ITC Holdings Corp.
Form DEF 14A
April 10, 2006

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

ITC Holdings Corp.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

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2) Aggregate number of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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4) Proposed maximum aggregate value of transaction:

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1) Amount Previously Paid:

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2) Form, Schedule or Registration Statement No.:

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3) Filing Party:

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4) Date Filed:

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39500 ORCHARD HILL PLACE
SUITE 200
NOVI, MICHIGAN 48375

April 10, 2006

Dear Shareholder:

You are cordially invited to attend our Annual Meeting of Shareholders, which will be held on May 17, 2006, at 9:00 a.m. local time at Embassy Suites Hotel, 19525 Victor Parkway, Livonia, Michigan. After the formal business session, there will be a report to the shareholders on the state of the Company and a question and answer session.

The attached notice and proxy statement describe the items of business to be transacted at the meeting. Your vote is important, regardless of the number of shares you own. I urge you to vote now, even if you plan to attend the Annual Meeting. You can vote your shares in person or by mail. Follow the instructions on the enclosed proxy card. If you receive more than one proxy card, please vote each card. Remember, you can always vote in person at the Annual Meeting even if you do so now, provided you are a shareholder of record or have a legal proxy from a shareholder of record.

Sincerely,

ITC HOLDINGS CORP.

By:

Joseph L. Welch
Director, President and Chief Executive Officer

Novi, Michigan
April 10, 2006

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39500 ORCHARD HILL PLACE
SUITE 200
NOVI, MICHIGAN 48375
(248) 374-7100

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 17, 2006

TO THE SHAREHOLDERS:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of ITC Holdings Corp. will be held at Embassy Suites Hotel, 19525 Victor Parkway, Livonia, Michigan 48152, on May 17, 2006, at 9:00 a.m. local time, for the following purposes:

(1) To elect a Board of Directors to serve until the next annual meeting of shareholders;

(2) To approve the 2006 Long Term Incentive Plan;

(3) To approve the Employee Stock Purchase Plan;

(4) To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

Only shareholders of record at the close of business on April 3, 2006 are entitled to vote at the Annual Meeting.

By Order of the Board of Directors,

By:

Daniel J. Oginsky
Vice President, General Counsel and Secretary

Novi, Michigan
April 10, 2006

YOUR VOTE IS IMPORTANT

PLEASE VOTE ON THE ENCLOSED PROXY CARD NOW EVEN IF YOU PLAN TO ATTEND THE ANNUAL 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. IF YOU DO ATTEND THE ANNUAL 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.

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ITC Holdings Corp.
39500 Orchard Hill Place
Suite 200
Novi, Michigan 48375
(248) 374-7100

April 10, 2006

PROXY STATEMENT

This Proxy Statement is being furnished in connection with the solicitation of proxies by the Board of Directors (the Board of Directors or Board) of ITC Holdings Corp., a Michigan corporation (the Company , we , our and us), at the Company s 2006 Annual Meeting of Shareholders, and at any and all adjournments and postponements thereof, for the purposes set forth in the accompanying notice. We intend to begin mailing this proxy statement, the attached Notice of Annual Meeting and the accompanying proxy card to shareholders on or about April 10, 2006. The following are questions and answers that will convey important information regarding the Annual Meeting and how to vote your shares.

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND VOTING

1. Q: Who may vote?

A: Shareholders of our common stock as of the close of business on the record date of April 3, 2006 are entitled to vote at the Annual Meeting. Our common stock is our only class of outstanding voting securities.

2. Q: What am I voting on?

A: You are being asked to vote on the election of directors to serve until the 2007 annual meeting of shareholders. You are also being asked to approve the 2006 Long Term Incentive Plan and the Employee Stock Purchase Plan.

3. Q: When and where will the Annual Meeting be held?

A: The meeting will be held at 9:00 a.m. Eastern Daylight Time on May 17, 2006, at Embassy Suites Hotel, 19525 Victor Parkway, Livonia, Michigan 48152.

4. Q: What is the difference between a shareholder of record and a beneficial owner?

A: You are considered a shareholder of record if your shares are registered directly in your name with our transfer agent (Computershare Trust Company, N.A.). The proxy statement, proxy card and annual report are being mailed directly to you. Whether or not you plan to attend the Annual Meeting, we urge you to vote your proxy card to ensure that your vote is counted.

You are considered a beneficial owner if your shares are held in a stock brokerage account or by a bank or other nominee. This is also commonly referred to as holding shares in street name. The proxy statement, annual report and a vote instruction card have been forwarded to you by your broker, bank or nominee who is considered, with respect to your shares, the shareholder of record. As the beneficial owner, you have the right to direct your broker, bank or nominee how to vote your shares by using the vote instruction card included in the mailing. You are also invited to attend the Annual Meeting. However, since as a beneficial owner you are not the shareholder of record, you may not vote your shares in person at the meeting unless you request and obtain a legal proxy from your bank, broker or other agent or nominee.

5. Q: How do I cast my vote?

A: There are two different ways you may cast your vote this year. You may vote by:

(1) *Signing, dating and mailing* each proxy card or vote instruction card and returning it in the envelope provided, or

(2) *Attending the Annual 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.

Shareholders who hold their shares in street name will need to obtain a voting instruction form from the institution that holds their shares and must follow the voting instructions given by that institution.

6. Q: How do I vote if I attend the Annual Meeting?

A: If you are a shareholder of record, you can attend the Annual Meeting and vote in person the shares you hold directly in your name. If you choose to do that, please bring the enclosed proxy card or proof of identification. If you want to vote in person at our Annual Meeting and you hold our common stock through a bank, broker or other agent or nominee, you must obtain a power of attorney or other proxy authority from that organization and bring it to our Annual Meeting. Follow the instructions from your bank, broker or other agent or nominee included with these proxy materials, or contact your bank, broker or other agent or nominee to request a power of attorney or other proxy authority. If you vote in person at the Annual Meeting, you will revoke any prior proxy you may have submitted.

7. Q: How do I revoke or change my vote?

A: You may revoke your proxy and change your vote at any time prior to voting at the Annual Meeting by:

(1) notifying our corporate Secretary in writing;

(2) signing and returning, prior to the Annual Meeting, another proxy card that is dated after the date of your first proxy card; or

(3) voting in person at the Annual Meeting (if you are a shareholder of record or have a legal proxy from a shareholder of record).

If your shares are held in street name, you must contact your broker or nominee to revoke your proxy.

