-off exchange offer or a combination of a spin-off and split-off exchange offer. At the closing of the distribution, the TransCo common units will be delivered to the distribution agent, who will hold such shares for the benefit of Entergy shareholders. In the event Entergy makes the exchange trust election, Entergy will contribute the TransCo common units to be held by the exchange trust at or prior to the distribution.

**Step #9 *The Debt Exchange.*** At the time of the separation, it is expected that Entergy will effect an exchange of the TransCo debt securities for the Entergy exchangeable debt.

**Step #10 *The Merger.*** Merger Sub will be merged with and into TransCo with TransCo surviving the merger as a wholly owned subsidiary of ITC. In the merger, the TransCo common units held by the distribution agent will be converted into the number of shares of ITC common stock such that immediately after the merger, Entergy shareholders (and, if applicable, the exchange trust) will collectively own approximately 50.1% of ITC common stock on a fully diluted basis, and existing ITC shareholders will collectively own approximately 49.9% of ITC common stock on a fully diluted basis. In no event will Entergy shareholders (and, if applicable, the exchange trust) hold less than 50.1% of the outstanding common stock of ITC immediately after the merger.

**Step #11 *Distribution of ITC Common Stock to Entergy Shareholders.*** The distribution agent will distribute shares of ITC common stock and cash in lieu of fractional share interests to Entergy shareholders on a *pro rata* (with certain limited exceptions) basis in accordance with the terms of the merger agreement (assuming Entergy elects to effectuate the distribution through a spin-off).

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Set forth below are diagrams that graphically illustrate, in simplified form, the existing corporate structure, the corporate structure immediately following the distribution but before the merger, and the corporate structure immediately following the consummation of the transactions.

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Set forth below are diagrams that graphically illustrate, in simplified form, the existing corporate structure, the corporate structure immediately following the distribution but before the merger, and the corporate structure immediately following the consummation of the transactions, in the event that Entergy elects to transfer TransCo common units to the exchange trust pursuant to an exchange trust election. If Entergy makes the exchange trust election, Entergy will transfer to the exchange trust the number of TransCo common units that would convert in the merger up to 4.9999% of the total number of shares of ITC common stock outstanding following consummation of the merger that would otherwise have been distributed in the distribution. In such an event, the number of such transferred TransCo common units would be approximately 9.9% of the total number of TransCo common units outstanding at the time of the distribution. For more information on the exchange trust and the exchange trust election, see Exchange Trust.

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**The Separation and Distribution**

*The Separation*

Prior to the merger of ITC's wholly owned subsidiary, Merger Sub, with and into TransCo, Entergy will undergo an internal restructuring to separate and consolidate Entergy's Transmission Business under TransCo pursuant to the terms of the separation agreement.

On or prior to the separation date, Entergy, the Utility Operating Companies and other Entergy affiliates will effectuate a series of restructuring transactions. Such restructuring transactions will include (i) each Utility Operating Company redeeming its outstanding preferred equity interests, if any, and (ii) each Utility Operating Company merging with and into a newly formed, directly or indirectly wholly-owned limited liability company of Entergy with such limited liability company surviving.

Simultaneously with or immediately after the TransCo Subs Financing, each Utility Operating Company will transfer its respective specified transmission assets and liabilities to its respective TransCo Sub, referred to as the Utility Operating Companies contributions. In consideration of the Utility Operating Companies

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contributions, each Utility Operating Company will receive the net proceeds of the respective TransCo Sub Financing. See The Separation Agreement The Separation Transfer of Assets, The Separation Agreement The Separation Assumption of Liabilities and The Financings TransCo Subs Financing.

Immediately thereafter, the Utility Operating Companies and certain other intermediate holding companies of Entergy will distribute the equity interests of the TransCo Subs so that Entergy will be the direct holder of the equity interests of each TransCo Sub.

Immediately thereafter, Entergy will contribute all the equity interests in each TransCo Sub to TransCo and cash in exchange for (i) a number of common units representing limited liability company interests in TransCo, referred to as the TransCo common units, such number not to be less than the number which will be necessary for the Entergy shareholders (and, if applicable, the exchange trust) immediately prior to the merger to constitute the holders of at least 50.1% of the outstanding ITC common stock on a fully diluted basis immediately following the merger and (ii) TransCo debt securities. Immediately thereafter, TransCo will purchase certain assets owned by ESI.

*The Distribution*

Pursuant to the merger agreement and prior to the merger, Entergy will distribute 100% of the TransCo common units (excluding any TransCo common units to be contributed to the exchange trust in the event Entergy makes the exchange trust election) to Entergy's shareholders through a spin-off, a split-off exchange offer or a combination of the two, referred to as the distribution.

If the distribution includes a spin-off, each record holder of Entergy common stock (other than restricted Entergy common stock) will be entitled to receive its *pro rata* share of TransCo common units subject to the spin-off.

If the distribution includes a split-off exchange offer of TransCo common units for currently outstanding shares of Entergy common stock, in the event that there are unsubscribed TransCo common units resulting from such split-off exchange offer, Entergy will distribute them to Entergy shareholders, a transaction referred to as the clean-up spin-off. In a clean-up spin-off, each record holder of Entergy common stock (other than Entergy restricted common stock) will be entitled to receive its *pro rata* share of TransCo common units subject to the clean-up spin-off.

**The Merger**

In accordance with the merger agreement and Delaware law, immediately following the distribution, Merger Sub will merge with and into TransCo. As a result of the merger, the separate corporate existence of Merger Sub will cease and TransCo will continue as the surviving entity and will become a wholly-owned direct subsidiary of ITC. Following the merger, ITC will continue the combined business operations of TransCo and ITC.

Entergy shareholders (who following the distribution will have become unit holders of TransCo) will be entitled to receive a number of shares of ITC common stock to be determined based on the calculation set forth below under Calculation of the Merger Consideration. Holders of Entergy common stock (who following the distribution will have become holders of TransCo common units) will not be required to pay for the shares of ITC common stock they receive and will also retain all of their Entergy common stock. Existing shares of ITC common stock will remain outstanding.

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### Calculation of the Merger Consideration

The merger agreement provides that each TransCo common unit issued and outstanding immediately before the effective time of the merger (which calculation is described below) will automatically convert at the effective time of the merger into the right to receive one fully paid and nonassessable share of ITC common stock. However, each TransCo common unit that is owned, directly or indirectly, by ITC or Merger Sub or held by TransCo, immediately prior to the effective time of the merger, will be automatically cancelled at the effective time of the merger.

No fractional shares of ITC common stock will be issued in the merger to holders of fractional TransCo common units. Instead, within 30 business days following the effective time of the merger, the exchange agent will aggregate all fractional shares of ITC common stock and sell them on behalf of those Entergy shareholders who otherwise would be entitled to receive a fractional share of ITC common stock. Those Entergy shareholders will then receive a cash payment in an amount equal to their *pro rata* share of the total net proceeds of those sales.

As further described above under The Separation and Distribution and under The Merger Agreement, in the separation, TransCo will issue to Entergy a number of TransCo common units equal to the sum of:

the number obtained by multiplying (i) 1.00400801603206 by (ii) the number of ITC shares of common stock on a fully diluted basis (calculated as detailed in the merger agreement and as summarized below), as estimated by ITC and Entergy on the estimation date (as defined below) less the number of common units of TransCo outstanding immediately prior to such calculation (which are estimated to be approximately 1,000); plus

the number obtained by dividing the aggregate disqualified share number (as defined below) by 49.9% (provided that such number will not exceed an amount that would reduce the transaction maximum principal amount by more than \$100 million).

The term fully diluted basis means Entergy and ITC's estimate of the number of shares of ITC common stock that will be outstanding on the closing date of the merger, together with the estimated amount of shares of ITC common stock that will be issuable on the closing date of the merger upon the exercise of any options, rights or units based on the treasury stock method (other than the shares of ITC common stock issued or to be issued in the merger, including pursuant to the employee matters agreement) as further detailed in the merger agreement.

The estimation date will be the nearest reasonably practicable date prior to the last trading day that ends at least 20 trading days prior to the date the distribution will be expected to occur, as mutually agreed by Entergy and ITC.

The aggregate disqualified share number means ITC's and Entergy's best estimate of the number of shares of ITC common stock issuable upon the conversion of Entergy stock options and restricted shares to ITC stock options and restricted shares that are reasonably likely to be treated as being issued as part of a plan or series of related events for U.S. federal income tax purposes that would cause the spin-off to be treated as a taxable event.

The merger agreement also provides that the number of TransCo common units to be issued to Entergy will in no event be less than that number which will be necessary for the Entergy shareholders (and, if applicable, the exchange trust) immediately prior to the merger to constitute the holders of at least 50.1% of the outstanding ITC common stock immediately following the merger, as determined under U.S. federal income tax rules to ensure that the spin-off or split-off exchange offer is not taxable to Entergy. Except as otherwise described in the second bullet above, in the event that the application of the previous sentence shall require an increase in the number of TransCo common units to be issued to Entergy, Entergy and ITC shall in good faith mutually agree to such other modifications to the financial terms of the merger agreement, including the amount of the ITC recapitalization and or the transaction maximum principal amount of debt to be incurred by TransCo and the TransCo Subs.

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### **Trading Markets**

#### *Entergy Common Stock*

Entergy common stock is currently listed on the NYSE and CHX under the ticker symbol ETR. In the event the distribution is effectuated as a spin-off, it is currently expected that beginning not earlier than two (2) business days before the record date to be established for the distribution, and continuing through the closing date of the merger, there will be two markets in Entergy common stock on the NYSE and CHX: a regular way market and an ex-distribution market.

If an Entergy shareholder sells shares of Entergy common stock in the regular way market under the symbol ETR during this time period, that Entergy shareholder will be selling both his or her shares of Entergy common stock and the right (represented by a due-bill) to receive TransCo common units that will be converted into shares of ITC common stock, and cash in lieu of fractional shares (if any), at the closing of the merger. Entergy shareholders should consult their brokers before selling their shares of Entergy common stock in the regular way market during this time period to be sure they understand the effect of the NYSE and CHX due-bill procedures. The due-bill process is not managed, operated or controlled by Entergy.

