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UNISOURCE ENERGY CORP  
Form DEF 14A  
March 28, 2002

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON D.C. 20549

SCHEDULE 14A

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

Filed by the Registrant  [X]  
Filed by a Party other than the Registrant  [ ]

Check the appropriate box:

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

UNISOURCE ENERGY CORPORATION

-----  
(Name of the Registrant as Specified in its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- [X] No fee required.
- [ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

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2) Aggregate number of securities to which transaction applies:

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

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4) Proposed maximum aggregate value of transaction:

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[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- 1) Amount Previously Paid: -----
- 2) Form, Schedule or Registration Statement No. -----
- 3) Filing Party: -----
- 4) Date Filed: -----

UNISOURCE ENERGY CORPORATION

One South Church Avenue  
Tucson, Arizona 85701

March 29, 2002

James S. Pignatelli  
Chairman of the Board

(520) 571-4000

Dear Shareholders:

You are cordially invited to attend the UniSource Energy Corporation 2002 Annual Shareholders' Meeting to be held on Friday, May 10, 2002, at the Sheraton Tucson Hotel and Suites, 5151 East Grant Road, Tucson, Arizona. The meeting will begin promptly at 10:00 a.m., so please plan to arrive earlier. No admission tickets will be required for attendance at the meeting.

Directors and officers will be available before and after the meeting to speak with you. During the meeting, we will answer your questions regarding our business affairs and we will consider the matters explained in the enclosed Notice and Proxy Statement.

We have enclosed a proxy card that lists all matters that require your vote. Please vote, sign and return the proxy card as soon as possible, whether or not you plan to attend the meeting. You may also vote by telephone or the Internet, as explained on the proxy card. If you attend the meeting and wish to vote your shares personally, you may revoke your proxy at that time. Your interest and continued support of UniSource Energy Corporation are much appreciated.

Sincerely,

UNISOURCE ENERGY CORPORATION

/s/ James S. Pignatelli  
-----

James S. Pignatelli  
Chairman of the Board, President  
and Chief Executive Officer

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NOTICE OF ANNUAL SHAREHOLDERS' MEETING

To the Holders of Common Stock of  
UniSource Energy Corporation

We will hold the Annual Shareholders' Meeting ("Meeting") of UniSource Energy Corporation ("UniSource Energy" or "UNS") at the Sheraton Tucson Hotel and Suites, 5151 East Grant Road, Tucson, Arizona, on Friday, May 10, 2002, at 10:00 a.m., Mountain Standard Time. The purpose of the Meeting is to:

1. elect ten directors for the Board for the ensuing year;
2. approve the UniSource Energy Corporation Amended and Restated 1994 Outside Director Stock Option Plan; and
3. consider any other matters which properly come before the Meeting.

Only shareholders of record of common stock at the close of business on March 13, 2002 are entitled to vote at the Meeting.

We have enclosed our 2001 Annual Report, including financial statements, and the Proxy Statement with this notice. Proxy soliciting material is first being sent or given to shareholders on March 29, 2002. Your proxy is being solicited by the UniSource Energy Board of Directors.

Please vote, sign, date and mail the enclosed proxy as soon as possible in the enclosed return envelope. You may also vote by telephone or the Internet, as explained on the enclosed proxy card.

/s/ Vincent Nitido  
-----  
Vincent Nitido, Jr.  
Corporate Secretary

Dated: March 29, 2002

YOUR VOTE IS IMPORTANT

EACH SHAREHOLDER IS URGED TO COMPLETE, SIGN, DATE AND RETURN PROMPTLY THE ENCLOSED PROXY BY MAIL, OR TO VOTE BY TELEPHONE OR THE INTERNET, AS EXPLAINED ON THE PROXY CARD. IF THE MAIL OPTION IS SELECTED, USE THE ENCLOSED ENVELOPE, WHICH DOES NOT REQUIRE POSTAGE IF MAILED IN THE UNITED STATES. RETURNING A SIGNED PROXY WILL NOT PROHIBIT YOU FROM ATTENDING THE MEETING AND VOTING IN PERSON IF YOU SO DESIRE.

UNISOURCE ENERGY CORPORATION  
One South Church Avenue

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Tucson, Arizona 85701

## ANNUAL SHAREHOLDERS' MEETING PROXY STATEMENT

ANNUAL MEETING May 10, 2002 Sheraton Tucson Hotel and Suites  
10:00 a.m., MST 5151 East Grant Road  
Tucson, Arizona 85712

RECORD DATE The record date is March 13, 2002. If you were a shareholder of record at the close of business on March 13, 2002, you may vote at the Annual Shareholders' Meeting ("Meeting"). Each share is entitled to one vote. In the election of directors, you may cumulate votes. At the close of business on the record date, we had 33,593,969 shares of our common stock outstanding.

AGENDA

1. Proposal One: Elect ten directors for the Board for the ensuing year.
2. Proposal Two: Approve the UniSource Energy Corporation Amended and Restated 1994 Outside Director Stock Option Plan.
3. Consider any other matters which properly come before the Meeting and any adjournments.

INDEPENDENT REPRESENTATIVES OF PRICEWATERHOUSECOOPERS, LLP are expected to be present at the Meeting with the opportunity to make a statement and respond to appropriate questions.

AUDITORS

PROXIES A form of proxy for execution by shareholders is enclosed. Unless you tell us on the proxy card to vote differently, we will vote signed returned proxies "for" the Board's nominees and "for" Proposal Two. The Board or proxy holders will use their discretion on other matters. If a nominee cannot or will not serve as a director, the Board or the persons designated as proxies will vote for a person whom they believe will carry on our present policies.

We will follow your voting instructions. If none, we will vote signed proxies "for" the nominees and "for" Proposal Two.

PROXIES SOLICITED BY The Board of Directors ("Board").

FIRST MAILING DATE We anticipate first mailing this Proxy Statement and the form of proxy on March 29, 2002.

REVOKING YOUR PROXY You may revoke your proxy before it is voted at the Meeting. To revoke, follow the procedures listed on page 3 under "Voting Procedures/Revoking Your Proxy."

COMMENTS Your comments about any aspects of our business are welcome. You may use the space provided on the proxy card for this purpose, if desired. Although we may not respond on an individual basis, your comments help us to measure your satisfaction, and we may benefit from your suggestions.

We welcome your comments. The proxy card has room for them.

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PLEASE VOTE - YOUR VOTE IS IMPORTANT

PROMPT RETURN OF YOUR PROXY WILL HELP REDUCE THE COSTS OF RE-SOLICITATION.

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\* We expect to vote on this item at the Meeting.

\*\* The Compensation Committee report and the performance graph will not be incorporated by reference into any present or future filings we make with the Securities and Exchange Commission ("SEC"), even if those reports incorporate all or any part of this Proxy Statement.

## VOTING PROCEDURES/REVOKING YOUR PROXY

You can vote by telephone, the Internet, mail or in person at the Meeting. Your proxy card contains instructions for voting by telephone or the Internet, which are the least expensive and fastest methods of voting. To vote by mail, complete and sign your proxy card, or your broker's voting instruction card if your shares are held by your broker, and return it in the enclosed return envelope.

Under Arizona law, a majority of the shares entitled to vote on any single matter which may be brought before the Meeting will constitute a quorum. Business may be conducted once a quorum is represented at the Meeting. Except as otherwise specified by law or in our Articles of Incorporation or Bylaws, if a quorum exists, action on a matter other than the election of directors will be deemed approved if the votes cast in favor of the matter exceed votes cast against it.

Proposal Two must be approved by a majority of shareholders voting. Thus, if a quorum exists, Proposal Two must be approved by a majority of the shareholders who actually vote. Any broker "non-votes" with respect to Proposal Two will be counted for purposes of determining the presence or absence of a quorum, but will not be counted as shares represented and voting on the proposal. In contrast, proxies voted "abstain" will have the same legal effect as shares voted against the

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proposal.

Directors are elected by a plurality of the votes cast by the shares entitled to vote if a quorum is present. A plurality means receiving the largest number of votes, regardless of whether that is a majority. Withheld votes will be counted as being represented at the Meeting for quorum purposes but will not have an effect on the vote.

You may cumulate your votes for directors.

In the election of directors, each of our common stock shareholders has the right to cumulate his votes by casting as many votes in the aggregate equal to the number of his shares of common stock multiplied by the number of directors to be elected. He may cast all of such votes for one nominee or distribute such votes among two or more nominees.

You can revoke your proxy after sending it in by following these procedures.

Any shareholder giving a proxy has a right to revoke that proxy by giving notice to UniSource Energy in writing directed to the Corporate Secretary, UniSource Energy Corporation, One South Church Avenue, Suite 1820, Tucson, Arizona 85701, or in person at the Meeting at any time before the proxy is exercised. Those who fail to return a proxy or fail to attend the Meeting will not count towards determining any required plurality, majority or quorum.

The shares represented by an executed proxy will be voted for the election of directors and for Proposal Two or withheld in accordance with the specifications in the proxy. If no specification is made in the proxy, the proxy will be voted in favor of the nominees and Proposal Two as set forth herein.

PROXY SOLICITATION

We will bear the entire cost of the solicitation of proxies. Solicitations will be made primarily by mail. Additional solicitation of brokers, banks, nominees and institutional investors may be made pursuant to a special engagement of Georgeson Shareholder, at a cost of approximately \$4,000 plus reasonable out-of-pocket expenses. Solicitations may also be made by telephone, facsimile or personal interview, if necessary, to obtain reasonable representation of shareholders at the Meeting. Our employees may solicit proxies for no additional compensation. We will request brokers or other persons holding stock in their names, or in the names of their nominees, to forward proxy materials to the beneficial owners of such stock or request authority for the execution of the proxies. We will reimburse brokers and other persons for reasonable expenses they incur in sending these proxy materials to you if you are a beneficial holder of our shares.

### UNISOURCE ENERGY SHARE OWNERSHIP

SECURITY OWNERSHIP OF MANAGEMENT

The following table sets forth the number and percentage of shares beneficially owned as of the Record Date and the nature of such ownership by each of our directors, nominees, the Chief Executive Officer, the five other most highly compensated executive officers during 2001 and all directors and officers as

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a group. Ownership includes direct and indirect (beneficial) ownership, as defined by the SEC rules.

