

Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

UNISOURCE ENERGY CORP  
Form S-1  
June 27, 2005

As filed with the Securities and Exchange Commission on June 27, 2005  
Registration Statement No. \_\_\_\_\_

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

FORM S-1  
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

UNISOURCE ENERGY CORPORATION  
(Exact name of registrant as  
specified in its charter)

ARIZONA  
(State or other jurisdiction of  
incorporation or organization)

ONE SOUTH CHURCH AVENUE, SUITE 1820, TUCSON, ARIZONA 85701,  
(520) 571-4000 (Address, including zip code, and telephone number, including  
area code, of registrants' principal executive offices)

KEVIN P. LARSON  
UniSource Energy Corporation  
One South Church Avenue, Suite 1820  
Tucson, Arizona 85701  
(520) 571-4000

JOHN T. HOOD, Esq.  
Thelen Reid & Priest LLP  
875 Third Avenue  
New York, New York 10022  
(212) 603-2000

(Names and addresses, including zip codes, and telephone numbers,  
including area codes, of agents for service)

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: From time  
to time after the effective date of this registration statement as determined by  
market conditions and other factors.

If the only securities being registered on this Form are being offered  
pursuant to dividend or interest reinvestment plans, please check the following  
box.

If any of the securities being registered on this Form are to be offered on  
a delayed or continuous basis pursuant to Rule 415 under the Securities Act of  
1933, other than securities offered only in connection with dividend or interest  
reinvestment plans, check the following box.

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

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

If delivery of the prospectus is expected to be made pursuant to Rule 434,  
please check the following box.

Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

-----  
 CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER UNIT (B)	PROPO AG OFFERI
4.50% Convertible Senior Notes due 2035	\$150,000,000 (a)	100%	\$15
Common Stock, without par value	4,000,000 Shares (d)	N/A	
Right to Purchase Preferred Stock, Series X, without par value	4,000,000 Rights (f)	N/A	

SUBJECT TO COMPLETION, DATED JUNE 27, 2005

PROSPECTUS

\$150,000,000

UNISOURCE ENERGY CORPORATION  
 4.50% CONVERTIBLE SENIOR NOTES DUE 2035 AND  
 SHARES OF COMMON STOCK (WITHOUT PAR VALUE) ISSUABLE UPON CONVERSION OF THE NOTES

We issued \$150,000,000 of our 4.50% Convertible Senior Notes due 2035, which we refer to in this prospectus as the "notes," in a private placement in March 2005. Selling securityholders identified in this prospectus may use this prospectus to resell from time to time the notes and the shares of our common stock and preferred share purchase rights issuable upon conversion of the notes. In this prospectus, we sometimes refer to the shares of our common stock issuable or issued upon conversion of the notes as the "shares," and to the notes and/or the shares and preferred share purchase rights, according to the context, as the "securities."

We will pay interest on the notes semiannually each March 1 and September 1, beginning on September 1, 2005. Beginning with the six-month period commencing on March 1, 2015, we will pay contingent interest on the notes if the average trading price of the notes is above a specified level, as described in this prospectus.

The notes are convertible into shares of our common stock at any time prior to the close of business on the business day immediately preceding the maturity date at an initial conversion rate of 26.6667 shares of our common stock per \$1,000 principal amount of notes, which represents a conversion price of approximately \$37.50 per share of common stock, subject to adjustment as set forth in this prospectus. In the event of a fundamental change (as described in this prospectus), each holder may require us to repurchase for cash all or a portion of such holder's notes at a price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest, including contingent interest and additional interest, if any, up to but not including the date of repurchase.

## Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

In addition, in the event of a fundamental change that occurs before March 5, 2010, we will pay a make-whole premium on notes converted in connection therewith, as described in this prospectus. Holders may require us to repurchase for cash all or part of their notes on March 1, 2015, 2020, 2025 and 2030 at a price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest, including contingent interest and additional interest, if any, up to but not including the date of repurchase. The notes will mature on March 1, 2035.

On or after March 5, 2010, we may, at our option, redeem the notes, in whole or in part, at a price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest, including contingent interest and additional interest, if any, up to but not including the date of redemption. There is no sinking fund for the notes.

The notes will be our senior unsecured obligations and will rank equally with all of our other existing and future senior unsecured obligations and will be junior to any of our future secured obligations to the extent of the value of the collateral securing such obligations. Our obligations under the notes will not be guaranteed and will be structurally subordinated in right of payment to all obligations of our subsidiaries, including Tucson Electric Power Company.

We have agreed, pursuant to a registration rights agreement, to file the shelf registration statement, of which this prospectus forms a part, with the Securities and Exchange Commission relating to resales of the notes and the shares of our common stock issuable upon conversion of the notes. In the event that we fail to comply with certain of our obligations under the registration rights agreement, we will pay additional interest on the notes.

We and each holder of the notes have agreed in the indenture to treat the notes as "contingent payment debt instruments" for United States federal income tax purposes. You should read "Material U.S. Federal Income Tax Considerations."

The notes are not listed on any securities exchange. Our common stock is listed on the New York and Pacific stock exchanges under the symbol "UNS." The closing price for our common stock on the New York Stock Exchange on June 21, 2005 was \$29.70.

INVESTING IN THE NOTES INVOLVES RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 6.

The notes are evidenced by global certificates deposited with a custodian for and registered in the name of a nominee of The Depository Trust Company, or DTC. Except as described in this prospectus, beneficial interests in the global certificates will be shown on, and transfers thereon will be effected only through, records maintained by DTC and its direct and indirect participants.

The selling securityholders may sell the securities in negotiated transactions or otherwise, at market prices prevailing at the time of sale, at fixed or varying prices determined at the time of sale, or at negotiated prices. The timing and amount of any sale are within the sole discretion of the selling securityholders. In addition, the shares may be offered from time to time through ordinary brokerage transactions on the New York or Pacific stock exchanges. UniSource Energy Corporation will not receive any of the proceeds from the sale of the securities by any of the selling securityholders. See PLAN OF DISTRIBUTION.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS

# Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

, 2005

## TABLE OF CONTENTS

NOTICE TO INVESTORS.....	ii
INFORMATION REGARDING UNISOURCE ENERGY CORPORATION.....	ii
SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS.....	iii
PROSPECTUS SUMMARY.....	1
RATIO OF EARNINGS TO FIXED CHARGES.....	5
RISK FACTORS.....	6
USE OF PROCEEDS.....	18
PRICE RANGE OF COMMON STOCK.....	18
SELLING SECURITYHOLDERS.....	19
DESCRIPTION OF THE NOTES.....	22
DESCRIPTION OF CAPITAL STOCK.....	43
MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS.....	47
PLAN OF DISTRIBUTION.....	55
LEGAL MATTERS.....	58
EXPERTS.....	58

Appendix A Annual Report on Form 10-K for Fiscal Year Ended December 31, 2004	
Appendix B Quarterly Report on Form 10-Q for Period Ended March 31, 2005	
Appendix C Proxy Statement for Annual Shareholders' Meeting held on May 6, 2005	

## NOTICE TO INVESTORS

THIS PROSPECTUS IS PART OF A REGISTRATION STATEMENT THAT WE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, OR SEC, USING A "SHELF" REGISTRATION PROCESS. UNDER THIS SHELF REGISTRATION PROCESS, THE SELLING SECURITYHOLDERS MAY FROM TIME TO TIME OFFER SECURITIES COVERED BY THIS PROSPECTUS. EACH TIME A SELLING SECURITYHOLDER OFFERS SECURITIES UNDER THIS PROSPECTUS, THE SELLING SECURITYHOLDER WILL PROVIDE A COPY OF THIS PROSPECTUS AND, IF APPLICABLE, A COPY OF A PROSPECTUS SUPPLEMENT. YOU SHOULD READ AND RELY ONLY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS AND, IF APPLICABLE, ANY PROSPECTUS SUPPLEMENT. NEITHER WE NOR ANY SELLING SECURITYHOLDER HAS AUTHORIZED ANY OTHER PERSON TO PROVIDE YOU WITH DIFFERENT OR ADDITIONAL INFORMATION. IF ANYONE PROVIDES YOU WITH DIFFERENT OR ADDITIONAL INFORMATION, YOU SHOULD NOT RELY ON IT. THE SELLING SECURITYHOLDERS ARE OFFERING TO SELL, AND ARE SEEKING OFFERS TO BUY, THE SECURITIES ONLY IN JURISDICTIONS WHERE OFFERS AND SALES ARE PERMITTED. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY OF THE SECURITIES OFFERED BY THIS PROSPECTUS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH AN OFFER OR SOLICITATION. YOU SHOULD NOT ASSUME THAT THE INFORMATION CONTAINED IN THIS PROSPECTUS IS ACCURATE AS OF ANY DATE OTHER THAN THE DATE ON THE FRONT COVER OF THIS PROSPECTUS. OUR BUSINESS PROFILE, FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS MAY HAVE CHANGED SINCE THAT DATE.

## INFORMATION REGARDING UNISOURCE ENERGY CORPORATION

We file annual, quarterly and other reports and other information with the SEC. You can read and copy any information filed by us with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You can obtain additional information about the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site

## Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

(<http://www.sec.gov>) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us.

We have attached as part of this prospectus our Annual Report on Form 10-K for the year ended December 31, 2004 as Appendix A, our Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 as Appendix B and our Proxy Statement for the 2005 Annual Shareholders' Meeting as Appendix C. These appendices contain important information about our business profile, financial condition and results of operations. We also maintain an internet site (<http://www.unisourceenergy.com>). Information contained on our internet site does not constitute part of this prospectus.

ii

### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements, including, without limitation, statements under the captions "Prospectus Summary," "Risk Factors" and "Use of Proceeds" and any other statements located elsewhere in this prospectus regarding our plans, objectives, goals, strategies, future events or performance and underlying assumptions that are not statements of historical facts. The words "anticipates," "estimates," "expects," "intends," "plans," "predicts," "projects" and similar expressions are intended to identify forward-looking statements and information. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. These forward-looking statements are based on estimates and assumptions by our management that, although we believe to be reasonable, are inherently uncertain and subject to a number of risks and uncertainties.