8. Q: How many shares can vote at the Annual Meeting?

A: As of the record date, 33,272,498 shares of our common stock were outstanding. Every shareholder of common stock is entitled to one vote for each share held.

9. Q: What is a quorum ?

A: A quorum is the number of shares that must be present, in person or by proxy, in order for business to be transacted at the meeting. The required quorum for the Annual 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 Annual Meeting in person or by proxy will be counted toward the quorum.

10. Q: Who will count the vote?

A: A representative from Computershare Trust Company, N.A., our transfer agent, will count the votes and act as inspector of election.

11. Q: Who can attend the Annual Meeting?

A: All shareholders who owned shares on April 3, 2006 may attend. Please indicate that you plan to attend by checking the box on your proxy card or vote instruction card.

12. Q: How will the voting on any other business be conducted?

A: If any other business is properly presented at the Annual Meeting, Edward M. Rahill and Daniel J. Oginsky, officers of the Company and the named proxies, generally will have authority to vote your shares voted on the Company s proxy card on such matters in their discretion.

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13. Q: How is my proxy tabulated if I sign and date my proxy card but do not indicate how I want to vote?

A: If you do not indicate on the proxy card how you want your votes cast, the proxies (Mr. Rahill or Mr. Oginsky, as your representatives) will vote your shares FOR all of the nominees for director listed in the proxy card, FOR approval of the 2006 Long Term Incentive Plan, and FOR approval of the Employee Stock Purchase Plan.

14. Q: Will my shares be voted if I do not sign and return my proxy card?

A: If your shares are held in street name, your brokerage firm may either vote your shares on routine matters (such as an election of directors) or leave your shares unvoted. We encourage you to provide instructions to your brokerage firm by completing the vote instruction form that they send to you. This enables your shares to be voted at the meeting as you direct.

If you are a shareholder of record and do not vote your proxy by mail or vote your shares in person at the Annual Meeting, your shares will not be voted.

15. Q: Who pays the cost of the solicitation of proxies?

A: The cost of solicitation of proxies by the Board of Directors, including the preparation, assembly, printing and mailing of this proxy statement and any additional materials furnished to our shareholders, will be borne by the Company. Proxies will be solicited primarily by mail and may also be solicited by directors, officers and other employees of the Company without additional compensation. Copies of solicitation material 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, we will reimburse these persons for their reasonable expenses in forwarding the solicitation material to the beneficial owners. The Company 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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SECURITY OWNERSHIP OF MANAGEMENT AND MAJOR SHAREHOLDERS

The following table sets forth certain information regarding the ownership of the common stock as of March 1, 2006, except as otherwise indicated, by each current director, each director nominee, each of the persons named in the Summary Compensation Table under Compensation of Executive Officers and Directors, all current directors and executive officers as a group, and each person who is known by the Company to own beneficially 5% or more of the Company s outstanding shares of common stock (each, a 5% Owner). The number of shares beneficially owned is determined under rules of the Securities and Exchange Commission (SEC), and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which the individual has sole or shared voting power or investment power and also any shares which the individual has the right to acquire on March 1, 2006 or within 60 days thereafter through the exercise of any stock option or other right. Unless otherwise indicated, each holder has sole investment and voting power with respect to the shares set forth in the following table:

Name of Beneficial Owner	Number of Shares Beneficially Owned(1)	Percent of Class
Lewis M. Eisenberg(2)	17,747,654	53.4%
Edward G. Jepsen	51,087	*
Joseph L. Welch	561,760	1.7%
Lee C. Stewart	915	*
Linda H. Blair	93,609	*
Daniel J. Oginsky	22,794	*
Edward M. Rahill	121,296	*
Richard A. Schultz	94,110	*
All directors and executive officers as a group (12 persons)	18,981,321	57.1%
International Transmission Holdings Limited Partnership and Ironhill Transmission, LLC(2)	17,747,654	53.4%
Baron Capital Group, Inc., BAMCO, Inc., Baron Capital Management, Inc. and Ronald Baron(3)	2,735,500	8.2%

* Less than one percent.

(1) Includes restricted shares subject to forfeiture to the Company under certain circumstances and shares that may be acquired upon exercise of options as set forth below:

Name	Restricted Shares	Option Shares
Lewis M. Eisenberg	1,087	0
Edward G. Jepsen	1,087	0
Lee C. Stewart	915	0
Joseph L. Welch	0	361,068
Linda H. Blair	6,686	60,178

Daniel J. Oginsky	0	9,148
Edward M. Rahill	0	60,178
Richard A. Schultz	0	60,178
All directors and executive officers as a group	18,962	705,208

(2) Based on information contained in a Form 13G filed on February 14, 2006, with information as of December 31, 2005. International Transmission Holdings Limited Partnership (ITHLP) owns the shares, Ironhill Transmission LLC (the General Partner) is the general partner and Mr. Eisenberg is the sole member of the General Partner. Each of ITHLP, the General Partner and Mr. Eisenberg claims sole voting and dispositive power over the shares shown in the table. The business address of ITHLP, the General Partner and Mr. Eisenberg is c/o Greenbaum, Rowe, Smith & Davis, LLP, 99 Wood Avenue South, P.O. Box 5600, Woodbridge, New Jersey, 07095, attention Raymond Felton.

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(3) Based on information contained in a Form 13G filed on February 10, 2006, with information as of December 31, 2005. Baron Capital Group, Inc. (BCG) and Ronald Baron are parent holding companies and disclaim beneficial ownership of shares held by their controlled entities to the extent such shares are held by persons other than BCG or Mr. Baron. BAMCO, Inc. and Baron Capital Management, Inc. (BCM) are registered investment advisors and subsidiaries of BCG. Mr. Baron owns a controlling interest in BCG. BCG and Mr. Baron have shared voting power with respect to 2,440,500 shares and dispositive power with respect to all of the above shares. BAMCO has shared voting power with respect to 2,412,500 shares and dispositive power with respect to 2,707,500 shares and beneficially owns 2,707,500 shares. BCM has shared voting and dispositive power with respect to 28,000 shares and beneficially owns 28,000 shares. The business address of BCG, BAMCO, BCM and Mr. Baron is 767 Fifth Avenue, New York, NY 10153.

PROPOSAL 1 ELECTION OF DIRECTORS

Background

The Company s Bylaws provide for the election of directors at each Annual Meeting of shareholders. Each director serves until his or her successor is elected and qualified, or until his or her resignation or removal. Directors are elected by a plurality of the votes cast, so that only votes cast for directors are counted in determining which directors are elected. The four directors receiving the most votes for will be elected. Broker non-votes (if any) and withheld votes will be treated as shares present for purposes of determining the presence of a quorum but will have no effect on the vote for the election of directors. Information with respect to the four nominees proposed for election is set forth below.