Title of Class	Name and Title of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class	Allocable Amount of Shares Under Deferred Compensation Stock Plan and Restricted Stock Unit Account (2)
Common	James S. Pignatelli Chairman, President & Chief Executive Officer	226,143 (3) (4)	*	122,592
Common	Lawrence J. Aldrich Director	6,501 (5)	*	--
Common	Larry W. Bickle Director	7,201 (6)	*	--
Common	Elizabeth T. Bilby Director	9,101 (7)	*	2,650
Common	Harold W. Burlingame Director	7,701 (6)	*	--
Common	Jose L. Canchola Director	11,001 (7)	*	421
Common	John L. Carter Director	16,758 (8)	*	6,040
Common	Daniel W. L. Fessler Director	6,704 (6)	*	--
Common	Kenneth Handy Director	4,000	*	1,194
Common	Warren Y. Jobe Director	500	*	--
Common	Martha R. Seger Director	10,589 (7)	*	2,203
Common	H. Wilson Sundt Director	9,801 (7) (9)	*	1,902
Common	Dennis R. Nelson Senior Vice President, Governmental Affairs (UNS) & Chief Operating Officer, Energy Resources (TEP)	70,322 (10) (11)	*	25,171
Common	Steven J. Glaser Senior Vice President & Chief Operating Officer, Transmission & Distribution (TEP)	53,762 (12) (13)	*	27,961

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Common	Kevin P. Larson Vice President, Chief Financial Officer & Treasurer	33,757 (14) (15)	*	15,969
Common	Michael J. DeConcini Senior Vice President, Strategic Planning & Investments	25,152 (16) (17)	*	23,136
Common	Vincent Nitido, Jr. Vice President, General Counsel & Corporate Secretary	25,979 (18) (19)	*	15,631
Common	All directors and executive officers as a group	692,409 (20)	2.1%	299,781

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following companies are the beneficial owners of more than 5% of the outstanding shares of our common stock:

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
-----	-----	-----	-----
Common	T. Rowe Price Associates, Inc. 100 E. Pratt Street Baltimore, MD 21202	3,122,700 (1)	9.3%
Common	The Prudential Financial, Inc. 751 Broad Street Newark, NJ 07102-3777	1,927,510 (2) (3)	5.7%

- (1) In a statement filed February 13, 2002 with the SEC on Schedule 13G/A under the Securities Exchange Act of 1934, as amended ("Exchange Act"), T. Rowe Price Associates, Inc. ("Price Associates") indicated it has sole voting power over 1,271,700 shares and sole dispositive power over 3,122,700 shares of our outstanding common stock. These securities are owned by various individual and institutional investors for which Price Associates serves as investment advisor with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Exchange Act, Price Associates is deemed to be the beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities.
- (2) In a statement filed February 14, 2002 with the SEC on Schedule 13G/A under the Exchange Act, Prudential Financial, Inc. ("Prudential") indicated that it has sole voting and sole dispositive power over 48,300 shares, shared voting power over 1,868,810 shares and shared dispositive power over 1,879,210 shares of our common stock. In addition, through its beneficial



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ownership of the Prudential Insurance Company of America ("PICOA"), Prudential may be deemed to presently hold 8,100 shares of our outstanding common stock for the benefit of PICOA's general account. In addition, Prudential may have direct or indirect voting and/or investment discretion over 1,919,410 shares of our outstanding common stock, which are held for its own benefit or for the benefit of its clients by its separate accounts, externally managed accounts, registered investment companies, subsidiaries and/or other affiliates. For purposes of the reporting requirements of the Exchange Act, Prudential is deemed to be the beneficial owner of such securities; however, Prudential expressly disclaims that it is, in fact, the beneficial owner of such securities.

- (3) In a statement filed February 4, 2002 with the SEC on Schedule 13G under the Exchange Act, Jennison Associates LLC ("Jennison") indicated that it has sole voting and shared dispositive power over 1,760,140 shares, representing 5.24% of our outstanding common stock, which are directly held in managed accounts to which Jennison serves as investment advisor. Jennison may be deemed to be the beneficial owner of the shares of our common stock held by such managed accounts. PICOA owns 100% of equity interests of Jennison. As a result, PICOA may be deemed to have the power to exercise or to direct the exercise of such voting and/or dispositive power that Jennison may have with respect to our common stock held in managed accounts. Jennison does not file jointly with PICOA, and as such, shares of our common stock reported on Jennison's 13G may be included in the shares reported on the 13G/A filed by Prudential.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE Section 16(a) of the Exchange Act and SEC regulations require directors, certain officers and persons who own greater than 10% of our stock to file reports of ownership and changes in ownership of such stock with the SEC and the New York Stock Exchange. These directors, officers and greater than 10% beneficial owners are required by law to furnish us with copies of all forms they file under Section 16(a).

Based solely on a review of the copies of such forms furnished to us and on written representations of our directors and officers, we believe that all Section 16(a) filing requirements applicable to our directors and officers were complied with during 2001, with the exception of Mr. Daniel W. L. Fessler, a Director of UniSource Energy who failed to file timely a Form 4 for the single acquisition of 636 shares of our common stock he purchased during 2001. This transaction was subsequently reported to the SEC on a separate Form 5.

### PROPOSAL ONE: ELECTION OF DIRECTORS

GENERAL We will elect ten directors this year. At the Meeting, the shareholders will elect ten directors to serve on our Board for the ensuing year and until their successors are elected and qualified. The shares represented by executed proxies in the form enclosed, unless withheld, will be voted for the ten nominees listed below, or, in the discretion of the persons acting as proxies, will be voted cumulatively for one or more of such nominees. All of the current nominees are present members of the Board. All of the nominees have consented to serve if elected. If any nominee becomes unavailable for any reason, or a

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vacancy should occur before the election, it is the intention of the persons designated as proxies to vote, in their discretion, for other nominees.

### BOARD NOMINEES

JAMES S. Chairman of the Board of Directors, President and Chief  
PIGNATELLI Executive Officer of UniSource Energy since July 1998;  
Senior Vice President and Chief Operating Officer of  
UniSource Energy from December 1997 to July 1998;  
Chairman of the Board of Directors, President and Chief  
Executive Officer of Tucson Electric Power Company  
("TEP"), the principal subsidiary of UniSource Energy,  
since July 1998; Executive Vice President and Chief  
Operating Officer of TEP from March 1998 to July 1998;  
Senior Vice President and Chief Operating Officer of  
TEP from 1996 to 1998; Senior Vice President of  
Business Development of TEP from 1994 to 1996; Chairman  
of the Board of Directors, President and Chief  
Executive Officer of Millennium Energy Holdings, Inc.  
("Millennium"), a wholly owned subsidiary of UniSource  
Energy, since 1997; President and Chief Executive  
Officer of Mission Energy Company, a subsidiary of SCE  
Corp. from 1988 to 1993. Age 58.

LAWRENCE J. Managing Director and Founder, Tucson Ventures, LLC,  
ALDRICH since February 2000; President and Chief Executive  
(1) (4) Officer of Tucson Newspapers from January 1992 to  
February 2000; Director of TEP and Millennium since  
2000. Board member since 2000. Age 49.

LARRY W. Managing Director of Haddington Ventures, LLC, an  
BICKLE investment company, since 1997; Chairman and Chief  
(2) (3) (4) Executive Officer of TPC Corporation (formerly Tejas  
Power Corporation) from 1982 to May 1997; Director, St.  
Mary Land & Exploration Company; Director, Western Hub  
Properties; Director of Millennium since 1998. Board  
member since 1998. Age 56.

ELIZABETH T. President of Gourmet Products, Inc., an agricultural  
BILBY product marketing company; Director of Marketing of  
(1) (3) Green Valley Pecans since 1982. Director of TEP since  
1995; Director of Millennium since 1998. Board member  
since 1995. Age 62.

HAROLD W. Senior Executive Advisor for AT&T Wireless Services  
BURLINGAME since July 2001; Executive Vice President,  
(1) (2) (3) Communications and Human Resources of AT&T Wireless  
Services from April 2000 to June 2001; Executive Vice  
President, Merger and Joint Venture Integration of AT&T  
from March 1999 to March 2000; Executive Vice President  
of Human Resources of AT&T from 1987 to March 1999;  
Member of the AT&T Foundation; Director of TEP since  
1998. Board member since 1998. Age 61.

JOHN L. Executive Vice President and Chief Financial Officer of  
CARTER Burr-Brown Corporation from 1993 to 1996; President and  
(2) (4) Chief Executive Officer of Qualtronics Manufacturing,  
Inc. from 1987 to 1996; Director of TEP since 1996;  
Director of Millennium since 1998. Board member since  
1996. Age 67.

DANIEL W.L. Partner in the law firm of LeBoeuf, Lamb, Greene &

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- FESSLER MacRae L.L.P. since 1997; Member of the Harvard  
(1) (4) Electricity Policy Group since 1993; Member of the  
American Law Institute since 1985; Professor of Law,  
University of California, Davis from 1970 to 1995;  
President of the California Public Utilities Commission  
from 1991 to 1996; Commissioner of the California  
Transportation Commission from 1991 to 1995; Director  
of TEP since 1998. Board member since 1998. Age 60.
- KENNETH Retired CPA; Vice President and Chief Financial Officer  
HANDY of The Permanente Medical Group, Inc. (the physician  
(2) (3) services component of the Kaiser Permanente Medical  
Care Program in Northern California) from 1978 to 1998;  
Partner at Ernst & Ernst (now Ernst & Young) from 1972  
to 1978; Director of TEP and Millennium since 2001.  
Board member since August 2001. Age 63.
- WARREN Y. Retired CPA; Sr. Vice President of Southern Company  
JOB from 1998 to 2001; Executive Vice President and Chief  
(2) (4) Financial Officer and member of the Board of Directors  
of Georgia Power Company from 1982 to 1998; former  
President of the Georgia Power Foundation Inc.; Member  
of the Board of Directors of Wellpoint Health Networks  
Inc.; Director of TEP and Millennium since 2001. Board  
member since August 2001. Age 61.
- H. WILSON Retired Chairman of the Board, The Sundt Companies  
SUNDT Inc.; Chairman of the Board and Chief Executive Officer  
(2) (3) of Sundt Corp, a general construction contracting firm,  
from 1979 to December 1998, having served as President  
from 1979 to 1983; Director of Magma Copper Company  
from October 1987 to January 1996; Director of  
Millennium since 1998. Board member since 1976. Age 69.

