Consolidated Communications Holdings, Inc.
Form 10-Q
August 08, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended June 30, 2008

or

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Transition Period from __________ to __________

Commission File Number 000-51446

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**02-0636095**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

121 South 17th Street
Mattoon, Illinois 61938-3987
(Address of principal executive offices and zip code)

Registrant s telephone number, including area code: (217) 235-3311

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

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.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The number of shares of the registrant s common stock, $.01 par value, outstanding as of August 1, 2008 was 29,511,519.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

Consolidated Communications Holdings, Inc.
Condensed Consolidated Statements of Income
(Amounts in thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Revenues	$ 106,444	$ 80,944	$ 211,858	$ 163,924
Operating expenses:				
Cost of services and products (exclusive of depreciation and amortization shown separately below)	36,108	25,788	69,971	51,417
Selling, general and administrative expenses	26,911	22,296	55,055	44,595
Depreciation and amortization	22,350	16,606	45,221	33,235
Income from operations	21,075	16,254	41,611	34,677
Other income (expense):				
Interest income	64	227	288	441
Interest expense	(16,048)	(11,688)	(34,326)	(23,302)
Investment income	4,845	1,611	9,207	3,054
Minority interest	(133)	(118)	(405)	(290)
Loss on extinguishment of debt	(9,224)		(9,224)	
Other, net	(129)	264	(114)	276
Income before income taxes	450	6,550	7,037	14,856
Income tax expense	270	1,057	3,148	4,744
Net income	$ 180	$ 5,493	$ 3,889	$ 10,112
Net income per common share Basic and Diluted	$ 0.01	$ 0.21	$ 0.13	$ 0.39
Cash dividends declared per common share	$ 0.38	$ 0.38	$ 0.77	$ 0.77

See accompanying notes

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Consolidated Communications Holdings, Inc.
Condensed Consolidated Balance Sheets
(Amounts in thousands, except share and per share amounts)

	June 30, 2008 (unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,433	$ 34,341
Accounts receivable, net of allowance of $2,127 and $2,440, respectively	44,777	44,001
Inventories	7,235	6,364
Deferred income taxes	4,551	4,551
Prepaid expenses and other current assets	13,182	10,358
Total current assets	80,178	99,615
Property, plant and equipment, net	403,780	411,647
Intangibles and other assets:		
Investments	94,921	94,142
Goodwill	526,630	526,439
Customer lists, net	135,329	146,411
Tradenames	14,291	14,291
Deferred financing costs and other assets	8,712	12,046
Total assets	$ 1,263,841	$ 1,304,591
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of capital lease obligations	$ 1,048	$ 1,010
Current portion of pension and postretirement benefit obligations	7,919	8,765
Accounts payable	12,798	17,386
Advance billings and customer deposits	18,970	18,167
Dividends payable	11,363	11,361
Accrued expenses	20,763	28,254
Total current liabilities	72,861	84,943
Capital lease obligations less current portion	1,102	1,636
Long-term debt	880,000	890,000
Deferred income taxes	97,169	97,289
Pension and postretirement benefit obligations	57,200	56,729
Other liabilities	13,610	14,306
Total liabilities	1,121,942	1,144,903
Minority interest	4,727	4,322

Stockholders equity:		
Common stock, $0.01 par value, 100,000,000 shares, authorized, 29,511,519 and 29,440,587 issued and outstanding, respectively	295	294
Additional paid in capital	279,026	278,175
Accumulated deficit	(136,455)	(117,452)
Accumulated other comprehensive loss	(5,694)	(5,651)
Total stockholders equity	137,172	155,366
Total liabilities and stockholders equity	$ 1,263,841	$ 1,304,591

See accompanying notes

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Consolidated Communications Holdings, Inc.
Consolidated Statements of Cash Flows
(Amounts in thousands)
(Unaudited)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
OPERATING ACTIVITIES		
Net income	$ 3,889	$ 10,112
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	45,221	33,235
Provision for bad debt losses	2,322	1,858
Loss on extinguishment of debt	9,224	
Deferred income tax	(3,148)	1,103
Partnership income	(4,729)	(882)
Non-cash stock compensation	860	1,706
Minority interest in net income of subsidiary	405	290
Amortization of deferred financing costs	806	1,668
Changes in operating assets and liabilities:		
Accounts receivable	(3,098)	(1,738)
Inventories	(871)	156
Other assets	830	(2,538)
Accounts payable	(4,588)	(794)
Accrued expenses and other liabilities	(4,943)	(7,067)
Net cash provided by operating activities	42,180	37,109
INVESTING ACTIVITIES		
Securities purchased		(10,625)
Capital expenditures	(26,286)	(16,673)
Net cash used in investing activities	(26,286)	(27,298)
FINANCING ACTIVITIES		
Proceeds from issuance of stock		12
Proceeds from long-term obligations	120,000	
Payments made on long-term obligations	(136,337)	
Payment of deferred financing costs	(240)	(320)
Payment of capital lease obligation	(496)	
Purchase and retirement of common stock	(8)	
Dividends on common stock	(22,721)	(20,093)
Net cash used in financing activities	(39,802)	(20,401)
Net decrease in cash and cash equivalents	(23,908)	(10,590)
Cash and cash equivalents at beginning of period	34,341	26,672
Cash and cash equivalents at end of period	$ 10,433	$ 16,082

See accompanying notes

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Consolidated Communications Holdings, Inc.
Condensed Consolidated Statement of Changes in Stockholders Equity
Six Months Ended June 30, 2008
(Amounts in thousands, except share amounts)
(Unaudited)

	Common Stock		Additional Paid in	Accumulated	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Deficit	Loss	Total
Balance, January 1, 2008	**29,440,587**	**$ 294**	**$ 278,175**	**$ (117,452)**	**$ (5,651)**	**$ 155,366**
Effects of accounting change regarding postretirement plan measurement dates pursuant to SFAS No. 158:						
Service cost, interest cost, and expected return on plan assets for October 1, 2007 through Dececmber 31, 2007, net of ($88) of tax				(154)		(154)
Amortization of prior service cost and net loss for October 1, 2007 through December 31, 2007, net of ($9) of tax				(15)	15	
				(169)	15	(154)
Balance, January 1, 2008 as adjusted	**29,440,587**	**294**	**278,175**	**(117,621)**	**(5,636)**	**155,212**
Net income				3,889		3,889
Dividends on common stock				(22,723)		(22,723)
Shares issued under employee plan, net of forfeitures	71,467					
Non-cash stock compensation		1	859			860
Purchase and retirement of common stock	(535)		(8)			(8)
Prior service cost and net loss, net of ($104) of tax					(180)	(180)
Change in fair value of cash flow hedges, net of $72 of tax					122	122
Balance, June 30, 2008	**29,511,519**	**$ 295**	**$ 279,026**	**$ (136,455)**	**$ (5,694)**	**$ 137,172**

See accompanying notes

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CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Three and six months ended June 30, 2008 and 2007
(Dollars in thousands, except share and per share amounts)

1. Description of Business

Consolidated Communications Holdings, Inc. and its wholly owned subsidiaries (the Company) operate under the name Consolidated Communications. The Company is an established rural local exchange company (RLEC) providing communications services to residential and business customers in Illinois, Texas and Pennsylvania. With approximately 276,793 local access lines, 73,713 Competitive Local Exchange Carrier (CLEC) access line equivalents, 86,575 digital subscriber lines (DSL) and 14,112 digital television subscribers, the Company offers a wide range of telecommunications services, including local and long distance service, Voice Over Internet Protocol (VOIP) calling, custom calling features, private line services, dial-up and high-speed Internet access, digital TV, carrier access services, network capacity services over our regional fiber optic network, directory publishing and CLEC calling services. The Company also operates a number of complementary businesses, including telemarketing and order fulfillment; telephone services to county jails and state prisons; equipment sales; operator services; and mobile services.