The Board of Directors recommends a vote FOR the director nominees. **The persons named in the accompanying proxy card will vote for the election of the nominees named in this proxy statement unless shareholders specify otherwise in their proxies.** If any nominee at the time of election is unable to serve, or otherwise is unavailable for election, and if other nominees are designated by the Board of Directors, the persons named as proxy holders on the accompanying proxy card intend to vote for such nominees. Management is not aware of the existence of any circumstance which would render the nominees named below unavailable for election. All of the nominees are currently directors of the Company.

The size of the Board of Directors is currently set at four directors. The Board intends to expand the size of the Board of Directors to add an additional director to the Board to comply with applicable New York Stock Exchange, or NYSE, listing requirements. The Nominating/Corporate Governance Committee is in the process of identifying candidates with the desired qualifications and expects the process to be completed prior to July 2006. When a suitable candidate is found, the Board expects that the candidate would be added to the Board at that time in accordance with our Bylaws.

Nominees For Directors

Set forth below are the names and ages of the nominees for directors of the Company.

Lewis M. Eisenberg, 63. Mr. Eisenberg became a Director of the Company in February 2003. He is the sole member of Ironhill Transmission LLC, the general partner of ITHLP. From April 1995 to December 2001, he was the Chairman of the Board of Commissioners of the Port Authority of New York and New Jersey. From December 2001 to April 2003, Mr. Eisenberg served as a director of the Lower Manhattan Development Corporation for which he chaired the Victims Families and Transportation Advisory Councils. Mr. Eisenberg is co-founder and co-chairman of Granite Capital International Group, an investment management company. Prior to co-founding Granite Capital, Mr. Eisenberg was a general partner of Goldman, Sachs & Co. from 1976 to 1989, for 3 of those years as co-head of its equity division.

Joseph L. Welch, 57. Mr. Welch has been a Director and the President, Chief Executive Officer and Treasurer of the Company since its inception in 2003. As its founder, Mr. Welch had overall responsibility for the Company 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

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of DTE Energy Company (DTE Energy Company and its subsidiaries, collectively, DTE), 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.

Edward G. Jepsen, 62. Mr. Jepsen, an independent business consultant, became a Director of the Company in July 2005. Mr. Jepsen currently serves as a director of the Amphenol Corporation and as a director and chair of the audit committees of the boards of directors of TRC Companies, Inc. and Gerber Scientific, Inc. Mr. Jepsen is a non-officer Advisor of the Amphenol Corporation, a publicly traded manufacturer of electrical, electronic and fiber optic connectors, interconnect systems and cable, where he served as Executive Vice President and Chief Financial Officer from 1989 to 2004. Prior to joining the Amphenol Corporation, Mr. Jepsen worked at Price Waterhouse LLP from 1969 to 1988, ultimately attaining the position of partner.

Lee C. Stewart, 57. Mr. Stewart, an independent financial consultant, became a Director of the Company in August 2005. Mr. Stewart currently serves as a director of Glatfelter, Marsulex, Inc., and AEP Industries, Inc. Mr. Stewart is chair of the audit committee at AEP Industries, Inc. and is a member of the audit committee at Marsulex, Inc. Mr. Stewart also is on the advisory board of Daniel Stewart & Co. 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.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF EACH OF THE NOMINEES NAMED ABOVE.

Director Independence

By virtue of ITHLP s ownership of a majority of the Company s common stock, the Company is a controlled company under NYSE corporate governance rules, which eliminates the requirements that the Company have a majority of independent directors on its board of directors and that its compensation and nominating and corporate governance committees be composed entirely of independent directors. As a controlled company, the Company is required to have an audit committee composed entirely of independent directors and consisting of at least three members by July 25, 2006 (one year after the registration statement for its initial public offering became effective). Based on the absence of any relationship between them and the Company other than their capacities as directors and shareholders, the Board has determined that Mr. Jepsen and Mr. Stewart are independent under applicable NYSE and Securities and Exchange Commission rules for board members and Audit Committee members. Mr. Welch, as the Company s chief executive officer, is not independent. The Company expects to add a third independent member by July 2006 to replace Mr. Welch on the Audit Committee. The Company s reliance on an exemption from having an audit committee composed entirely of independent directors does not materially adversely affect the ability of the audit committee to act independently.

Meetings and Committees of the Board of Directors

During 2005, there were 11 Board of Directors meetings held. Each director attended 75% or more of the total number of meetings of the Board and committees of which he was a member in 2005. Mr. Eisenberg was selected by the board of directors to chair its executive sessions.

It is the policy of the Company that all members of its Board of Directors are expected, absent valid reasons, to attend the annual shareholders meetings. The Company did not hold an annual meeting of shareholders in 2005.

The Company s Board has a Compensation Committee, a Nominating/Corporate Governance Committee and an Audit Committee. The Board has adopted a written charter for each of these committees. The charters and the Company s corporate governance principles are accessible on the Company s website at www.itc-holdings.com through the Corporate Governance link on the Investors page. In addition, the current charter for the Audit Committee is attached to this proxy statement as Annex A.

The Compensation Committee met one time during 2005. The current members of the Compensation Committee, none of whom are employees of the Company, are Mr. Eisenberg, Mr. Jepsen and Mr. Stewart, with

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Mr. Eisenberg serving as Chair. The Committee is responsible for (1) reviewing key employee compensation policies, plans and programs, (2) reviewing and approving the compensation of our executive officers, (3) reviewing and approving employment contracts and other similar arrangements between us and our executive officers, (4) reviewing and consulting with the chief executive officer on the selection of officers and evaluation of executive performance and other related matters, (5) administration of stock plans and other incentive compensation plans and (6) such other matters that are specifically delegated to the compensation committee by the Board of Directors from time to time.