If an Entergy shareholder sells shares of Entergy common stock in the ex-distribution market during this time period, that Entergy shareholder will be selling only his or her shares of Entergy common stock, and will retain the right to receive TransCo common units that will be converted into shares of ITC common stock, and cash in lieu of fractional shares (if any), at the closing of the merger. It is currently expected that ex-distribution trades of Entergy common stock will settle within three (3) business days after the closing date of the merger and that if the merger is not completed all trades in this ex-distribution market will be cancelled. After the closing date of the merger, shares of Entergy common stock will no longer trade in the ex-distribution market, and shares of Entergy common stock that are sold in the regular way market will no longer reflect the right to receive TransCo common units that will be converted into shares of ITC common stock, and cash in lieu of fractional shares (if any), at the closing of the merger.

#### *TransCo Common Units*

There currently is no trading market for TransCo common units, and no such trading market will be established in the future.

#### *ITC Common Stock*

ITC common stock is currently listed on the NYSE under the ticker symbol ITC. In the merger agreement, ITC agreed to use its reasonable best efforts to cause the shares of ITC common stock to be issued in the merger to be listed on the NYSE as of the effective time of the merger. After the merger, shares of ITC common stock, as the combined company, will continue to trade on the NYSE under the same symbol ITC.

### **Exchange Trust**

Pursuant to the terms of the merger agreement, Entergy may elect, at least thirty (30) business days prior to the closing of the merger to retain up to the number of TransCo common units that would convert in the merger to up to 4.9999% of the total number of shares of ITC common stock outstanding immediately following the consummation of the merger that otherwise would have been distributed in the distribution, such election is referred to as the exchange trust election. If Entergy makes an exchange trust election, and subject to the conditions in the merger agreement, Entergy, TransCo, ITC and a trustee will enter into a trust agreement, referred to as the exchange trust agreement. Under the terms of the exchange trust agreement, at the time of the distribution, Entergy will transfer such TransCo common units to an irrevocable Delaware trust, referred to as the

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exchange trust. The TransCo common units transferred to the exchange trust will not be distributed to Entergy shareholders in the distribution and, at the closing of the merger, will subsequently be converted into ITC common stock in the merger. The trustee of the trust will own and hold legal title to the TransCo common units or ITC common stock. Pursuant to the exchange trust agreement, the exchange trust will hold the shares for the benefit of Entergy and Entergy shareholders; provided, however, in no event will the ITC common stock held by the exchange trust be transferred back to Entergy. Upon delivery of notice by Entergy, the exchange trustee will conduct an exchange offer whereby Entergy shareholders may exchange Entergy common stock for the ITC common stock held by the exchange trust pursuant to irrevocable terms contained in the trust agreement at the time it is entered into, referred to as the exchange trust exchange offer. Pursuant to the exchange trust agreement, any ITC common stock remaining in the exchange trust six months following the completion of the merger will be distributed to Entergy shareholders *pro rata*, referred to as a mandatory trust distribution. If Entergy makes an exchange trust election, Entergy, ITC and the trustee of the exchange trust will also enter into a registration rights agreement whereby ITC will provide the trustee and Entergy certain registration rights with respect to shares of ITC common stock that are held in the exchange trust. See [Additional Material Agreements Agreements Related to the Exchange Trust and Exchange Offer Exchange Trust Agreement](#) and [Additional Material Agreements Agreements Related to the Exchange Trust and Exchange Offer Registration Rights Agreement](#).

**Background of the Merger**

In the ordinary course of business, ITC periodically reviews and evaluates industry developments and strategic alternatives to enhance shareholder value, including assessing transmission systems that would be potential acquisition candidates. Entergy's board of directors and management frequently review Entergy's portfolio of assets to evaluate its current structure and composition to determine whether changes might be advisable, and to look for attractive ways to add value for its shareholders.

On June 6, 2011, Mr. Eddie Peebles, Vice President of Corporate Development for Entergy, initiated a call with Dr. Terry Harvill, Vice President of Grid Development for ITC. During this call Mr. Peebles inquired about ITC's interest in submitting a proposal related to Entergy's Transmission Business.

After ITC expressed interest in submitting a proposal, on June 10, 2011, ITC and ESI executed a non-disclosure agreement.

Following the execution of the non-disclosure agreement, Entergy provided ITC with preliminary non-public information regarding Entergy's Transmission Business. Such information included (i) a summary of Entergy's Transmission Business, (ii) information on the historical rate base and deferred taxes of Entergy's Transmission Business and (iii) projections for capital expenditures. Also included with such information were instructions for submitting a non-binding indication of interest.

From June 13, 2011 through June 17, 2011, Dr. Harvill and Mr. Peebles had several calls to discuss matters regarding Entergy's request for a non-binding indication of interest for Entergy's Transmission Business and the preliminary non-public information previously provided to ITC.

On June 21, 2011, Mr. Peebles provided Dr. Harvill with updated non-public information regarding Entergy's Transmission Business projections for capital expenditures.

On July 1, 2011, at Entergy's request, ITC submitted to Entergy a confidential and non-binding indication of interest letter for the acquisition of Entergy's Transmission Business. The letter proposed an acquisition of Entergy's Transmission Business for all-cash consideration, but in its letter ITC also indicated that it would be willing to explore various alternative structures to facilitate a potential transaction, including the Reverse Morris Trust structure described below that was ultimately adopted for the transaction. ITC's proposal also included its preliminary indication of value for Entergy's Transmission Business and its underlying assumptions supporting the valuation.



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On July 6, 2011, representatives from Entergy and ITC met at Entergy's New Orleans, Louisiana headquarters to discuss ITC's preliminary indication of interest to acquire Entergy's Transmission Business. Participants from ITC included Mr. Cameron Bready, Executive Vice President and Chief Financial Officer, and Dr. Harvill, and participants from Entergy included Mr. Leo Denault, Chief Financial Officer, and Mr. Peebles. The group discussed various preliminary issues and concerns, including structuring alternatives and the potential benefits to ITC and Entergy of a transaction involving Entergy's Transmission Business, ITC's ability to successfully integrate and operate the larger business that would result from the acquisition and the regulatory approvals that would be required to consummate the transaction. At the conclusion of the meeting, the parties agreed that they would continue to evaluate the feasibility of a potential transaction. Mr. Denault informed Mr. Bready that he would contact Mr. Bready with the plan for next steps, if any, after Mr. Denault had briefed the Entergy board of directors at its regular July meeting.

On July 29, 2011, at a regularly scheduled meeting of Entergy's board of directors, Mr. Denault presented Entergy's board of directors with information on a potential transaction involving Entergy's Transmission Business. The presentation included information on (i) a summary of the actions taken to date, (ii) the internal valuation of Entergy's Transmission Business, (iii) a potential transaction structure for consideration and (iv) a potential transaction timeline if the proposed transaction were to proceed. The Entergy board of directors instructed management to proceed with further discussions with ITC to determine whether a transaction could be achieved.

On August 17, 2011, the ITC board of directors held its regularly scheduled quarterly board meeting during which Mr. Bready provided a brief overview of the potential opportunity with Entergy.

On August 23, 2011, Mr. Denault called Mr. Bready to discuss the possibility of advancing discussions to determine if ITC and Entergy could reach a mutually agreeable transaction. Mr. Denault and Mr. Bready agreed to establish a process to exchange non-public information, perform due diligence and enter into further discussions regarding a potential transaction.

On August 26, 2011, ITC retained Simpson Thacher & Bartlett LLP, referred to as Simpson Thacher, as outside legal counsel.

On August 31, 2011, Entergy and ITC entered into a mutual non-disclosure agreement which superseded the non-disclosure agreement entered into between ESI and ITC on June 10, 2011. Also on August 31, 2011, Entergy retained Skadden, Arps, Slate, Meagher & Flom LLP, referred to as Skadden, Arps, as outside legal counsel.

On September 2, 2011, Entergy and ITC exchanged, through their respective financial advisors, additional financial information regarding Entergy's Transmission Business and ITC, respectively.

On September 7, 2011, at the Chicago, Illinois offices of Goldman Sachs & Co., referred to as Goldman Sachs, senior management from ITC and Entergy and other representatives for Entergy and ITC held a transaction kick-off meeting. Attendees at this meeting from ITC included Mr. Bready, Dr. Harvill, and Mr. Jon Jipping, Executive Vice President and Chief Operating Officer, representatives from Deloitte & Touche, tax advisors to ITC, referred to as Deloitte; representatives from J.P. Morgan, financial advisor to ITC, referred to as J.P. Morgan; and representatives from Simpson Thacher, ITC's legal counsel. Attendees at this meeting from Entergy included Mr. Denault, Mr. Peebles, and Mr. Mark Savoff, Executive Vice President and Chief Operating Officer; representatives from Skadden, Arps and representatives from Goldman Sachs. At the meeting, Entergy and ITC representatives discussed the potential terms and structure of a transaction involving Entergy's Transmission Business. Representatives of ITC and Entergy also presented information about their respective transmission businesses and financial forecasts and assumptions.

At this meeting, Entergy proposed that the transaction be structured as a Reverse Morris Trust transaction. A Reverse Morris Trust transaction is a business combination involving the spin- or split-off of a business (here,

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Entergy's Transmission Business), by a company (here, Entergy), and its subsequent merger with another company (here, ITC). Entergy's proposal would be structured on a tax free basis where shareholders of the company effecting the spin- or split-off (here, the Entergy shareholders) receive more of the equity in the combined company than the shareholders of the other company (here, the ITC shareholders). The attendees also discussed other potential transaction structuring matters, the due diligence protocol and the due diligence process.

On September 8, 2011, there was a conference call among representatives of ITC, Entergy, J.P. Morgan and Goldman Sachs to discuss the details of ITC's and Entergy's financial forecasts.