The following list represents some, but not necessarily all, of the factors that could cause actual results to differ from historical results or those anticipated or predicted by these forward-looking statements:

- o the ability of our subsidiaries to make distributions to us in amounts sufficient to make required interest and principal payments on the notes offered hereby or pay dividends on any common stock issued upon conversion of the notes;
- o the effects of restructuring initiatives in the electric industry and other energy-related industries;
- o competition in retail and wholesale energy markets;
- o changes in economic conditions, demographic patterns and weather conditions in our retail service areas;
- o supply and demand conditions in wholesale energy markets, including volatility in market prices and illiquidity in markets, which are affected by a variety of factors. These factors include the availability of generating capacity in the western U.S., including hydroelectric resources, weather, natural gas prices, the extent of utility restructuring in various states, transmission constraints, environmental regulations and cost of compliance, Federal Energy Regulatory Commission, or FERC, regulation of wholesale energy markets, and economic conditions in the western U.S.;

## Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

- o the creditworthiness of the entities with which we and our affiliates transact business or have transacted business;
- o changes affecting our cost of providing electrical service including changes in fuel costs, generating unit operating performance, scheduled and unscheduled plant outages, interest rates, tax laws, environmental laws, and the general rate of inflation;
- o changes in governmental policies and regulatory actions with respect to financing and rate structures;
- o changes affecting the cost of competing energy alternatives, including changes in available generating technologies and changes in the cost of natural gas;
- o changes in accounting principles or the application of such principles to our businesses;
- o changes in the depreciable lives of our assets;
- o market conditions and technological changes affecting our unregulated businesses;

iii

- o unanticipated changes in future liabilities relating to employee benefit plans due to changes in market values of retirement plan assets and health care costs;
- o the outcome of any ongoing or future litigation;
- o our substantial indebtedness; and
- o our ability to obtain financing through debt and/or equity issuances, which can be affected by various factors, including interest rate fluctuations and capital market conditions.

We caution you that the foregoing list of important factors is not exclusive. In addition, in light of these risks and uncertainties, the matters referred to in the forward-looking statements contained in this prospectus may not in fact occur. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

iv

### PROSPECTUS SUMMARY

This summary highlights information appearing elsewhere in this prospectus, including in the appendices hereto. This summary is not complete and does not contain all of the information that you should consider before investing in the notes. You should read this entire prospectus carefully. This

## Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

prospectus contains forward-looking statements, which involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth in "Risk Factors" and elsewhere in this prospectus.

For purposes of this section, references to "we," "us," "our," and "UniSource Energy" refer solely to UniSource Energy Corporation and not to its subsidiaries unless the context clearly suggests otherwise.

### OUR COMPANY

UniSource Energy is a utility holding company headquartered in Tucson, Arizona. UniSource Energy has no significant operations of its own. Our regulated subsidiaries are Tucson Electric Power Company, or TEP, and UniSource Energy Services, or UES, which owns UNS Gas, Inc., or UNS Gas, and UNS Electric, Inc., or UNS Electric. As of March 31, 2005, these companies provided energy to approximately 600,000 customers across Arizona. Our subsidiaries Millennium Energy Holdings, Inc., or Millennium, and UniSource Energy Development Company, or UED, operate unregulated businesses. Our principal executive offices are located at One South Church Avenue, Tucson, Arizona 85701. Our telephone number is (520) 571-4000.

### TUCSON ELECTRIC POWER COMPANY

TEP is a vertically-integrated, regulated utility that generates, purchases, transports and distributes electricity to residential, commercial and industrial customers. TEP's service territory consists of a 1,155 square mile area and includes a population of approximately 931,000 in the Tucson metropolitan area in Pima county, as well as parts of Cochise county. TEP provides power to approximately 378,000 retail customers. TEP holds a franchise to provide electric distribution service to customers in Tucson through 2026. TEP is our largest business segment and contributed 76% of our operating revenues for the year ended December 31, 2004 and comprised 84% of our assets as of December 31, 2004.

### UNS GAS

UNS Gas is a gas distribution company serving approximately 135,600 retail customers in Mohave, Yavapai, Coconino and Navajo counties in northern Arizona, as well as Santa Cruz county in southeast Arizona.

### UNS ELECTRIC

UNS Electric is an electric transmission and distribution company serving approximately 86,500 retail customers in Mohave and Santa Cruz counties.

### GLOBAL SOLAR AND OTHER UNREGULATED BUSINESSES

Millennium holds investments in various companies designed to develop renewable energy and other emerging energy technologies, including Global Solar Energy, Inc., or Global Solar, which develops and manufactures thin-film photovoltaic cells and panels. The assets of Millennium comprised approximately 6% of UniSource Energy's consolidated assets as of December 31, 2004. UniSource Energy intends to cease making capital contributions to Millennium.

THE FOREGOING INFORMATION ABOUT OUR BUSINESSES AND THE BUSINESSES OF OUR PRINCIPAL SUBSIDIARIES IS ONLY A GENERAL SUMMARY AND IS NOT INTENDED TO BE COMPREHENSIVE. FOR ADDITIONAL INFORMATION, YOU SHOULD REFER TO THE INFORMATION DESCRIBED IN APPENDIX A, APPENDIX B AND APPENDIX C OF THIS PROSPECTUS.

FOR A DISCUSSION OF FACTORS THAT COULD CAUSE OUR ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE ANTICIPATED, SEE "RISK FACTORS."

THE OFFERING

Issuer.....	UniSource Energy Corporation
Notes Offered.....	\$150,000,000 aggregate principal amount of 4.50% convertible senior notes due 2035.
Maturity Date.....	March 1, 2035.
Interest Payment Dates.....	March 1 and September 1 of each year, beginning September 1, 2005.
Interest.....	4.50% per annum, payable semiannually, in arrears. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.
Contingent Interest.....	We will pay contingent interest to the holders of notes during any six-month period from March 1 to, and including, August 31 and from September 1 to, and including, the last day of February, commencing with the six-month period beginning March 1, 2015, if the average note price (as described in this prospectus) of a note for the five trading days ending on the third trading day immediately preceding the first day of the relevant six-month period equals 120% or more of the principal amount of such note. The amount of contingent interest payable per \$1,000 principal amount of notes with respect to any such period will be equal to 0.35% per annum of such average note price.
Guarantees.....	The notes will not be guaranteed.
Ranking.....	The notes will be our senior unsecured obligations and will: <ul style="list-style-type: none"> <li>o rank equal in right of payment with all of our other existing and future senior unsecured obligations;</li> <li>o rank junior in right of payment to any of our future secured obligations to the extent of the value of the collateral securing such obligations; and</li> <li>o be structurally subordinate in right of payment to all existing and future obligations of our subsidiaries.</li> </ul>

In addition to the notes, UniSource Energy has a secured credit facility comprised of a \$90 million term loan facility and a \$15 million revolver. As of June 21, 2005, \$80



Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

million of the term loan was outstanding but there were no borrowings outstanding under the \$15 million revolver. UniSource Energy expects to borrow the remaining \$10 million available under the term loan facility by June 30, 2005. As of March 31, 2005, the notes were structurally subordinate to approximately \$1.9 billion of indebtedness of our subsidiaries, \$1.2 billion of which was secured.

Right to Convert..... The notes are convertible into shares of our common stock at any time prior to maturity, redemption or repurchase, at an initial conversion rate of 26.6667 shares of our common stock per \$1,000 principal amount of notes (which represents a conversion price of approximately \$37.50 per share of common stock) under the conditions and subject to such adjustments as described under "Description of the Notes--Conversion of Notes."

2

Except as described in "Description of the Notes--Conversion Rights," upon any conversion, holders will not receive any separate cash payment representing accrued and unpaid interest, contingent or additional interest, if any.

If holders convert their notes in connection with a fundamental change, as described in this prospectus, that occurs prior to March 5, 2010, they may also receive a make-whole premium on the notes that they convert. See "Description of the Notes--Conversion of Notes--Payment Upon Conversion Upon a Fundamental Change" and "Description of the Notes--Determination of the Make-Whole Premium."

Optional Redemption..... On or after March 5, 2010, we may, at our option, redeem for cash, in whole or in part, the notes that have not been previously converted or purchased, at a price equal to 100% of the principal amount plus accrued and unpaid interest (including contingent and additional interest), if any.

Put Rights..... Holders may require us to repurchase for cash all or part of their notes on March 1, 2015, 2020, 2025 and 2030 at a price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest (including contingent and additional interest), if any, up to, but not including, the date of repurchase.

Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

Fundamental Change.....	If a fundamental change occurs, each holder of the notes may require us to repurchase for cash all or a portion of such holder's notes at a price equal to 100% of their principal amount, plus accrued and unpaid interest (including contingent and additional interest), if any, up to, but not including, the date of repurchase.
Make-Whole Premium Upon a Fundamental Change.....	<p>In the event of a fundamental change that occurs prior to March 5, 2010, we may be required to pay a make-whole premium on notes converted in connection with the fundamental change. The make-whole premium will be payable in shares of our common stock, or the consideration into which our common stock has been converted or exchanged in connection with such fundamental change, on the repurchase date for the notes after the fundamental change.</p> <p>The amount of the make-whole premium, if any, will be based on the stock price (as described in this prospectus) and the effective date of the fundamental change. A description of how the make-whole premium will be determined and a table showing the make-whole premium that would apply at various stock prices and fundamental change effective dates is set forth under "Description of the Notes--Determination of the Make-Whole Premium."</p>
Sinking Fund.....	None.
Use of Proceeds.....	The selling securityholders will receive all of the net proceeds from the sale of the securities. We will not receive any of the proceeds from the sale of the securities by the selling securityholders.
Registration Rights.....	We have filed a shelf registration statement, of which this prospectus is a part, to cover resales of the securities under the Securities Act. We have agreed to use our commercially reasonable efforts to keep the shelf registration statement effective until certain specified times. If we fail to satisfy this obligation, we will be required to pay additional interest to the holders of the securities. See "Description of the Notes--Registration Rights."
Trustee and Paying Agent.....	The Bank of New York

## Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

DTC Eligibility.....	The notes were issued in book-entry form and are represented by permanent global certificates deposited with, or on behalf of, The Depository Trust Company, or DTC, and registered in the name of a nominee of DTC. Beneficial interests in any of the notes will be shown on, and transfers will be effected only through, records maintained by DTC or its nominee, and any such interest may not be exchanged for certificated securities, except in limited circumstances. See "Description of the Notes--Book-Entry, Delivery and Form."
Listing and Trading.....	The notes are currently eligible for trading on the PORTAL system; however, the notes sold by the selling shareholders under this prospectus are not expected to remain eligible for trading on the PORTAL system. We have not applied, and do not intend to apply, for listing of the notes on any securities exchange or the inclusion of the notes on any automated dealer quotation system. Consequently, your ability to sell the notes may be limited by the absence of an active trading market, and if one develops, it may not be liquid. Our common stock is listed on the New York and Pacific stock exchanges under the symbol "UNS."
Governing Law.....	The indenture and the notes are governed by, and construed in accordance with, the laws of the State of New York.
Risk Factors.....	An investment in the securities involves risks. Prospective investors should carefully consider the information set forth under "Risk Factors" beginning on page 6 of this prospectus before deciding to invest in the notes.
U.S. Federal Income Tax Considerations.....	Under the indenture governing the notes, we agreed, and by acceptance of a beneficial interest in a note each holder of a note was deemed to have agreed, to treat the notes as indebtedness for U.S. federal income tax purposes that is subject to the Treasury Regulations governing contingent payment debt instruments. Pursuant to such treatment, a holder may recognize taxable income in each year that is significantly in excess of interest payments (whether fixed or contingent) actually received that year. Additionally, a holder will generally be required to recognize ordinary income on the gain, if any, realized on a sale, exchange, conversion or redemption of the notes. Holders are urged to consult their own tax advisors with respect to the U.S. federal, state, local and foreign tax consequences of purchasing, owning and disposing of the

## Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

notes and common stock issuable upon conversion of the notes. See "Risk Factors--You should consider the U.S. federal income tax consequences of owning the notes" and "Material U.S. Federal Income Tax Considerations."

4

### RATIO OF EARNINGS TO FIXED CHARGES

Our ratio of earnings to fixed charges is computed by dividing our earnings by our fixed charges before income taxes. For the purposes of such computations earnings are defined as pre-tax earnings from continuing operations before minority interest, plus interest expense and amortization of debt discount and expense related to indebtedness. Fixed charges are interest expense, including amortization of debt discount and expense on indebtedness.

The following table shows our ratio of earnings to fixed charges for the periods indicated:

Year ended December 31, 2000	Year ended December 31, 2001	Year ended December 31, 2002	Year ended December 31, 2003	Year ended December 31, 2004	Twelve months ended March 31, 2005
1.38	1.77	1.36	1.37	1.43	1.37

5

### RISK FACTORS

Your investment in the notes will involve substantial risks. You should carefully consider the following factors in addition to the other information set forth in this prospectus before you decide to purchase the notes offered hereby. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that we do not presently know about or that we currently believe are immaterial may also adversely impact our business operations. If any of the following risks actually occur, our business, financial condition, results of operations, cash flows and our ability to make payments on the notes would likely suffer.

#### RISKS RELATING TO OUR INDEBTEDNESS AND THE NOTES

## Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

WE ARE A HOLDING COMPANY AND HAVE NO OPERATING INCOME OF OUR OWN. OUR ABILITY TO MAKE PAYMENTS ON THE NOTES IS DEPENDENT ON RECEIVING DIVIDENDS AND OTHER PAYMENTS FROM OUR SUBSIDIARIES. OUR SUBSIDIARIES DO NOT GUARANTEE OUR OBLIGATIONS UNDER THE NOTES OFFERED HEREBY.

We have no operations of our own and derive all of our revenues and cash flow from our subsidiaries. Our subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay amounts due under the notes or to make any funds available to us to pay those amounts, whether by dividend, distribution, loan or other payments. Our subsidiaries may not be able to, or be permitted to, make distributions to us to enable us to make payments in respect of our indebtedness, including the notes, due to contractual restrictions. In addition, our regulated subsidiaries have made certain commitments to the Arizona Corporation Commission ("ACC") and, in the case of TEP and UNS Electric, are subject to constraints under the Federal Power Act, that affect their ability to make distributions to us.

If we do not receive sufficient dividends and other payments from our subsidiaries to service our debt, we may be required to refinance all or a portion of our existing debt or to obtain additional financing. There can be no assurance that any refinancing will be possible or that any additional financing could be obtained on terms acceptable to us. Our inability to obtain additional financing could have a material adverse effect on our financial position, liquidity and results of operations.

WE HAVE A SUBSTANTIAL AMOUNT OF INDEBTEDNESS FOLLOWING THE ORIGINAL OFFERING OF THE NOTES, WHICH MAY ADVERSELY AFFECT OUR ABILITY TO REMAIN IN COMPLIANCE WITH DEBT COVENANTS AND MAKE PAYMENTS ON OUR INDEBTEDNESS, INCLUDING THE NOTES OFFERED HEREBY.

Subsequent to the original offering of the notes, UniSource Energy incurred additional indebtedness in the form of borrowings under a new UniSource Energy credit agreement entered into in April 2005, to complete its strategy of recapitalizing TEP. This indebtedness could make it more difficult for us to satisfy our obligations with respect to the notes, and any failure to comply with any financial and other restrictive covenants in our debt instruments could result in an acceleration of such indebtedness and an event of default under the indenture governing the notes.

We will be able to incur significant additional indebtedness in the future. The indenture governing the notes does not contain restrictions on the incurrence of additional indebtedness. If new debt is added to our current debt levels, the related risks that we now face, including those described above, would intensify.

THE NOTES WILL BE JUNIOR TO ANY SECURED DEBT THAT WE HAVE ISSUED OR MAY ISSUE IN THE FUTURE AND WILL RANK EQUALLY WITH ALL OF OUR EXISTING AND ANY FUTURE SENIOR INDEBTEDNESS THAT WE MAY INCUR.

The notes will be our senior unsecured indebtedness. Accordingly, the notes will be junior to any secured debt, including our existing credit agreement, that we have issued or may issue in the future to the extent of the value of the collateral securing such obligations and will rank equally with all of our existing and any future senior unsecured indebtedness that we may incur. In the event of our bankruptcy, liquidation or reorganization or similar proceeding, holders of any of our existing secured debt or future secured debt we issue will have claims that are prior to your claims as holders of the notes

## Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

to the extent of the value of the assets securing such other secured debt. As a result, there may not be sufficient assets remaining to pay amounts due on any or all of the outstanding notes.

The indenture governing the notes does not prohibit or limit us or our subsidiaries from incurring additional indebtedness, including additional senior or secured indebtedness, and other liabilities, or from pledging assets to secure such indebtedness and liabilities. The incurrence of additional indebtedness and, in particular, the granting of a security interest to secure the indebtedness, could adversely affect our ability to pay our obligations on the notes.

THE NOTES OFFERED HEREBY ARE STRUCTURALLY SUBORDINATED TO ALL OF THE DEBT AND LIABILITIES OF OUR SUBSIDIARIES.

The notes are structurally subordinated to all debt and liabilities of our subsidiaries, including TEP. In the event of a bankruptcy, liquidation or reorganization or similar proceeding relating to any of our subsidiaries, you will participate with all other holders of our indebtedness in UniSource Energy's claims to the assets remaining after such subsidiaries have paid all of their debt and liabilities. In any of these cases, our subsidiaries may not have sufficient funds to make payments to us, and you may receive no payments or less, ratably, than the holders of debt and other liabilities of our subsidiaries. Our subsidiaries will be able to incur significant indebtedness in the future subject to compliance with applicable debt covenants and regulatory requirements.

THE NOTES ARE NOT, AND MAY NOT BE, RATED.

We have no obligation, and do not intend, to have the notes rated. If one or more rating agencies does rate the notes and assigns the notes a rating lower than the rating expected by investors, or subsequently reduces any such rating, the market price of the notes and our common stock would be harmed.

REGULATORY RESTRICTIONS LIMIT THE ABILITY OF OUR REGULATED SUBSIDIARIES TO MAKE DISTRIBUTIONS TO US.

Regulatory restrictions limit the ability of our regulated subsidiaries to make distributions to us. These restrictions include:

- o a limitation on the payment of dividends to us unless certain financial tests are satisfied; and
- o a restriction on lending or transferring funds or issuing securities without ACC approval.

The ACC has issued an order that prevents TEP from paying dividends exceeding 75% of TEP's earnings unless its common equity equals at least 40% of its total capitalization (which, as calculated by the ACC, includes common equity, preferred equity and long-term debt, including current maturities of such debt, and excludes capital lease obligations). As of March 31, 2005, the ratio of TEP's common equity to total capitalization, determined on a pro forma basis after giving effect to recent debt reductions and capital contributions from UniSource Energy, and as calculated for ACC purposes, was approximately 40%.

The Federal Power Act also restricts electric utilities' ability to pay dividends. Pursuant to the Federal Power Act, electric utilities cannot pay dividends out of funds that are properly included in their capital account. TEP has an accumulated deficit rather than positive retained earnings. Although the

## Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

terms of the Federal Power Act are unclear, we believe there is a reasonable basis for TEP to pay dividends from current year earnings. However, the FERC could attempt to stop TEP from paying further dividends or could seek to impose additional restrictions on the payment of dividends.

Since TEP's ability to make distributions to us is dependent on the amount of its current net income, any condition or event which reduces its net income would adversely affect its ability to make distributions to us. Reductions in net income could result from decreased revenues or increased expenses, including non-cash charges and charges resulting from changes in accounting regulations or practices.

The ACC has also issued an order which prevents UNS Gas and UNS Electric from paying dividends exceeding 75% of their earnings unless their respective common equity is equal to at least 40% of their respective total

7

capitalization. As of March 31, 2005, the ratio of common equity to total capitalization of UNS Gas and UNS Electric was approximately 41% and 43%, respectively.

CONTRACTUAL RESTRICTIONS MAY RESULT IN US NOT HAVING ACCESS TO THE CASH FLOW OF OUR SUBSIDIARIES THAT WILL BE NEEDED TO MAKE PAYMENTS ON THE NOTES OFFERED HEREBY.

The terms of the credit facilities and other existing debt instruments at our subsidiaries restrict their ability to pay dividends and otherwise transfer assets to us. In addition, future agreements may not permit our subsidiaries to provide us with sufficient dividends, distributions or loans to fund scheduled interest and principal payments on the notes when due.