- 
- (1) Member of the Corporate Governance and Nominating Committee.  
(2) Member of the Audit Committee.  
(3) Member of the Compensation Committee.  
(4) Member of the Finance Committee.

THE BOARD RECOMMENDS THAT YOU VOTE "FOR" THESE NOMINEES.

### BOARD INFORMATION

BOARD In 2001, the Board held a total of six regular  
MEETINGS meetings. Each director attended at least 75% of his or  
her Board and committee meetings.

BOARD THE AUDIT COMMITTEE selects and recommends to the Board  
COMMITTEES a firm of independent certified public accountants to  
audit annually our financial statements; reviews and  
discusses the scope of such audit; receives and reviews  
the audit reports and recommendations; transmits its  
recommendations to the Board; reviews our accounting  
and internal control procedures with our internal audit  
department from time to time and makes recommendations  
to the Board for any changes deemed necessary in such  
procedures; and performs such other functions delegated  
by the Board. Our Audit Committee held five meetings in  
2001 and was in full compliance with its written  
charter. See Appendix A attached to this Proxy  
Statement for a copy of the UniSource Energy

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Corporation Audit Committee of the Board of Directors Charter.

THE COMPENSATION COMMITTEE reviews the performance of our directors and officers and makes recommendations to the Board with respect to directors' and officers' compensation. Our Compensation Committee held four meetings in 2001.

THE FINANCE COMMITTEE reviews and recommends to the Board long-range financial policies and objectives and actions required to achieve those objectives. Specifically, the Finance Committee reviews capital and operating budgets, current and projected financial results of operations, short-term and long-range financing plans, dividend policy, risk management activities and major commercial banking, investment banking, financial consulting and other financial relations of UniSource Energy. Our Finance Committee held four meetings in 2001.

THE CORPORATE GOVERNANCE AND NOMINATING COMMITTEE interviews potential directors, nominates and recommends to the shareholders and directors, as the case may be, qualified persons to serve as directors. The Corporate Governance and Nominating Committee also reviews and recommends membership for all the committees to the Board and reviews applicable rules and regulations relating to the duties and responsibilities of the Board. The Corporate Governance and Nominating Committee held five meetings in 2001. At such times as director vacancies occur, the Corporate Governance and Nominating Committee will consider written recommendations from shareholders for the Board. The deadline for consideration of recommendations for next year's Annual Meeting of Shareholders is November 29, 2002. Recommendations must include detailed biographical material indicating the candidate's qualifications and a written statement from the candidate of willingness and availability to serve. Recommendations should be directed to the Corporate Secretary, UniSource Energy Corporation, One South Church Avenue, Suite 1820, Tucson, Arizona 85701.

### BOARD COMPENSATION

RETAINER AND FEES In 2001, each non-employee director received a \$24,000 annual cash retainer, \$1,000 for each Board meeting attended, \$1,000 for each committee meeting attended and an additional \$500 if acting as a committee chairperson. We reimburse directors for any expenses related to their Board service.

OPTION GRANTS Non-employee directors also receive options to purchase 2,000 shares of our common stock when they become directors and another 2,000 for each year they serve as director thereafter. The exercise price of the options is the fair market value of our shares on the grant date. These are grants of UniSource Energy common stock options under the 1994 Outside Director Stock Option Plan, which vest in one-third increments on the grant date anniversary and expire in ten years. This year,

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with the exception of Mr. Handy and Mr. Jobe, options were granted to each of the directors on January 3, 2001, at an exercise price of \$18.84375.

### DIRECTOR COMPENSATION FOR LAST FISCAL YEAR

Name (1)	Cash Compensation		Security Grants	
	Annual Retainer Fee (\$)(2)	Meeting Fees (\$)(2)	Number of Shares	Number of Securities Underlying Options/SARs (3)
Lawrence J. Aldrich	24,000	27,000 (4)	--	2,000
Larry W. Bickle	24,000	33,000 (5)	--	2,000
Elizabeth T. Bilby	24,000	27,500	--	2,000
Harold W. Burlingame	24,000	30,000	--	2,000
Jose L. Canchola	24,000	26,000	--	2,000
John L. Carter	24,000	33,000 (5)	--	2,000
Daniel W. L. Fessler	24,000	28,000 (6)	--	2,000
Kenneth Handy	10,000	10,000	--	2,000 (7)
John A. Jeter	10,000	10,500	--	2,000
Warren Y. Jobe	10,000	8,000	--	2,000 (7)
Martha R. Seger	24,000	32,000	--	2,000
H. Wilson Sundt	24,000	29,000	--	2,000

### EXECUTIVE COMPENSATION AND OTHER INFORMATION

SUMMARY OF COMPENSATION The following table summarizes the compensation and stock option grants to, and stock options/stock appreciation rights ("SARs") held by, our Chief Executive Officer and our five other most highly compensated executive officers at December 31, 2001 ("Named Executives").

#### SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation		Long Term Compensation Awards	
		Salary (\$)	Bonus (\$)	Restricted Stock Awards (\$)(1)	Securities Underlying Options/SARs (#)
James S. Pignatelli President & Chief Executive Officer	2001	559,423	580,000	--	150,000 (3)
	2000	528,462	440,000	--	175,000 (3)
	1999	450,008	272,800	1,200,005	114,500
Dennis R. Nelson Senior Vice President, Governmental Affairs (UNS) & Chief Operating	2001	259,712	117,000	--	34,000
	2000	244,423	112,000	--	40,000
	1999	214,769	67,500	225,010	18,200

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Officer, Energy  
Resources (TEP)

Steven J. Glaser	2001	244,231	132,000	--	54,000
Senior Vice President &	2000	204,519	115,000	--	40,000
Chief Operating Officer, Transmission & Distribution (TEP)	1999	180,000	64,800	283,760	11,450

Kevin P. Larson	2001	184,519	113,000	--	20,000
Vice President, Chief	2000	159,808	78,500	--	17,000
Financial Officer & Treasurer	1999	149,846	45,000	186,570	9,500

Michael J. DeConcini	2001	184,519	97,125	--	30,000 (3)
Senior Vice President, Strategic Planning & Investments	2000	159,616	100,000	--	40,000 (3)
	1999	139,785	35,000	275,319	8,900

Vincent Nitido, Jr.	2001	184,519	97,125	--	35,000 (3)
Vice President, General Counsel & Corporate Secretary	2000	159,616	84,000	--	40,000 (3)
	1999	139,726	38,500	186,570	8,900

STOCK OPTION GRANTS IN 2001 During 2001, the Compensation Committee of our Board granted stock options intended to be incentive stock options under the Internal Revenue Code of 1986, as amended, to officers. The options have exercise prices equal to the fair market value of the common stock at the date of grant. The options vest ratably over a three-year period. The aggregate number of shares attributable to the 2001 grants are 314,000 (UNS) and 70,000 (GES, GSE, IPS and correlating UNS).

The following table includes our 2001 grants of stock options and SARs to the Named Executives. The amounts shown as potential realizable values rely on arbitrarily assumed increases in value required by the SEC. In assessing those amounts, please note that the ultimate value of the options, as well as the shares, depends on actual future share prices. Market conditions and the efforts of the directors, the officers and others to foster the future success of UniSource Energy and its subsidiaries can influence those future share values.

OPTION/SAR GRANTS IN LAST FISCAL YEAR  
Individual Grants

Name	Number of Securities Underlying Options/SARs Granted(#)	Percent of Total Options/SARs Granted to Employees in Fiscal Year	Exercise Price (\$/Sh)	Expiration Date	Potential Realizable Value at Assumed Annual Increase of Stock Price for Options (\$)
----	-----	-----	-----	-----	-----

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James S. Pignatelli	100,000	31.8%	17.91	08/02/11	1,126,350
	50,000 (1)	71.4% (2)	17.91	08/02/11	563,175 (3)
Dennis R. Nelson	34,000	10.8%	17.91	08/02/11	382,959
Steven J. Glaser	54,000	17.2%	17.91	08/02/11	608,229
Kevin P. Larson	20,000	6.4%	17.91	08/02/11	225,270
Michael J. DeConcini	20,000	6.4%	17.91	08/02/11	225,270
	10,000 (1)	14.3% (2)	17.91	08/02/11	112,635 (3)
Vincent Nitido, Jr.	25,000	8.0%	17.91	08/02/11	281,588
	10,000 (1)	14.3% (2)	17.91	08/02/11	112,635 (3)

2001 OPTION AND SAR HOLDINGS The following table includes the number and value of exercisable and non-exercisable options and SARs held by the Named Executives as of December 31, 2001.

AGGREGATED OPTION/SAR EXERCISES IN  
LAST FISCAL YEAR AND FISCAL YEAR-END OPTION/SAR VALUES

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options/SARs at Fiscal Year-End (#) Exercisable/ Unexercisable	Value of Unexercised In-the-Money Options at Fiscal Year End Exercisable/ Unexercisable
----	-----	-----	-----	-----
James S. Pignatelli	--	--	214,130/329,832 (1)	854,714/679,800
Dennis R. Nelson	--	--	62,247/66,732	234,510/122,960
Steven J. Glaser	--	--	50,661/84,482	178,533/115,270
Kevin P. Larson	--	--	29,886/34,499	116,123/57,290
Michael J. DeConcini	--	--	20,914/66,299 (1)	86,264/122,920
Vincent Nitido	--	--	22,511/71,299 (1)	89,362/124,320

PENSION PLANS The following table shows the estimated annual retirement benefit payable to participants, including the Named Executives, for the average annual earnings and years of service indicated. Remuneration is comprised of the officers' average annual compensation during the five consecutive years of employment with the highest compensation within the last 15 years preceding retirement. Compensation is comprised of salary and bonus, as shown on the Summary Compensation Table.