From September 8, 2011 through October 18, 2011, Mr. Bready, Dr. Harvill and representatives of J.P. Morgan had preliminary communications with representatives of Entergy, including Mr. Peebles, and Goldman Sachs regarding a working framework for the valuation terms of the potential transaction, including the pro forma ownership of ITC between Entergy and ITC shareholders after the merger, the amount of indebtedness Entergy's Transmission Business could incur, and the value that ITC would distribute to its pre-merger shareholders in the form of a special dividend, share repurchase or combination thereof, referred to as the ITC recapitalization.

On September 13, 2011, Entergy formally engaged Goldman Sachs as its financial advisor in connection with the proposed transaction.

Beginning on September 16, 2011, weekly calls between Mr. Denault and Mr. Bready were implemented in order to discuss issues related to the proposed transaction.

From September 14, 2011 to September 23, 2011, representatives from ITC and Entergy and their respective advisors held numerous calls to discuss (i) outstanding issues regarding the potential transaction, including the transaction structure, (ii) what assets and operations would constitute Entergy's Transmission Business, (iii) due diligence issues of primary concern related to environmental, information technology, transmission operations, treasury, federal regulatory, accounting, real estate, state/local regulatory, human resource/employee, tax and legal and (iv) the progress of the proposed transaction.

On September 26, 2011, each of Entergy and ITC provided to the other party and their respective legal and financial advisors access to electronic data rooms containing non-public information related to ITC and Entergy's Transmission Business in order to continue to conduct due diligence. Due diligence continued until shortly before the merger agreement, the separation agreement and the employee matters agreement were executed.

From September 27, 2011 until shortly before the execution of the merger agreement, the separation agreement and the employee matters agreement, representatives of Entergy and ITC and their respective advisors had regular meetings and ongoing discussions related to regulatory strategy matters regarding the proposed transaction.

On September 30, 2011, representatives from ITC, Entergy, J.P. Morgan and Goldman Sachs participated in a conference call to discuss Entergy's Transmission Business's and ITC's capital expenditures forecasts, respectively. Also on September 30, 2011, Dr. Harvill and Mr. Peebles had a call to discuss outstanding valuation and other transaction matters and a general update of the progress of the proposed transaction.

On October 3, 2011, Entergy through Goldman Sachs also provided ITC with updated financial forecasts to supplement the information provided to ITC on September 2, 2011.

On October 11, 2011, there was a conference call among Mr. Bready, Dr. Harvill and other representatives of ITC, Mr. Peebles and other representatives from Entergy, and representatives from Deloitte, J.P. Morgan, Goldman Sachs, Simpson Thacher and Skadden, Arps to discuss transaction structuring matters. Also on October 11, 2011, Dr. Harvill and Mr. Peebles had a call to discuss outstanding issues related to valuation and other transaction terms, including a general update on the progress of the proposed transaction.

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On October 11, 2011, Mr. Joseph Welch, Chairman, President and Chief Executive Officer of ITC, and Mr. Bready met in Atlanta, Georgia with Mr. J. Wayne Leonard, Chairman and Chief Executive Officer of Entergy, and Mr. Denault to discuss certain aspects of a potential transaction, including the strategic rationale for the transaction for both parties, the regulatory considerations to effectuate the transaction and certain operational matters for Entergy's Transmission Business. At the meeting, each party's representatives expressed their mutual desire to proceed and further negotiate a proposed transaction.

On October 13, 2011, Entergy provided ITC with an updated capital expenditure forecast and financial model, supplementing the information provided on October 3, 2011.

On October 14, 2011, representatives from ITC, including Dr. Harvill, representatives from Entergy, including Mr. Rick Riley, Vice President of Energy Delivery, and Mr. Peebles, and representatives from J.P. Morgan and Goldman Sachs participated in a conference call to discuss the capital expenditure forecasts provided the day before.

On October 18, 2011, J.P. Morgan delivered a preliminary proposal to Entergy on behalf of ITC, which included: (i) that the post-merger pro forma ownership of ITC between Entergy shareholders and ITC shareholders would be approximately 50.1% and 49.9%, respectively, (ii) that Entergy's Transmission Business could incur up to \$1.8 billion in indebtedness prior to the distribution and merger, the proceeds of which would be retained by Entergy and Entergy's Utility Operating Companies and (iii) that the ITC recapitalization would not exceed \$700 million.

On October 19, 2011, Mr. Denault and Mr. Bready spoke by telephone about the proposed transaction. On the telephone call, Mr. Denault asked Mr. Bready follow up questions regarding the proposal delivered by ITC the previous day.

At a special meeting of the Entergy board of directors held on October 20, 2011, Entergy management briefed the Entergy board of directors on the status of the proposed divestiture of Entergy's Transmission Business.

On October 20, 2011, Skadden, Arps, distributed initial drafts of the merger agreement and separation agreement to Simpson Thacher.

Also on October 20, 2011, the ITC board of directors held a special meeting, during which Mr. Bready provided the ITC board of directors with a comprehensive review of the proposed transaction, including an overview of Entergy's Transmission Business, strategic rationale for the proposed transaction, regulatory approvals required to close the transaction, an update on the status of ITC's due diligence review of Entergy's Transmission Business and proposed next steps to advance the transaction. Mr. Bready also presented preliminary valuation and combination analytics, as well as an overview of the key elements of the structure of the proposed transaction. In addition, representatives of Simpson Thacher and Dykema, ITC's Michigan outside counsel, provided an overview of applicable legal standards and fiduciary duties of directors in the context of considering the potential transaction and other strategic alternatives available to ITC. After extensive consideration, the ITC board of directors directed senior management to continue to pursue discussions with Entergy regarding a potential transaction. In addition, due to the expected timing associated with advancing the transaction and its complexity, the board of directors of ITC designated a sub-committee of board members, referred to as the ITC board sub-committee, to be accessible to management for more regular updates and to provide guidance on significant issues associated with the transaction arising between meetings of the full board of directors.

On October 25, 2011, Mr. Denault and Mr. Bready met in Chicago, Illinois. At this meeting, Mr. Denault and Mr. Bready discussed matters related to the transaction, including the terms of ITC's preliminary proposal delivered by J.P. Morgan on October 18, 2011. Mr. Denault and Mr. Bready preliminarily agreed that the post-

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merger pro forma ownership of ITC between Entergy shareholders and ITC shareholders would be 50.1% and 49.9%, respectively, (ii) that Entergy's Transmission Business could incur up to \$1.95 billion in indebtedness prior to the distribution and the merger, the net proceeds of which would be retained by Entergy and Entergy's Utility Operating Companies and (iii) that the ITC recapitalization would not exceed \$600 million.

On October 27, 2011, representatives from Simpson Thacher and Skadden, Arps held a call to discuss ITC's preliminary issues arising out of the drafts of the merger agreement and separation agreement distributed by Skadden, Arps.

On October 28, 2011, at a regularly scheduled meeting of the Entergy board of directors, Mr. Denault and Mr. Peebles presented an update to the Entergy board of directors regarding the proposed transaction. The presentation included information on (i) strategic rationale, (ii) background on ITC, (iii) Entergy's internal valuation of Entergy's Transmission Business and combination analysis of Entergy's Transmission Business with ITC, (iv) proposed transaction structure, (v) social factors, (vi) transaction timing and (vii) next steps.

Also on October 28, 2011, Mr. Denault and Mr. Bready spoke by telephone about the proposed transaction. Mr. Denault informed Mr. Bready that at the meeting of the Entergy board of directors that day, the Entergy board of directors continued to be interested in the proposed transaction provided satisfactory financial and other terms and conditions could be reached.

On October 29, 2011, there was a conference call to discuss issues in the draft merger agreement and separation agreement provided to ITC. Participants included Mr. Peebles from Entergy, Dr. Harvill from ITC, and representatives from Deloitte, Simpson Thacher, J.P. Morgan, Goldman Sachs, and Skadden, Arps. The discussions included issues related to (i) the financings to be conducted prior to the closing of the merger, (ii) the ability of Entergy to modify aspects of the transaction concerning Entergy's internal reorganization without the consent of ITC, (iii) the circumstances in which each party could terminate the agreement, (iv) the obligations of the parties to close the transaction based on certain events, (v) the required efforts of each party necessary to close the transaction, (vi) the allocation of assets and liabilities between ITC and Entergy related to Entergy's Transmission Business, (vii) whether the amount of debt and Entergy shareholders' post-merger ownership of ITC would be adjusted upon certain events and (viii) other contract provisions.

Between November 1, 2011 and November 10, 2011, Dr. Harvill and Mr. Peebles had several calls to discuss outstanding valuation matters, issues in the transaction agreements and a general update of the progress of the proposed transaction.

On November 3, 2011, ITC formally engaged J.P. Morgan as its financial advisor in connection with the proposed transaction.

Also on November 3, 2011, the ITC board sub-committee held a telephonic meeting to receive an update from management and their legal and financial advisors with respect to progress on the proposed transaction.

On November 4, 2011, Simpson Thacher distributed to Skadden, Arps a mark-up of the separation agreement.

On November 6, 2011, Simpson Thacher distributed to Skadden, Arps a mark-up of the merger agreement. On the same day, Skadden, Arps distributed a draft of the employee matters agreement to Simpson Thacher.

On November 7, 2011, Mr. Mark McCulla, Vice President of Transmission Regulatory Compliance, and Mr. Riley, each from Entergy and Mr. Jipping from ITC, met in Jackson, Mississippi to review business operations and answer questions related to specific groups within the transmission organization. The group also discussed information technology related matters.

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On November 9, 2011, representatives from Entergy, ITC, Simpson Thacher and Skadden, Arps participated in meetings at Entergy's New Orleans, Louisiana headquarters to discuss outstanding employee matters related to the proposed transaction, including the draft employee matters agreement delivered to ITC on November 6, 2011. Participants included Dr. Harvill, Mr. Bready, Ms. Linda Blair, Executive Vice President and Chief Business Officer, and Mr. Jipping of ITC; Ms. Renae Conley, Executive Vice President of Human Resources and Administration, Mr. Peebles, Mr. Denault, and Mr. Savoff of Entergy; and representatives from Simpson Thacher. A representative of Skadden, Arps participated by phone.