TEP cannot pay dividends to us unless it complies with the covenants in its credit agreement, including covenants that require TEP to maintain a minimum cash coverage ratios of 2.25 to 1.0 and a maximum total leverage ratio (all such ratios being calculated as provided in the credit agreement). The following table shows TEP's maximum leverage ratios under its credit agreement:

PERIOD	MAXIMUM RATIO
-----	-----
Through and including December 31, 2005	4.75
From January 1, 2006 through and including December 31, 2006	4.50
From January 1, 2007 through and including December 31, 2007	4.25
After December 31, 2007	4.00

As of March 31, 2005, TEP's actual cash coverage ratio was 3.29 to 1.00 and its actual leverage ratio was 4.29 to 1.00.

The ability of UNS Gas and UNS Electric to make dividend payments to us is also restricted by the instruments governing their debt.

As of March 31, 2005, compliance with the covenants in the UNS Gas and UNS Electric debt instruments would not have prevented dividends which would otherwise have been permitted under the ACC limitations. It is unlikely,

## Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

however, that UNS Gas or UNS Electric will pay dividends in the next five years due to their own expected cash requirements for capital expenditures.

OUR SUBSIDIARIES HAVE A SUBSTANTIAL AMOUNT OF INDEBTEDNESS WHICH COULD ADVERSELY AFFECT THEIR BUSINESS AND RESULTS OF OPERATIONS.

Our ability to make payments on the notes is dependent on the earnings and distributions of funds from our subsidiaries. The substantial indebtedness of our subsidiaries could have important consequences for their businesses and results of operations and subsequently on their ability to distribute amounts to us. For example, it could:

- o require our subsidiaries to dedicate a substantial portion of their cash flow to pay principal and interest on their debt, which could reduce the funds available for working capital, capital expenditures, acquisitions and other general corporate purposes;
- o make our subsidiaries more vulnerable to restrictions imposed by new government regulations as well as changes in general economic, industry and competitive conditions; and

8

- o limit the ability of our subsidiaries to borrow additional amounts for working capital, capital expenditures, acquisitions, debt service requirements, execution of their business strategy or other purposes.

In addition, the interest expense of our subsidiaries could increase if interest rates rise because certain of their debt instruments bear interest at floating rates. A one percent increase (decrease) in average interest rates under these agreements would result in a decrease (increase) in UniSource Energy's annual pre-tax net income of approximately \$4 million.

The substantial indebtedness of our subsidiaries could make it more difficult for our subsidiaries to comply with the obligations of their debt instruments, and any failure to comply with the obligations of any of their debt instruments, including financial and other restrictive covenants, could result in an event of default under the agreements governing UniSource Energy's indebtedness.

If our subsidiaries do not have sufficient earnings to service their debt or make distributions to us to make payments on the notes, we and our subsidiaries may be required to refinance all or part of their existing debt, borrow more money or sell securities, none of which can we guarantee we will be able to do. Any borrowings, issuance of securities or pledge of assets to secure the payment of debt by our regulated subsidiaries would be subject to ACC approval. Any refinancing of our or our subsidiaries' debt could be at higher interest rates and could require us or them to comply with more onerous covenants, which could further restrict our business operations. In addition, the terms of existing or future debt instruments may restrict us and our subsidiaries from adopting some of these alternatives.

THE TERMS OF OUR AND OUR SUBSIDIARIES' EXISTING DEBT INSTRUMENTS AND FUTURE DEBT INSTRUMENTS MAY RESTRICT OUR CURRENT AND FUTURE OPERATIONS, PARTICULARLY OUR ABILITY TO RESPOND TO CHANGES IN OUR BUSINESS OR TO TAKE CERTAIN ACTIONS.

Our credit facility, the credit facility at TEP and other existing debt



## Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

instruments of our subsidiaries contain, and any future indebtedness would likely contain, a number of restrictive covenants that impose significant operating and financial restrictions on us, including restrictions on our ability to engage in acts that may be in our best long-term interests. As described above, the TEP credit facility includes financial covenants, including requirements to:

- o maintain certain minimum cash coverage ratios; and
- o not exceed certain maximum total leverage ratios.

Our credit facility also contains similar financial covenants. The financial covenants contained in both credit facilities will become more restrictive over time.

The TEP credit facility also includes covenants restricting, among other things, the ability of TEP to:

- o incur additional debt;
- o pay dividends, or make redemptions and repurchases, with respect to capital stock;
- o incur certain liens;
- o make certain loans and investments; and
- o engage in mergers, acquisitions, asset sales and sale/leaseback transactions.

Our credit facility includes covenants restricting, among other things, our and our subsidiaries' ability to:

- o pay dividends, or make redemptions and repurchases, with respect to capital stock;

9

- o incur additional debt;
- o incur certain liens;
- o make certain loans and investments; and
- o engage in mergers, acquisitions, asset sales and sale/leaseback transactions.

The operating and financial restrictions and covenants in our and our subsidiaries' existing debt agreements and any future financing agreements may adversely affect our ability to finance future operations or capital needs or to engage in other business activities. A breach of any of the restrictive covenants in any of our or our subsidiaries' credit facilities could result in a default under the indenture governing the notes offered hereby.

WE MAY NOT BE ABLE TO REPURCHASE NOTES UPON A FUNDAMENTAL CHANGE OR UPON THE EXERCISE OF THE HOLDERS' OPTIONS TO REQUIRE REPURCHASE OF THE NOTES.

Upon the occurrence of certain fundamental change events and on specified dates, you will have the right to require us to repurchase your notes

## Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

at a purchase price in cash equal to 100% of the principal amount of your notes plus accrued and unpaid interest, if any. Any future credit agreement or other agreements relating to indebtedness to which we become a party may contain similar provisions. In the event we experience a fundamental change that results in us having to repurchase the notes offered hereby or upon the exercise of the holders' options to require repurchase of the notes, we may not have sufficient financial resources to satisfy all of our obligations under the notes and our other debt instruments. Our failure to make the fundamental change offer or to pay the fundamental change purchase price when due or to make payments upon the exercise of the holders' options to require repurchase of the notes would result in a default under the indenture governing the notes. In addition, the fundamental change feature of the notes does not cover all corporate reorganizations, mergers or similar transactions and may not provide you with protection in a highly leveraged transaction. See "Description of the Notes--Repurchase of Notes at the Option of Holders--Repurchase of Notes at the Option of Holders Upon a Fundamental Change" and "Description of the Notes--Consolidation, Merger and Sale of Assets."

THERE IS NO ESTABLISHED TRADING MARKET FOR THE NOTES. YOUR ABILITY TO SELL THE NOTES MAY BE LIMITED BY THE ABSENCE OF AN ACTIVE TRADING MARKET, AND IF ONE DEVELOPS, IT MAY NOT BE LIQUID.

The notes are a new issue of securities for which there currently is no established trading market. Consequently, the notes will be relatively illiquid, and you may be unable to sell your notes. The notes are currently eligible for trading in PORTAL but are not expected to remain so after they are sold pursuant to the registration statement of which this prospectus forms a part. We do not intend to apply for the notes to be listed on any securities exchange or to arrange for quotation on any automated dealer quotation system. The initial purchasers have advised us that they intend to make a market in the notes, but they are not obligated to do so. The initial purchasers may discontinue any market-making in the notes at any time, in their sole discretion. As a result, any trading market for the notes may not be liquid. You may not be able to sell your notes at a particular time or at favorable prices or at all.

The liquidity of any market for the notes and the future trading prices of the notes will depend on many factors, including:

- o our operating performance and financial condition;
- o prevailing interest rates;
- o our ability to get the shelf registration statement related to resales of the notes and the underlying shares of common stock declared effective by the SEC;
- o the interest of securities dealers in making a market in the notes; and

10

- o the market for similar securities.

Historically, the market for non-investment grade debt has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the notes offered hereby. The market for the notes, if any, may be subject to similar disruptions. Any such disruptions may adversely affect the value of your notes.

## Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

YOU SHOULD CONSIDER THE U.S. FEDERAL INCOME TAX CONSEQUENCES OF OWNING THE NOTES.

Under the indenture governing the notes, we have agreed, and by acceptance of a beneficial interest in a note each holder of a note will be deemed to have agreed, to treat the notes as indebtedness for U.S. federal income tax purposes that is subject to the Treasury Regulations governing contingent payment debt instruments (which are referred to as the "contingent payment debt regulations"). For U.S. federal income tax purposes, interest income on the notes will accrue at the rate of 6.50% per year, compounded semi-annually, which rate represents our determination of the yield at which we could issue a comparable non-contingent, non-convertible, fixed-rate debt instrument with terms and conditions otherwise similar to the notes. A United States Holder (as that term is defined in "Material U.S. Federal Income Tax Considerations") will be required to accrue interest income on a constant yield to maturity basis at this rate (subject to certain adjustments), with the result that a United States Holder generally will recognize taxable income significantly in excess of interest payments received while the notes are outstanding.

A United States Holder will also recognize gain or loss on the sale, conversion, exchange, redemption or retirement of a note in an amount equal to the difference between the amount realized on the sale, conversion, exchange, redemption or retirement of a note, including the fair market value of our common stock received, and the United States Holder's adjusted tax basis in the note. Any gain recognized on the sale, conversion, exchange, redemption or retirement of a note will be ordinary interest income and any loss will be ordinary loss to the extent of the interest previously included in income, and thereafter, capital loss.

The application of the contingent payment debt regulations to instruments such as the notes is uncertain in several significant respects, and, as a result, no assurance can be given that the Internal Revenue Service ("IRS") or a court will agree with the treatment described herein. No ruling will be obtained from the IRS concerning the application of the contingent payment debt regulations to the notes. Any differing treatment could materially affect the amount, timing and character of income, gain or loss in respect of an investment in the notes. In particular, a holder might be required to accrue interest income at a higher or lower rate, might not recognize income, gain or loss upon conversion of the notes into shares of our common stock, might recognize capital gain or loss upon a taxable disposition of the notes and might have an adjusted tax basis in the notes or our common stock acquired upon conversion of a note materially different than described herein.

Additionally, we are uncertain as to whether we are a U.S. real property holding corporation for U.S. federal income tax purposes. If we are or become a U.S. real property holding corporation, certain Non-United States Holders (as that term is defined in "Material U.S. Federal Income Tax Considerations") may be subject to U.S. federal income tax on any gain realized on (a) the sale, conversion, exchange, redemption or retirement of the notes or (b) the sale or other disposition of our common stock received upon conversion.