2. Presentation of Interim Financial Statements

These unaudited interim condensed consolidated financial statements include the accounts of Consolidated Communications Holdings, Inc. and its wholly owned subsidiaries and subsidiaries in which it has a controlling financial interest. All material intercompany balances and transactions have been eliminated in consolidation. These interim statements have been prepared in accordance with Securities and Exchange Commission (SEC) guidelines and do not include all of the information and footnotes required by U.S. generally accepted accounting principles (GAAP) for complete financial statements. These interim financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of its financial position and results of operations for the interim periods. All such adjustments are of a normal recurring nature. Interim results are not necessarily indicative of the results that may be expected for the entire year. These interim financial statements should be read in conjunction with the financial statements and related notes for the year ended December 31, 2007, which were included in our annual report on Form 10-K previously filed with the SEC.

3. Recent Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board, or the FASB, issued Statement of Financial Accounting Standards No. 161 (SFAS No. 161), *Disclosure about Derivative Instruments and Hedging Activities an Amendment of FASB Statement No. 133.* SFAS No. 161 requires entities that utilize derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as well as any details of credit-risk-related contingent features contained within derivatives. SFAS No. 161 also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements, how the provisions of Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities,* have been applied, and the impact that hedges have on an entity s financial position, financial performance and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early adoption encouraged. The Company currently provides information about its hedging activities and use of derivatives in its quarterly and annual filings with the SEC, including many of the disclosure requirements contained within SFAS No. 161. The Company is currently evaluating the impact, if any, of adopting SFAS No. 161 on the Company s disclosures. SFAS No. 161 will have no impact on the Company s future results of operations and financial condition.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160 (SFAS No. 160), *Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB No. 51.* SFAS No. 160 clarifies that a noncontrolling interest in a consolidated subsidiary should be reported as equity in the consolidated financial statements. It also requires consolidated net income to include the amounts attributable to both the parent and the noncontrolling interest. The Company is required to adopt SFAS No. 160 on January 1, 2009 and is currently evaluating the impact of adopting SFAS No. 160 on its future results of operations and financial condition.

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In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007) (SFAS No. 141 (R)), *Business Combinations.* SFAS No. 141(R) retains the fundamental requirements of the original pronouncement requiring that the purchase method be used for all business combinations. SFAS No. 141(R) defines the acquirer as the entity that obtains control of one or more businesses in the business combination, establishes the acquisition date as the date that the acquirer achieves control and requires the acquirer to recognize the assets acquired, liabilities assumed and any non-controlling interest at their fair values as of the acquisition date. SFAS No. 141(R) also requires, among other things, that acquisition-related costs be recognized separately from the acquisition. The Company is required to adopt SFAS No. 141(R) effective January 1, 2009. SFAS No. 141(R) will generally impact acquisitions made after the date of adoption.

4. Marketable Securities

In the second quarter of 2007, the Company acquired $10,625 of investments in auction rate securities which were considered available-for-sale under SFAS No. 115. These securities were sold in the third quarter of 2007 with no gain or loss to the Company.

5. Acquisition

On December 31, 2007, the Company acquired all of the capital stock of North Pittsburgh Systems, Inc. (North Pittsburgh). By acquiring all of the capital stock of North Pittsburgh, the Company acquired an RLEC that serves portions of Allegheny, Armstrong, Butler and Westmoreland Counties in western Pennsylvania; a CLEC company that serves small to mid-sized business customers in Pittsburgh and its surrounding suburbs as well as in Butler County; an Internet Service Provider that furnishes broadband services in western Pennsylvania; and minority interests in three cellular partnerships and one competitive access provider. The results of operations for North Pittsburgh are included in the Company s telephone operations segment for December 31, 2007 and thereafter.

The Company accounted for the North Pittsburgh acquisition using the purchase method of accounting. Accordingly, the financial statements reflect the allocation of the total purchase price to the net tangible and intangible assets acquired based on their respective fair values. At the time of the acquisition, 80% of the shares of North Pittsburgh converted into the right to receive $25.00 per share in cash and each of the remaining shares of North Pittsburgh common stock converted into the right to receive 1.1061947 shares of common stock of the Company, or 3,318,480 shares of stock valued at $74,398, net of issuance fees. The total purchase price, including acquisition costs and net of $32,902 of cash acquired, is being allocated according to the following table which summarizes the preliminary, estimated fair values of the North Pittsburgh assets acquired and liabilities assumed:

Current assets	$ 17,729
Property, plant and equipment	117,134
Customer list	49,000
Goodwill	214,580
Investments and other assets	53,360
Liabilities assumed	(105,034)
Net purchase price	$ 346,769

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Because of the proximity of this transaction to year-end, the values of certain assets and liabilities are based on preliminary valuations and are subject to adjustment as additional information is obtained. Adjustments of $191 were made to goodwill during the period ended June 30, 2008.

The aggregate purchase price was determined through a negotiated bid and was influenced by the Company s assessment of the value of the overall North Pittsburgh business. The significant goodwill value reflects the Company s view that the North Pittsburgh business can generate strong cash flow, sales and earnings following the acquisition.

All of the goodwill recorded as part of this acquisition was allocated to the telephone operations segment. In accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets,* the $214,580 in goodwill recorded as part of the North Pittsburgh acquisition is not being amortized, but will be tested for impairment at least annually. The customer list is being amortized over its estimated useful life of 5 years. The goodwill and other intangibles associated with this acquisition did not qualify under the Internal Revenue Code as deductible for tax purposes.

Because the acquisition occurred on December 31, 2007, the Company s results of operations for the three and six months ended June 30, 2007 do not include North Pittsburgh. Unaudited pro forma results of operations data for the three and six months ended June 30, 2007 as if the acquisition had occurred at the beginning of the period presented are as follows:

	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
Total revenues	$ 105,258	$ 212,661
Income from operations	$ 17,399	$ 31,209
Net income	$ 4,804	$ 5,143
Income per share basic	$ 0.17	$ 0.18
Income per share diluted	$ 0.16	$ 0.17

6. Goodwill and Customer Lists

The following table summarizes the carrying value of goodwill by segment:

	June 30, 2008	December 31, 2007
Telephone Operations	$ 519,446	$ 519,255
Other Operations	7,184	7,184
	$ 526,630	$ 526,439

The Company s customer lists consist of an established core base of customers that subscribe to its services. The carrying amount of customer lists is as follows:

	June 30, 2008	December 31, 2007
Gross carrying amount	$ 205,648	$ 205,648
Less: accumulated amortization	(70,319)	(59,237)
Net carrying amount	$ 135,329	$ 146,411

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The aggregate amortization expense associated with customer lists was $5,541 and $3,209 for the three months ended June 30, 2008 and 2007, respectively and was $11,082 and $6,443 for the six months ended June 30, 2008 and 2007, respectively. Customer lists are being amortized on a straight-line basis using a weighted average life of approximately 10 years.