On November 11, 2011, representatives of Entergy and ITC and their legal advisors met in New Orleans, Louisiana to further discuss outstanding issues with the revised drafts of the transaction agreements raised on the October 29, 2011 teleconference between the parties. Participants included Dr. Harvill from ITC; Mr. Peebles from Entergy; and representatives from Simpson Thacher and Skadden, Arps.

Also on November 11, 2011, ITC formally engaged Barclays Capital Inc., also referred to as Barclays, as its financial advisor in connection with the proposed transaction.

On November 14, 2011, Mr. Welch and Mr. Bready from ITC met with Mr. Leonard and Mr. Denault from Entergy in Atlanta, Georgia to discuss the proposed transaction. At this meeting, the participants discussed the progress of the proposed transaction, including the board and management composition of ITC following the potential transaction, key terms and conditions of the merger agreement, and other social issues.

On November 16, 2011, the ITC board of directors held its regularly scheduled quarterly board meeting during which senior management provided the ITC board of directors with an update regarding progress on the proposed transaction with Entergy. At this meeting, Mr. Bready also provided additional financial analysis regarding the potential transaction and a status update with respect to due diligence efforts and negotiation of the transaction agreements. Mr. Bready also presented an expected timeline for advancing the potential transaction assuming that agreement could be reached on remaining issues subject to negotiation.

Also on November 16, 2011, Skadden, Arps distributed a revised draft of the merger agreement to Simpson Thacher.

On November 16, 2011 and November 17, 2011, there were calls between Dr. Harvill and Mr. Peebles to discuss outstanding issues related to transaction representations and warranties, status of the employee matters agreement and the progress of other outstanding matters related to the proposed transaction.

On November 18, 2011, the Entergy board of directors held a telephonic special meeting to discuss the transaction. Mr. Denault and Mr. Peebles presented an update to the Entergy board of directors regarding the proposed transaction. The presentation included information on (i) strategic rationale, (ii) Entergy's internal valuation of Entergy's Transmission Business and combination analysis of Entergy's Transmission Business with ITC, (iii) proposed transaction structure, (iv) social issues, (v) transaction timing and (vi) next steps.

On November 19, 2011, there was a conference call among Mr. Bready, Dr. Harvill, Mr. Peebles, and Mr. Denault and other representatives of ITC, Entergy, Deloitte, Simpson Thacher, Skadden, Arps, J.P. Morgan and Goldman Sachs to discuss financing matters relating to the proposed transaction.

On November 19, 2011, Skadden, Arps distributed a revised draft of the separation agreement to Simpson Thacher.

On November 20, 2011, Dr. Harvill and Ms. Blair from ITC and Mr. Peebles from Entergy had a conference call to discuss outstanding employee related matters about the proposed transaction.

On November 21, 2011, representatives of ITC, Entergy, Simpson Thacher and Deloitte had a conference call to discuss and negotiate certain tax provisions of the merger agreement and separation agreement.

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On November 22, 2011, representatives from ITC, including Dr. Harvill, representatives from Entergy, including Mr. Peebles, and other representatives from Entergy, ITC, Simpson Thacher, Skadden, Arps, J.P. Morgan and Goldman Sachs met at J.P. Morgan's offices in Chicago, Illinois. Issues discussed at the meeting included (i) the circumstances in which each party could terminate the merger agreement, (ii) the obligations of the parties to close the proposed transaction based on certain events, (iii) the required efforts of each party necessary to close the proposed transaction, (iv) the allocation of assets and liabilities between ITC and Entergy related to Entergy's Transmission Business, (v) whether the amount of debt and shares to be issued to Entergy shareholders would be adjusted upon certain events and (vi) other contract provisions. Representatives of the parties also agreed to negotiate after the proposed transaction was announced the form of certain ancillary agreements related to the separation agreement and the merger agreement. There were also calls between Dr. Harvill and Mr. Bready of ITC and Mr. Peebles and Mr. Denault of Entergy to discuss Entergy's plans to elect accelerated tax depreciation and the impacts of such election on Entergy's Transmission Business.

Also on November 22, 2011, representatives of Entergy and ITC met in New Orleans to discuss bargaining unit employees, assumption by ITC of collective bargaining agreements and general employee issues and due diligence meetings related to business operations of ITC and Entergy's Transmission Business were held in Novi, Michigan and attended by representatives of Entergy and ITC.

Also on November 22, 2011, the ITC board sub-committee held a telephonic meeting to receive an update from management and their legal and financial advisors with respect to progress on the proposed transaction.

On November 24, 2011 and November 27, 2011, there were calls between Dr. Harvill and Mr. Peebles to discuss outstanding issues related to the representations and warranties contained in the merger agreement, status of the employee matters agreement, and the progress of other outstanding matters related to the proposed transaction.

On November 25, 2011, Simpson Thacher distributed a revised draft of the employee matters agreement to Skadden, Arps.

Between November 26, 2011 and December 4, 2011, representatives of Entergy, ITC, Skadden, Arps and Simpson Thacher negotiated and exchanged multiple drafts of the employee matters agreement.

On November 27, 2011, Simpson Thacher distributed revised drafts of the merger agreement and the separation agreement to Skadden, Arps. Between November 28, 2011 and December 4, 2011, representatives of Entergy, ITC, Skadden and Simpson Thacher negotiated and exchanged multiple drafts of the merger agreement and the separation agreement.

On November 29, 2011, Mr. Bready met with Mr. Denault in Atlanta, Georgia to discuss the proposed transaction. The discussions included matters regarding Entergy's plans to take accelerated tax depreciation and the impacts of such election on Entergy's Transmission Business; the amount of debt to be incurred by Entergy's Transmission Business; whether the number of shares of ITC common stock to be received by Entergy shareholders in the proposed transaction would be adjusted in certain events; the obligations of the parties to close the proposed transaction under specified circumstances; representations and warranties made by Entergy regarding Entergy's Transmission Business in the merger agreement; social and employee benefit issues; and other open issues. As a result of Entergy's plans to take accelerated tax depreciation, as well as the other matters discussed, Mr. Bready and Mr. Denault negotiated changes to the terms of the proposed transaction to reflect a reduction in the amount of indebtedness that Entergy's Transmission Business would incur prior to the distribution and the merger to \$1.775 billion and an increase in the ITC recapitalization to an amount not to exceed \$700 million.

From November 30, 2011 through December 4, 2011, there were multiple conference calls between representatives from Entergy, ITC, Simpson Thacher, Cooley LLP, Entergy's tax counsel, and Deloitte to discuss

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and negotiate the tax provisions of the merger agreement and the separation agreement, as well as other outstanding issues, including with respect to the allocation of assets and liabilities between TransCo and Entergy and the standard of efforts required of the parties to obtain certain regulatory approvals, and finalized the merger agreement, the separation agreement and the employee matters agreement.

On December 1, 2011, the ITC board of directors held a special meeting at the offices of ITC in Novi, Michigan. At the meeting, Mr. Bready updated the ITC board of directors on the status of the negotiations with Entergy. Prior to the meeting, the ITC board of directors was provided with substantially complete drafts of the merger agreement, the separation agreement and employee matters agreement and summaries of such agreements. A representative of Dykema reviewed and discussed with the ITC board of directors the fiduciary duties of the directors in the context of considering ITC's strategic alternatives (including the proposed transaction), and senior management and a representative of Simpson Thacher reviewed with the ITC board of directors the principal terms of the merger agreement, the separation agreement and the employee matters agreement. Mr. Bready, together with representatives of J.P. Morgan and Barclays, also reviewed and discussed with the ITC board of directors financial analyses relating to the terms of the proposed transaction. After extensive discussion regarding the proposed transaction, the ITC board of directors instructed management to proceed with final negotiations and work to finalize the merger agreement, the separation agreement and the employee matters agreement.

On December 2, 2011, the Entergy board of directors discussed the proposed transaction at a regularly scheduled meeting at Entergy's New Orleans headquarters. Prior to the meeting, the Entergy board of directors was provided with substantially complete drafts of the merger agreement, the separation agreement and employee matters agreement. All board members were present. Mr. Denault, Mr. Robert D. Sloan, then the Executive Vice President, General Counsel and Secretary of Entergy, Mr. Peebles, Ms. Conley and other representatives from Entergy and representatives from Skadden, Arps and Goldman Sachs presented an update to the Entergy board of directors regarding the proposed transaction. The presentation and discussion included information regarding the proposed transaction on (i) strategic rationale and benefits to Entergy's shareholders, (ii) Entergy's internal valuation of Entergy's Transmission Business and combination analysis of Entergy's Transmission Business with ITC, (iii) Goldman Sachs financial analysis of the proposed transaction, (iv) proposed transaction structure, (v) transaction timing, (vi) employee matters, (vii) other commercial terms, (viii) due diligence results and (ix) next steps. Representatives from Skadden, Arps reviewed with the board the terms of the merger agreement, the separation agreement, the employee matters agreement and the open issues in each agreement. Following this board meeting, the presidents of Entergy Arkansas, Entergy Gulf States Louisiana, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, Entergy Texas and ESI were given an update on the proposed transaction and a summary of the proposed transaction terms and conditions, including substantially the same information presented to the Entergy board of directors earlier in the day.

From December, 2, 2011 through December 4, 2011, final negotiations related to the merger agreement, the separation agreement and the employee matters agreement took place between Entergy and ITC representatives.

On December 3, 2011, the Entergy board of directors held a telephonic special meeting to consider the proposed transaction with ITC. All board members other than Mr. Tauzin were in attendance. Mr. Leonard updated the Entergy board of directors on the status of negotiations with ITC, including the remaining open issues on the transaction agreements. Also present were various representatives from management, including Mr. Denault, Mr. Peebles and Mr. Sloan, and representatives from Skadden, Arps and Goldman Sachs. After considering the foregoing, the presentations and discussions made at prior meetings of the Entergy board of directors, the merger agreement, the separation agreement and the employee matters agreement, and taking into consideration the factors described under the section Entergy's Reasons for the Separation, Distribution and the Merger, the Entergy directors present at the meeting unanimously determined that the transaction agreements and the transactions contemplated by the transaction agreements were advisable and in the best interest of Entergy and its shareholders and approved the transaction.