The Nominating/Corporate Governance Committee did not meet during 2005. The committee held its first meeting on February 8, 2006. The current members of the Nominating/Corporate Governance Committee are Mr. Eisenberg, Mr. Jepsen, Mr. Welch and Mr. Stewart, with Mr. Stewart serving as Chair. The nominating and corporate governance committee is responsible for (1) developing and recommending criteria for selecting new directors, (2) screening and recommending to the Board individuals qualified to become directors, (3) overseeing evaluations of the Board, its members and committees of the board of directors and (4) handling such other matters that are specifically delegated to the nominating and corporate governance committee by the Board from time to time. In identifying candidates for director, the Nominating/Corporate Governance Committee solicits suggestions from incumbent directors, management or others, including shareholders. The committee also may retain the services of a consultant to identify qualified candidates for director, and currently is in the process of retaining such a consultant. The committee reviews all candidates in the same manner. The committee selects candidates to meet with management and conduct an initial interview with the committee. Candidates who the committee believes would be a valuable addition to the Board are recommended to the full Board for the candidate s election. As stated in the Committee s charter, in selecting candidates, the Committee will consider all factors it considers appropriate, which may include (1) ensuring that the Board of Directors, as a whole, is diverse and consists of individuals with various and relevant career experience, technical skill, industry knowledge and experience, financial expertise, local or community ties, or (2) minimum individual qualifications, including strength of character, mature judgment, familiarity with the Company s business and industry, independence of thought and an ability to work collegially.

The Audit Committee met 3 times during 2005. The current members of the Audit Committee are Mr. Jepsen, Mr. Stewart and Mr. Welch, with Mr. Jepsen serving as Chair. The Board has determined that Mr. Jepsen is an audit committee financial expert as that term is defined under Securities and Exchange Commission Rules and that all members of the Audit Committee satisfy all other qualifications for Audit Committee members set forth in applicable NYSE rules. The Audit Committee is responsible for (1) selecting our independent public accountants, (2) approving the overall scope of the audit, (3) assisting the board in monitoring the integrity of our financial statements, the independent public accountant s qualifications and independence, the performance of the independent public accountants and our internal audit function and our compliance with legal and regulatory requirements, (4) annually reviewing a report of the independent public accountants describing the firm s internal quality-control procedures and any material issues raised by the most recent internal quality-control review, or peer review, of the firm, (5) discussing the annual audited and quarterly financial statements with management and our independent public accountants, (6) discussing earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies, (7) discussing policies with respect to risk assessment and risk management, (8) meeting separately, periodically, with management, internal auditors and our independent public accountants, (9) reviewing with our independent public accountants any audit problems or difficulties and managements response, (10) setting clear hiring policies for employees or former employees of our independent public accountants, (11) handling such other matters that are specifically delegated to the audit committee by the board of directors from time to time and (12) reporting regularly to the full Board of Directors.

Audit Committee Report

In accordance with its written charter, the Audit Committee provides assistance to the Board of Directors in fulfilling its responsibility to the shareholders, potential shareholders and investment community relating to independent registered public accounting firm oversight, corporate accounting, reporting practices and the quality and integrity of the financial reports, including the internal controls over financial reporting of the Company.

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The Audit Committee received from Deloitte & Touche LLP, the independent registered public accounting firm, and reviewed a formal written statement describing all relationships between Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, Deloitte) and the Company that might bear on the auditors independence consistent with Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, discussed with Deloitte any relationships that may impact their objectivity and independence and satisfied itself as to Deloitte s independence.

The Audit Committee discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, Communication with Audit Committees, and, with and without management present, discussed and reviewed the results of Deloitte s examination of the consolidated financial statements.

The Audit Committee reviewed and discussed with management and Deloitte the consolidated audited financial statements of the Company as of and for the year ended December 31, 2005.

Based on the above-mentioned reviews and discussions with management and Deloitte, the Audit Committee approved the inclusion of the Company s audited consolidated financial statements in its Annual Report on Form 10-K for the year ended December 31, 2005 for filing with the Securities and Exchange Commission.

EDWARD G. JEPSEN LEE C. STEWART JOSEPH L. WELCH

Code of Business Conduct and Ethics

The Company has adopted a Code of Business Conduct and Ethics that applies to all of its employees, executive officers and directors, including its 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 the Company s website at 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 Securities and Exchange Commission rules, information regarding such waiver or amendment will be posted on the Corporate Governance page of the Company s website.

ITHLP Partnership Agreement

ITHLP formed the Company and beneficially owns a majority of the Company s common stock. ITHLP s general partner is Ironhill Transmission LLC, the sole member of which is Mr. Eisenberg. ITHLP s limited partners are (1) the KKR Millennium Fund, L.P. and KKR Partners III, L.P. (Series A) (together, the KKR Partnerships); (2) Trimaran Fund II, L.L.C., Trimaran Parallel Fund II, L.P., Trimaran Capital, L.L.C., CIBC Employee Private Equity Fund (Trimaran) Partners and CIBC MB Inc. (collectively, the Trimaran Partnerships); and (3) Stockwell Fund, L.P. (together with the KKR Partnerships and the Trimaran Partnerships, the Limited Partners). Under the terms of the ITHLP partnership agreement, the General Partner has exclusive and complete authority and discretion to manage the day-to-day operations and affairs of ITHLP and to make all decisions regarding the business of ITHLP. However, the ITHLP partnership agreement contains restrictions on the ability of the General Partner to take (or permit the Company and its wholly owned operating subsidiary, International Transmission Company, or ITC*Transmission*, to take) limited actions with respect to us and our business, except with the approval of a majority in interest or, in some cases, three-fourths in interest, of the Limited Partners. In particular, the General Partner is prohibited from allowing the Company and ITC*Transmission*, without the required approval of the Limited Partners, to among other things:

amend, modify or repeal any provision of their formation or organizational documents in a manner adverse to the Limited Partners.

initiate, settle or compromise certain suits in which any amount is claimed by or against ITHLP or that would require the ITHLP to be subject to equitable relief or to take or refrain from taking any material action;

take any material action with respect to any transaction that results in actual or potential conflicts of interest that arise with the General Partner or any of the Limited Partners (and their respective affiliates); or take (or fail to take) any action that would result in any of the Limited Partners (or their affiliates) (1) being deemed to be engaged in a trade or business for U.S. federal tax purposes or having unrelated business taxable income for U.S. federal tax purposes, (2) being deemed to be a holding company, subsidiary company or an affiliate of a public-utility company or (3) being subject to any other federal or state regulation that would have an adverse effect on the Limited Partners or any of their affiliates (in addition to this provision, a majority in interest of the Limited Partners may, at any time, direct the General Partner to take reasonable actions to preclude the foregoing regulatory events).

The ITHLP partnership agreement also provides that certain of the Limited Partners have the right to attend meetings of the boards of directors of the Company and ITC*Transmission* and receive information provided to the directors and notice of certain significant events. The Limited Partners have agreed to take reasonable steps to maintain the confidentiality of any non-public information concerning the Company or its subsidiaries.