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PENSION PLAN TABLE

Remuneration (\$)	Years of Service					
	10	15	20	25	30	35
125,000	54,850	54,850	54,850	54,850	54,850	54,850
150,000	65,820	65,820	65,820	65,820	65,820	65,820
175,000	76,790	76,790	76,790	76,790	76,790	76,790
200,000	87,760	87,760	87,760	87,760	87,760	87,760
225,000	98,730	98,730	98,730	98,730	98,730	98,730
250,000	109,700	109,700	109,700	109,700	109,700	109,700
300,000	131,640	131,640	131,640	131,640	131,640	131,640
400,000	175,520	175,520	175,520	175,520	175,520	175,520
450,000	197,460	197,460	197,460	197,460	197,460	197,460
500,000	219,400	219,400	219,400	219,400	219,400	219,400
550,000	241,340	241,340	241,340	241,340	241,340	241,340
600,000	263,280	263,280	263,280	263,280	263,280	263,280
650,000	285,220	285,220	285,220	285,220	285,220	285,220
700,000	307,160	307,160	307,160	307,160	307,160	307,160
750,000	329,100	329,100	329,100	329,100	329,100	329,100
800,000	351,040	351,040	351,040	351,040	351,040	351,040
850,000	372,980	372,980	372,980	372,980	372,980	372,980
900,000	394,920	394,920	394,920	394,920	394,920	394,920
950,000	416,860	416,860	416,860	416,860	416,860	416,860
1,000,000	438,800	438,800	438,800	438,800	438,800	438,800
1,100,000	482,680	482,680	482,680	482,680	482,680	482,680
1,200,000	526,560	526,560	526,560	526,560	526,560	526,560
1,300,000	570,440	527,440	527,440	527,440	527,440	527,440
1,400,000	614,320	614,320	614,320	614,320	614,320	614,320

The amount of the pension benefit is equal to a base of 40% of the compensation for 25 years of service, plus 9.7% of such calculated amount. The estimated benefits shown in the Pension Plan Table are straight life annuities not subject to a reduction for any Social Security benefits. The table also reflects amounts payable under the Excess Benefits Plan which will pay from the general funds of UniSource Energy the difference, if any, between the benefits under TEP's pension plan and any benefit payments, which may be limited by federal income tax regulations.

The credited years of service for UniSource Energy's Named Executives are as follows:

Name	Credited Years of Service
James S. Pignatelli	7
Dennis R. Nelson	24
Steven J. Glaser	12
Kevin P. Larson	16
Michael J. DeConcini	13



## OFFICER CHANGE IN CONTROL AGREEMENTS

Change in Control Agreements were adopted to attract and retain quality management.

TEP has Change in Control Agreements ("Agreements") with all of its officers. The Agreements are in effect until the latter of: (i) five years after the date either TEP or the officer gives written notice of termination of the Agreement, or (ii) if a change in control occurs during the term of the Agreement, five years after the change in control. For the purpose of the Agreements, a change in control includes the acquisition of beneficial ownership of 30% of the common stock of UniSource Energy, certain changes in the UniSource Energy Board of Directors, approval by the shareholders of certain mergers or consolidations or certain transfers of the assets of UniSource Energy. The Agreements provide that each officer shall be employed by TEP or one of its subsidiaries or affiliates in a position comparable to their current position, with compensation and benefits, which are at least equal to their then current compensation and benefits, for an employment period of five years after a change in control (subject to earlier termination due to the officer's acceptance of a position with another company or termination for cause).

Following a change in control, in the event that the officer's employment is terminated by TEP (with the exception of termination due to the officer's acceptance of another position or for cause), or if the officer terminates employment because of a reduction in position, responsibility, salary or for certain other stated reasons, the officer is entitled to severance benefits in the form of: i) a lump sum payment equal to the present value of three times annual salary and bonus compensation; (ii) the present value of the additional amount the officer would have received under the TEP Retirement Plan if the officer had continued to be employed for the five-year period after a change in control occurs; and (iii) the present value of any employee awards under the 1994 Omnibus Stock and Incentive Plan or any successor plan, which are outstanding at the time of the officer's termination (whether vested or not), prorated based on length of service. Such officer is also entitled to continue to participate in TEP's health, death and disability benefit plans for five years after the termination. The Agreements further provide that TEP will make a payment to the officer to offset any excise taxes that may become payable under certain conditions. Any payments made in respect of such excise taxes are not deductible. Assuming a change in control occurred on the Record Date which resulted in the immediate termination of the Chief Executive Officer and the other Named Executives, the total payments made by UniSource Energy pursuant to the Agreements would not be expected to exceed \$19 million.

## TRANSACTIONS WITH MANAGEMENT AND OTHERS

CONSULTING Mr. Carter, a member of our Board, was employed by

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SERVICES FOR Millennium, a subsidiary of UniSource Energy, during  
MILLENNIUM 2001. Mr. Carter advised GSE on production development  
and monitored GSE production progress on behalf of  
Millennium. For his services, Mr. Carter received  
\$100,000 plus expenses.

LEBOEUF, The law firm of LeBoeuf, Lamb, Greene & MacRae L.L.P.  
LAMB, has provided certain legal services for an aggregate  
GREENE & amount of less than \$25,000 during 2001 to UniSource  
MACRAE L.L.P. Energy. Mr. Fessler, a member of our Board, is an  
equity owner of that firm. The arrangements with that  
firm are competitive with those of other law firms  
serving us.

TUCSON Millennium has made a \$5 million capital commitment to  
COMMUNITY Tucson Community Ventures L.L.C., a venture capital  
VENTURES fund. Mr. Aldrich, a member of our Board, owns the  
L.L.C. company that manages the fund. As of December 31,  
2001, Millennium had funded approximately \$1 million  
under this commitment.

### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

MILLENNIUM Mr. Stephen Alexander, an immediate family member of  
ENERGY Mrs. Bilby, a member of our Compensation Committee, is  
INVESTMENTS employed by Millennium. As Director of Energy  
Investments, Mr. Alexander assists in overseeing  
Millennium's investment portfolio. For his services in  
2001, Mr. Alexander received compensation of  
approximately \$100,000 from Millennium.

HADDINGTON Millennium has been authorized by its Board of  
ENERGY Directors to invest \$15 million, in aggregate, over a  
PARTNERS three- to five-year period in Haddington Energy  
II L.P. Partners II L.P. Mr. Bickle, a member of our  
Compensation Committee, is the managing director of  
Haddington Ventures L.L.C., the general partner of  
Haddington Energy Partners II L.P. As of December 31,  
2001, Millennium has funded approximately \$6 million  
under this commitment, \$4 million of which was funded  
in 2001.

### COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

THE The Compensation Committee is responsible for  
COMMITTEE developing and administering executive compensation  
policies and programs for UniSource Energy and TEP and  
making recommendations to the Board with respect  
thereto. The Compensation Committee determines the  
compensation of UniSource Energy's executive officers,  
including Mr. Pignatelli and the other Named  
Executives, and sets policies for and reviews the  
compensation awarded to other key members of  
management. UniSource Energy applies a consistent  
philosophy to compensation for all executive employees,  
including the Named Executives.

OVERALL UniSource Energy's executive compensation policies and  
OBJECTIVES programs generally are intended to relate the  
compensation of employees to the success of UniSource  
Energy and the corresponding creation of shareholder  
value to attract, retain and motivate executives and

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key employees with competitive compensation opportunities.

EXECUTIVE We review executives' pay each year. Compensation  
COMPENSATION depends on many factors, including individual  
GENERALLY performance responsibilities, future challenges and  
objectives and the executive's potential contribution  
to our future success. We also look at UniSource  
Energy's financial performance and the compensation  
levels at comparable companies.

UniSource Energy's 2001 compensation program consisted  
of three components:

- base salary;
- short-term incentive compensation; and
- long-term incentive compensation.

BASE SALARY The base salary component of compensation is intended  
to be competitive with that paid by comparable  
companies in the energy industry. In developing the  
compensation program, the Compensation Committee  
retained an external consultant to conduct a  
competitive analysis of pay for UniSource Energy's  
officer group. In conducting its analysis for 2001, the  
consultant used two comparator groups: (i) an energy  
group consisting of 12 gas and electric utilities, with  
revenues from \$.6 to \$3.4 billion, for utility specific  
jobs, and (ii) a mixed group of 29 public companies in  
energy and general industry, with revenues from \$.6 to  
\$3.4 billion, for jobs not specific to the utility  
industry. The Compensation Committee believes the  
companies in the comparator groups are a more  
appropriate comparison for UniSource Energy than the  
Edison Electric 100 companies used in the Performance  
Graph on page 20, because the type of business and  
annual revenues of the companies included in the survey  
are more closely related to those of UniSource Energy  
and the companies in the comparator groups represent  
primary competitors to UniSource Energy for top-level  
management personnel. The external data from companies  
in the comparator groups was used to develop a market  
compensation for each executive position. "Market  
compensation" refers to the median salary for  
executives in the comparator groups. Base salaries for  
UniSource Energy's executive officers, including Mr.  
Pignatelli and the other Named Executives, were set at  
market compensation levels in January 2001, in  
recognition of the increasingly competitive environment  
in the electric industry and the need to continue to  
attract and retain highly qualified executives and the  
fact that a substantial portion of each executive's  
total compensation package is "at-risk," based on the  
achievement of certain corporate goals. See Short-Term  
Incentive Compensation and Long-Term Incentive  
Compensation below.

SHORT-TERM The Board adopted a Short-Term Incentive Plan to provide  
INCENTIVE compensation for meeting or exceeding specified  
COMPENSATION objectives designed to contribute to the attainment of  
UniSource Energy's long-term strategic plan. Under the  
Short-Term Incentive Plan, target award levels are set  
as a percentage of each participant's base salary. In

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2001, the target award levels for our executive officers ranged from 30% to 65% of base salary. Awards for Mr. Pignatelli and the remaining executive officers are determined by the Board based on the accomplishment of previously established individual goals and contribution to business results. Based on the foregoing factors, the Compensation Committee made awards to the Named Executives ranging from 53% to 104% of base salary. Incentive compensation awarded to Mr. Pignatelli and the other Named Executives is set forth in the preceding Summary Compensation Table.

LONG-TERM INCENTIVE COMPENSATION UniSource Energy's long-term incentive compensation is intended to attract and retain quality employees over the long term in a manner that directly aligns them with shareholder interest.