The material U.S. federal income tax consequences of the purchase, ownership and disposition of the notes are summarized in this prospectus under the heading "Material U.S. Federal Income Tax Considerations."

WE EXPECT THAT THE TRADING VALUE OF THE NOTES WILL BE SIGNIFICANTLY AFFECTED BY THE PRICE OF OUR COMMON STOCK AND OTHER FACTORS.

The market price of the notes is expected to be significantly affected by the market price of our common stock. This may result in greater volatility in the trading value of the notes than would be expected for non-convertible

## Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

debt securities.

BEFORE CONVERSION, HOLDERS OF THE NOTES WILL NOT BE ENTITLED TO ANY STOCKHOLDER RIGHTS WITH RESPECT TO OUR COMMON STOCK, BUT HOLDERS WILL BE SUBJECT TO ALL CHANGES AFFECTING OUR COMMON STOCK.

11

Holders of notes will not be entitled to any rights with respect to our common stock (including, without limitation, voting rights and rights to receive any dividends or other distributions on our common stock), but holders will be subject to all changes affecting the common stock. A holder will only be entitled to rights with respect to the common stock if and when we deliver shares of common stock to the holder upon conversion of its notes. For example, in the event that an amendment is proposed to our articles of incorporation or bylaws requiring shareholder approval and the record date for determining the shareholders of record entitled to vote on the amendment occurs prior to the conversion date, the holders of the notes will not be entitled to vote on the amendment, although they will nevertheless be subject to any changes in the powers, preferences or special rights of our common stock.

WE MAY ISSUE ADDITIONAL SHARES OF COMMON STOCK AND THEREBY MATERIALLY AND ADVERSELY AFFECT THE PRICE OF OUR COMMON STOCK.

We are not restricted from issuing additional common stock during the remaining life of the notes and we have no obligation to consider the interests of the holders of notes in connection with any such issuance. If we issue additional shares of common stock, it may materially and adversely affect the price of our common stock and, in turn, the price of the notes.

OUR SHAREHOLDER RIGHTS PLAN AND CERTAIN PROVISIONS OF ARIZONA LAW AND THE NOTES OFFERED HEREBY COULD LIMIT ANOTHER PARTY'S ABILITY TO ACQUIRE US.

Our shareholder rights plan and the provisions of Arizona Law described below under "Description of Capital Stock", individually or collectively, may make it difficult for another company to acquire control of us, even if the transaction would result in the shareholders receiving a premium for their shares over current market prices. Certain provisions of the notes may also have a similar effect.

### RISKS RELATING TO OUR BUSINESS

OUR REGULATED SUBSIDIARIES ARE SUBJECT TO COMPREHENSIVE ENERGY REGULATION, AND CHANGES IN OUR REGULATED SUBSIDIARIES' REGULATORY ENVIRONMENT AND RECENT EVENTS IN THE ENERGY MARKETS THAT ARE BEYOND OUR CONTROL MAY SIGNIFICANTLY AFFECT OUR BUSINESS AND OUR ACCESS TO CAPITAL MARKETS.

Our regulated subsidiaries are subject to comprehensive and changing governmental regulation at both the state and federal levels. Steps taken and being considered at the state and federal levels continue to change the structure of the electric industry and utility regulation.

At the state level, the ACC has jurisdiction over TEP's, UNS Gas' and UNS Electric's rates charged to retail customers, the issuance of securities, disposition of assets and transactions with affiliated parties.

At the federal level, our regulated subsidiaries are subject to regulation by the FERC under the Federal Power Act, among other things. The FERC has jurisdiction over rates for electric transmission in interstate commerce and

## Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

rates for wholesale sales of electric power, among other things. The FERC regulates the terms and prices of our regulated subsidiaries' transmission services and sales of electricity at wholesale prices.

In July 2002, the FERC issued a Notice of Proposed Rulemaking on what it called "standard market design," or "SMD," that called for "sweeping changes" to the federal energy regulatory regime, including, among other things, a proposed requirement that all transmission-owning utilities transfer control of their transmission facilities to a regional transmission organization, or RTO. TEP and other transmission owners in the southwest United States have made various filings with the FERC regarding the formation of an RTO to be known as WestConnect RTO, including an October 2001 petition for declaratory order as to whether the WestConnect RTO proposal would satisfy FERC's criteria for an RTO. An October 2002 FERC order, as clarified and reheard by a September 2003 FERC order, found that, if modified in certain respects, the WestConnect RTO proposal would generally satisfy FERC's RTO requirements. In an April 2003 white paper, which used the term "wholesale market platform" in lieu of "SMD," FERC indicated that it was considering a more flexible approach to the regulatory initiatives contemplated by its July 2002 Notice of Proposed Rulemaking that would, among other things, allow for greater regional variations between and among RTOs.

12

Participation in an RTO, like that which might be required or promoted by FERC through a final order on SMD or other actions, would materially alter the manner in which UniSource Energy's regulated utilities own and operate their transmission services. We cannot predict the precise nature or effect of the FERC's SMD or RTO initiatives or whether WestConnect RTO will be approved as proposed.

As a result of the energy crisis in California during 2000 and 2001, the volatility of natural gas and electricity prices in North America, the bankruptcy filings by Enron Corporation and Pacific Gas & Electric Company, and investigations by governmental authorities into energy trading activities, companies in the regulated and unregulated utility businesses have been under increased scrutiny by state and federal regulators, the capital markets and the rating agencies. We cannot predict or control what effect these types of events or future actions of regulatory agencies may have on our business or our access to capital markets.

DEREGULATION OR RESTRUCTURING OF THE ELECTRIC INDUSTRY MAY RESULT IN INCREASED COMPETITION, WHICH COULD HAVE A SIGNIFICANT IMPACT ON OUR BUSINESS AND FINANCIAL RESULTS.

In 1999, the ACC approved rules that provided a framework for the introduction of retail electric competition in Arizona. Continued regulatory developments and legal challenges to the rules, however, have raised uncertainty about the status and pace of retail competition in Arizona. Currently, none of TEP's retail customers are receiving energy from other providers. TEP cannot predict when, and the extent to which, competitors will enter TEP's service territory.

In January 2005, an Arizona Court of Appeals decision became final in which the Court held invalid certain portions of the ACC rules on retail competition and related market pricing. Based on this decision, we expect that the ACC will address the competition rules in an administrative proceeding during 2005. We cannot predict what changes, if any, the ACC will make to the competition rules. Additionally, notwithstanding the presence of a 1999 settlement agreement addressing TEP rates and generation services, we cannot

## Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

predict whether the ACC will attempt to reinstate cost of service ratemaking for all or a portion of TEP's generation services at a future point in time or whether, in addressing its competition rules, the rate mechanisms established under the 1999 settlement agreement will be modified prior to the expiration of the 1999 settlement agreement in 2008.

As a result of changes in federal laws and regulatory policy, competition in the wholesale market has greatly increased due to increased participation by utilities, non-utility generators, independent power producers and other wholesale power marketers and brokers. As of the end of 2004, electric generating capacity in Arizona has grown to approximately 25,000 MW, an increase of nearly 60% since 2001. A majority of this growth over the last three years is the result of 16 new or upgraded gas-fired generating units with a combined capacity of approximately 9,200 MW. Increased competition together with increased supply could reduce the prices at which we sell electricity in the wholesale market, which could reduce our wholesale sales and revenues. In addition, the presence of fewer creditworthy counterparties, as well as legal, political and regulatory uncertainties, has reduced market liquidity and trading volume and therefore increased volatility in the wholesale energy markets.

RESTRICTIONS ON RATE INCREASES AT TEP, UNS GAS AND UNS ELECTRIC COULD NEGATIVELY IMPACT OUR RESULTS OF OPERATIONS, CASH FLOWS AND NET INCOME.

TEP entered into a settlement agreement with certain customer groups in 1999 ("1999 Settlement Agreement"). TEP does not have a purchase power or fuel adjustment rate mechanism. Under the terms of the settlement agreement, no rate case filed by TEP through 2008 may result in a net rate increase. In the event that power purchase, natural gas or coal costs, operation and maintenance or other expenses increase, TEP could be adversely affected unless TEP were able to seek recovery of such increased costs under emergency provisions of the 1999 settlement agreement. TEP may not be able to recover such costs.

On June 1, 2004, TEP filed general rate case information with the ACC. TEP's filing does not propose any change in retail rates. Absent the restriction on raising rates provided in the 1999 Settlement Agreement, we believe that the data presented by TEP would justify an increase in retail rates of 16%. Despite the indicated revenue deficiency, the ACC could conclude that TEP should decrease rates. Such a decision could adversely affect TEP's results of operations, cash flows and net income.

13

Under the terms of the ACC order approving UniSource Energy's acquisition of the Arizona gas and electric assets of Citizens Communications Company ("Citizens") ("ACC Citizens Order"), UNS Gas and UNS Electric may not file a general rate case until August 2006 and any resulting rate increase may not become effective until August 1, 2007. UNS Gas has an automatic gas price adjustment mechanism, known as the Purchased Gas Adjustor Factor, or PGA Factor, through which increases or decreases in the cost of gas can be passed on to customers. The PGA Factor is calculated on a 12-month rolling average of actual gas costs and is subject to a cap on how much the factor can change in a twelve-month period. When under- or over-recovery of gas costs reaches approximately \$4.5 million, UNS Gas may request a PGA surcharge or surcredit, which is subject to a review by the ACC, with the goal of collecting or refunding the amount deferred from or to customers. UNS Gas may therefore not be able to recover increased fuel costs in a timely manner or at all. UNS Electric has a purchase power and fuel rate adjustment clause which allows for adjustment to the base rate for increased or lower power prices through a separate surcharge or surcredit which must be approved by the ACC. Otherwise, UNS Gas and

## Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

UNS Electric must seek recovery of increased costs (such as maintenance or capital expenditure costs) either through emergency provisions contained in the ACC Citizens Order or through future general rate case proceedings. UNS Gas and UNS Electric may not be able to recover such costs.