Bylaws and Management Rights Letters

The Company, ITC*Transmission*, ITHLP, and the Limited Partners have agreed that for so long as the ITHLP partnership agreement remains in full force and effect, the Limited Partners will have the right to designate one representative each to attend as a non-voting observer all meetings of the Board of Directors of the Company and ITCT*ransmission* (although such representative is not entitled to vote at any such meeting and his or her attendance at any such meeting does not affect any quorum requirements). In addition, certain affiliates of the Limited Partners are entitled to (x) receive advance written notice of any meetings of the Boards of Directors of the Company or ITC*Transmission* and all information provided to the members of such boards of directors and (y) meet with the appropriate officers and/or directors of each of the Company, ITC*Transmission* and/or ITHLP periodically and at such times as reasonably requested by such affiliates of the Limited Partners, as applicable, with respect to matters relating to the business and affairs of each of the Company, ITC*Transmission* and ITHLP. ITHLP has agreed to cause the Company and ITC*Transmission* to grant similar rights to certain Limited Partners from time to time. The bylaws of the Company and ITC*Transmission* contain provisions corresponding to these obligations.

Executive Officers

Set forth below are the names, ages and titles of the executive officers of the Company.

Name	**Age**	**Position**
Joseph L. Welch	57	President, Chief Executive Officer and Treasurer
Linda H. Blair	36	Senior Vice President Business Strategy
Larry Bruneel	49	Vice President Federal Affairs
Jim D. Cyrulewski	60	Vice President Operations Policy
Joseph R. Dudak	59	Vice President Major Contracts and Special Projects
Jon E. Jipping	40	Senior Vice President Engineering
Daniel J. Oginsky	32	Vice President, General Counsel and Secretary
Edward M. Rahill	52	Senior Vice President Finance and Chief Financial Officer
Richard A. Schultz	62	Senior Vice President Planning

The executive officers of the Company serve as executive officers at the pleasure of the Company s Board of Directors. The Company s current executive officers are described below.

Joseph L. Welch. Mr. Welch s background is described above under Nominees for Director.

Linda H. Blair. Ms. Blair is Senior Vice President Business Strategy and is responsible for managing Regulatory Affairs, Policy Development, Internal and External Communications, Community Affairs and Human Resource functions. Ms. Blair was Vice President Business Strategy since March 2003 until being named Senior Vice President in February 2006. From 2001 through February 2003, Ms. Blair was the Manager of Transmission Policy and Business Planning at ITC*Transmission* when it was a subsidiary of DTE. Prior to this time, Ms. Blair was the Supervisor of Regulatory Relations within Detroit Edison s Regulatory Affairs organization from 1999 to 2000. In this position, her responsibilities included the development and management of all regulatory relations and communications activities with the Michigan Public Service Commission, or MPSC, and the Federal Energy Regulatory Commission, or FERC. Ms. Blair joined Detroit Edison in 1994.

Larry Bruneel. Mr. Bruneel has been Vice President Federal Affairs since 2003. Located in ITC*Transmission s* Washington, D.C. office, Mr. Bruneel is primarily responsible for the development of federal regulatory strategies and advocacy before the U.S. Congress and federal agencies, including the FERC. Mr. Bruneel has more than 20 years of experience in federal energy policy issues, most recently focusing on issues affecting electric utilities. From 1997 until joining ITC*Transmission* in 2003, he was the Assistant Vice President for Federal Policy at We-Energies, a combined gas and electric utility company subsidiary of the Wisconsin Energy Corporation. From 1993 to 1997, Mr. Bruneel served as Technical Advisor to Commissioner Vicky A. Bailey at the FERC and from 1991 to 1993, he was an Industry Policy Analyst at the U.S. Department of Energy.

Jim D. Cyrulewski. In February 2006, Mr. Cyrulewski was named Vice President Operations Policy. He is responsible for the development of operating policy strategies and advocacy before the North American Electric Reliability Council, Reliability First Council, Midwest ISO and other industry organizations dealing with reliability matters. Previously, he was Vice President Asset Performance for ITC*Transmission* since March 2003. In that role, he was responsible for ITC*Transmission* s real-time operation of transmission facilities including its Novi Operation Control Room. From 1999 to 2003, Mr. Cyrulewski worked for DTE as Manager of the MEPCC. From 1997 to 1999, he was Detroit Edison s Director of Power Delivery Transactions-Transmission and was responsible for development and administration of the Detroit Edison Open Access Transmission Tariff and Michigan Electric Coordinated Systems Joint Open Access Transmission Tariff. During his 30-year career at Detroit Edison, he also held positions in generation engineering, planning, engineering research, power-supply transactions and worked on the Fermi 1, Fermi 2 and St. Clair power plants, as well as the Atomic Power Development Authority.

Joseph R. Dudak. In February 2006, Mr. Dudak was named Vice President Major Contracts and Special Projects. In that position, he is responsible for negotiating significant contracts for ITC*Transmission* and also for developing and implementing major transmission projects, both in and outside of the ITC*Transmission* service territory. Previously, he was Vice President Resource and Asset Management for ITC*Transmission.* In that role, he was responsible for managing suppliers and services related to the company s capital and maintenance projects. From April 2001 to April 2003, Mr. Dudak was a management consultant to energy, utility and manufacturing clients, a business he pursued after his early retirement from National Steel Corporation in 2001. While at National Steel from 1970 to 2001, he held various executive and management positions in energy and environmental affairs, purchasing, strategic sourcing, transportation, special projects and asset sales. Throughout his career, Mr. Dudak has served as an active large industrial customer advocate in the utility regulatory and legislative arenas in Washington, D.C., Minnesota, Illinois, Indiana, and especially in Michigan, in both natural gas and electricity matters, including restructuring. Mr. Dudak led the industrial group, the Association of Businesses Advocating Tariff Equity, as Chairperson for 10 years.