At the recommendation of the Compensation Committee, the Board unanimously adopted and, at the 1994 Annual Meeting of Shareholders, the shareholders approved the Tucson Electric Power Company 1994 Omnibus Stock and Incentive Plan. On August 2, 2001, the Compensation Committee issued stock options intended to be incentive stock options to all executive officers of UniSource Energy, including Mr. Pignatelli and the other Named Executives. In calculating the level of awards to the other executive officers, the Compensation Committee considered the above analysis of executive compensation for comparative companies. Based on such analysis, the Compensation Committee awarded Mr. Pignatelli stock options with a total value equal to 114% of his base salary. The total value of stock options issued to the other Named Executives ranged from 46% to 94% of base salary. The number of shares covered by the stock option grant to Mr. Pignatelli was 100,000 (UNS) and 50,000 (GES, GSE, IPS and correlating UNS). The Compensation Committee did not consider the number of options previously granted or outstanding.

TAX CODE CONCERNS The Compensation Committee does not presently have a policy regarding qualifying compensation paid to executive officers for deductibility under Section 162(m) of the Internal Revenue Code of 1986, as amended.

CONCLUSION We believe Mr. Pignatelli and his executive team have provided outstanding service to UniSource Energy. We will work to assure the executive compensation programs continue to meet our strategic goals as well as the overall objectives discussed above.

Respectfully submitted,

THE COMPENSATION COMMITTEE

H. Wilson Sundt, Chair  
Larry W. Bickle  
Elizabeth T. Bilby  
Harold W. Burlingame  
Jose L. Canchola  
Kenneth Handy

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## AUDIT COMMITTEE REPORT

THE COMMITTEE The Audit Committee is made up of non-employee, financially literate, directors who are independent, as defined in the applicable New York Stock Exchange listing standards. Several members of the Audit Committee have accounting or related financial management expertise. The Board previously adopted a written charter for the Audit Committee. On May 11, 2001, the Board approved amendments to the charter. The Audit Committee Charter is included as Appendix A to this Proxy Statement. The Committee has complied with its charter, including the requirement to meet periodically with UniSource Energy's independent auditors, our Internal Audit Department and our management to discuss the auditors' findings and other financial and accounting matters.

In connection with our December 31, 2001 financial statements, the Audit Committee has (i) reviewed and discussed the audited financial statements with management; (ii) discussed with PricewaterhouseCoopers, LLP, our independent auditor, the matters required to be discussed by SAS 61 (Codification of Statements on Auditing Standards, AU Sec. 380); (iii) received from PricewaterhouseCoopers, LLP the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees); and (iv) discussed with PricewaterhouseCoopers, LLP its independence.

The following table details fees paid to PricewaterhouseCoopers, LLP for professional services during the year 2001. The Audit Committee has considered whether the provision of services to us by PricewaterhouseCoopers, LLP, beyond those rendered in connection with their audit and review of our financial statements, is compatible with maintaining their independence as auditors.

	Financial Information Systems Design and Implementation Fees	All Other Fees
Audit Fees		
-----	-----	-----
\$464,800	--	\$417,607

Based on all of its activities during the year, the Audit Committee recommended to the Board that the audited financial statements for 2001 be included in the Annual Report on Form 10-K for filing with the Securities and Exchange Commission.

Respectfully submitted,

THE AUDIT COMMITTEE

John L. Carter, Chair  
Larry W. Bickle  
Harold W. Burlingame  
Kenneth Handy  
Warren Y. Jobe  
Martha R. Seger

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H. Wilson Sundt

## PERFORMANCE GRAPH

Comparison of Cumulative Four-Year Total Return Among  
UniSource Energy, Standard & Poor's 500 Index  
and EEI Index of 100 Investor-Owned Utilities (1)

The graph showing on the hard copy represents the comparison of four year cumulative total return between UniSource Energy Corporation, the S&P 500 Index, and EEI Index of 100 investor-owned utilities. The graph's X-axis shows the years 1998 to 2001, and the Y-axis shows dollar values from 50 to 200. The data points are connected by lines with the following markers: UniSource Energy - triangles; S&P 500 Index - diamonds; EEI Index of 100 investor-owned utilities - squares. The data points are as follows:

	1997	1998	1999	2000	2001
	----	----	----	----	----
UniSource Energy Corporation	\$100	\$74	\$62	\$106	\$105
S&P 500 Index	\$100	\$129	\$156	\$141	\$125
EEI Index of 100 Investor-owned Utilities	\$100	\$114	\$93	\$137	\$125

(1) Assumes \$100 invested on December 31, 1997 in UniSource Energy common stock, S&P Index and EEI Index. It is assumed that all dividends are reinvested in stock at the frequency paid and the returns of each component peer group issuer are weighted according to the issuer's stock market capitalization at the beginning of the period.

Data and Calculations	1998	1999	2000	2001
-----	----	----	----	----
S & P 500 Total Return Change	28.58%	21.04%	-9.10%	-11.89%
EEI Index - 100 Electrics Change	13.89%	-18.60%	47.97%	-8.79%
UniSource Energy Change	-25.52%	-17.13%	71.80%	-1.30%

## PROPOSAL TWO: AMENDED AND RESTATED 1994 OUTSIDE DIRECTOR STOCK OPTION PLAN

GENERAL We maintain the UniSource Energy Corporation 1994 Outside Director Stock Option Plan (the "Director Plan"). On March 1, 2002, our Board approved, subject to shareholder approval, certain amendments to the Director Plan. At the Meeting, shareholders will be asked to approve those amendments. The principal amendments to the Director Plan are as follows:

PRINCIPAL AMENDMENTS - DIRECTOR STOCK OPTION PROVISIONS. The Director Plan currently provides that each member of our Board who is not employed by us and who is not an emeritus director (a "non-employee director") will receive an annual option grant covering 2,000 shares of our common stock. In addition, each new non-employee director is granted a stock option covering 2,000 shares of our common stock when he or she first takes office.

The proposed amendment to the Director Plan generally provides that each new non-employee director will be granted a stock option when he or she first takes office that covers a number of shares of our common stock equal to \$5,000 divided by the value of an option as of the date of grant (determined using the Black Scholes option value model). The proposed amendment to the Director Plan also generally provides that each non-employee director in office on the first business day of each year during the term of the Director Plan (commencing in 2003) who has been a director for at least three months will be granted a stock option covering a number of shares of our common stock equal to \$10,000 divided by the value of an option as of the date of grant (determined using the Black Scholes option value model). In addition, if the proposed Director Plan amendment is approved by shareholders, each non-employee director then in office will be granted a special one-time stock option grant covering a number of shares of our common stock equal to a) \$10,000 divided by the value of an option as of the date of grant (determined using the Black Scholes option value model), less b) 2,000 shares. Our Board will have the authority to adjust these grant amounts from time to time.

- DIRECTOR RESTRICTED STOCK GRANT PROVISIONS. The Director Plan currently does not contemplate restricted stock grants to directors. The proposed amendment to the Director Plan generally provides that each non-employee director in office on the first business day of each year will be granted a number of restricted shares of our common stock equal to \$10,000 divided by the then fair market value of a share of our common stock. In addition, if the proposed Director Plan amendment is approved by shareholders, each non-employee director then in office will be granted a special one-time restricted stock grant covering a number of shares of our common stock equal to \$10,000 divided by the then fair market value of a share of our common stock. These restricted stock grants are in addition to the option grants described above. Our Board will have the authority to adjust these grant amounts from time to time.
- SHARE LIMIT AND TERM OF THE DIRECTOR PLAN. The Director Plan does not currently contain a limit on the number of shares of our common stock that may be issued in respect of awards granted under the Director Plan. If the amendments to the Director Plan are approved by shareholders, the maximum number of shares of our common stock that may be delivered in respect of awards granted under the Director Plan on and after March 1, 2002 (the date that the proposed amendments were approved by our Board) will be 200,000 shares. Awards that were granted under the Director Plan before that date will not count against the 200,000 share limit. In addition, the Director Plan is currently scheduled to expire in February 2004. The proposed amendments extend the expiration date to March 2012.

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- DIVIDEND EQUIVALENTS. If the proposed amendments to the Director Plan are approved by shareholders, our Board may grant dividend equivalents in connection with any option awarded under the Director Plan and use stock authorized for issuance under the Director Plan to settle dividend equivalent benefits. Dividend equivalents are the cash amount equal to the cash dividends or cash distribution that would be payable on the number of shares subject to stock options outstanding as of a given record date.

In 2001, the Compensation Committee of our Board engaged The Segal Company ("Segal") to evaluate our outside director compensation program for appropriateness and market competitiveness. Segal determined that, when compared to a group of 21 utility industry companies, the stock-based component of our outside director compensation package was less than the average stock-based component of the other companies' outside director compensation packages. We believe that stock-based awards focus our directors on the objective of creating shareholder value and promoting the success of UniSource Energy, and that incentive compensation plans like the Director Plan are an important attraction, retention and motivation tool for participants in the plan. The proposed Director Plan amendments were approved by our Board based in substantial part on the recommendations of Segal. We believe that the proposed amendments will help further our goal of creating shareholder value and will help enable us to continue to attract, retain and reward qualified non-employee directors.

SUMMARY DESCRIPTION OF THE DIRECTOR PLAN The following summary is qualified in its entirety by the full text of the Director Plan, as amended and restated to reflect the proposed amendments, which is included as Appendix B attached to this Proxy Statement.

PURPOSE. The purpose of the Director Plan is to enable us to attract and retain highly qualified non-employee directors by providing to them a significant equity interest in UniSource Energy, to more closely link the interests of those directors with those of our shareholders, and to help provide those directors with reasonable and fair compensation.

AWARDS. As noted above, the Director Plan will authorize stock option and restricted stock grants to directors if the proposed Director Plan amendments are approved by shareholders. If the proposed Director Plan amendments are approved by shareholders, our Board may also settle dividend equivalent rights through the delivery of stock under the Director Plan.

ADMINISTRATION. Our Board will administer the Director Plan. Our Board generally has the authority to: a) approve the purchase of any shares purchased on exercise of an option arranged through a broker or other third party; b) accelerate the receipt or vesting of benefits pursuant to an award; and c) make certain



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adjustments to an outstanding award and authorize the conversion, succession or substitution of an award.