Prices for wholesale electricity and natural gas may fluctuate substantially over relatively short periods of time and expose TEP, UNS Gas and, to a lesser extent, UNS Electric to commodity price risks to the extent they cannot be passed onto customers in a timely manner or at all. Wholesale electricity prices in the western markets have been volatile in recent years. In the event of shortfalls due to unforeseen increases in load demand or outages of generation or transmission, TEP may need to purchase additional supplemental power in the wholesale spot market at higher prices than are recovered through existing rates.

Restrictions on rate increases at TEP, UNS Gas and UNS Electric also expose them to other changes in costs related to interest rates, employee benefits and other costs of doing business.

MATERIAL CHANGES TO TEP'S RETAIL RATES COULD OCCUR, WHICH COULD NEGATIVELY IMPACT TEP'S RESULTS OF OPERATIONS, CASH FLOWS AND NET INCOME.

The 1999 Settlement Agreement provides that TEP's fixed competitive transition charge ("fixed CTC") will expire when TEP's \$450 million transition recovery asset is fully amortized or on December 31, 2008, whichever is earlier. Based on current projections of retail sales, the transition recovery asset is expected to be fully amortized by mid-2008. Absent any other change to TEP's retail rate structure, we estimate that the expiration of the fixed CTC (which currently produces revenues of just under one cent per kWh sold) will result in an average decrease in revenues from retail rates of approximately 12% relative to revenues from current retail rates.

The 1999 Settlement Agreement also specifies that TEP's floating competitive transition charge ("floating CTC") will expire on December 31, 2008. This charge, which moves inversely to changes in TEP's market-based generation services rate, presently appears as a credit on retail customer bills. Based on current forward pricing in the wholesale energy markets, we anticipate that the floating CTC will continue to appear as a credit on retail customer bills through 2008. After the expiration of the floating CTC, TEP's rates for generation services would be market-based. Absent any other change to TEP's retail rate structure, expiration of the floating CTC would result in market-based generation services rates which would, based on current forward pricing in the wholesale energy markets, produce a significant retail rate increase in January 2009 relative to current retail rates.

In an effort to resolve the uncertainty regarding the methodology that will be applied to determine TEP's rates for generation service after the CTCs expire, TEP filed a motion with the ACC on May 4, 2005 requesting that the ACC issue an order declaring its position regarding the rate treatment that will be afforded to TEP's generation assets after 2008.

In May 2005, a number of participants in TEP's rate proceedings, including the staff of the ACC, filed responses to TEP's motion. Those responses reflect differing interpretations of the 1999 Settlement Agreement. A number of these responses dispute TEP's assertion that the existing rate structure contemplates market-based rates for generation services after December 31, 2008.

## Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

On June 1, 2005, TEP filed a reply in support of its motion. The reply states that the differences of opinion expressed in the various responses filed underscore the need for the ACC to clarify how it will determine TEP's rates for generation services after December 31, 2008. TEP's reply also states that, although it would prefer that the ACC continue to authorize TEP to charge market-based rates for generation services after December 31, 2008, it is concerned that its customers will be subject to a significant increase in rates in 2009. If the ACC intends to rescind TEP's authorization to charge market-based rates for its generation services, that change will have immediate consequences for the 1999 Settlement Agreement, the 2004 general rate case information filing and future TEP rate cases. As a result, TEP suggested in its reply modifications to the 1999 Settlement Agreement, including an extension of existing rates beyond 2008. On June 10, 2005, an administrative law judge of the ACC issued an order revising the schedule for TEP's 2004 rate review; however, the order took no action on TEP's May 4, 2005 motion.

In the event that the ACC reinstates cost of service ratemaking for TEP's generation services and does not allow other factors that have changed in the intervening years to be considered, significant retail rate decreases could occur. Any such rate decreases could negatively impact TEP's results of operations, cash flows and net income.

THE EXPIRATION OF POWER SUPPLY AGREEMENTS AND OUR GROWING CUSTOMER BASE WILL REQUIRE US TO FIND ALTERNATE SOURCES FOR A PORTION OF OUR ENERGY NEEDS.

Our electric utility subsidiaries are parties to power supply agreements which expire between 2005 and 2008. UNS Electric has a full requirements contract (approximately 390 MW in 2004) with Pinnacle West Capital Corporation, or PWCC, which expires May 31, 2008. TEP has a 75 MW contract with PPL Energy Plus, LLC expiring in December 2006, and a 50 MW contract with Panda Gila River, LP through September 2005, as well as other short-term power purchase agreements to meet 2005 summer load requirements.

The expiration of these contracts, with our growing customer base, will require us to find other sources of energy to supply our customers. We may enter into new purchase power contracts or we may invest in new generation facilities. We may not be able, however, to identify additional investment opportunities or make investments on favorable terms. In addition, we cannot assure you whether we will be able to enter into purchase power contracts on favorable terms or at all. If we are unable to do so, we may be required to purchase power on the spot market which could expose us to volatile market prices. In addition, if capacity problems develop in the western power markets, TEP and UNS Electric may find it difficult or more expensive to replace the energy provided under their existing agreements.

OUR UTILITY SUBSIDIARIES' REVENUES, RESULTS OF OPERATIONS AND CASH FLOWS ARE SEASONAL AND ARE SUBJECT TO RISKS THAT ARE BEYOND THEIR CONTROL.

The seasonality of our utility subsidiaries' operations could impair our ability to make payments on the notes when due. Our primary source of cash to make required payments on the notes will be dividends from our utility subsidiaries' net income. TEP typically earns the majority of its operating revenue and net income in the third quarter because of high air conditioning usage by its retail customers due to hot summer weather. Furthermore, TEP typically reports limited net income in the first quarter because of relatively mild winter weather in its retail service territory. UES' consolidated operating results are expected to be less seasonal than TEP's due to sales of both winter-peaking gas by UNS Gas and summer-peaking electricity by UNS Electric. In addition, changes in the weather may adversely affect our operating revenues and net income. When summer temperatures are lower than normal, or when winter temperatures are higher than normal, we sell less power and consequently earn less income. If cash on hand and borrowing availability are insufficient to



## Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

cover payments on the notes, this seasonality could adversely affect our ability to make payments on the notes.

TEP MAY BE REQUIRED TO REDEEM SIGNIFICANT AMOUNTS OF ITS OUTSTANDING TAX-EXEMPT BONDS.

TEP has financed a portion of its utility plant assets with approximately \$359 million of tax-exempt bonds for which the exemption from income taxes requires that the financed facilities be used for the local furnishing of electric energy. Various events, including, in certain circumstances, the formation of an RTO or an independent system operator, asset divestitures, changes in tax laws or changes in system operations, could cause TEP to have to redeem or defease some or all of these bonds which could adversely affect TEP's results of operations and cash flows. Any redemption or

15

defeasance of these bonds would likely require the issuance and sale of higher cost taxable debt securities in the same or a greater principal amount.

OUR FACILITIES ARE SUBJECT TO OPERATIONAL RISKS.

TEP's generation assets use coal as the primary fuel for energy generation. Although coal-fired generating stations are generally highly reliable, operational failures and unscheduled outages occur from time to time. Operational failures or unscheduled outages at our utility subsidiaries' facilities, particularly during peak seasons, could result in unanticipated power purchases which could adversely impact our utility subsidiaries' revenues, operating and capital expenses and results of operations. Also, the cost of repairing damage to our utility subsidiaries' facilities due to storms, natural disasters, wars, terrorist acts and other catastrophic events in excess of insurance coverage could adversely impact our utility subsidiaries' revenues, operating and capital expenses, results of operations and net income.

TEP LEASES, RATHER THAN OWNS, A MATERIAL PORTION OF ITS GENERATION ASSETS.

TEP, under separate sale and leaseback arrangements, leases the following generation facilities:

- o coal handling facilities at Springerville Generating Station ("Springerville");
- o a 50% undivided interest in the common facilities at Springerville;
- o Springerville Unit 1 and the remaining 50% undivided interest in Springerville common facilities; and
- o Sundt Unit 4 and related common facilities.

These leases expire at various times between 2011 and 2021. TEP may renew the leases or purchase the leased assets at such times. These renewal and purchase options are generally for fair market value as determined at that time. The cost of renewing or purchasing the leased assets, or the cost of procuring alternate sources of generation or purchased power, could adversely affect TEP's results of operation, cash flows and net income.

In addition, in the event that the debt relating to the leases of the 50% undivided interest in the Springerville common facilities is not refinanced

## Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

by June 2006, such leases will terminate, and TEP will be required to repurchase such interest in the common facilities for approximately \$125 million. Any such repurchase could adversely affect TEP's results of operations, cash flows and net income.

THE HEDGING PROCEDURES OF TEP AND UNS GAS MAY NOT PROTECT THEIR SALES AND NET INCOME FROM GAS PRICE VOLATILITY.

To lower their financial exposure to fluctuations in natural gas prices, TEP and UNS Gas hedge a portion of their gas purchases with fixed price contracts up to three years in advance. UNS Gas hedges with the goal of hedging at least 45% and not more than 80% of its expected monthly gas consumption with fixed prices prior to the delivery month. Both TEP and UNS Gas purchase their remaining gas needs in the spot and short-term markets. To the extent they have unhedged positions or their hedging procedures do not work as planned, their business, results of operations, cash flows and net income could be adversely affected.

WE ARE SUBJECT TO NUMEROUS ENVIRONMENTAL LAWS AND REGULATIONS WHICH MAY INCREASE THE COST OF OPERATIONS OF OUR SUBSIDIARIES, IMPACT OUR BUSINESS PLANS OR EXPOSE US TO ENVIRONMENTAL LIABILITIES.

We are subject to numerous federal, state and local environmental regulations affecting our present and future operations, including regulations regarding air emissions, water quality, wastewater discharges, solid waste, and hazardous waste. Many of these regulations arise from TEP's use of coal as the primary fuel for energy generation. These laws and regulations generally require us to obtain and comply with a variety of environmental licenses, permits, inspections and other approvals and can result in increased capital, operating and other costs.

16

Existing environmental regulations may be revised or new regulations may be adopted or become applicable to us. This may result in increased compliance costs or additional operating restrictions, which may have an adverse effect on our results of operations or financial condition.

OUR UTILITY SUBSIDIARIES MAY BE SUBJECT TO ENVIRONMENTALLY-RELATED LITIGATION AND CONTRACTUAL OBLIGATIONS.