Jon E. Jipping. Mr. Jipping is Senior Vice President Engineering and is responsible for transmission system design, maintenance, project engineering, and supply chain management. Mr. Jipping was appointed Vice President Engineering in 2005 and was named Senior Vice President in February 2006. Prior to joining ITC*Transmission* in 2003, Mr. Jipping was Manager of Business Systems & Applications in Detroit Edison s Service Center Organization, responsible for implementation and management of business applications across the distribution business unit. Mr. Jipping joined Detroit Edison in 1990 and has held various positions of increasing responsibility in Transmission Operations and Transmission Planning, including serving as Principal Engineer and Manager of Transmission Planning during the sale of ITC*Transmission.*

Daniel J. Oginsky. Mr. Oginsky is Vice President, General Counsel and Secretary. Mr. Oginsky s official appointment to those positions was effective on December 27, 2004 but his employment with us began on October 20, 2004. As Vice President and General Counsel, Mr. Oginsky is responsible for the legal affairs of the Company and

ITC*Transmission*, and manages our legal department. From June 2002 until joining us, Mr. Oginsky was an attorney with Dykema Gossett PLLC in Lansing, Michigan. At Dykema Gossett, Mr. Oginsky represented ITC*Transmission* and other energy clients, as well as telecommunications clients, on regulatory, administrative litigation, transactional, property tax and legislative matters. Mr. Oginsky practiced state regulatory law at Dickinson Wright PLLC in Lansing, Michigan from August 2001 to May 2002. From 1999 to 2001, Mr. Oginsky

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was an attorney with Sutherland Asbill & Brennan LLP in Washington, D.C. At Sutherland Asbill & Brennan, Mr. Oginsky focused on the FERC and state electric and natural gas matters on behalf of various energy clients.

Edward M. Rahill. Mr. Rahill is Senior Vice President Finance and Chief Financial Officer, and has responsibility for financial operations and reporting, including Treasury Management, Accounting, Tax and the Financial Planning and Analysis functions for the Company and ITC*Transmission.* Mr. Rahill was Vice-President Finance and Chief Financial Officer since 2003 until being named Senior Vice-President in February 2006. Prior to his current position, Mr. Rahill headed the Planning and Corporate Development functions for DTE. He joined DTE in 1999 as the Manager of Mergers, Acquisitions and Alliances. Mr. Rahill has over 22 years of experience in finance and accounting. Prior to joining DTE, Mr. Rahill led the Corporate Development Function for Equitable Resources. He has also held various finance and accounting positions with Bell & Howell, Atlantic Richfield and Carborundum Corporation.

Richard A. Schultz. Mr. Schultz is Senior Vice President Planning, and is responsible for transmission planning and system optimization for ITC*Transmission.* Mr. Schultz was Vice-President Asset Planning since 2003 until being named Senior Vice President in February 2006. Over the years, Mr. Schultz held a variety of positions with leading companies, including Florida Power and Light and Midland Cogeneration Venture. From 2000 to 2003, Mr. Schultz was Director for Restructuring/Regulation in the Transmission Organization at Detroit Edison. He began his career in 1968 with Detroit Edison.

COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS

Summary

The following table provides a summary of compensation paid or accrued by the Company and its subsidiaries to or on behalf of the Company s Chief Executive Officer and each of the four other most highly compensated executive officers of the Company who were serving as such at December 31, 2005 (collectively, the Named Officers) for services rendered by the Named Officers during 2005 and 2004.

SUMMARY COMPENSATION TABLE

		Annual Compensation			Securities	
Name and Principal Position	Year	Salary ($)	Bonus ($)(1)	Other Annual Compensation ($)(2)	Underlying Options Granted (#)(12)	All Other Compensation ($)(13)(14)
Joseph L. Welch	2005	371,000	855,809	58,161(3)	321,669	634,499
Director, President, Chief Executive Officer and Treasurer	2004	361,981	296,800	150,848(4)		21,756
Edward M. Rahill	2005	201,685	243,557	33,375(5)	56,292	160,126
Senior Vice President Finance and Chief Financial Officer	2004	198,326	80,674	35,861(6)		46,294
Linda H. Blair	2005	174,698	220,802	26,185(7)	53,612	141,059
Senior Vice President	2004	170,283	69,630	31,319(8)		32,037

Business Strategy						
Richard A. Schultz	2005	169,279	220,802	22,625(9)	53,612	143,658
Senior Vice President Planning	2004	154,471	63,000	15,461		41,536
Daniel J. Oginsky	2005	135,000	238,303	25,675(10)	65,339	23,953
Vice President, General Counsel and Secretary	2004	27,519	50,000	2,149(11)		

(1) In 2005, in addition to a corporate performance bonus, included for the Named Officers are special bonus amounts awarded under the Company s Executive Group Special Bonus Plan. Such bonuses are awarded at the sole discretion of the Compensation Committee of the Board of Directors. Special bonus amounts awarded

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under that plan to date were equal to per share dividend amounts paid by the Company multiplied by the number of options held by plan participants. Special bonus amounts awarded under the Executive Group Special Bonus Plan include a vested portion paid directly to the executive and an unvested portion that is held in an account for the executive and was unpaid in 2005. Bonus also includes, for Mr. Oginsky, a payment made to him in relation to the termination of all options previously granted to him. These bonuses are set forth in the following table:

Name	Year	Corporate Performance Bonus ($)	Special Bonus Vested ($)	Special Bonus Unvested ($)	Other Bonus ($)	Signing Bonus ($)	Total Bonus ($)
Joseph L. Welch	2005	371,000	315,933	168,876			855,809
	2004	296,800					296,800
Edward M. Rahill	2005	161,348	21,063	61,146			243,557
	2004	80,674					80,674
Linda H. Blair	2005	140,000	21,063	59,739			220,802
	2004	69,630					69,630
Richard A. Schultz	2005	140,000	21,063	59,739			220,802
	2004	63,000					63,000
Daniel J. Oginsky	2005	54,000	4,803	29,500	150,000		238,303
	2004					50,000	50,000

(2) Other annual compensation includes amounts for perquisites such as auto allowance and expenses, financial planning, income tax return preparation, social clubs, personal liability insurance and home security, as well as reimbursements for income tax gross-ups related to the inclusion of the value of the payment by the Company of certain perquisites. Perquisites with an incremental cost to the Company of more than 25% of the total other annual compensation for the Named Officers are separately itemized in footnotes 3-11 below.

(3) Includes auto allowance and related expenses of $22,916 and reimbursement for income tax gross-ups related to the inclusion of the value of the payment by the Company of certain perquisites of $14,775.

(4) Includes country club initiation fee and monthly dues of $66,676 and reimbursement for income tax gross-ups related to the inclusion of the value of the payment by ITC Holdings of certain perquisites of $52,205.

(5) Includes auto allowance and related expenses of $14,956.

(6) Includes auto allowance and related expenses of $14,752.

(7) Includes auto allowance and related expenses of $14,104.