7. Summarized Financial Information for Significant Investments

In connection with the North Pittsburgh Acquisition, the Company acquired a 23.67% ownership of Pennsylvania RSA 6(II) wireless limited partnership (the RSA 6(II)). The principal activity of the RSA 6(II) is providing cellular service to territories that overlap the majority of the markets served by the Company s North Pittsburgh wireline operations. The Company accounts for this investment on the equity basis. Unaudited summarized income statement information for the RSA 6(II) was as follows:

	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008
Total revenues	$ 26,768	$ 51,930
Income from operations	$ 5,742	$ 11,213
Income before income taxes	$ 5,767	$ 11,339
Net income	$ 5,767	$ 11,339

8. Pension Costs and Other Postretirement Benefits

The Company has several defined benefit pension plans covering substantially all of its hourly employees and certain salaried employees. The plans provide retirement benefits based on years of service and earnings. The pension plans are generally noncontributory. The Company s funding policy is to contribute amounts sufficient to meet the minimum funding requirements as set forth in employee benefit and tax laws. The Company also has a qualified supplemental pension plan (Restoration Plan) covering certain former North Pittsburgh employees. The Restoration Plan restores benefits that are precluded under the pension plan by Internal Revenue Service limits on compensation and benefits applicable to qualified pension plans and by the exclusion of bonus compensation from the pension plan s definition of earnings.

The Company currently provides other postretirement benefits (Other Benefits) consisting of health care and life insurance benefits for certain groups of retired employees. Retirees share in the cost of health care benefits. Retiree contributions for health care benefits are adjusted periodically based upon either collective bargaining agreements for former hourly employees or as total costs of the program change for former salaried employees. The Company s funding policy for retiree health benefits is generally to pay covered expenses as they are incurred. Postretirement life insurance benefits are fully insured.

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The following tables present the components of net periodic benefit cost:

	Pension Benefits		Other Benefits	
	2008	2007	2008	2007
Three months ended June 30,				
Service cost	$ 546	$ 345	$ 252	$ 219
Interest cost	2,806	1,168	632	385
Expected return on plan assets	(3,255)	(1,231)		
Other, net	4	40	(147)	
Numerator for basic and diluted earnings per common share	$ 35,694	$ 30,344	$ 69,364	$ 58,724
Denominator:				
Denominator for basic earnings per common share - weighted-average common shares	49,387,462	49,167,079	49,370,143	49,147,318
Incremental shares for stock options and employee stock purchase plan	899,478	909,715	901,120	901,148
Denominator for diluted earnings per common share - adjusted weighted-average shares and dilutive securities	50,286,940	50,076,794	50,271,263	50,048,466
Per common share net income:				
Basic	$ 0.72	$ 0.62	$ 1.40	$ 1.19
Diluted	$ 0.71	$ 0.61	$ 1.38	$ 1.17
(a) Weighted-average common shares outstanding	49,387,462	49,167,079	49,370,143	49,147,318
Weighted-average restricted shares and deferred stock units (participating securities)	824,996	686,235	794,189	645,791
Total	50,212,458	49,853,314	50,164,332	49,793,109
Percentage allocated to common shares	98.4%	98.6%	98.4%	98.7%

Our restricted stock and deferred stock units contain rights to receive nonforfeitable dividends and thus, are participating securities requiring the two-class method of computing earnings per share.

At June 30, 2010 and 2009, we had 2,849,198 and 2,785,585 million outstanding stock options, respectively. Stock options are included in the diluted earnings per share calculation using the treasury stock method, unless the effect of including the stock options would be anti-dilutive. For the three and six months ended June 30, 2010 and 2009, 476,853 and 826,058 anti-dilutive stock options were excluded from the diluted earnings per share calculation, respectively.

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8. RETIREMENT BENEFITS AND ASSETS HELD IN TRUST

Retirement Plan Benefits

We have a qualified retirement plan for eligible employees, comprised of a traditional final average pay plan and a cash balance plan. The traditional final average pay plan is noncontributory, covers select employees, and provides retirement benefits based on the employees years of benefit service, average final compensation and age at retirement. The cash balance plan is also noncontributory, covers substantially all employees, and provides retirement benefits based on eligible compensation and interest credits. While we are obligated to fund the retirement plan by contributing the minimum amount required by the Employee Retirement Income Security Act of 1974, as amended, it is our practice to contribute the maximum allowable amount as defined by section 404 of the Internal Revenue Code. We contributed $6.0 million to the defined benefit retirement plan in July 2010.

We have also established two supplemental nonqualified, noncontributory, retirement benefit plans for selected management employees. The plans provide for benefits that supplement those provided by our other retirement plans. We contributed $0.5 million to these supplemental nonqualified, noncontributory, retirement benefit plans in July 2010.

Net pension cost includes the following components:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	**2010**	**2009**	**2010**	**2009**
Service cost	$ 724	$ 851	$ 1,434	$ 1,346
Interest cost	603	571	1,111	862
Expected return on plan assets	(339)	(234)	(694)	(494)
Amortization of prior service cost	(10)	209	(21)	(20)
Amortization of unrecognized loss	595	676	862	1,125
Net pension cost	$ 1,573	$ 2,073	$ 2,692	$ 2,819

Other Postretirement Benefits

We provide certain postretirement health care, dental, and life insurance benefits for employees who may become eligible for these benefits. We contributed $0.8 million to the postretirement benefit plan in July 2010 and expect to contribute an additional $2.2 million in the fourth quarter of 2010.

Net postretirement cost includes the following components:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	**2010**	**2009**	**2010**	**2009**
Service cost	$ 647	$ 502	$ 1,404	$ 910
Interest cost	237	287	492	455
Expected return on plan assets	(116)	(59)	(234)	(113)
Amortization of prior service cost	78	12	157	157
Amortization of unrecognized loss		84		84
Net postretirement cost	$ 846	$ 826	$ 1,819	$ 1,493

Defined Contribution Plan

We also sponsor a defined contribution retirement savings plan. Participation in this plan is available to substantially all employees. We match employee contributions up to certain predefined limits based upon eligible compensation and the employee s contribution rate. The cost of this plan was $0.5 million and $0.5 million for the three months ended June 30, 2010 and 2009, respectively, and $1.6 million and $1.3 million for the six months ended

June 30, 2010 and 2009, respectively.

9. FAIR VALUE MEASUREMENTS

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

Our assets measured at fair value subject to the three-tier hierarchy at June 30, 2010, were as follows:

	Fair Value Measurements at Reporting Date Using		
(in thousands)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets measured on a recurring basis:			
Cash and cash equivalents cash equivalents	$ 76,125	$	$
Mutual funds fixed income securities	9,790		
Mutual funds equity securities	730		
Total	$ 86,645	$	$

As of June 30, 2010, we held certain assets that are required to be measured at fair value on a recurring basis. These consist of investments recorded within cash and cash equivalents and other long-term assets, including investments held in trust associated with our nonqualified, noncontributory, supplemental retirement benefit plans for selected management and employees that are classified as trading securities. Our investments included in cash equivalents consist of money market funds recorded at cost plus accrued interest to approximate fair value. Our investments classified as trading securities consist primarily of mutual funds and equity securities that are publicly traded and for which market prices are readily available. Changes in the observed trading prices and liquidity of money market funds are monitored as additional support for determining fair value, and losses are recorded in earnings if fair value falls below recorded cost.

We also held non-financial assets and liabilities that are required to be measured at fair value on a non-recurring basis. These consist of goodwill and intangible assets. We did not take any impairment charges on long-lived assets and no other significant events requiring non-financial assets and liabilities to be measured at fair value occurred (subsequent to initial recognition) during the six months ended June 30, 2010. For additional information on our goodwill, intangible assets and asset retirement obligations please refer to the notes to the consolidated financial statements as of and for the year ended December 31, 2009 included in our Form 10-K for such period and Note 4 of this Form 10-Q.

Fair Value of Financial Assets and Liabilities

Fixed Rate Long-Term Debt

Based on the borrowing rates currently available for bank loans with similar terms and average maturities, the fair value of our consolidated long-term debt, excluding revolving credit agreements, was $2,757.6 million at June 30, 2010. The total book value of our consolidated long-term debt, excluding revolving credit agreements, was $2,443.3 million at June 30, 2010.