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Also on December 3, 2011, the respective governing bodies of Entergy Arkansas, Entergy Gulf States Louisiana, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, Entergy Texas and ESI considered and approved entering into the separation agreement and related transactions.

On the morning of December 4, 2011, the ITC board of directors held a special telephonic meeting to review the proposed transaction. At the meeting, senior management apprised the ITC board of directors of the status of negotiations and reviewed the terms of the transaction as reflected in the final forms of the merger agreement, the separation agreement and the employee matters agreement. J.P. Morgan delivered its oral opinion to the ITC board of directors (subsequently confirmed by a written opinion dated December 4, 2011) to the effect that, as of such date, and subject to the limitations and assumptions set forth in its written opinion, the aggregate merger consideration is fair to ITC from a financial point of view. Barclays also delivered its oral opinion, (subsequently confirmed by delivery of a written opinion, dated December 4, 2011), to the effect that, as of that date and based upon and subject to the qualifications, limitations and assumptions described in the opinion, the exchange ratio in the merger was fair, from a financial point of view, to ITC. After further discussion, the ITC board of directors determined that the merger agreement, the separation agreement and the employee matters agreement and proposed transactions with Entergy were advisable, fair to and in the best interests of ITC and its shareholders, approved the merger agreement, the separation agreement and the employee matters agreement and the proposed transactions with Entergy in accordance with Michigan law and recommended that the ITC shareholders approve the merger, an amendment to the ITC articles of incorporation to increase the number of authorized shares of ITC common stock and the issuance of ITC common stock pursuant to the merger agreement. The ITC board also authorized senior management to finalize, execute and deliver the merger agreement, the separation agreement and the employee matters agreement.

On December 3 and 4, 2011, internal and external representatives from ITC and Entergy participated in numerous phone calls and other meetings regarding the remaining open issues related to the transaction agreements. On December 4, 2011, representatives of Cooley, LLP met with Mr. Bready, and representatives from Simpson Thacher in New York City to conclude Entergy's due diligence with respect to tax matters.

The merger agreement, the separation agreement and the employee matters agreement were finalized and executed on December 4, 2011.

On December 5, 2011, Entergy and ITC issued a joint press release announcing the execution of the merger agreement, the separation agreement and the employee matters agreement before the opening of trading on the New York Stock Exchange.

Since December 6, 2011, Entergy, ITC and their respective advisors have continued to negotiate and finalize the generator interconnection agreement, the distribution-transmission interconnection agreement, the transition services agreement, the software/IP license agreement, the pole attachment agreement for electric distribution facilities, the transmission structure attachment agreement for telecommunications facilities, the exchange trust agreement and the registration rights agreement.

### **ITC's Reasons for the Merger; Recommendation of ITC's Board of Directors**

**ITC's board of directors has approved the merger agreement and the consummation of the transactions contemplated thereby and determined that the terms of the merger agreement and the transactions contemplated thereby, including the issuance of ITC common stock in the merger, are advisable, fair to and in the best interests of ITC and its shareholders. ITC's board of directors recommends that shareholders vote FOR the proposals to approve the merger agreement, to amend the amended and restated articles of incorporation of ITC to increase the number of authorized shares of ITC common stock, to issue ITC common stock in the merger and to approve adjournments or postponements of the special meeting for the purpose of soliciting additional proxies, if necessary.**



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In reaching its decision to approve the merger agreement and the consummation of the transactions contemplated thereby, the ITC board of directors consulted with its financial and legal advisors and carefully considered a variety of factors, including the following:

the expectation that the merger will be value accretive to ITC's financial results (after giving effect to the ITC recapitalization), increase ITC's revenues and earnings and enhance cash flow generation;

the potential that the merger will further enhance ITC's ability to achieve its long-term strategic objectives and position ITC as the preeminent transmission company in the United States, while further strengthening ITC's business model as an independent transmission company;

the opportunity to significantly expand the scope and scale of ITC's operations by creating one of the largest transmission companies in the United States based on net property, plant and equipment and by load served and expanding ITC's geographic reach through the introduction of new markets in the Gulf States and Mid-South regions;

the enhanced growth prospects available through ITC's increased size and geographic reach and the shifting of growth to more predictable base capital investments;

the expectation that the merger will enhance ITC's overall credit quality and significantly enhance ITC's balance sheet strength;

the expectation that the introduction of sizeable new markets will provide ITC with a stronger operational platform and strengthened financial resources from which to pursue additional development initiatives, which should significantly broaden and de-risk ITC's capital investment opportunities and enhance ITC's ability to pursue new acquisition and investment opportunities;

the potential that the merger will generate increased visibility and greater access to the capital markets for ITC, which could enhance the market valuation of ITC's common stock and facilitate ITC's ability to access the capital markets going forward;

information concerning the business, assets, liabilities, financial performance and results of operations, and condition and prospects of ITC and Entergy's Transmission Business;

the structure of the merger as a tax-free reorganization for federal income tax purposes;

the experience and prior success of ITC's management in integrating acquisitions into ITC's existing business, and effectively merging corporate cultures;

the opinion of J.P. Morgan Securities LLC, dated December 4, 2011, to the ITC board of directors as to the fairness, from a financial point of view, to ITC of the aggregate merger consideration, based upon and subject to the qualifications, limitations and assumptions described in its written opinion as more fully described below in the section entitled "Opinion of J.P. Morgan"; and

the opinion, dated December 4, 2011, of Barclays Capital Inc. to the ITC board of directors as to the fairness, from a financial point of view and as of such date, to ITC of the exchange ratio in the merger, based upon and subject to the qualifications, limitations and

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assumptions described in its written opinion as more fully described below in the section entitled "Opinion of Barclays." The ITC board of directors also considered certain countervailing factors in its deliberations concerning the merger and related transactions, including:

the fact that current ITC shareholders as a group would control less than a majority of ITC common stock after consummation of the merger;

the challenges and difficulties, foreseen and unforeseen, relating to integrating Entergy's Transmission Business with ITC's current operations;

the possibility of management and employee disruption associated with the merger and integrating the operations of the companies, including the risk that, despite ITC's intention to retain such personnel, key management of Entergy's Transmission Business might not be employed with ITC after the merger;

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the risk that the merger and integration may divert management attention and resources away from other strategic opportunities and from operational matters;

the risk that the potential benefits sought in the merger might not be fully realized or realized within the expected time frame;

the fact that, in order to preserve the tax-free treatment of the merger and related transactions, ITC would be required to abide by certain restrictions that could limit its ability to engage in certain future business transactions that might be advantageous;

the risk that the necessary regulatory approvals and clearances to complete the merger are not received or that governmental authorities could attempt to condition their approval of the merger on compliance with certain burdensome conditions or that regulatory approvals may be delayed;

the risks associated with Entergy's Transmission Business operations;

the increase in ITC's indebtedness expected to result from the merger;

that ITC, prior to the completion of the merger, is required to conduct its business in the ordinary course, subject to specific limitations and exceptions, which could delay or prevent ITC from undertaking business opportunities that may arise prior to the completion of the merger;

the fact that certain provisions of the merger agreement may dissuade third parties from seeking to acquire ITC or otherwise increase the cost of any potential acquisition;

the fact that under the merger agreement, ITC may be required to pay Entergy a termination fee under certain limited circumstances; and

the risk that the merger may not be completed in a timely manner or at all.

The foregoing discussion of the information and factors discussed by the ITC board of directors is not meant to be exhaustive but is believed to include all material factors considered by it. The ITC board of directors did not quantify or attach any particular weight to the various factors that it considered in reaching its determination that the terms of the merger are fair to, and in the best interests of, ITC and its shareholders. Rather, the ITC board of directors viewed its position and recommendation as being based on the totality of the information presented to and considered by it. As a result of its consideration of the foregoing and other relevant considerations, the ITC board of directors determined that the terms of the merger agreement, including the issuance of ITC common stock in the merger and the related transactions, are advisable, fair to and in the best interests of ITC and its shareholders.

**Accordingly, ITC's board of directors recommends that shareholders vote FOR the proposals to approve the merger agreement, to amend the amended and restated articles of incorporation of ITC to increase the number of authorized shares of ITC common stock, to issue ITC common stock in the merger and to approve adjournments or postponements of the special meeting for the purpose of soliciting additional proxies, if necessary.**

### **Certain Financial Forecasts Prepared by ITC**

ITC is including in this proxy statement/prospectus certain financial forecasts prepared by ITC management in connection with the review of the transaction that were provided to Entergy in order to provide Entergy with future financial projections and growth prospects for ITC on a stand-alone basis (referred to as the ITC Base Forecast). In addition, ITC is also including in this proxy statement/prospectus certain other

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financial forecasts prepared by ITC management for the ITC board of directors in connection with their consideration of the transactions and to ITC's financial advisors in connection with their review and analysis of the financial terms of the transactions (these financial forecasts are referred to as the ITC Adjusted Forecast).

The ITC Adjusted Forecast provides adjustments to the ITC Base Forecast, including specified adjustments to capital investments for ITC on a stand-alone basis designed to align the certainty of capital investments in ITC's

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plan better with the certainty of capital investments reflected in Entergy's plan, given the composition of the drivers for capital investments in each respective forecast. By aligning certainty of capital investments between ITC and Entergy's Transmission Business, the respective businesses could be more easily compared, while also providing a basis for a qualitative assessment for potential incremental capital investment opportunities in each business resulting from the advancement of other transmission investment opportunities. The ITC Base Forecast and the ITC Adjusted Forecast are collectively referred to in this proxy statement/prospectus as the ITC Forecasts.

ITC management developed the ITC Base Forecast for the period 2011 through 2015 through its customary strategic planning and budgeting process. This forecast represents a stand-alone plan, absent any consideration of the transactions. The ITC Base Forecast that was provided to Entergy reflects the following key assumptions:

ongoing investments in ITC's existing transmission systems, including approximately \$2.7 billion for base system investments associated primarily with maintenance, reliability-related projects, system capacity expansions and network upgrades to support new generator interconnections;

ongoing investments associated with ITC's development portfolio, including approximately \$800 million of projects in the advanced stages of development and approximately \$600 million of projects in the intermediate or design phase of development; and

existing FERC rate regulation for all of ITC's operating companies.