(8) Includes auto allowance and related expenses of $13,998.

(9) Includes auto allowance and related expenses of $9,842.

(10) Includes auto allowance and related expenses of $14,263.

(11) Includes auto allowance and related expenses of $2,127.

(12) Options were granted to the Named Officers in 2005, other than Mr. Oginsky, in exchange for signing a waiver of their rights to participate in the Company s initial public offering.

(13) Of the Named Officers, Linda Blair holds 6,686 unvested shares of restricted stock, which as of December 31, 2005 had a market value of $187,809.

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(14) All Other Compensation includes the following amounts for 2005 and 2004:

Name	Year	Relocation Assistance ($)	401(k) Match ($)	Executive Defined Contribution Plan ($)	Preferential 2005 ESRP Investment Credit ($)	ESRP Compensation Credit ($)	Dividend Equivalent Rights Plan ($)(15)	All Other Compensation Total ($)
Joseph L. Welch	2005		14,936	7,922			611,641	634,499
	2004		12,135	9,621				21,756
Edward M. Rahill	2005		12,514	9,391	1,911	32,673	103,637	160,126
	2004		10,329	10,257	598	25,110		46,294
Linda H. Blair	2005		10,540		1,553	28,323	100,643	141,059
	2004		9,792		653	21,592		32,037
Richard A. Schultz	2005		11,315	10,118	1,596	27,835	92,794	143,658
	2004		10,728	10,474	762	19,572		41,536
Daniel J. Oginsky	2005	6,853			90	17,010		23,953
	2004							

(15) The Dividend Equivalent Rights Plan was terminated as of May 10, 2005.

Options

Option Grants. The following table sets forth information concerning stock options granted under our stock option plans during 2005 to the Named Officers.

Option/Stock Appreciation Rights (SAR) Grants in Last Fiscal Year

Name and Principal Position	Number of Securities Underlying Options Granted (#)(1)	Percent of Total Options/SARs Granted to Employees in Fiscal Year	Exercise Price ($/Share)	Expiration Date	Grant Date Present Value $(2)
Joseph L. Welch	321,669	46.3%	$ 23.00	July 25, 2015	1,239,471
Edward M. Rahill	56,292	8.0%	$ 23.00	July 25, 2015	216,907
Linda H. Blair	53,612	7.7%	$ 23.00	July 25, 2015	206,580

Richard A. Schultz	53,612	7.7%	$ 23.00	July 25, 2015	206,580
Daniel J. Oginsky	65,339	9.4%	$ 23.00	July 25, 2015	251,767

(1) Options vest 20% on July 25 of each year of 2006, 2007, 2008, 2009 and 2010, except for options granted to Mr. Oginsky which are 14% vested and the remainder will vest 20% on July 25 of each year of 2006, 2007, 2008 and 2009, and 6% on July 25, 2010.

(2) Grant date present value of the stock options was determined using a Black-Scholes option pricing model. The options have a term of 10 years from date of grant, with a remaining weighted average contract life of approximately 9.6 years. Weighted average assumptions used in the valuation of these options include an expected volatility of 24.0%, a risk-free interest rate of 4.1%, an expected life of 6.0 years, an expected annual dividend of $1.05, and an underlying share price of $23.00 per share.

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Option Exercises and Holdings. The following table provides information with respect to the exercisable and unexercisable options held as of the end of 2005 by the Named Officers. No options were exercised to acquire shares by the Named Officers in 2005.

Fiscal Year End Option Values

Name	Number of Securities Underlying Unexercised Options at December 31, 2005		Value of Unexercised In-the-Money Options at December 31, 2005(1) ($)	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Joseph L. Welch	240,712	682,735	4,961,074	9,078,865
Edward M. Rahill	40,119	116,469	826,853	1,526,774
Linda H. Blair	40,119	113,789	826,853	1,513,133
Richard A. Schultz	40,119	113,789	826,853	1,513,133
Daniel J. Oginsky	9,148	56,191	46,563	286,012

(1) Value was determined by multiplying the number of shares subject to an option by the difference between the closing price of the common stock at the end of 2005 on the New York Stock Exchange and the option exercise price.

Pension Plans

ITC*Transmission* maintains a defined benefit retirement plan for eligible employees, comprised of a traditional pension plan and a cash balance plan. ITC*Transmission* has also established two supplemental nonqualified, noncontributory, unfunded retirement benefit plans for selected management employees. The plans provide for benefits that supplement those provided by ITC*Transmission* s defined benefit retirement plan.

Under the traditional final average pay portion of the defined benefit plan, retirement benefits payable as a life annuity at the normal retirement age of 65 are based on a participant s average final compensation and years of service multiplied by certain specified percentages. A participant s average final compensation is equal to one-fifth of the participant s 260 highest compensation weeks of credited service with ITC*Transmission.* For certain employees who transferred from DTE, years of service at DTE are considered in these calculations. For this purpose, a participant s compensation is defined as the participant s base salary, exclusive of bonuses, overtime, and fringe benefits, but includes the participant s salary reduction contributions made by the participant to the Company s tax-qualified defined contribution plan. Participants in the traditional pension plan become vested after five years of service. Benefits payable under the traditional final average pay portion of the defined benefit plan are not subject to offset for Social Security or other benefits. There is no lump sum payment option for this benefit.

The following table shows the estimated annual pension benefits payable at normal retirement age to plan participants under the traditional final average pay portion of the defined benefit plan, based on compensation that is covered under the plan.

PENSION PLAN TABLE ANNUAL PENSION BENEFIT

	Years of Service				
Average Final Compensation	**15**	**20**	**25**	**30**	**35**
$125,000	$ 28,125	$ 37,500	$ 46,875	$ 56,250	$ 65,000
150,000	33,750	45,000	56,250	67,500	78,000
175,000	39,375	52,500	65,625	78,750	91,000
200,000	45,000	60,000	75,000	90,000	104,000
210,000	47,250	63,000	78,750	94,500	109,200

Messrs. Rahill and Schultz each participate in the traditional final average pay portion of the defined benefit plan. The covered annual compensation for these executive officers under this plan is $210,000, the maximum amount permitted to be taken into account for purposes of calculating their annual pension benefit in 2005 under

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federal tax law. Messrs. Rahill and Schultz currently have 7 and 25 years respectively, of credited service and are vested in their benefits under the plan.

In addition to the benefits described above, Mr. Welch is entitled to receive an annual pension benefit at retirement payable for his lifetime equal to $10,000 multiplied by years of service subsequent to March 1, 2003 to a maximum of ten years.