Revolving Credit Agreements

At June 30, 2010, we had a consolidated total of $14.5 million outstanding under our revolving credit agreements, which are variable rate loans and therefore fair value approximates book value.

Trade Accounts Receivables and Payables

As of June 30, 2010, our accounts receivable and accounts payable balances approximate fair value.

10. COMMITMENTS AND CONTINGENCIES

Litigation

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

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Michigan Sales and Use Tax Audit

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

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

The amount of use tax liability associated with the exemptions taken by ITCTransmission through June 30, 2010 is estimated to be approximately $6.0 million, which includes approximately $3.4 million assessed for the audit period April 1, 2005 through June 30, 2008, including interest. In the event it becomes appropriate to record additional use tax expense relating to this matter, ITCTransmission would record the additional use tax expense primarily as an increase to the cost of property, plant and equipment, as the majority of purchases for which the exemption was taken relate to equipment purchases associated with capital projects. These higher use tax expenses would be passed on to ITCTransmission s customers as the amounts are included as components of net revenue requirements and resulting rates. METC has also taken the industrial processing exemption, estimated to be approximately $6.0 million for periods still subject to audit beginning in 2006. The Michigan Department of Treasury initiated a use tax audit of MTH, METC s sole member, in the first quarter of 2010.

ITC Midwest Project Commitment

In the Minnesota regulatory proceeding to approve ITC Midwest s asset acquisition, ITC Midwest agreed to build a certain project in Iowa and made a commitment to use commercially reasonable best efforts to complete the project prior to December 31, 2011. In the event ITC Midwest is found to have failed to meet this commitment, the allowed 12.38% rate of return on the actual equity portion of its capital structure would be reduced to 10.39% under Attachment O until such time as ITC Midwest completes the project, and ITC Midwest would refund with interest any amounts collected since the close date of the transaction that exceeded what would have been collected if the 10.39% return on equity had been used in Attachment O. To complete this project, the IUB must provide certain regulatory approvals but, due to the current case schedule, it is unlikely that the approvals will be received in time to allow the project to be completed by December 31, 2011. ITC Midwest believes it has made commercially reasonable best efforts toward completion of the project by the stipulated deadlines and will continue to do so and, therefore, we believe the likelihood of any adverse effect from this matter is remote.

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11. SEGMENT INFORMATION

We determine our reportable segments based primarily on the regulatory environment of our subsidiaries and the business activities performed to earn revenues and incur expenses. As discussed in Note 3, during 2009, ITC Great Plains acquired electric transmission assets and implemented its cost-based formula rate in SPP to record revenues. As a result, the newly regulated transmission business at ITC Great Plains is now included in the Regulated Operating Subsidiaries segment. The following tables show our financial information by reportable segment:

OPERATING REVENUES: (in thousands)	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Regulated Operating Subsidiaries	$ 168,479	$ 157,251	$ 329,777	$ 313,206
ITC Holdings and other	105	70	212	139
Intercompany eliminations	(116)	(83)	(233)	(166)
Total Operating Revenues	$ 168,468	$ 157,238	$ 329,756	$ 313,179

INCOME BEFORE INCOME TAXES: (in thousands)	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Regulated Operating Subsidiaries	$ 82,227	$ 73,954	$ 159,619	$ 143,309
ITC Holdings and other	(24,828)	(24,514)	(48,516)	(48,216)
Total Income Before Income Taxes	$ 57,399	$ 49,440	$ 111,103	$ 95,093

NET INCOME: (in thousands)	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Regulated Operating Subsidiaries (a)	$ 56,711	$ 51,160	$ 110,170	$ 98,774
ITC Holdings and other	36,301	30,793	70,505	59,518
Intercompany eliminations	(56,711)	(51,160)	(110,170)	(98,774)
Total Net Income	$ 36,301	$ 30,793	$ 70,505	$ 59,518

TOTAL ASSETS: (in thousands)	June 30, 2010	December 31, 2009
Regulated Operating Subsidiaries	$ 4,038,717	$ 3,890,874
ITC Holdings and other	2,689,849	2,614,394
Reconciliations (b)		(1,940)
Intercompany eliminations	(2,544,147)	(2,473,612)
Total Assets	$ 4,184,419	$ 4,029,716

(a) Income tax provision and net income for our Regulated Operating Subsidiaries do not include any allocation of taxes for METC. METC is organized as a single-member limited liability company that is a disregarded entity for federal income tax purposes. METC is treated as a branch of MTH, which is taxed as a multiple-partner limited partnership for federal income tax purposes. Since METC and MTH, its immediate parent, file as a partnership for federal income tax purposes, they are exempt from federal income taxes. As a result, METC does not record a provision for federal income taxes in its statements of operations or record amounts for federal deferred income tax assets or liabilities on its statements of financial position. For FERC regulatory reporting, however, METC computes theoretical federal income taxes as well as the associated deferred income taxes and includes an annual allowance for income taxes in its net revenue requirement used to determine its rates.

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

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

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

Our reports, filings and other public announcements contain certain statements that describe our management s beliefs concerning future business conditions, plans and prospects, growth opportunities and the outlook for our business and the electric transmission industry based upon information currently available. Such statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Wherever possible, we have identified these forward-looking statements by words such as will, may, anticipates, believes, intends, estimates, expects, projects and similar phrases. These forward-looking statements are based upon assumptions our management believes are reasonable. Such forward-looking statements are subject to risks and uncertainties which could cause our actual results, performance and achievements to differ materially from those expressed in, or implied by, these statements, including, among others, the risks and uncertainties listed in Part I, Item 1A Risk Factors of our Form 10-K for the fiscal year ended December 31, 2009 (as revised in Part II, Item 1A of Form 10-Q for the quarter ended March 31, 2010) and the following:

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

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

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

Changes in federal energy laws, regulations or policies could impact cash flows and could reduce the dividends we may be able to pay our stockholders.

If the network load or point-to-point transmission service on our MISO Regulated Operating Subsidiaries transmission systems is lower than expected, the timing of collection of our revenues would be delayed.

Each of our MISO Regulated Operating Subsidiaries depends on its primary customer for a substantial portion of its revenues, and any material failure by those primary customers to make payments for transmission services would adversely affect our revenues and our ability to service our debt obligations and affect our ability to pay dividends.

METC does not own the majority of the land on which its transmission assets are located. Additionally, a significant amount of the land on which ITCTransmission and ITC Midwest s assets are located is subject to easements, mineral rights and other similar encumbrances and a significant amount of ITCTransmission and ITC Midwest s other property consists of easements. As a result, ITCTransmission, METC and ITC Midwest 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.

If ITC Midwest s operating agreement with IP&L is terminated early, ITC Midwest may face a shortage of labor or replacement contractors to provide the services formerly provided by IP&L.

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

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

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Our Regulated Operating Subsidiaries are subject to various regulatory requirements. Violations of these requirements, whether intentional or unintentional, may result in penalties that, under some circumstances, could have a material adverse effect on our results of operations, financial condition and cash flows.

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

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

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

Certain provisions in our debt instruments limit our financial flexibility.

Adverse changes in our credit ratings may negatively affect us.

The amount of our federal net operating loss carryforwards for income taxes that we may use to reduce our tax liability in any given period is limited.

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

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

Other risk factors discussed herein and listed from time to time in our public filings with the Securities and Exchange Commission (SEC).

Because our forward-looking statements are based on estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond our control or are subject to change, actual results could be materially different and any or all of our forward-looking statements may turn out to be wrong. Forward-looking statements speak only as of the date made and can be affected by assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in our discussion in this report will be important in determining future results. Consequently, we cannot assure you that our expectations or forecasts expressed in such forward-looking statements will be achieved. Actual future results may vary materially. Except as required by law, we undertake no obligation to publicly update any of our forward-looking or other statements, whether as a result of new information, future events, or otherwise.