SHAREHOLDER APPROVAL FOR CERTAIN REPRICINGS. Our Board from time to time may authorize any adjustment in the exercise price of an option granted under the Director Plan by cancellation and regranting of an option, or by other legally valid means; provided, however, that without shareholder approval, no such action may constitute a repricing of an outstanding option to a price less than the fair market value of the underlying shares on the grant date of the original option.

ELIGIBILITY. Only non-emeritus members of our Board that are not employed by us or one of our subsidiaries are eligible to receive awards under the Director Plan. There are currently 11 non-employee, non-emeritus members of our Board.

TRANSFER RESTRICTIONS. Subject to limited exceptions contained in the Director Plan (which generally include transfers back to the company, a participant's designation of a beneficiary, the exercise of a participant's option by his or her legal representative in the event of the participant's disability, transfers pursuant to certain court orders, and "cashless exercises" approved by our Board), awards granted under the Director Plan are not transferable by the recipient other than by will or the laws of descent and distribution and are generally exercisable only by the recipient. Our Board may permit the transfer of an option if the transferor presents satisfactory evidence that the transfer is for estate and/or tax planning purposes and without consideration (other than nominal consideration).

LIMITS ON AWARDS; AUTHORIZED SHARES. As described above, the maximum number of shares that may be issued in respect of awards granted under the Director Plan after March 1, 2002 will be 200,000 shares if shareholders approve the proposed amendment. Shares that are subject to options granted under the Director Plan on or after that date that expire or otherwise terminate without being exercised, and any restricted shares that are granted under the Director Plan that are forfeited, cancelled, or for any other reason do not vest, as well as any shares reacquired pursuant to the terms of an award, will be available for subsequent awards under the Director Plan. The shares of our common stock to be delivered under the Director Plan may consist, in whole or in part, of authorized but unissued stock or treasury stock, not reserved for any other purpose.

As is customary in plans of this nature, the number and kind of shares available under the Director Plan and the then outstanding stock-based awards, as well as exercise or purchase prices, share limits, and future award grant levels are subject to adjustment in the event of certain reorganizations, mergers, combinations, consolidations, recapitalizations, reclassifications, stock splits, stock dividends, asset

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sales or other similar events, and extraordinary dividends or distributions of property to shareholders. The Director Plan will not limit the authority of our Board to grant awards or authorize any other compensation, with or without reference to our common stock, under any other plan or authority.

STOCK OPTIONS. An option is the right to purchase shares of our common stock at a future date at a specified price. The stock option grant levels that are contemplated by the proposed amendments to the Director Plan are described above. The purchase price per share of our common stock covered by each option granted under the Director Plan will be the fair market value of the common stock on the date the option is granted. Options granted under the Director Plan will vest in three annual installments and will generally expire on the tenth anniversary of the date of grant. Full payment for shares purchased on the exercise of an option must be made at the time of such exercise in a manner approved by our Board. The Director Plan permits the recipient of any award to pay the purchase price of shares of common stock pursuant to the option award in cash, by check or by the delivery of shares of our common stock. Additionally, subject to the approval of our Board, the Director Plan permits the recipient of any award to pay the purchase price of shares of common stock pursuant to the option award by third party payment or a cashless exercise.

RESTRICTED STOCK AWARDS, STOCK BONUSES. A restricted stock award is an award for a fixed number of shares of our common stock subject to vesting and transfer restrictions. The restricted stock award grant levels that are contemplated by the proposed amendments to the Director Plan are described above. Directors will be granted the restricted stock awards for the services that they render to UniSource Energy and the directors will not be required to otherwise pay for the restricted shares subject to their restricted stock awards. Restricted stock awarded under the Director Plan will vest three years after it is granted to the director.

DIVIDEND EQUIVALENTS. Our Board may grant dividend equivalents in connection with any option awarded under the Director Plan. Dividend equivalents that are awarded may provide for payment in cash or, if shareholders approve the proposed Plan amendments, the delivery of shares of our common stock. Any shares of our common stock delivered to settle dividend equivalents granted under the Director Plan will count against the Director Plan's share limit. Dividend equivalents settled in cash will not count against such limit.

ACCELERATION OF AWARDS; POSSIBLE EARLY TERMINATION OF AWARDS. Upon a Change in Control event, each option will become immediately vested and exercisable and each award of restricted stock will immediately vest free of restrictions. Generally speaking, a Change in Control will be triggered under the Director Plan a) upon our

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dissolution or liquidation, b) upon certain mergers, consolidations, reorganizations, or sales of all or substantially all of our assets, c) should certain persons acquire more than 30% of our voting power, or d) in the event certain majority changes in our Board occur over a two-year period.

TERMINATION OF OR CHANGES TO THE DIRECTOR PLAN. Our Board may amend or terminate the Director Plan at any time and in any manner. Without limiting our Board's authority to adopt other awards, our Board will have the authority to amend the grant levels contemplated by the Director Plan to offer competitive incentives and to tailor benefits to specific needs and circumstances. Shareholder approval for an amendment will generally not be obtained unless required by applicable law or deemed necessary or advisable by our Board. Repricings of options will also require shareholder approval as noted above. Unless earlier terminated by our Board, the Director Plan will terminate on March 1, 2012, if the shareholders approve the proposed amendments. Outstanding awards may be amended, subject however, to the consent of the holder if the amendment materially and adversely affects the holder.

FEDERAL INCOME TAX CONSEQUENCES OF AWARDS UNDER THE DIRECTOR PLAN

The federal income tax consequences of the Director Plan under current federal law, which is subject to change, are summarized in the following discussion which deals with the general federal income tax principles applicable to the Director Plan. This summary is not intended to be exhaustive and, among other considerations, does not describe state, local, or international tax consequences.

With respect to options granted under the Director Plan, we are generally entitled to deduct, and the optionee recognizes, taxable income in an amount equal to the difference between the option exercise price and the fair market value of the shares at the time of exercise. Restricted stock granted under the plan will be taxed to the recipient at the time of vesting based on the fair market value of the shares at vesting (unless the recipient elects to accelerate recognition as of the date of grant) and we will generally have a corresponding deduction at that time.

SPECIFIC BENEFITS

Assuming that the nominees identified in Proposal One are elected or re-elected, as the case may be, to our Board at our 2002 Meeting, and assuming that shareholders approve the proposed Director Plan amendments, the following options and restricted stock awards will be granted as of the date of the 2002 Meeting:

NEW PLAN BENEFITS  
AMENDED AND RESTATED 1994 OUTSIDE DIRECTOR STOCK OPTION PLAN

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DOLLAR	NUMBER OF SHARES SUBJECT	DOLLAR	NUMBER OF RESTRICTED
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NAME OF DIRECTOR	VALUE (\$)	TO THE OPTION (1)	VALUE (\$)	SHARES GRANTED (1)
Lawrence J. Aldrich	129.33	26	10,000	571
Larry W. Bickle	129.33	26	10,000	571
Elizabeth T. Bilby	129.33	26	10,000	571
Harold W. Burlingame	129.33	26	10,000	571
John L. Carter	129.33	26	10,000	571
Daniel W. L. Fessler	129.33	26	10,000	571
Kenneth Handy	129.33	26	10,000	571
Warren Y. Jobe	129.33	26	10,000	571
H. Wilson Sundt	129.33	26	10,000	571

The options granted will have a per share exercise price that is equal to the fair market value of a share of our common stock on the date of our 2002 Meeting. The awards will otherwise be granted consistent with the terms and conditions summarized in this proposal. If the proposed Director Plan amendments are approved by shareholders, it is also expected that dividend equivalent rights will be granted with respect to the shares that are subject to the options granted in connection with the 2002 Meeting.

The future number and amount of other awards to be received by, or allocated to, non-employee directors under the Director Plan, as amended by this proposal, cannot be determined at this time.

On March 13, 2002, the most recent practicable date for which quotations were available prior to the printing of this document, the closing price per share of our common stock was \$19.30, as reported on the New York Stock Exchange Composite Transaction Tape.

RECOMMENDATION OF OUR BOARD OF DIRECTORS "FOR" THIS PROPOSAL;  
VOTE REQUIRED

OUR BOARD OF DIRECTORS HAS APPROVED AND RECOMMENDS THAT  
SHAREHOLDERS VOTE FOR THE PROPOSED AMENDMENTS TO THE  
1994 OUTSIDE DIRECTOR STOCK OPTION PLAN.

SUBMISSION OF SHAREHOLDER PROPOSALS

GENERAL Rule 14a-4 of the SEC's proxy rules allows us to use discretionary voting authority to vote on a matter coming before an annual meeting of the shareholders, which was not included in our Proxy Statement (if we do not have notice of the matter at least 45 days before

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the date on which we first mailed our proxy materials for the prior year's Annual Meeting of the shareholders). In addition, we may also use discretionary voting authority if we receive timely notice of such matter (as described in the preceding sentence) and if, in the Proxy Statement, we describe the nature of such matter and how we intend to exercise our discretion to vote on it. Accordingly, for our 2003 Annual Meeting of Shareholders, any such notice must be submitted to the Corporate Secretary of UniSource Energy on or before February 12, 2003.

We must receive your shareholder proposals by November 29, 2002.

This requirement is separate and apart from the SEC's requirements that a shareholder must meet in order to have a shareholder proposal included in our Proxy Statement. Shareholder proposals intended to be presented at our 2003 Annual Meeting of Shareholders must be received by us no later than November 29, 2002 in order to be eligible for inclusion our Proxy Statement and the form of proxy relating to that meeting. Direct any proposals, as well as related questions, to the undersigned.

OTHER BUSINESS

The Board knows of no other matters for consideration at the Meeting. If any other business should properly arise, the persons appointed in the enclosed proxy have discretionary authority to vote in accordance with their best judgment.

Copies of our 2001 Annual Report on Form 10-K may be obtained by shareholders, without charge, upon written request to Library and Resource Center, UniSource Energy Corporation, 3950 East Irvington Road, Mail Stop RC114, P.O. Box 711, Tucson, Arizona 85702. You may also obtain our SEC filings through the Internet at [www.sec.gov](http://www.sec.gov).

By order of the Board of Directors.

/s/ Vincent Nitido, Jr.