For participants (which include the Named Officers other than Messrs. Rahill and Schultz) in the cash balance portion of the defined benefit plan, a participant s plan account is credited with two amounts at the close of each year of participation in the defined benefit plan. First, there is a credit of 7% of the participant s total compensation earned for the year. For this purpose, a participant s compensation includes a participant s base salary and bonuses, as well as any elective salary reduction contribution made by the participant to the Company s 401(k) plan. However, this plan does not consider annual compensation in excess of the maximum amount permitted to be taken into account for purposes of calculating this contribution amount under federal tax law ($210,000 for 2005). Second, each participant s plan account as of January 1 of each year is credited with interest at an assumed rate equal to the 30-year U.S. Treasury bond rate in effect for September of the previous year. The effective rate used to determine participants interest credits on January 1, 2004 was 5.14% and the rate used on January 1, 2005 was 4.90%.

Participants in the cash balance portion of the defined benefit plan are entitled to a lump sum distribution of their plan account upon retirement or may elect to have this balance transferred to one of several lifetime annuity options using the plan s stated actuarial assumptions for the age at which payments are to begin. Benefits payable under the cash balance portion of the defined benefit plan are not offset for Social Security or other benefits.

ITC*Transmission* has also established two supplemental nonqualified, noncontributory, unfunded retirement benefit plans for selected management employees. First, ITC*Transmission* has established the Management Supplemental Benefit Plan for Mr. Welch, which entitles him to receive a supplemental pension benefit from the Company if the sum of his pension benefits under the cash balance portion of the plan and certain other retirement benefits to which he is entitled under retirement plans of his prior employer, DTE, do not equal a target percentage of his final average compensation. Mr. Welch s final average compensation is equal to 1/5 of his 260 highest compensation weeks of credited service, with payments assigned for this purpose to the particular week paid. For this purpose, Mr. Welch s compensation includes his base salary and any bonuses paid to Mr. Welch without restrictions. Target percentage is determined by years of service. Benefits payable under this plan are not offset by Social Security or any other benefits. The current estimated lump sum and annual lifetime benefits payable to Mr. Welch under this agreement are included in the amounts set forth in the table below. Mr. Welch is not entitled to receive a lump sum payment of his supplemental pension benefit under the plan.

The Named Officers other than Mr. Welch are also entitled to receive a supplemental pension benefit from the Company. At the close of each year of participation in this Executive Supplemental Retirement Plan, each officer s supplemental pension plan account is credited with two amounts. First, there is a credit of 9% of the participant s total compensation earned for the year. For this purpose, compensation includes a participant s base salary, plus bonuses, as well as any elective salary reduction contribution made by the participant to the Company s 401(k) plan. Second, each participant s plan account as of January 1 of each year is credited with interest at an assumed rate equal to 9.5%. Benefits payable under this plan are not offset by Social Security or any other benefits. Plan participants generally become vested in their plan account balances 20% per year over five years. If a change in control of the Company or ITC*Transmission* occurs (as such term is defined in the plan): (1) plan participants become 100% vested in their plan account balances, (2) within seven days of a change in control, we are required to transfer assets to the grantor trust that has been established to fund this plan sufficient to fund the payment of benefits under the plan and administrative expenses of such trust and (3) if a dispute arises as to a participant s claim for benefits under this plan, we are required to pay the participant s reasonable legal fees incurred to resolve such claim.

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Estimated lump sum benefits and annual lifetime annuity amounts payable at age 65 to each of the named executive officers, based on projected future earnings and interest rates as of December 31, 2005, are as follows:

Name	Projected Lump Sum Balance Plan Benefit at Age 65 ($)	Alternative Annual Benefit at Age 65 ($)
Joseph L. Welch(1)	196,617	1,841,090
Edward M. Rahill	1,087,699	75,099
Linda H. Blair	6,324,657	443,071
Richard A. Schultz	147,609	9,841
Daniel J. Oginsky	5,297,116	373,703

(1) Mr. Welch has irrevocably elected to receive his nonqualified supplemental pension plan benefits as an annuity.

The amounts in the table above represent aggregate amounts payable under the qualified cash balance portion of the defined benefit retirement plan and the nonqualified supplemental pension plans, to each of the Named Officers other than Messrs. Rahill and Schultz. The amounts payable to Messrs. Rahill and Schultz under the traditional final average pay portion of the defined benefit retirement plan have been excluded (see the discussion of the calculation of such amounts above). Supplemental pension plan benefits included in the annual benefit amount in the table above represent amounts payable in the first year only. Annual benefit payments for all of the Named Officers except Mr. Welch would increase from year to year based on interest earned on the unpaid balance of their pension plan accounts. All annual benefits are normally payable as life annuities, except that Mr. Welch s supplemental pension plan benefit is normally payable as a 15-year certain and life annuity. Benefit plans and related definitions of compensation were established during the Company s initial growth period, as discussed in the Compensation Committee Report, and are subject to continuing review of the Compensation Committee.

Employment Agreements

The Company has entered into employment agreements with each of Messrs. Welch, Rahill, Schultz, and Oginsky and Ms. Blair. The employment agreements are substantially similar to each other, with the exceptions described below.

Each of the employment agreements has an initial term of employment of two years and is subject to automatic one-year employment term renewals thereafter unless either party provides the other with 30 days advance written notice of intent not to renew the employment term. Under the employment agreements, Mr. Welch reports to our Board of Directors and all of the other executives report to Mr. Welch.

The employment agreements also state each executive s current annual base salary, which will be subject to annual review and increase by our Board of Directors in its discretion. The employment agreements also provide that the executives are eligible to receive an annual cash bonus, subject to our achievement of certain performance targets established by our Board of Directors. The target annual bonuses stated in the employment agreements are as follows: (1) Mr. Welch, 100% of his base salary; (2) Messrs. Rahill and Schultz and Ms. Blair, 80% of their base salary; and (3) Mr. Oginsky, 40% of his annual salary.

The employment agreements also provide the executives with the right to participate in certain welfare and pension benefits, including the right to participate in certain tax qualified and non-tax-qualified defined benefit and defined contribution plans and a retiree welfare benefit plan. Mr. Welch s employment agreement also acknowledges that he is entitled to receive benefits under the supplemental pension plan (described above) that is maintained for him.

If the executives   employment with the Company is terminated without cause by the Company or by the executive for good reason (as such terms are defined in the employment agreements), the executives will re