OVERVIEW

Through our Regulated Operating Subsidiaries, we are engaged in the transmission of electricity in the United States. Our business strategy is to operate, maintain and invest in transmission infrastructure in order to enhance system integrity and reliability, to reduce transmission constraints and to allow new generating resources to interconnect to our transmission systems. By pursuing this strategy, we strive for high reliability of our systems and to improve accessibility to generation sources of choice, including renewable sources. We operate high-voltage systems in Michigan s Lower Peninsula and portions of Iowa, Minnesota, Illinois, Missouri and Kansas that transmit electricity from generating stations to local distribution facilities connected to our systems.

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

Our Regulated Operating Subsidiaries primary operating responsibilities include maintaining, improving and expanding their transmission systems to meet their customers ongoing needs, scheduling outages on system elements to allow for maintenance and

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construction, balancing electricity generation and demand, maintaining appropriate system voltages and monitoring flows over transmission lines and other facilities to ensure physical limits are not exceeded.

We derive nearly all of our revenues from providing network transmission service, point-to-point transmission service and other related services over our Regulated Operating Subsidiaries transmission systems to investor-owned utilities such as Detroit Edison, Consumers Energy, IP&L and to other entities such as alternative electricity suppliers, power marketers and other wholesale customers that provide electricity to end-use consumers and from transaction-based capacity reservations on our transmission systems.

Significant recent events that influenced our financial position and results of operations and cash flows for the three and six months ended June 30, 2010 or may affect future results include:

- Our capital investment of $216.0 million at our Regulated Operating Subsidiaries ($29.3 million, $65.5 million, $114.1 million and $7.1 million at ITCTransmission, METC, ITC Midwest and ITC Great Plains, respectively) for the six months ended June 30, 2010, resulting primarily from our focus on improving system reliability and interconnecting new generating resources;
- Collection of the 2008 formula rate revenue accruals and related accrued interest of $41.9 million resulting in higher operating cash flows for the six months ended June 30, 2010;
- Debt issuances and borrowings under our revolving credit agreements in 2010 and 2009 to fund capital investment at our Regulated Operating Subsidiaries, resulting in higher interest expense; and
- Our development activities relating to ITC Great Plains and Green Power Express. Certain development activities are expensed in the period incurred as they are not yet probable of recovery and there is no corresponding revenue recognized for these expenses.

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

ITC Great Plains

KETA Project

The KETA Project is a 215 mile long transmission line that will run between Spearville, Kansas and Axtell, Nebraska. On January 19, 2010, the FERC issued an order approving the novation agreements required by SPP for the designation of the right and obligation to build the Kansas portion of this project to ITC Great Plains by Sunflower Electric Power Corporation and Midwest Energy, Inc. ITC Great Plains has commenced construction-related activities for the first phase of the 345 kV KETA Project, which will run from Spearville, Kansas to Hays, Kansas. In June 2010, ITC Great Plains received siting approval for the second phase of the project, which will run from Hays, Kansas to the Nebraska border and is in the process of securing the remaining regulatory approvals required to complete the second phase of the KETA Project. We estimate that the cost for ITC Great Plains portion of the KETA project will be approximately $203 million.

Kansas V-Plan Project

The Kansas V-Plan Project is a 180 mile long transmission line that will run between Spearville and Wichita, Kansas. In 2009, the KCC authorized ITC Great Plains to build a portion of the segment from Spearville to Medicine Lodge, Kansas at 765 kV. In April 2010, SPP approved construction of the Kansas V-Plan as a 345 kV double circuit facility and in June 2010, following FERC approval of SPP s cost allocation methodology for projects with regional benefits such as the Kansas V-Plan Project, SPP issued Notifications to Construct to the affected transmission owners. ITC Great Plains is now in the process of obtaining additional regulatory approvals necessary to begin construction related activities for the project. ITC Great Plains estimates it will invest approximately $300 million to construct its portions of the project if built at 345 kV. SPP has indicated its intent to explore the appropriateness of 765 kV construction and ITC Great Plains would expect to invest $430 million to construct its portions of the project if ultimately approved at 765 kV.

Hugo to Valliant Project

In 2009, ITC Great Plains commenced construction-related activities for the Hugo to Valliant Project in Oklahoma, consisting of a 19-mile transmission line and substation construction and upgrades. The Hugo to Valliant Project has an estimated cost of approximately $37 million.

Development Bonus

In January of 2010, the board of directors authorized and we paid $0.9 million in bonuses to substantially all employees for the successful completion of certain regulatory milestones relating to the KETA Project, which were recorded to general and administrative expenses in 2010. It is reasonably possible that future development-related bonuses would be authorized and awarded for this or other development projects.

Trends and Seasonality

Revenues

We expect a general trend of increases in revenues for our Regulated Operating Subsidiaries over the long term. The primary factor that is expected to continue to increase our actual net revenue requirements in future years is our anticipated capital investments in excess of depreciation as a result of our Regulated Operating Subsidiaries long-term capital investment programs. Investments in property, plant and equipment, when placed in service upon completion of a capital project, are added to the rate base of our Regulated Operating Subsidiaries.

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

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

	Capital Investment		
(in millions) Regulated Operating Subsidiary	Five-Year Capital Investment Program 2010-2014	Forecast for the year ending December 31, 2010	Actual for six months ended June 30, 2010 (a)
ITCTransmission	$ 445	$ 50 60	$ 29.3
METC	750	130 140	65.5
ITC Midwest	1,147	220 235	114.1
ITC Great Plains	637	20 25	7.1
Other (b)	91		
Total	$ 3,070	$ 420 460	$ 216.0

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

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(b) Includes Green Power Express and other development initiatives.

Investments in property, plant and equipment could vary due to, among other things, the impact of actual loads, forecasted loads, regional economic conditions, weather conditions, union strikes, labor shortages, material and equipment prices and availability, our ability to obtain financing for such expenditures, if necessary, limitations on the amount of construction that can be undertaken on our systems at any one time, regulatory approvals for reasons relating to rate construct, environmental, siting, regional planning, cost recovery or other issues or as a result of legal proceedings and variances between estimated and actual costs of construction contracts awarded. In addition, investments in transmission network upgrades for generator interconnection projects could change from prior estimates significantly due to changes in the MISO queue for generation projects, the generator s potential failure to meet the various criteria of Attachment FF of the MISO tariff for the project to qualify as a refundable network upgrade, and other factors beyond our control.

Revenue Accruals Effects of Monthly Peak Loads

Under their formula rates that contain true-up mechanisms, our Regulated Operating Subsidiaries accrue or defer revenues to the extent that their actual net revenue requirement for the reporting period is higher or lower, respectively, than the amounts billed relating to that reporting period. For example, to the extent that amounts billed are less than our net revenue requirement for a reporting period, a revenue accrual is recorded for the difference. One of the primary factors that impacts the revenue accrual/deferral at our MISO Regulated Operating Subsidiaries is actual monthly peak loads experienced as compared to those forecasted in establishing the annual network transmission rate. The monthly peak load of our MISO Regulated Operating Subsidiaries is affected by many variables, but is generally impacted by economic conditions and is seasonally shaped with higher load in the summer months when cooling demand is higher.

ITC Great Plains does not receive revenue based on a peak load each month. Our rates at ITC Great Plains are billed ratably each month based on its annual projected net revenue requirement.