-----  
Vincent Nitido, Jr.  
Corporate Secretary

PLEASE VOTE - YOUR VOTE IS IMPORTANT

APPENDIX A  
Amended  
May 11, 2001

UNISOURCE ENERGY CORPORATION  
-----

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

-----  
CHARTER  
-----

1. COMPOSITION  
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The Audit Committee of the Board of Directors (the "Committee") consists of not less than five non-employee Directors appointed annually by the Board. Directors eligible to serve on the Committee shall be determined in accordance with the NYSE Listed Company Manual, Corporate Governance Standards for Audit Committees. The Board shall designate one of the Committee members as Chairman of the Committee. Each member of the Committee shall be financially literate, and one member shall have accounting or financial management expertise.

2. MEETINGS  
-----

The Committee will hold at least four regular meetings each year, and such additional meetings as it may deem necessary. Additional meetings will be called by the Chairman of the Committee. The agendas for the regular meetings shall include all items necessary to complete the duties of the Committee as set forth herein. In addition to the Committee members and the Secretary, the Chairman of the Board, Chief Executive Officer and President and other members of management, internal audit and representatives of the independent auditors may attend as appropriate.

3. RULES OF PROCEDURE  
-----

The Committee will determine its own rules of procedure with respect to how its meetings are to be called, as well as the place and time.

4. COMPENSATION  
-----

Each member will be paid such fees as may be established from time to time by the Board for service on the Committee, and will be reimbursed for travel expenses incurred by attendance at meetings.

5. COMMITTEE SECRETARY  
-----

The Secretary of the Committee will be the Assistant Corporate Secretary of the Company (or such other representative of management as the Committee may designate) and not be a member of the Committee. The Secretary will attend all meetings and maintain minutes, advise members of all meetings called, arrange with the Chairman or other convening authority for preparation and distribution of the agenda for each meeting, and carry out other functions as may be assigned from time to time by the Committee. At such meetings where attendance by a Company representative is not

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appropriate, the Chairman shall act as secretary of the meeting or appoint another member of the Committee to act as secretary of such meetings.

### 6. QUORUM

-----

A majority of the total membership of the Committee will constitute a quorum.

### 7. RESPONSIBILITIES

-----

The Committee is to assist the Board in discharging its duties and responsibilities regarding financial accounting, reporting and internal controls. To ensure independence and assure adequate consideration of audit recommendations the Corporate General Auditor reports directly to the Chairman of the Committee.

### 8. SPECIFIC DUTIES OF THE COMMITTEE

-----

- a) Select and evaluate a firm for recommendation to the Board for the Board to engage as the Company's independent auditor and, where appropriate, to replace such firm.
- b) Review the independent auditor's compensation, the proposed terms of its engagement, and its independence.
- c) Ensure that the auditors understand that they are ultimately accountable to the Board of Directors and the Committee, as representatives of the stockholders.
- d) Annually receive a written statement from the auditors delineating all relationships between the auditor and the Company.
- e) Review the appointment, replacement, reassignment or dismissal of the Company's General Auditor.
- f) Review and approve the internal audit department charter.
- g) Serve as a channel of communication between the independent auditor and the Board and between the Company's General Auditor and the Board to maintain the best allocation of available resources.
- h) Review the results of each independent audit, including any qualifications in the independent auditor's opinion, any related management letter, management's response to recommendations made by the independent auditor in connection with the audit, reports submitted to the Committee by the internal and independent auditors that are material to the Company as a whole, and management's response to those reports.
- i) Review the Company's annual financial statements and any significant disputes between management and the independent auditor that arose in connection with the preparation of those financial statements. (The Committee does not review interim financial reports before they are published,

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because our independent auditors review such reports and issue written reports on their reviews, and because of the tight preparation and distribution schedule of such reports.)

- j) Discuss with the independent auditor the quality (not just the acceptability) of the Company's application of Generally Accepted Accounting Principles (GAAP), including a discussion of such issues as the clarity of the financial disclosures and the degree of aggressiveness or conservatism of the Company's application of GAAP.
- k) Review management and General Auditor reports on the adequacy of the Company's internal controls established by management to provide, among other things, reasonable assurance that the Company's publicly reported financial statements are presented fairly in conformity with GAAP.
- l) Consider major changes and other major questions of choice proposed by management regarding the appropriate auditing practices to be followed by the Company's internal audit staff and accounting principles and practices to be followed when preparing the Company's financial statements.
- m) Review the procedures employed by the Company in preparing published financial statements and related management commentaries.
- n) Meet periodically with management to review the Company's major financial risk exposure, and the measures taken to reduce such risk.
- o) Annually review the Company policy on a Corporate Code of Conduct and compliance therewith.
- p) Annually review this Audit Committee Charter and make any necessary changes.
- q) Annually review travel and entertainment expenses of officers and directors. Include in this review a discussion of perquisites.
- r) Annually perform an evaluation of the Committee, its members, functions and performance.

### 9. EXECUTIVE SESSION

-----  
At all meetings of the Committee, sufficient opportunity shall be made available for the internal and independent auditors to meet with the Committee members in executive session without management present.

### 10. RESPONSIBILITIES OF THE CHAIRMAN

-----  
The Chairman of the Committee will present the Committee's recommendations to the Board for its approval and periodically provide the Board, for its information, with a summary of the Committee's determinations and approvals.

### 11. RESPONSIBILITIES OF THE CHIEF EXECUTIVE OFFICER



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The Chief Executive Officer of the Company will advise and make recommendations to the Committee and, in the normal course, attend all meetings of the Committee.

12. OTHER AUTHORITY  
-----

The Committee may call upon any person including employees of the Company or its subsidiaries, knowledgeable in matters discussed by the Committee, for information and counsel, provided, however, the Committee shall not retain independent counsel or advisors without the consent of the Board.

APPENDIX B

UNISOURCE ENERGY CORPORATION  
Amended and Restated 1994 Outside Director Stock Option Plan

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UNISOURCE ENERGY CORPORATION  
Amended and Restated 1994 Outside Director Stock Option Plan

Section 1  
Establishment, Purpose and Effective Date of Plan

1.1 ESTABLISHMENT. The Company maintains the UniSource Energy Corporation 1994 Outside Director Stock Option Plan. The Company hereby amends and restates such plan in its entirety as the UniSource Energy Corporation Amended and Restated 1994 Outside Director Stock Option Plan to provide certain stock-based incentives to non-employee members of the Board.

1.2 PURPOSE. The purpose of this Plan is to enable the Company to attract and retain highly qualified non-employee members of the Board by providing to them a significant equity interest in the Company, to more closely link the interests of those directors with those of the Company's stockholders, and to help provide those directors with reasonable and fair compensation.

1.3 EFFECTIVE DATE. The Plan was originally approved by the Board of Directors of Tucson Electric Power Company effective on February 3, 1994 and was approved by the stockholders of Tucson Electric Power Company on May 20, 1994. Sponsorship of the Plan was assumed by the Company as of January 1, 1998. This amendment and restatement of the Plan is effective immediately upon its approval by the Board (the date of such Board approval is referred to as the "Board Approval Date"), subject to the approval of the Company's stockholders no later than twelve months after the Board Approval Date (the date of such stockholder approval is referred to as the "Stockholder Approval Date"). Awards granted under this Plan prior to the Board Approval Date shall be governed by the provisions of the applicable prior version of this Plan. Awards granted under this Plan on or after the Board Approval Date shall be subject to the terms and conditions set forth herein and any applicable amendment hereof.

1.4 STOCK SUBJECT TO PLAN. Subject to the provisions of Section 9, the capital stock that may be delivered under this Plan will be shares of the Company's Common Stock. Subject to adjustment as provided in or pursuant to this Section 1 or Section 9, the maximum number of shares of Common Stock that may be delivered pursuant to all awards granted under this Plan on or after the Board Approval Date shall be 200,000 shares. Shares subject to awards granted under this Plan prior to the Board Approval Date shall not count against such limit. The shares of Common Stock to be delivered under this Plan may consist, in whole or in part, of authorized but unissued shares or treasury shares, not reserved for any other purpose.

1.5 REISSUE OF AWARDS AND SHARES. Shares of Common Stock that are subject to Options granted under this Plan on or after the Board Approval Date that expire or otherwise terminate without being exercised, and any restricted shares of Common Stock that are granted as Restricted Stock Awards under this Plan that are forfeited, cancelled, or for any other reason do not vest, as well as any shares reacquired pursuant to the terms of an award, shall be available for subsequent awards under this Plan. Any shares of Common Stock issued or delivered to settle dividend equivalents granted pursuant to Section 6.12 shall count against the share limit of Section 1.4. Dividend equivalents settled in cash shall not count against such limit.

1.6 FRACTIONAL SHARES. Fractional share interests shall be disregarded, but may be accumulated. The Board, however, may determine that cash, other securities, or other property will be paid or transferred in lieu of any fractional share interests.

Section 2  
Definitions

2.1 DEFINITIONS. Whenever used herein, capitalized terms shall have the respective meaning set forth below or elsewhere in this Plan:

- (a) "Award" means an Option and/or Restricted Stock Award, as the context may require, granted under this Plan.
- (b) "Black Scholes Value" has the meaning given to such term in Section 6.4.
- (c) "Board" means the Board of Directors of the Company.
- (d) "Board Approval Date" shall have the meaning given to such term in Section 1.3.
- (e) "Cause" means that the Participant has ceased to be a member of the Board due to either: (1) a removal by the Company's stockholders for cause pursuant to Arizona Revised Statutes Section 10-808 (or a successor provision thereto), or (2) a removal pursuant to Arizona Revised Statutes Section 10-809 (or a successor provision thereto).
- (f) "Common Stock" means the Common Stock, no par value, of the Company and such other securities

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or property as may become the subject of Awards, or become subject to Awards, pursuant to an adjustment made pursuant to Section 9.