Our utility subsidiaries may be periodically subject to environmentally-related litigation that may delay business initiatives, divert management attention from other matters or impose liability on our utility subsidiaries. There is pending litigation challenging existing permits and seeking to impose more stringent emissions standards on the Springerville Generating Station. These challenges could delay or prevent attainment of our business goals. We cannot guarantee the outcome of these or any future lawsuits.

TEP is also contractually obligated to pay a portion of its environmental reclamation costs at generating stations in which it has a minority interest and possibly at the mines that supply these remote generating stations. While TEP has recorded the portion of its costs that can be determined at this time, the total costs for final reclamation at these sites are unknown and could be substantial.

TEP MAY NOT RECEIVE REQUIRED REGULATORY APPROVALS TO CONSTRUCT A NEW TUCSON-NOGALES TRANSMISSION LINE.

## Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

In January 2001, TEP and Citizens (now UES) entered into a project development agreement for the joint construction of a 62-mile transmission line from Tucson to Nogales, Arizona. This project was initiated by Citizens (now UES) in response to an order by the ACC to improve reliability to its retail customers in Nogales, Arizona. TEP is currently seeking approvals for the project from the ACC, the Department of Energy ("DOE"), the U.S. Forest Service, the U.S. Bureau of Land Management, and the International Boundary and Water Commission.

There is disagreement among some of the agencies regarding the preferred route for the transmission line. As a result, the ACC has ordered TEP to re-open the state line siting process. The ACC has also ordered TEP to investigate and engage in discussions with ACC staff and intervenors regarding potential alternatives to the line.

The future costs of construction to Nogales, Arizona are expected to be approximately \$76 million. Through December 31, 2004, approximately \$10 million in land acquisition, engineering and environmental expenses have been capitalized related to this project. If TEP does not receive the required approvals, it may be required to expense \$8 million of the costs that have been capitalized related to the project, propose alternative methods to the ACC for approving reliability and spend additional amounts to implement such alternatives. The expenditures related to alternative methods for improving reliability are expected to be less than \$76 million.

WE EXPECT MILLENNIUM'S UNREGULATED BUSINESSES WILL CONTINUE TO REPORT LOSSES.

Although UniSource Energy intends to cease making capital contributions to Millennium, we expect that Millennium will continue to report losses affecting our results of operations. Millennium's current funding commitments to its businesses total approximately \$15 million. In addition, we may be required to recognize impairment losses with respect to the Millennium businesses, which had a net book value of approximately \$106 million as of March 31, 2005.

17

### USE OF PROCEEDS

The selling securityholders will receive all of the net proceeds from the sales of the securities. We will not receive any of the proceeds from the sales of the securities by the selling securityholders.

### PRICE RANGE OF COMMON STOCK

Our common stock is listed on the New York and Pacific stock exchanges under the ticker symbol "UNS." The following table sets forth, for the periods indicated, the high and low sales prices per share of our common stock as reported on the consolidated reporting system of the New York Stock Exchange.

-----  
FISCAL QUARTER ENDED  
-----

HIGH  
----

LOW  
----

-----  
2003  
-----

Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

March 31.....	\$ 18.10	\$ 16.00
June 30.....	19.27	17.05
September 30.....	19.80	17.65
December 31.....	24.90	19.01
2004		
March 31.....	\$ 24.74	\$ 24.11
June 30.....	24.93	24.15
September 30.....	24.94	24.20
December 31.....	24.88	22.90
2005		
March 31.....	\$ 34.80	\$ 24.30
Second quarter through June 21, 2005....	\$ 31.98	\$ 28.10

On June 10, 2005, we paid a dividend of \$0.19 per share to holders of record as of May 18, 2005. On June 21, 2005, the closing price of our common stock, as reported on the consolidated reporting system of the New York Stock Exchange, was \$29.70. On June 21, 2005, there were approximately 13,178 holders of record.

The declaration of dividend payments on our common stock is at the sole discretion of our board of directors and is subject to numerous factors, including our directors' evaluation of our financial condition, earnings, cash flows and dividend policy.

18

SELLING SECURITYHOLDERS

We originally issued the notes in a private placement in March 2005. The initial purchasers of the notes have advised us that the notes were resold in transactions exempt from the registration requirements of the Securities Act to "qualified institutional buyers," as defined in Rule 144A of the Securities Act. Selling securityholders may offer and sell the notes and/or shares of our common stock issuable upon conversion of the notes pursuant to this prospectus. References to the "selling securityholders" in this prospectus include those persons listed in the table below, as well as the pledgees, donees, assignees, transferees, successors and others who later hold any of the selling securityholders' interests.

The selling securityholders are offering the securities under this prospectus pursuant to existing registration rights conferred by the registration rights agreement, as described under "Description of the Notes--Registration Rights." The following table sets forth information, as of June 21, 2005, with respect to the selling securityholders and the principal

## Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

amounts of the notes and number of shares beneficially owned by each of them that may be offered under this prospectus. The information is based on information provided by or on behalf of the selling securityholders. Unless set forth below, to our knowledge, none of the selling securityholders has, or within the past three years has had, any material relationship with us or any of our predecessors or affiliates, or beneficially owns in excess of 1% of the outstanding shares of our common stock. Since the date on which each selling securityholder identified below provided this information, any of these selling securityholders may have sold, transferred or otherwise disposed of all or a portion of its securities in transactions exempt from the registration requirements of the Securities Act or pursuant to this prospectus. Information concerning the selling securityholders may change from time to time, and any changed information will be set forth in supplements to this prospectus or in post-effective amendments to the shelf registration statement, of which this prospectus is part, to the extent required. In addition, the conversion rate, and therefore the number of shares issuable upon conversion of the notes, is subject to adjustment. Accordingly, the number of shares issuable upon conversion of the notes may increase or decrease.

The selling securityholders may from time to time offer and sell pursuant to this prospectus any or all of the securities. Because the selling securityholders are not obligated to sell securities, we cannot estimate the amount of the notes or how many shares of common stock that the selling securityholders will hold upon consummation of any such sales.

Selling Securityholder	Principal Amount of Notes Beneficially Owned That May be Sold	Percentage of Notes Outstanding	Number of Shares of Common Stock That May be Sold (1)
Acuity Master Fund, Ltd.	\$3,000,000	2.00%	80,000
Aloha Airlines Non Pilots Pension Trust	10,000	0.01	267
Aloha Pilots Retirement Trust	5,000	0.00	133
Arkansas PERS	220,000	0.15	5,867
Associated Electric & Gas Insurance Services Limited	200,000	0.13	5,333
Astrazeneca Holdings Pension	65,000	0.04	1,733
Attorneys Title Insurance Fund	20,000	0.01	533
Basso Holdings Ltd.	400,000	0.27	10,667
Basso Multi Strategy Holding Fund Ltd.	1,600,000	1.07	42,667
BNP Paribas Equity Strategies, SNC	2,295,000	1.53	61,200
Boilermakers Blacksmith Pension Trust	270,000	0.18	7,200
C&H Sugar Co. Inc.	15,000	0.01	400
CNH CA Master Account, L.P.	250,000	0.17	6,667
CooperNeff Convertible Strategies (Cayman) Master Fund, LP	842,000	0.56	22,453

Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

Selling Securityholder	Notes Beneficially Owned That May be Sold	Percentage of Notes Outstanding	of Common Stock That May be Sold (1)
Delaware Dividend Income Fund, a series of Delaware Group Equity Funds V	250,000	0.17%	6,667
Delaware PERS	125,000	0.08	3,333
Delta Airlines Master Trust	65,000	0.04	1,733
Duke Endowment	60,000	0.04	1,600
Fore Convertible Master Fund, Ltd.	4,000,000	2.67	106,667
Fore ERISA Fund, Ltd.	2,000,000	1.33	53,333
Fore Multi Strategy Master Fund, Ltd.	3,000,000	2.00	80,000
Global Bermuda Limited Partnership	600,000	0.40	16,000
Grace Convertible Arbitrage Fund, Ltd.	1,750,000	1.17	46,667
Guggenheim Portfolio Company VIII (Cayman) Ltd.	2,000,000	1.33	53,333
Hallmark Convertible Securities Fund	15,000	0.01	400
Hawaiian Airlines Employees Pension Plan IAM	5,000	0.00	133
Hawaiian Airlines Pension Plan for Salaried Employees	5,000	0.00	133
Hawaiian Airlines Pilots Retirement Plan	10,000	0.01	267
HighBridge International LLC	2,500,000	1.67	66,667
ICI American Holdings Trust	50,000	0.03	1,333
Institutional Benchmark Management Fund c/o Quattro Fund	250,000	0.17	6,667
Jefferies & Co., Inc.	500,000	0.33	13,333
KBC Financial Products USA Inc.	585,000	0.39	15,600
Lakeshore International, Ltd.	2,400,000	1.60	64,000
LDG Limited	252,000	0.17	6,720
Lyxor/Convertible Arbitrage Fund Limited	382,000	0.25	10,187
Lyxor/Quest Fund Ltd	700,000	0.47	18,667
Man Mac 1 Limited	2,000,000	1.33	53,333
MSS Convertible Arbitrage 1 c/o TQA	17,000	0.01	453
Nuveen Preferred & Convertible Fund JQC	1,035,000	0.69	27,600
Nuveen Preferred & Convertible Income Fund JPC	755,000	0.50	20,133
OCLC Online Computer Library Center Inc.	5,000	0.00	133
Prudential Insurance Company of America	15,000	0.01	400

20

Selling Securityholder	Principal Amount of Notes Beneficially Owned That May be Sold	Percentage of Notes Outstanding	Number of Shares of Common Stock That May be Sold (1)
Quattro Fund Ltd.	4,500,000	3.00%	120,000
Quattro Multistrategy Masterfund LP	250,000	0.17	6,667

## Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

Quest Global Convertible Master Fund Ltd	300,000	0.20	8,000
Sage Capital Management, LLC	3,500,000	2.33	93,333
Singlehedge US Convertible Arbitrage Fund	336,000	0.22	8,960
Southern Farm Bureau Life Insurance	110,000	0.07	2,933
Sphinx Fund	309,000	0.21	8,240
State of Oregon Equity	610,000	0.41	16,267
Sturgeon Limited	395,000	0.26	10,553
Syngenta AG	30,000	0.02	800
TQA Master Fund, Ltd	1,978,000	1.32	52,747
TQA Master Plus Fund, Ltd	3,144,000	2.10	83,840
Vicis Capital Master Fund	5,000,000	3.33	133,333
Xavex - Convertible Arbitrage 7 c/o TQA	186,000	0.12	4,960
Zurich Institutional Benchmarks Master	429,000	0.29	11,440
Unnamed securityholders or any future transferees, pledgees, donees, assignees or successors of or from any such unnamed securityholder (4)	94,400,000	62.93	2,517,333
	-----	-----	-----
Total	\$ 150,000,000	100.0%	4,000,000
	=====	=====	=====

21

### DESCRIPTION OF THE NOTES

We issued the notes under an indenture between us and The Bank of New York, as trustee. The notes and the shares issuable upon conversion of the notes are covered by a registration rights agreement.