Monthly Peak Load (in MW) (a)

	2010			2009			2008		
	ITCTransmission	METC	ITC Midwest	ITCTransmission	METC	ITC Midwest	ITCTransmission	METC	ITC Midwest
January	7,255	5,940	2,865	7,314	6,009	2,950	7,890	6,215	2,871
February	6,997	5,798	2,758	7,176	5,818	2,815	7,715	6,159	2,950
March	6,620	5,370	2,533	7,070	5,548	2,695	7,532	5,797	2,720
April	6,501	5,113	2,345	6,761	5,112	2,426	6,926	5,223	2,587
May	9,412	7,232	3,168	6,801	5,296	2,423	7,051	5,328	2,523
June	9,722	7,042	3,220	10,392	8,063	3,389	10,624	7,241	2,906
July				8,720	6,523	2,842	11,016	8,042	3,382
August				9,846	7,181	3,103	10,890	7,816	3,210
September				8,043	5,919	2,595	10,311	7,622	3,205
October				6,446	5,258	2,494	6,893	5,514	2,725
November				6,996	5,778	2,638	7,205	5,823	2,834
December				7,661	6,192	2,856	7,636	6,280	2,986
Total				93,226	72,697	33,226	101,689	77,060	34,899

(a)

Our MISO Regulated Operating Subsidiaries are each part of a joint rate zone. The load data presented is for all transmission owners in the respective joint rate zone and is used for billing network revenues. Each of our MISO Regulated Operating Subsidiaries makes up the significant portion of network load within its respective joint rate zone.

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RESULTS OF OPERATIONS
Results of Operations and Variances

(in thousands)	Three months ended June 30, 2010	Three months ended June 30, 2009	Increase (decrease)	Percentage increase (decrease)	Six months ended June 30, 2010	Six months ended June 30, 2009	Increase (decrease)	Percentage increase (decrease)
OPERATING REVENUES	$ 168,468	$ 157,238	$ 11,230	7.1%	$ 329,756	$ 313,179	$ 16,577	5.3%
OPERATING EXPENSES								
Operation and maintenance	28,494	21,919	6,575	30.0%	52,223	45,660	6,563	14.4%
General and administrative	17,413	20,253	(2,840)	(14.0)%	35,194	40,146	(4,952)	(12.3)%
Depreciation and amortization	22,567	26,187	(3,620)	(13.8)%	44,682	52,735	(8,053)	(15.3)%
Taxes other than income taxes	11,626	10,612	1,014	9.6%	23,934	21,710	2,224	10.2%
Other operating income and expenses net	(530)		(530)	n/a	(523)		(523)	n/a
Total operating expenses	79,570	78,971	599	0.8%	155,510	160,251	(4,741)	(3.0)%
OPERATING INCOME	88,898	78,267	10,631	13.6%	174,246	152,928	21,318	13.9%
OTHER EXPENSES (INCOME)								
Interest expense	35,333	32,661	2,672	8.2%	70,362	64,254	6,108	9.5%
Allowance for equity funds used during construction	(3,435)	(3,232)	(203)	6.3%	(6,578)	(5,998)	(580)	9.7%
Other income	(1,154)	(1,065)	(89)	8.4%	(1,672)	(1,391)	(281)	20.2%
Other expense	755	463	292	63.1%	1,031	970	61	6.3%
Total other expenses (income)	31,499	28,827	2,672	9.3%	63,143	57,835	5,308	9.2%
INCOME BEFORE INCOME TAXES	57,399	49,440	7,959	16.1%	111,103	95,093	16,010	16.8%
INCOME TAX PROVISION	21,098	18,647	2,451	13.1%	40,598	35,575	5,023	14.1%
NET INCOME	$ 36,301	$ 30,793	$ 5,508	17.9%	$ 70,505	$ 59,518	$ 10,987	18.5%

Operating Revenues

Three months ended June 30, 2010 compared to three months ended June 30, 2009

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

(in thousands)	2010 Amount	2010 Percentage	2009 Amount	2009 Percentage	Increase (decrease)	Percentage increase (decrease)
Network revenues	$ 143,670	85.3%	$ 139,225	88.5%	$ 4,445	3.2%
Regional cost sharing revenues	15,695	9.3%	9,857	6.3%	5,838	59.2%
Point-to-point	4,787	2.8%	3,673	2.3%	1,114	30.3%
Scheduling, control and dispatch	3,615	2.2%	3,762	2.4%	(147)	(3.9)%
Other	701	0.4%	721	0.5%	(20)	(2.8)%
Total	$ 168,468	100.0%	$ 157,238	100.0%	$ 11,230	7.1%

Network revenues increased due primarily to higher net revenue requirements at our Regulated Operating Subsidiaries during the three months ended June 30, 2010 as compared to the same period in 2009. Higher net revenue requirements were due primarily to higher rate base associated with higher balances of property, plant and equipment in-service.

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

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Six months ended June 30, 2010 compared to six months ended June 30, 2009

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

	2010		2009			Percentage
(in thousands)	**Amount**	**Percentage**	**Amount**	**Percentage**	**Increase (decrease)**	**increase (decrease)**
Network revenues	$ 283,967	86.1%	$ 277,562	88.6%	$ 6,405	2.3%
Regional cost sharing revenues	26,871	8.1%	19,329	6.2%	7,542	39.0%
Point-to-point	9,505	2.9%	8,321	2.7%	1,184	14.2%
Scheduling, control and dispatch	6,854	2.1%	7,075	2.2%	(221)	(3.1)%
Other	2,559	0.8%	892	0.3%	1,667	186.9%
Total	$ 329,756	100.0%	$ 313,179	100.0%	$ 16,577	5.3%

Network revenues increased due primarily to higher net revenue requirements at our Regulated Operating Subsidiaries during the six months ended June 30, 2010 as compared to the same period in 2009. Higher net revenue requirements were due primarily to higher rate base associated with higher balances of property, plant and equipment in-service.

Regional cost sharing revenues increased due primarily to capital projects placed in-service or expected to be in-service that have been identified by MISO as eligible for regional cost sharing.

Other revenues increased due primarily to revenue recognized at METC for utilization of its jointly-owned transmission lines under its transmission ownership and operating agreements.

Network revenues for the six months ended June 30, 2010 include the network revenue accruals (deferrals) as calculated below:

Line	Item	ITCTransmission	METC	ITC Midwest	ITC Great Plains	Total net revenue deferral
	(in thousands)					
1	Estimated net revenue requirement (network revenues recognized)(a)	$ 115,218	$ 77,235	$ 91,108	$ 406	
2	Network revenues billed(b)	120,844	79,051	86,672	535	
3	Network revenue accruals (deferrals) (line 1 line 2)	$ (5,626)	$ (1,816)	$ 4,436	$ (129)	$ (3,135)

(a) The calculation of net revenue requirement for our MISO Regulated Operating Subsidiaries is described in our Form 10-K for the year ended

December 31, 2009 under Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Cost-Based Formula Rates with True-Up Mechanism Net Revenue Requirement Calculation. The amount is estimated for each reporting period until such time as FERC Form No. 1s are completed for our MISO Regulated Operating Subsidiaries. Regional cost sharing revenues have a separate true-up mechanism and the related revenue accruals or deferrals are included in the regional cost sharing revenue amounts.

(b) Network revenues billed at our MISO Regulated Operating Subsidiaries are calculated based on the joint zone monthly network peak load multiplied by our effective monthly network rates of

$2.818 per kW/month, $2.370 per kW/month and $6.882 per kW/month applicable to ITCTransmission, METC and ITC Midwest, respectively, adjusted for the actual number of days in the month less amounts recovered or refunded associated with our MISO Regulated Operating Subsidiaries 2008 true-up adjustment. Amounts billed through our MISO Regulated Operating Subsidiaries effective transmission rates reduced ITCTransmission, METC and ITC Midwest s regulatory assets associated with the 2008 true-up adjustments and related accrued interest by $9.3 million, $6.1 million and $26.5 million, respectively, during the six months ended June 30, 2010. ITC Great Plains does not receive revenue based on a peak load each month. Our rates at ITC Great Plains are billed ratably each month based on its annual projected net revenue requirement.