The following table presents the ITC Base Forecast:

*ITC Base Forecast*

	Projected Fiscal Year				
	2011	2012	2013	2014	2015
Capital Investments*	\$ 657	\$ 832	\$ 832	\$ 843	\$ 894
Year-End Rate Base**	\$ 2,926	\$ 3,498	\$ 4,293	\$ 4,844	\$ 5,474

\* Capital investment amounts differ from cash expenditures for property, plant and equipment included in ITC's 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 CWIP, among other factors.

\*\* Rate base is not included in the audited financial statements of ITC contained in this proxy statement/prospectus. For purposes of the ITC Forecasts, rate base is defined as the value of transmission property used by the FERC in determining a specified rate of return. For the ITC Forecasts, the value primarily represents the net book value of any transmission plant, general plant, intangible plant, materials and supplies, regulatory assets, and working capital, less any accumulated deferred income taxes on those assets as of the date specified.

As discussed, in order to evaluate the merits of the transaction, ITC management developed the ITC Adjusted Forecast to improve the comparability of the future capital investment opportunities for ITC and Entergy's Transmission Business. Given that the capital investment forecast provided by Entergy was comprised of transmission projects that ITC viewed as highly probable of occurring, as they are driven by base system requirements, ITC elected to create the ITC Adjusted Forecast for comparative purposes by reflecting only high-probability capital investment opportunities for ITC. For ITC, these highly probable investment opportunities relate to base system investments and those associated with projects in ITC's development portfolio in the advanced phase. In doing so, ITC adjusted its plan to remove future capital investments associated with development projects in the design and intermediate phases. As a result, ITC was better able to compare its base business and future capital investments that are highly probable of occurring on a basis consistent with that of Entergy's Transmission Business.

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After adjusting its plan, ITC further performed an assessment and comparison of additional transmission development projects and capital investments opportunities included in ITC's development portfolio, but not reflected in its forecast, and a list of strategic overlay transmission projects provided by Entergy that were incremental to the forecast provided for Entergy's Transmission Business. See Certain Financial Forecasts Prepared by Entergy. Based on this analysis, ITC determined that it is reasonable to assume that the future capital investment opportunities resulting from the ITC design and intermediate development pipeline and strategic overlay projects for Entergy's Transmission Business are roughly equivalent and that the most appropriate way to compare the businesses was on the basis of the ITC Adjusted Forecast against the forecast provided by Entergy.

The ITC Adjusted Forecast was provided to ITC's board of directors and financial advisors for purposes of evaluating the proposed transactions.

The following table presents the ITC Adjusted Forecast:

*ITC Adjusted Forecast*

	Projected Fiscal Year				
	2011	2012	2013	2014	2015
Capital Investments*	\$ 620	\$ 820	\$ 727	\$ 645	\$ 641
Year-End Rate Base**	\$ 2,898	\$ 3,450	\$ 4,141	\$ 4,522	\$ 4,963

\* Capital investment amounts differ from cash expenditures for property, plant and equipment included in ITC's 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 CWIP, among other factors.

\*\* Rate base is not included in the audited financial statements of ITC contained in this proxy statement/prospectus. For purposes of the ITC Forecasts, rate base is defined as the value of transmission property used by the FERC in determining a specified rate of return. For the ITC Forecasts, the value primarily represents the net book value of any transmission plant, general plant, intangible plant, materials and supplies, regulatory assets, and working capital, less any accumulated deferred income taxes on those assets as of the date specified.

The ITC Forecasts were prepared by ITC management based on information they had at the time of preparation and are not a guarantee of future performance. The ITC Forecasts are the responsibility of ITC management and prepared on a reasonable basis using the most current available estimates and judgments. The ITC Forecasts were not prepared with a view towards public disclosure (beyond the elements of ITC's five-year plan that are publicly filed with the SEC) and therefore the ITC Forecasts were not prepared with a view toward complying with the published guidelines of the SEC regarding projections or the guidelines established by the American Institute of Certified Public Accountants or any other accounting body or organization for preparation and presentation of prospective financial information. Deloitte & Touche LLP has neither examined nor compiled the ITC Forecasts and, accordingly, Deloitte & Touche LLP does not express an opinion or any other form of assurance with respect thereto. The Deloitte & Touche LLP report incorporated by reference into this proxy statement/prospectus relates to ITC's historical financial information. It does not extend to the ITC Forecasts above and should not be read to do so. Neither Deloitte & Touche LLP, nor any other independent accountants have compiled, examined, or performed any procedures with respect to the ITC Forecasts, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and Deloitte & Touche LLP assumes no responsibility for, and disclaims any association with, the ITC Forecasts.

The ITC Forecasts are forward-looking statements, reflect numerous estimates and assumptions, as further described above, and are subject to significant economic, industry and competitive uncertainties, including those risk factors detailed in the sections entitled Risk Factors and Cautionary Statement Concerning Forward-

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Looking Statements, all of which are difficult to predict and many of which are beyond the control of ITC management. Accordingly, there can be no assurance that the estimates and assumptions made in preparing the ITC Forecasts will prove to be accurate, or that these forecasts will be realized. The ITC Forecasts cover multiple years and such information by its nature becomes less predictive with each succeeding year. The ITC Forecasts do not necessarily reflect revised prospects for ITC, changes in general business or economic conditions, or any other transaction or event that has occurred or that may occur and that was not anticipated at the time the ITC Forecasts were prepared. The ITC Forecasts are not necessarily indicative of current values or future performance, which may be significantly more favorable or less favorable than as set for above. ITC does not intend to update, correct or otherwise revise any of the ITC Forecasts to reflect circumstances existing after the date when such forecasts were made or to reflect the occurrence of future events, even in the event that any or all underlying assumptions are shown to be in error. The ITC Forecasts should be evaluated, if at all, in conjunction with the historical financial statements and other information regarding ITC contained in documents filed or furnished by ITC with the SEC.

ITC and Entergy shareholders should not rely upon the ITC Forecasts as being indicative of future results as actual results may differ materially from those presented in the ITC Forecasts. In light of the foregoing, ITC and Entergy shareholders should not place undue reliance on the ITC Forecasts. The inclusion of the ITC Forecasts in this proxy statement/prospectus should not be regarded as an indication that these forecasts will necessarily be reflective of actual future results, and these forecasts should not be relied upon or regarded as a representation that the ITC Forecasts will be achieved. The inclusion of the ITC Forecasts in this proxy statement/prospectus shall not be deemed an admission or representation by ITC that such information is material. The ITC Forecasts are presented to explain the information considered by ITC's board of directors and ITC's financial advisors and are not presented in order to induce any shareholder to vote in favor of the merger proposals.

### **Opinion of J.P. Morgan**

ITC retained J.P. Morgan as its financial advisor for the purpose of advising ITC in connection with the proposed acquisition of Entergy's Transmission Business and to evaluate the fairness, from a financial point of view, to ITC of the aggregate consideration (consisting of the issuance of one share of ITC common stock in exchange for each TransCo common unit, plus the payment of cash in lieu of any fractional shares) to be paid by ITC pursuant to the merger agreement.

At the meeting of the ITC board of directors on December 4, 2011, J.P. Morgan delivered its oral opinion, which was subsequently confirmed in a written opinion to the ITC board of directors dated December 4, 2011, that, as of such date and on the basis of and subject to the various factors, procedures, assumptions, limitations and qualifications set forth in its opinion, the aggregate consideration to be paid by ITC in the transactions was fair, from a financial point of view, to ITC. The issuance of J.P. Morgan's opinion was approved by a fairness committee of J.P. Morgan.

J.P. Morgan's financial analysis and its written opinion were provided to the ITC board of directors in connection with and for the purposes of its evaluation of the transactions. J.P. Morgan's opinion is limited only to the fairness, from a financial point of view, to ITC (and not to Entergy or any class of ITC's or Entergy's securities or any creditors or other constituencies) of the aggregate consideration to be paid by ITC in the transactions and does not constitute a recommendation as to how the ITC board of directors or any ITC shareholder should vote with respect to the transactions or any other matter. The terms of the transactions, including the amount of the aggregate consideration to be paid in the transactions, was determined through arm's-length negotiations between ITC and Entergy and the determination to enter into the merger agreement, the separation agreement and the employee matters agreement was solely that of ITC's board of directors. The opinion does not address the relative merits of the transactions as compared to other business strategies or transactions that might be available with respect to ITC. ITC did not provide specific instructions to, or place any limitations on, J.P. Morgan with respect to the procedures to be followed or factors to be considered by it in performing its analyses or providing its opinion.

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**The full text of J.P. Morgan's written opinion dated December 4, 2011, which sets forth, among other things, the assumptions made, procedures followed, matters considered and limitations on the scope of the review undertaken by J.P. Morgan in conducting its financial analysis and in rendering its opinion, is attached as Annex D to this proxy statement/prospectus, and is incorporated herein by reference in its entirety. J.P. Morgan's opinion should be read carefully and in its entirety. The following summary of J.P. Morgan's opinion is qualified in its entirety by reference to the full text of the opinion.**

In conducting its financial analysis and rendering its opinion, J.P. Morgan, among other things:

reviewed a draft dated December 4, 2011 of the merger agreement and a draft dated December 3, 2011 of the separation agreement;

reviewed certain publicly available business and financial information concerning Entergy's Transmission Business and ITC and the industries in which they operate;

compared the financial and operating performance of Entergy's Transmission Business and ITC with publicly available information concerning certain other companies J.P. Morgan deemed relevant and reviewed the current and historical market prices of ITC common stock and certain publicly traded securities of such other companies;

reviewed certain internal financial analyses and forecasts prepared by Entergy's management related to Entergy's Transmission Business (as adjusted by ITC management) and ITC's management relating to ITC's business (see, respectively, Certain Financial Forecasts Prepared by Entergy and Certain Financial Forecasts Prepared by ITC); and

performed such other financial studies and analyses and considered such other information as J.P. Morgan deemed appropriate for the purposes of its opinion.