The following description is only a summary of the material provisions of the notes, the indenture and the registration rights agreement. It does not purport to be complete. We urge you to read these documents in their entirety because they, and not this description, define the rights of holders of the notes. You may request copies of these documents from us upon written request at our address, which is listed in this prospectus under "Information Regarding UniSource Energy Corporation."

For purposes of this section, references to "we," "us," "our" and "UniSource Energy" refer solely to UniSource Energy Corporation and not to its subsidiaries.

#### GENERAL

##### THE NOTES

The notes:

- o are limited to \$150,000,000 aggregate principal amount;
- o mature on March 1, 2035, unless earlier converted by holders,

## Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

redeemed at our option or purchased by us at the option of holders;

- o bear interest at a rate of 4.50% per annum on the principal amount, payable semi-annually, in arrears, on each March 1 and September 1, beginning on September 1, 2005, to the holders of record at the close of business on the preceding February 15 and August 15, respectively;
- o accrue contingent interest, which may be payable as set forth below under "--Contingent Interest";
- o will bear additional interest if we fail to comply with certain obligations set forth below under "--Registration Rights";
- o are convertible into shares of our common stock at an initial conversion rate of 26.6667 shares of our common stock per \$1,000 principal amount of notes (which represents a conversion price of approximately \$37.50 per share of common stock) under the conditions and subject to such adjustments as are described below under "--Conversion of Notes";
- o are redeemable by us beginning on March 5, 2010, in whole or in part, at a redemption price in cash equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest (including contingent interest and additional interest), if any, under the conditions set forth below under "--Optional Redemption;"
- o are subject to repurchase by us for cash at the option of the holders on March 1, 2015, 2020, 2025 and 2030, or upon the occurrence of a "fundamental change" (as defined below under "--Repurchase of Notes at the Option of Holders--Repurchase of Notes at the Option of Holders Upon a Fundamental Change"), at a repurchase price in cash equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest (including contingent interest and additional interest), if any, to, but not including, the repurchase date as described below under "--Repurchase of Notes at the Option of Holders--Optional Put" and "--Repurchase of Notes at the Option of Holders--Repurchase of Notes at the Option of Holders upon a Fundamental Change;" and
- o are represented by one or more registered securities in global form as described below under "--Book-Entry, Delivery and Form."

The indenture does not contain any financial covenants and does not restrict us or our subsidiaries from paying dividends, incurring additional senior indebtedness or any other indebtedness or issuing or repurchasing

securities. The indenture contains no covenants or other provisions to afford protection to holders of notes in the event of highly leveraged transactions or a fundamental change of UniSource Energy, except to the extent described under "--Repurchase of Notes at the Option of Holders--Repurchase of Notes at the Option of Holders Upon a Fundamental Change" and "--Consolidation, Merger and Sale of Assets."



## Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

The notes will be our general unsecured senior obligations, ranking equally in right of payment with all of our existing and future unsecured senior indebtedness, and senior in right of payment to any of our future indebtedness that is expressly subordinated to the notes. The notes will be junior in right of payment to all of our secured indebtedness to the extent of the value of the collateral securing those obligations and structurally subordinated in right of payment to all indebtedness and liabilities of our subsidiaries, including trade credit.

No sinking fund is provided for the notes. The notes are issued only in registered form, without coupons, in denominations of \$1,000 principal amount and multiples thereof.

We will maintain an office where the notes may be presented for registration, transfer, exchange or conversion. This office will initially be an office or agency of the trustee. Except under limited circumstances described below, the notes will be issued only in fully registered book-entry form, without coupons, and will be represented by one or more global securities. We may pay interest by check mailed to each holder at its address as it appears in the notes register; provided, however, that holders with notes in an aggregate principal amount in excess of \$2.0 million will be paid, at their written election, by wire transfer of immediately available funds; provided further, however, that payments to DTC will be made by wire transfer of immediately available funds to the account of DTC or its nominee. There will be no service charge for any registration of transfer or exchange of notes. We may, however, require holders to pay a sum sufficient to cover any tax or other governmental charge payable in connection with certain transfers or exchanges.

Holders may not sell or otherwise transfer the notes or the common stock issuable upon conversion of the notes except in compliance with the provisions set forth below under "--Registration Rights." Neither we nor the registrar nor the trustee is required to exchange or register a transfer of:

- o any notes for a period of 15 days before any mailing of a redemption notice; or
- o any notes that have been called for redemption or for which the holder has delivered, and not validly withdrawn, a repurchase notice or fundamental change repurchase notice, except, in the case of a partial redemption or repurchase, that portion of the notes not being redeemed or repurchased.

Each holder agreed in the indenture to treat the notes, for United States federal income tax purposes, as "contingent payment debt instruments" and to be bound by our application of the contingent payment debt regulations, including our determination that the rate at which interest will be deemed to accrue for U.S. federal income tax purposes will be 6.50%, compounded semi-annually. The material U.S. federal income tax consequences of the purchase, ownership and disposition of the notes are summarized in this prospectus under the heading "Material U.S. Federal Income Tax Considerations."

### STRUCTURAL SUBORDINATION

We are a holding company that derives substantially all of its income from its operating subsidiaries. The notes will be structurally subordinated to all indebtedness and other liabilities, including trade payables and debt, and preferred stock incurred or issued by our subsidiaries. The indenture governing the notes does not place any limit on the amount of liabilities, including trade payables and debt, or preferred stock, that our subsidiaries may issue, guarantee or otherwise incur.

### INTEREST

## Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

The notes bear interest at a rate of 4.50% per annum on the principal amount from March 1, 2005. We will pay interest semi-annually, in arrears, on March 1 and September 1 of each year, beginning on September 1, 2005, subject to limited exceptions if the notes are converted prior to the relevant interest payment date. Interest will be paid to the holders of record at the close of business on the February 15 and August 15, as the case may be, immediately

23

preceding the relevant interest payment date; provided, however, that interest will be paid to a person other than the holder of record on the record date on the maturity date or, in connection with a redemption at our option or repurchase at the option of the holders, on the redemption date or repurchase date, as the case may be, if it is after a record date but on or before the corresponding interest payment date. In any such case, we will pay the accrued and unpaid interest only to the person to whom we pay the principal amount.

Interest on the notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from the date of original issuance. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months. We will also pay contingent interest on the notes in the circumstances described below under "--Contingent Interest."

Interest will cease to accrue on a note upon its maturity, conversion, repurchase by us at the option of a holder or redemption.

### CONTINGENT INTEREST

Subject to the accrual and record date provisions described above, we will pay contingent interest to the holders of notes during any six-month period from March 1 to, and including, August 31 and from September 1 to, and including, the last day of February, commencing with the six-month period beginning on March 1, 2015, if the average "note price" (as defined below) of a note for the five trading days ending on the third trading day immediately preceding the first day of the relevant six-month period equals 120% or more of the principal amount of such note. The amount of contingent interest payable per \$1,000 principal amount of notes with respect to any such period will be equal to 0.35% per annum of such average note price.

We will pay contingent interest, if any, in the same manner as we will pay interest described above under "--Interest."

The "note price" on any date of determination means the average of the secondary market bid quotations per \$1,000 note obtained by the bid solicitation agent for \$10.0 million principal amount of notes at approximately 4:00 p.m., New York City time, on such determination date from three unaffiliated securities dealers we select, provided that if:

- o at least three such bids are not obtained by the bid solicitation agent, or
- o in our reasonable judgment, the bid quotations are not indicative of the secondary market value of the notes,

then the note price will equal (a) the then-applicable conversion rate of the notes multiplied by (b) the average of the "applicable stock price" (as defined below) of our common stock for the last five trading days ending on such determination date.

## Edgar Filing: UNISOURCE ENERGY CORP - Form S-1

A "trading day" means a day during which trading in securities generally occurs on the New York Stock Exchange or, if our common stock is not listed on the New York Stock Exchange, on the principal other national or regional securities exchange on which our common stock is then listed or, if our common stock is not listed on a national or regional securities exchange, on the National Association of Securities Dealers Automated Quotation system ("Nasdaq") or, if our common stock is not quoted on Nasdaq, on the principal other market on which such common stock is then traded.

The "applicable stock price," with respect to a trading day, is equal to the volume-weighted average price per share of our common stock (or any security into which our common stock has been converted in connection with a fundamental change) on such trading day. The "volume-weighted average price," with respect to a trading day, means such price per share of our common stock as displayed under the heading "Bloomberg VWAP" on Bloomberg (or any successor service) page UNS -equity- AQR (or any successor page) in respect of the period from 9:30 a.m. to 4:00 p.m., New York City time, on such trading day; or, if such price is not available, the "applicable stock price" means the market value per share of our common stock on such day as determined by a nationally recognized independent investment banking firm retained for this purpose by us.

24

The bid solicitation agent will initially be the trustee. We may change the bid solicitation agent, but it will not be one of our affiliates. The bid solicitation agent will solicit bids from nationally recognized securities dealers that are believed by us to be willing to bid for the notes.

Upon determination that holders of notes will be entitled to receive contingent interest that may become payable during a relevant period, on or prior to the start of such period, we will provide notice to all holders by disseminating a press release setting forth the amount of contingent interest per \$1,000 principal amount of notes and publishing such release on our website.

### CONVERSION OF NOTES

#### GENERAL

A holder may convert its notes, in whole or in part, into shares of our common stock at any time prior to the close of business on the business day immediately preceding the maturity date of the notes, unless we have redeemed or purchased those notes. Holders may only convert notes with a principal amount of \$1,000 or an integral multiple of \$1,000. The conversion rate with respect to a note is initially 26.6667 shares of our common stock per \$