Operating Expenses

Operation and maintenance expenses

Three months ended June 30, 2010 compared to three months ended June 30, 2009

Operation and maintenance expenses increased by $1.9 million due to higher vegetation management expenses, by $2.5 million due to higher equipment and structure maintenance expenses and by $1.8 million due to higher tower painting expenses. The lower operation and maintenance expenses in 2009 were due in part to the expense mitigation efforts as described in our Form 10-K for the fiscal year ended December 31, 2009.

Six months ended June 30, 2010 compared to six months ended June 30, 2009

Operation and maintenance expenses increased by $2.9 million due to higher vegetation management expenses, by $2.3 million due to higher equipment and structure maintenance expenses and by $1.6 million due to higher tower painting expenses. The lower operation and maintenance expenses in 2009 were due in part to the expense mitigation efforts as described in our Form 10-K for the fiscal year ended December 31, 2009.

General and administrative expenses

Three months ended June 30, 2010 compared to three months ended June 30, 2009

General and administrative expenses decreased as a result of lower general business expenses of $1.3 million primarily for information technology support and employee relocation expenses, as well as lower professional advisory and consulting services of $1.0 million. General and administrative expenses also decreased by $0.6 million for salaries, benefits and general business expenses associated with development activities at ITC Grid Development and Green Power Express, which are not included in the decreases explained above.

Six months ended June 30, 2010 compared to six months ended June 30, 2009

General and administrative expenses decreased as a result of lower professional advisory and consulting services of $2.9 million as well as lower general business expenses of $2.8 million due in part to lower information technology support and employee relocation expenses. In addition, general and administrative expenses decreased by $1.2 million for salaries, benefits and general business expenses associated with development activities at ITC Grid Development and Green Power Express, which are not included in the decreases explained above. These decreases were partially offset by higher compensation and benefits expenses of $2.2 million due in part to personnel additions and stock compensation expense.

Depreciation and amortization expenses

Three and six months ended June 30, 2010 compared to three and six months ended June 30, 2009

Depreciation and amortization expenses decreased during the three and six months ended June 30, 2010 as compared to the same periods in 2009 due to the reduced depreciation rates that went into effect at ITCTransmission and METC in the third and fourth quarter of 2009, respectively, as described in Note 3 to the condensed consolidated financial statements, partially offset by a higher depreciable asset base resulting from property, plant and equipment additions.

Taxes other than income taxes

Three and six months ended June 30, 2010 compared to three and six months ended June 30, 2009

Taxes other than income taxes increased during the three and six months ended June 30, 2010 as compared to the same periods in 2009 due to higher property tax expenses due primarily to our Regulated Operating Subsidiaries 2009 capital additions, which are included in the assessments for 2010 personal property taxes.

Other Expenses (Income)

Three and six months ended June 30, 2010 compared to three and six months ended June 30, 2009

Interest expense increased during the three and six months ended June 30, 2010 as compared to the same periods in 2009 due primarily to additional interest expense associated with the December 2009 issuance of ITC Holdings $200.0 million 5.50% Senior Notes due January 15, 2020, the December 2009 and February 2010 issuance of ITC Midwest s $75.0 million 4.60% First Mortgage Bonds, Series D, due December 17, 2024 and the May 2010 issuance of METC s $50.0 million 5.64% Senior Secured Notes, due May 6, 2040.

Income Tax Provision

Three and six months ended June 30, 2010 compared to three and six months ended June 30, 2009

Our effective tax rates for the three months ended June 30, 2010 and 2009 are 36.8% and 37.7%, respectively. Additionally, our effective tax rates for the six months ended June 30, 2010 and 2009 are 36.5% and 37.4%, respectively. Our effective tax rate differs from our 35% statutory federal income tax rate due primarily to state income tax provision of $1.7 million and $2.2 million (net of federal benefit) recorded during the three months ended June 30, 2010 and 2009, respectively, and $3.7 million and $4.0 million (net of federal benefit) recorded during the six months ended June 30, 2010 and 2009, respectively, offset by the tax effects of Allowance for Equity Funds Used During Construction (AFUDC equity). The amount of income tax expense relating to AFUDC equity is recognized as a regulatory asset and not included in the income tax provision. Additionally, the income tax provision for the six months ended June 30, 2010 has been reduced by $0.7 million for the settlement of an uncertain tax position resulting from the deductibility of transaction costs incurred in connection with the METC acquisition.

LIQUIDITY AND CAPITAL RESOURCES

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

- Fund capital expenditures at our Regulated Operating Subsidiaries. Our plans with regard to property, plant and equipment investments are described in detail above under Trends and Seasonality.
- Fund business development expenses and related capital expenditures. We are pursuing development activities at Green Power Express as well as at ITC Grid Development that will continue to result in the incurrence of development expenses and could result in significant capital expenditures.
- Fund working capital requirements.
- Fund our debt service requirements. We expect our interest payments to increase during 2010 compared to 2009 as a result of additional debt incurred in 2009 and 2010 to fund our capital expenditures.
- Fund dividends to holders of our common stock.
- Fund contributions to our retirement plans, as described in Note 8 to the condensed consolidated financial statements. The impact of the growth in the number of participants in our retirement benefit plans, financial market conditions that may cause a decrease in the value of our retirement plan assets and changes in the requirements of the Pension Protection Act may require contributions to our retirement plans to be higher than we have experienced in the past.

In addition to the expected capital requirements above, an adverse determination in our appeal relating to the recent denial of our ability to use the sales and use tax exemption as described in Note 10 to the condensed consolidated financial statements would result in additional capital requirements.

We believe that we have sufficient capital resources to meet our currently anticipated short-term needs. We rely on both internal and external sources of liquidity to provide working capital and to fund capital investments. We expect to continue to utilize our

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revolving credit agreements and our cash and cash equivalents as needed to meet our other short-term cash requirements. As of June 30, 2010, we had consolidated indebtedness under our revolving credit agreements of $14.5 million, with unused capacity under the agreements of $325.5 million, or $270.5 million of unused capacity if reduced by Lehman s commitment of $55.0 million described below. In addition, as of June 30, 2010, we had $81.4 million of cash and cash equivalents on hand, which exceeds the amounts that we would typically maintain for operating purposes as a result of the recently completed debt issuances in 2009 and 2010.

Lehman, a former member of our revolving credit agreement syndication, was included in a bankruptcy filing made by its parent, Lehman Brothers Holdings Inc., on September 14, 2008. Lehman s commitment of $55.0 million represented 16.2% of our total revolving credit agreement capacity of $340.0 million and we had no amounts outstanding under the agreements at June 30, 2010 relating to Lehman s participation. On July 22, 2010, we amended our revolving credit facilities to remove Lehman s commitments of $19.8 million, $16.7 million, $9.5 million and $9.0 million for ITC Holdings, ITCTransmission, METC and ITC Midwest, respectively. We believe we have sufficient unused capacity under our revolving credit agreements, even without the Lehman capacity, to meet our short-term capital requirements. Additionally, we believe we will be able to access the financial markets for other short-term capital requirements through term loan agreements.

For our long-term capital requirements, we expect that we will need to obtain additional debt and equity financing. Certain of our capital projects could be delayed in the event we experience difficulties in accessing capital. We expect to be able to obtain such additional financing as needed in amounts and upon terms that will be reasonably satisfactory to us.