In addition, J.P. Morgan held discussions with certain members of the management of Entergy and ITC with respect to certain aspects of the transactions, and the past and current business operations of Entergy's Transmission Business and ITC, the financial condition and future prospects and operations of Entergy's Transmission Business and ITC, the effects of the transactions on the financial condition and future prospects of ITC, and certain other matters believed necessary or appropriate to J.P. Morgan's inquiry.

In giving its opinion, J.P. Morgan relied upon and assumed the accuracy and completeness of all information that was publicly available or was furnished to or discussed with J.P. Morgan by Entergy and ITC or otherwise reviewed by or for J.P. Morgan, and J.P. Morgan did not independently verify, nor did J.P. Morgan assume responsibility or liability for independently verifying, any such information or its accuracy or completeness. J.P. Morgan did not conduct and was not provided with any valuation or appraisal of any assets or liabilities, nor did J.P. Morgan evaluate the solvency of Entergy, Entergy's Transmission Business, TransCo or ITC under any state or federal laws relating to bankruptcy, insolvency or similar matters before or after giving effect to the merger or any of the other transactions. In relying on financial analyses and forecasts provided to J.P. Morgan or derived therefrom, J.P. Morgan assumed that they were reasonably prepared based on assumptions reflecting the best estimates and judgments by ITC's management as of December 4, 2011 as to the expected future results of operations and financial condition of Entergy's Transmission Business and ITC to which such analyses or forecasts relate. J.P. Morgan expressed no view as to such analyses or forecasts or the assumptions on which they were based.

J.P. Morgan also assumed that (i) the transactions will qualify as a tax-free reorganization for U.S. federal income tax purposes, (ii) the transactions will be consummated as described in the merger agreement and the separation agreement, (iii) the definitive merger agreement and separation agreement would not differ in any material respect from the drafts furnished to J.P. Morgan, (iv) the representations and warranties in the merger agreement, the separation agreement and the related agreements were and will be true and correct in all respects material to J.P. Morgan's analysis and (v) the aggregate amount of the ITC recapitalization (which is described below) will be the maximum amount permitted under the merger agreement, and will be funded by the



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incurrence of indebtedness by ITC. J.P. Morgan is not a legal, regulatory or tax expert and relied on the assessments made by advisors to ITC with respect to such issues. J.P. Morgan further assumed that all material governmental, regulatory or other consents and approvals necessary for the consummation of the proposed transactions will be obtained without any adverse effect on Entergy's Transmission Business or ITC or on the contemplated benefits of the transactions.

J.P. Morgan's opinion is necessarily based on economic, market and other conditions as in effect on, and the information made available to J.P. Morgan as of, the date of J.P. Morgan's opinion. J.P. Morgan's opinion noted that subsequent developments may affect J.P. Morgan's opinion, and J.P. Morgan does not have any obligation to update, revise or reaffirm its opinion. J.P. Morgan's opinion is limited to the fairness to ITC, from a financial point of view, of the aggregate consideration to be paid by ITC in the transactions, and J.P. Morgan expressed no opinion as to the fairness of the consideration to be paid by ITC in the transactions to the holders of any class of securities, creditors or other constituencies of ITC or as to the underlying decision by ITC to engage in the transactions. Furthermore, J.P. Morgan expressed no opinion with respect to the amount or nature of any compensation to any officers, directors, or employees of any party to the transactions, or any class of such persons relative to the aggregate consideration to be paid by ITC in the transactions or with respect to the fairness of any such compensation. J.P. Morgan also expressed no opinion as to the price at which the shares of ITC common stock will trade at any future time.

For purposes of the analyses described below, J.P. Morgan assumed the following:

Entergy and certain of its subsidiaries will undertake various financing transactions and internal restructurings as described in the separation agreement;

Entergy will transfer the specified assets and liabilities of Entergy's Transmission Business to TransCo (the "TransCo Transfer") in exchange for Entergy's receipt of a number of TransCo common units equal to the product obtained by multiplying 1.00400801603206 by the number of shares of ITC common stock on a Fully Diluted Basis (as defined in the merger agreement), minus the number of TransCo common units outstanding prior to the TransCo Transfer, plus the quotient of the Aggregate Disqualified Shares (as defined in the merger agreement) divided by 49.9% (subject to the limitations set forth in the merger agreement);

Unless Entergy retains TransCo common units for a subsequent distribution (see next bullet point), Entergy will, immediately following the TransCo Transfer, distribute all of the outstanding TransCo common units to the Entergy shareholders by way of either a pro rata dividend, an exchange offer or a combination of the two;

Entergy will have the right to retain a number of TransCo common units that would convert into 4.9999% of the outstanding ITC common stock immediately following the merger, which shares of ITC common stock Entergy will transfer into the trust, and the trustee will distribute to Entergy's shareholders by means of an exchange offer for outstanding shares of Entergy common stock or a pro rata distribution to holders of Entergy common stock by the earlier of (i) six months after the effective time of the merger or (ii) the end of the calendar year in which the merger is consummated;

Entergy will cause certain exchangeable debt securities issued in the financing transactions to be exchanged for TransCo securities;

ITC will, prior to the effective time of the merger, either (i) pay a special cash dividend to existing ITC shareholders not to exceed \$700 million in the aggregate, (ii) effect a repurchase of ITC common stock in which the aggregate purchase price does not exceed \$700 million, or (iii) effect a combination of the transactions contemplated in clauses (i) and (ii) in which the aggregate amount payable to the holders of ITC common stock does not exceed \$700 million (we refer herein to the transactions contemplated in this bullet point as the ITC recapitalization); and

at the effective time of the merger, each TransCo common unit, other than TransCo common units owned, directly or indirectly, by ITC or Merger Sub immediately prior to the effective time of the



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merger or held by TransCo immediately prior to the effective time of the merger, will be converted into the right to receive one share of ITC common stock, and any fractional shares of ITC common stock that would otherwise be issued to any single holder in exchange for TransCo common units in the merger will be aggregated and the holder of TransCo common units entitled thereto will instead receive cash in lieu of any remaining fractional share of ITC common stock.

In accordance with J.P. Morgan's customary investment banking practice, J.P. Morgan employed generally accepted valuation methods in conducting its financial analysis and in reaching its opinion. J.P. Morgan's opinion and financial analyses were only one of many factors considered by the ITC board of directors in its evaluation of the transactions and should not be viewed as determinative of the views of the ITC board of directors or management with respect to the transactions, the aggregate consideration to be paid in the transactions or the value of ITC or Entergy's Transmission Business. The following is a summary of the material financial analyses undertaken by J.P. Morgan with respect to Entergy's Transmission Business and ITC and does not purport to be a complete description of the analyses or data presented by J.P. Morgan. **Some of the summaries of the financial analyses include information presented in tabular format. To fully understand the financial analyses, the tables should be read together with the text of each summary. Considering the data set forth in the tables without considering the narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the financial analyses.**

***Trading Comparables Analysis***

Using publicly available information, J.P. Morgan compared the financial and operating performance of ITC and Entergy's Transmission Business with publicly available information for ITC, the following four transmission and distribution utilities (referred to as the T&D Utilities) and the following 15 integrated electric utilities (referred to as the Mid-Cap Electric Utilities):

**Pure Play Transmission Companies****T&D Utilities****Mid-Cap Electric Utilities**

ITC Holdings Corp.  
Consolidated Edison, Inc.  
Northeast Utilities  
NSTAR  
UIL Holdings Corporation  
CMS Energy Corporation  
Wisconsin Energy Corporation  
Pepco Holdings, Inc.  
Pinnacle West Capital Corporation  
Alliant Energy Corporation  
Great Plains Energy Incorporated  
Integrus Energy Group, Inc.  
Westar Energy, Inc.  
MDU Resources Group, Inc.  
Portland General Electric Company  
IDACORP, Inc.  
Black Hills Corporation  
Avista Corporation  
NorthWestern Corporation  
ALLETE, Inc.

In evaluating the selected companies identified by J.P. Morgan as reasonably comparable to ITC and Entergy's Transmission Business, J.P. Morgan made judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of ITC and Entergy's Transmission Business. J.P. Morgan determined, using its professional

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judgment, that these selected companies were the most appropriate for purposes of this analysis and, while there may have been other companies that operate in similar industries or have similar principal lines of business or financial or operating characteristics, J.P. Morgan did not specifically identify any other companies for this purpose. J.P. Morgan reviewed, among other information, each company's per share equity value as a multiple of 2011 and 2012 estimated earnings per share, or EPS, based on I/B/E/S estimates. J.P. Morgan also reviewed each company's enterprise value, referred to as EV, as a multiple of 2011 and 2012 estimated earnings before interest, taxes, depreciation and amortization, referred to as EBITDA, based on I/B/E/S estimates. For purposes of these analyses, equity values were calculated based on closing stock prices on November 30, 2011, and enterprise values were calculated as market values, based on closing stock prices on November 30, 2011, plus total debt, preferred stock, capital leases and minority interest, less cash and cash equivalents, as of September 30, 2011. Net debt for ITC and Entergy's Transmission Business was adjusted for the debt expected to be incurred in the transactions.