Credit Ratings

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

Issuer	**Issuance**	**Standard and Poor s Ratings Services(a)**	**Moody s Investor Service, Inc.(b)**
ITC Holdings	Senior Notes	BBB-	Baa2
ITCTransmission	First Mortgage Bonds	A-	A1
METC	Senior Secured Notes	A-	A1
ITC Midwest	First Mortgage Bonds	A-	A1

(a) Our Standard and Poor s Rating Services credit ratings have a stable outlook.

(b) On April 16, 2010, Moody s Investor Service upgraded the ratings of ITC Holdings, ITCTransmission, METC and ITC

Midwest concluding their review for possible upgrade that was initiated December 4, 2009. ITC Holdings was upgraded to Baa2 from Baa3. The First Mortgage Bonds at ITCTransmission and ITC Midwest and the METC senior secured notes were upgraded to A1 from A2. ITCTransmission, METC and ITC Midwest s issuer ratings were increased to A3 from Baa1. All of the ratings have a stable outlook.

Covenants

Our debt instruments include senior notes, secured notes, first mortgage bonds and revolving credit agreements containing numerous financial and operating covenants that place significant restrictions as described in our Form 10-K for the fiscal year ended December 31, 2009. We are currently in compliance with all debt covenants and in the event of a downgrade in our credit ratings, none of the covenants would be directly impacted.

Cash Flows From Operating Activities

Net cash provided by operating activities was $183.4 million and $108.4 million for the six months ended June 30, 2010 and 2009, respectively. The increase in cash provided by operating activities was due primarily to an increase in cash received for operating revenues of $70.5 million, due mainly to the collection of $41.9 million of the 2008 formula rate revenue accruals and related accrued interest.

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Cash Flows From Investing Activities

Net cash used in investing activities was $162.7 million and $214.2 million for the six months ended June 30, 2010 and 2009, respectively. The decrease in cash used in investing activities was due primarily to lower payments during the six months ended June 30, 2010 for amounts accrued for property, plant and equipment at December 31, 2009 compared to payments during the same period in 2009 for amounts accrued for property, plant and equipment at December 31, 2008.

Cash Flows From Financing Activities

Net cash used in financing activities was $14.1 million for the six months ended June 30, 2010 as compared to net cash provided by financing activities of $109.1 million for the six months ended June 30, 2009. The decrease in cash provided by financing activities was due primarily to a net decrease of $79.3 million in amounts outstanding under our revolving credit agreements and a reduction in net proceeds associated with refundable deposits for transmission network upgrades of $32.7 million during the six months ended June 30, 2010 as compared to the same period in 2009. In addition, proceeds of $100.0 million received in April 2009 from the issuance of ITC Holdings 5.75% Term Loan Agreement, due April 30, 2011 exceeded net proceeds of $40.0 million from the closing of ITC Midwest s 4.60% First Mortgage Bonds, Series D, and proceeds of $50.0 million received from the issuance of METC s 5.64% Senior Secured Notes during 2010.

CONTRACTUAL OBLIGATIONS

Our contractual obligations are described in our Form 10-K for the year ended December 31, 2009. There have been no material changes to that information during the six months ended June 30, 2010, other than amounts borrowed under our revolving credit agreements and other debt issuances as described in Note 5 to the condensed consolidated financial statements.

CRITICAL ACCOUNTING POLICIES

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of these condensed consolidated financial statements requires the application of appropriate technical accounting rules and guidance, as well as the use of estimates. The application of these policies necessarily involves judgments regarding future events. These estimates and judgments, in and of themselves, could materially impact the condensed consolidated financial statements and disclosures based on varying assumptions, as future events rarely develop exactly as forecasted, and the best estimates routinely require adjustment. The accounting policies discussed in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies in our Form 10-K for the fiscal year ended December 31, 2009 are considered by management to be the most important to an understanding of the consolidated financial statements because of their significance to the portrayal of our financial condition and results of operations or because their application places the most significant demands on management s judgment and estimates about the effect of matters that are inherently uncertain. There have been no material changes to that information during the six months ended June 30, 2010.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 2 to the condensed consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Fixed Rate Long-Term Debt

Based on the borrowing rates currently available for bank loans with similar terms and average maturities, the fair value of our consolidated long-term debt, excluding revolving credit agreements, was $2,757.6 million at June 30, 2010. The total book value of our consolidated long-term debt, excluding revolving credit agreements, was $2,443.3 million at June 30, 2010. We performed an analysis calculating the impact of changes in interest rates on the fair value of long-term debt, excluding revolving credit agreements, at June 30, 2010. An increase in interest rates of 10% (from 7.0% to 7.7%, for example) at June 30, 2010 would decrease the fair value of debt by $93.3 million, and a decrease in interest rates of 10% at June 30, 2010 would increase the fair value of debt by $88.7 million at that date.

Revolving Credit Agreements

At June 30, 2010, we had a consolidated total of $14.5 million outstanding under our revolving credit agreements, which are variable rate loans and therefore fair value approximates book value. A 10% increase or decrease in borrowing rates under the revolving credit agreements compared to the weighted average rates in effect at June 30, 2010 would increase or decrease the total interest expense by less than $0.1 million, respectively, for an annual period on a constant borrowing level of $14.5 million.

Other

As described in our Form 10-K for the fiscal year ended December 31, 2009, we are subject to commodity price risk from market price fluctuations, and to credit risk primarily with Detroit Edison, Consumers Energy and IP&L, our primary customers. There have been no material changes in these risks during the six months ended June 30, 2010.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

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

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the three months ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

Other than as previously updated in our Form 10-Q for the quarter ended March 31, 2010, there have been no material changes to the risk factors set forth in Item 1A of our Form 10-K for the fiscal year ended December 31, 2009.

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ITEM 6. EXHIBITS

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

Exhibit No.	Description of Document
4.27	Fifth Supplemental Indenture, dated as of April 20, 2010, between Michigan Electric Transmission Company, LLC and The Bank of New York Mellon Trust Company, N.A. (as successor to JPMorgan Chase Bank), as trustee (filed with Current Report on Form 8-K filed May 10,2010)
10.86	First Amendment, dated as of July 22, 2010, to the Revolving Credit Agreement, dated as of March 29, 2007, among the Registrant, as borrower, the lenders party thereto, JPMorgan Chase Bank, N.A., as the administrative agent, J.P. Morgan Securities Inc., as sole lead arranger and sole bookrunner, and Comerica Bank, Credit Suisse, Cayman Islands Branch and Lehman Brothers Bank, FSB as co-syndication agents (filed with Current Report on Form 8-K filed July 27, 2010)
10.87	First Amendment, dated as of July 22, 2010, to the Revolving Credit Agreement, dated as of March 29, 2007, among International Transmission Company and Michigan Electric Transmission Company, LLC, as borrowers, the lenders party thereto, JPMorgan Chase Bank, N.A., as the administrative agent, J.P. Morgan Securities Inc., as sole lead arranger and sole bookrunner, and Comerica Bank, Credit Suisse, Cayman Islands Branch and Lehman Brothers Bank, FSB as co-syndication agents (filed with Current Report on Form 8-K filed July 27, 2010)
10.88	Second Amendment, dated as of July 22, 2010, to the Revolving Credit Agreement, dated as of January 29, 2008, among ITC Midwest LLC, as borrower, the lenders party thereto, JPMorgan Chase Bank, N.A., as the administrative agent, J.P. Morgan Securities Inc., as sole lead arranger and sole bookrunner, Credit Suisse, Cayman Islands Branch as syndication agent and Lehman Brothers Bank, FSB as documentation agent (filed with Current Report on Form 8-K filed July 27, 2010)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Database
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

* XBRL (Extensible Business Reporting Language) information is furnished and not filed herewith, is not a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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SIGNATURES

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

Dated: July 30, 2010

ITC HOLDINGS CORP.

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

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