*ITC.* With respect to its trading comparables analysis of ITC, J.P. Morgan applied a range of multiples derived from its analysis of the comparable companies of 14.0x to 20.0x to ITC management estimates of 2013 net income for ITC (adjusted for dividends to restricted shares) and of 8.0x to 11.0x to ITC management estimates of 2013 EBITDA for ITC to calculate implied enterprise values and equity values. J.P. Morgan assumed that ITC's net debt would equal ITC's projected net debt as of December 31, 2012 (\$3.160 billion), plus the \$740 million in debt expected to be incurred by ITC in the transactions. The debt anticipated to be incurred by ITC in the transactions is expected to be used to fund the ITC recapitalization and to pay transaction expenses. This analysis indicated the following approximate implied enterprise value and equity value reference ranges for ITC:

	Enterprise value range		Equity value range	
	(\$ in millions)			
<b>Price to 2013 estimated net income</b>	\$ 6,830	8,086	\$ 2,930	4,186
<b>EV to 2013 estimated EBITDA</b>	\$ 5,435	7,473	\$ 1,535	3,573

*Entergy's Transmission Business.* With respect to its trading comparables analysis of Entergy's Transmission Business, J.P. Morgan applied a range of multiples derived from its analysis of the comparable companies of 14.0x to 20.0x to ITC management's view on estimates provided by Entergy of 2013 net income for Entergy's Transmission Business (assuming a January 1, 2013 transition to FERC rates) and of 8.0x to 11.0x to ITC management's view on estimates provided by Entergy management estimates of 2013 EBITDA for Entergy's Transmission Business to calculate implied enterprise values and equity values of Entergy's Transmission Business. J.P. Morgan assumed TransCo projected net debt of \$1.775 billion. Estimated 2013 net income and EBITDA for Entergy's Transmission Business did not account for potential cost or other operating synergies or potential concessions, as the extent of these were not known at the time of J.P. Morgan's opinion. This analysis indicated the following approximate implied enterprise value and equity value reference ranges for Entergy's Transmission Business:

	Enterprise value range		Equity value range	
	(\$ in millions)			
<b>Price to 2013 estimated net income</b>	\$ 4,702	5,957	\$ 2,927	4,182
<b>EV to 2013 estimated EBITDA</b>	\$ 4,415	6,071	\$ 2,640	4,296

**Discounted Cash Flow Analysis**

J.P. Morgan conducted a discounted cash flow analysis for each of ITC and Entergy's Transmission Business for the purpose of determining a range of enterprise values and equity values for each entity based on the estimated present value of the standalone unlevered free cash flows that each of ITC and Entergy's Transmission Business is expected to generate during years 2013 through 2021. In performing its analysis of

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ITC, J.P. Morgan relied on estimates provided by ITC's management, which consisted of detailed five year management projections through 2015 and ITC management extrapolations thereafter. In performing its analysis of Entergy's Transmission Business, J.P. Morgan relied on ITC management's view on estimates provided by Entergy management, which assumed that Entergy's Transmission Business would elect bonus depreciation in 2011 and 2012 at effective rates of 90% and 50%, respectively. The free cash flows and range of terminal values were discounted to present values as of December 31, 2012 using a range of discount rates which were chosen by J.P. Morgan based upon analysis of market discount rates applicable to comparable companies and business segments. The discounted cash flow analyses do not imply the value at which ITC or Entergy's Transmission Business could be sold.

*ITC.* J.P. Morgan calculated a range of terminal values of ITC at the end of the projection period by applying a perpetuity growth rate to projected 2021 unlevered free cash flows of \$632 million, which were adjusted for normalized capital expenditures, deferred taxes, depreciation, amortization and changes in net working capital. The perpetuity growth rate range used was 0.5% to 1.0%. The present value of the estimated unlevered free cash flows and terminal values were then calculated using discount rates ranging from 5.75% to 6.25%. This analysis indicated an implied range of enterprise values for ITC of \$7.084 billion to \$8.829 billion, and an implied range of equity values of \$3.184 billion to \$4.929 billion.

*Entergy's Transmission Business.* J.P. Morgan calculated a range of terminal values of Entergy's Transmission Business at the end of the projection period by applying a perpetuity growth rate to projected 2021 unlevered free cash flows of \$471 million, which were adjusted for normalized capital expenditures, deferred taxes, depreciation, amortization and changes in net working capital. The perpetuity growth rate range used was 0.5% to 1.0%. The present value of the estimated unlevered free cash flows and terminal values for Entergy's Transmission Business pursuant to the management case was calculated using discount rates ranging from 5.75% to 6.25%. Free cash flows of Entergy's Transmission Business did not account for potential cost or other operating synergies or potential concessions, as the extent of these were not known at the time of J.P. Morgan's opinion. These analyses indicated an implied range of enterprise values for Entergy's Transmission Business of \$5.400 billion to \$6.719 billion and an implied range of equity values of \$3.625 billion to \$4.944 billion.

***Relative Financial Analysis***

J.P. Morgan considered the implied equity values of ITC and Entergy's Transmission Business that were derived from the trading comparables and discounted cash flow analyses to calculate the implied equity ownership percentage on a fully diluted basis for Entergy shareholders in a combination of ITC and Entergy's Transmission Business.

J.P. Morgan compared the high end of the respective ranges for Entergy's Transmission Business to the low end of the respective ranges for ITC to derive the highest relative ownership percentage for Entergy shareholders implied by each of the methodologies. J.P. Morgan also compared the low end of the respective ranges for Entergy's Transmission Business to the high end of the respective ranges for ITC to derive the lowest relative ownership percentage for Entergy shareholders implied by each of the methodologies.

J.P. Morgan compared the implied range of ownership percentages to the approximately 50.1% of the outstanding ITC common stock that Entergy shareholders will own following the effective time of the merger, and noted that the 50.1% ownership level was within the range of implied equity ownership percentages derived using this analysis.

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The following table reflects the results of the analysis:

	<b>Implied Entergy shareholder equity ownership % range</b>	
<b>Trading comparables</b>		
Price to 2013 projected net income	41.1%	58.8%
EV to 2013 projected EBITDA	42.5%	73.7%
<b>Discounted cash flow</b>		
ITC + Transco management case	42.4%	60.8%

**Other Analyses**

*Value Creation Analysis.* J.P. Morgan reviewed for informational purposes the potential value creation of the transactions for ITC shareholders. J.P. Morgan reviewed the discounted cash flow value creation by comparing the equity value per share implied for ITC on a standalone basis and the potential pro forma equity value per share implied for ITC after the transactions. For illustrative purposes, J.P. Morgan calculated a standalone pro forma equity value for ITC utilizing the midpoint of the enterprise value reference range implied from the discounted cash flow analysis of ITC described above, less ITC's projected net debt as of December 31, 2012 as well as the \$740 million in debt expected to be incurred by ITC in the transactions. J.P. Morgan then added to such implied equity value the midpoint of the equity value reference range implied from the discounted cash flow analysis of Entergy's Transmission Business described above. J.P. Morgan then calculated the value attributable to each share of ITC common stock in the resulting implied equity value of the pro forma combined company plus the amount to be paid with respect to each share of ITC common stock in the ITC recapitalization. This analysis indicated potential pro forma value creation for ITC shareholders of approximately 1.6%.

J.P. Morgan also reviewed for informational purposes the market value creation by comparing the equity value per share implied for ITC, using a multiple of 18.6x ITC management estimates of 2013 net income for ITC, and the pro forma equity value per share implied for ITC after the transactions, utilizing a range of multiples of 17.6x to 20.9x ITC management estimates of 2013 net income for ITC and including the amount to be paid with respect to each share of ITC common stock in the ITC recapitalization. This analysis indicated potential pro forma value creation for ITC shareholders ranging from (0.2)% to 15.5%.

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*Relative Contribution Analysis.* J.P. Morgan calculated for information purposes the relative contributions of ITC and Entergy's Transmission Business to the estimated total rate base of the combined company for 2012 and 2013 as well as the combined company's estimated EBITDA and net income for 2013 and 2014, respectively, based on ITC management estimates, in the case of ITC, and ITC management's view on estimates provided by Entergy, in the case of Entergy's Transmission Business. J.P. Morgan also calculated the relative contributions of ITC and Entergy's Transmission Business to the pro forma equity value of the combined company implied by the discounted cash flows as discussed above. This analysis indicated a range of implied ownership percentages for ITC's current shareholders immediately after the transactions as set forth in the below table as compared to the implied 49.9% ownership percentage set forth in the merger agreement.

	<b>Implied ITC shareholder equity ownership %</b>
<b>Rate Base</b>	
Estimated 2012 <sup>1</sup>	47.1%
Estimated 2013 <sup>1</sup>	51.2%
Estimated 2012 (equity rate base) <sup>2</sup>	55.6%
<b>EBITDA</b>	
Estimated 2013 <sup>1</sup>	46.4%
Estimated 2014 <sup>1</sup>	47.6%
<b>Net income</b>	
Estimated 2013	50.0%
Estimated 2014	50.6%
<b>DCF</b>	
ITC DCF vs. Entergy's Transmission Business DCF	48.5%
Entergy's Transmission Business DCF vs. ITC Market Cap	51.3%

- 1 Percentages represent leverage adjusted contribution using estimated net debt as of December 31, 2012 of \$3.900 billion for ITC and \$1.775 billion for Entergy's Transmission Business and management case mid-point DCF enterprise values.
- 2 Represents unadjusted relative contribution of equity portion of rate base.
- 3 Represents ITC and Entergy's Transmission Business equity values as of December 31, 2012.
- 4 Represents ITC market cap as of November 30, 2011 and Entergy's Transmission Business DCF equity value with a valuation date of November 30, 2011.

*Other.* J.P. Morgan did not conduct a comparable transaction analysis because other business combination and acquisition transactions involving companies in similar industries as ITC and Entergy's Transmission Business generally included control premiums, whereas the proposed transaction did not include a premium.

**Miscellaneous**

The summary set forth above does not purport to be a complete description of the analyses or data presented by J.P. Morgan. The preparation of a fairness opinion is a complex process involving various determinations and judgments as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances, and therefore is not necessarily susceptible to partial analysis or summary description. J.P. Morgan believes that the foregoing summary and its analyses must be considered as a whole and that selecting portions thereof, without considering all of its analyses and the narrative descriptions of the analyses, could create an incomplete view of the processes underlying its analyses and the J.P. Morgan opinion. In arriving at its opinion, J.P. Morgan did not attribute any particular weight to any analyses or factors considered by it and did not form an opinion as to whether any individual analysis or factor (positive or negative), considered in isolation, supported or failed to support its opinion. Rather J.P. Morgan considered the results of all of its analyses as a whole and made its determination as to fairness on the basis of its experience and professional judgment.