- (g) "Company" or "UniSource" means UniSource Energy Corporation, an Arizona corporation, and any successor corporation.
- (h) "Eligible Director" means a member of the Board who is not either (1) an employee of the Company or a Subsidiary, or (2) an emeritus member of the Board.
- (i) "Exchange Act" means the Securities Exchange Act of 1934, as amended.
- (j) "Excluded Person" means (1) any person described in and satisfying the conditions of Rule 13d-1 (b)(1) under the Exchange Act, (2) the Company and any Subsidiary, and (3) an employee benefit plan (or related trust) sponsored or maintained by the Company, a Subsidiary, or any Successor Entity.
- (k) "Fair Market Value" means the average of the highest and lowest sales prices of a share of Common Stock as reported on the consolidated tape for securities listed on the New York Stock Exchange on a particular date. In the event that there are no Common Stock transactions on such date, the Fair Market Value shall be determined by utilization of the above formula as of the immediately preceding date on which there were Common Stock transactions.
- (l) "Option" means an option to acquire a number of shares of Common Stock granted under this Plan.
- (m) "Participant" means an Eligible Director or former Eligible Director, as the case may be, who has been granted and holds an Award granted under this Plan (or a permitted transferee of such a director, as the context may require).
- (n) "Plan" means the UniSource Energy Corporation Amended and Restated 1994 Outside Director Stock Option Plan (formerly the 1994 Outside Director Stock Option Plan), as set forth herein and as it may be amended from time to time.
- (o) "Restricted Stock Award" means an award of shares of Common Stock under this Plan, which shares are subject to vesting as set forth in Section 7 and other restrictions as set forth herein.
- (p) "Retirement" means a Board member's termination as a director upon or after attaining age 62 (other than an involuntary termination for Cause).
- (q) "Stockholder Approval Date" shall have the meaning given to such term in Section 1.3.

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- (r) "Subsidiary" means any corporation or other entity a majority of whose outstanding voting stock or voting power is beneficially owned directly or indirectly by the Company.
- (s) "Total Disability" means a Board member's termination as a director (other than an involuntary termination for Cause) due to his or her "permanent and total disability" within the meaning of Section 22(e)(3) of the Internal Revenue Code of 1986, as amended.

### Section 3 Eligibility

3.1 ELIGIBILITY. All Eligible Directors are eligible to participate in this Plan.

### Section 4 Administration

4.1 ADMINISTRATION. This Plan shall be administered by the Board. Subject to the express provisions of this Plan and notwithstanding the intent that Award grants under this Plan be self-effectuating to the maximum extent possible, the Board is authorized and empowered to do all things necessary or desirable in connection with the authorization of awards and the administration of this Plan, including, without limitation, the authority to:

- (a) adopt, amend and rescind rules, regulations and procedures relating to this Plan and its administration or the Awards granted under this Plan;
- (b) determine whether, and the extent to which, adjustments are required pursuant to Section 9 hereof; and
- (c) interpret and construe this Plan and the terms and conditions of any Award granted hereunder.

Subject to the express provisions of this Plan and without limiting other authority of the Board under this Plan, the Board also may:

- (a) accelerate the receipt and/or vesting of benefits pursuant an Award granted under this Plan upon or in connection with (whether before, at the time of or after) the occurrence of a specified event or events, including, without limitation, any termination of service; and
- (b) adjust the exercisability, term (subject to a maximum 10-year term of Awards granted under this Plan) or vesting schedule of any or all outstanding Awards, adjust the assumptions used in determining the Black Scholes Value under Section 6.4 or provide for a different valuation formula for such purposes, adjust the number of Common Shares subject to any Award, adjust the price of any or all outstanding Awards (subject to the repricing

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limitation set forth below) or otherwise change previously imposed terms and conditions, in the circumstances referenced in clause (a) above or in other circumstances or upon the occurrence of other events as deemed appropriate by the Board, by amendment of an outstanding Award, by substitution of an outstanding Award, by waiver or by other legally valid means (which may result, among other changes, in a greater or lesser number of shares subject to the Award, a shorter or longer vesting or exercise period, or, except as provided below, an exercise or purchase price that is higher or lower than the original or prior Award), in each case subject to Sections 1 and 11; and

- (c) authorize the conversion, succession or substitution of one or more outstanding Awards upon the occurrence of an event of the type described in Section 9 or in other circumstances or upon the occurrence of other events as deemed appropriate by the Board.

Notwithstanding the foregoing or anything in Section 11 to the contrary, any Board action (either by amending an Option, by canceling and regranting an Option or otherwise) to reduce the per share exercise price of an Option (except for adjustments to reflect stock splits and similar recapitalization events as contemplated by Section 9) granted under this Plan shall be subject to stockholder approval if such an action would constitute a repricing of the Option to a price that is less than the Fair Market Value of the underlying shares on the grant date of the original Option.

4.2 DECISIONS IN GOOD FAITH; RELIANCE ON EXPERTS; DELEGATION. In making any determination or in taking or not taking any action under this Plan, the Board may obtain and may rely upon the advice of experts, including employees of and professional advisors to the Company. No director, officer or agent of the Company shall be liable for any such action or determination taken or made or omitted under this Plan in good faith. Any action taken by, or inaction of, the Board relating to or pursuant to this Plan shall be within the absolute discretion of that body and shall be conclusive and binding on all persons. The Board may delegate ministerial, non-discretionary functions to individuals who are officers or employees of the Company.

### Section 5 Duration of Plan

5.1 DURATION OF PLAN. No new Award shall be granted under this Plan after the tenth anniversary of the Board Approval Date. After that date, this Plan shall, however, continue in effect as to then outstanding Awards.

### Section 6 Stock Options

6.1 ONE-TIME GRANT. Each Eligible Director in office on the Stockholder Approval Date shall be granted an Option as of that date to purchase a number of shares of Common Stock equal to the positive difference (if any) between: (1) \$10,000 divided by the

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Black Scholes Value as of the Stockholder Approval Date, less (2) 2,000.

6.2 NEW DIRECTOR GRANTS. Each individual who first becomes an Eligible Director after the Stockholder Approval Date shall be granted an Option as of that date to purchase a number of shares of Common Stock equal to \$5,000 divided by the Black Scholes Value as of the date the individual first becomes an Eligible Director.

6.3 ANNUAL AWARDS. On the first business day of each calendar year during the term of this Plan after the Stockholder Approval Date, each person who is an Eligible Director on that date and who has served as a member of the Board for at least three months as of that date shall be granted an Option as of that date to purchase a number of shares of Common Stock equal to \$10,000 divided by the Black Scholes Value as of that date.

6.4 BLACK SCHOLES VALUE. As noted above, the number of shares to be granted subject to any particular Option is determined with reference to the Black Scholes Value as of the particular date of grant of the Option. For this purpose, "Black Scholes Value" means the value of an option to purchase one share of Common Stock calculated as of the applicable date of grant under the Black Scholes option value model. Unless otherwise provided by the Board prior to the applicable date of grant, the Black Scholes option valuation for Options to be granted on a particular date shall be based on the following assumptions:

- the then current price of a share of Common Stock is equal to the Fair Market Value of a share of Common Stock as of the date of grant of the Option;
- the per share exercise price of the Option is equal to the Fair Market Value of a share of Common Stock as of the date of grant of the Option;
- the time until expiration of the Option is 5 years;
- the risk-free interest rate is the asked yield rate, as of the day preceding the date of grant of the Option and as reported in the Wall Street Journal, for the U.S. Treasury Note or Bond having a maturity date that is closest to the date that is five years after the date of grant of the Option;
- the volatility of the price of the Common Stock is calculated based on the closing price of a share of Common Stock on the last trading day of each month for each of the 60 months preceding the month in which the date of grant of the Option occurs; and
- the dividend yield on the Common Stock equals the rate determined by dividing the most recent annual dividend declared on the Common Stock as of the date of grant of the Option by the Fair Market Value of a share of Common Stock as of the date of grant of the Option.

6.5 EXERCISE PRICE. Each Option granted hereunder shall have a per share exercise price equal to the Fair Market Value of a share of Common Stock as of the day such Option is granted.

6.6 VESTING. Each Option granted hereunder shall be exercisable only to the extent that it is vested. Each Option granted hereunder shall vest as to 1/3 of the total number of



shares of Common Stock subject thereto (rounded up to the nearest whole share) on each of the first and second anniversaries of the date of grant of the Option and the balance of the remaining portion of the Option shall vest on the third anniversary of the date of grant of the Option; provided, in each case, that the Eligible Director who received the Option has remained a member of the Board through the respective vesting date.

6.7 EXPIRATION. Except as otherwise provided in Sections 8 and 10, Options granted hereunder shall expire at the close of business on the day before the tenth anniversary of the date of grant of the Option.

6.8 PAYMENT; EXERCISE. The purchase price of any shares purchased on exercise of an Option granted under this Plan shall be paid in full at the time of each purchase in one or a combination of the following methods: (a) in cash or by electronic funds transfer; (b) by check payable to the order of the Company; (c) by notice and third party payment in such manner as may be authorized by the Board; (d) subject to compliance with all applicable law, by the delivery of shares of Common Stock already owned by the Participant, provided that any shares delivered which were initially acquired upon exercise of a stock option must have been owned by the Participant at least six months as of the date of delivery; or (e) subject to the approval of the Board, pursuant to "cashless exercise" procedures with third parties who provide financing for the purpose of (or who otherwise facilitate) the exercise of Options. Shares of Common Stock used to satisfy the exercise price of an Option shall be valued at their Fair Market Value on the date of exercise of the Option. The proceeds from payment of Option exercise prices shall be added to the general funds of the Company and shall be used for general corporate purposes. No fewer than 100 shares may be purchased on exercise of any Option at one time unless the number purchased is the total number at the time available for purchase under the Option.

6.9 AGREEMENT. Options awarded under this Plan will be evidenced by an agreement in writing, signed by a duly authorized officer of the Company and, if required by the Board, by the Option recipient. Each Option granted under this Plan shall be a nonqualified stock option and shall not be an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended.

6.10 NON-TRANSFERABILITY OF OPTIONS. Each Award granted under this Plan is non-transferable and shall not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge. Each Award shall be exercised only by the Eligible Director who received the grant. Amounts payable or shares issuable pursuant to any Award shall be delivered only to (or for the account of) the Eligible Director who received the grant.

The Board may permit Options to be exercised by and paid to certain persons or entities related to the Eligible Director pursuant to such conditions and procedures, including limitations on subsequent transfers, as the Board may establish. Any permitted transfer shall be subject to the condition that the Board receive evidence satisfactory to it that the transfer (a) is being made for essentially estate and/or tax planning purposes

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on a gratuitous or donative basis and without consideration (other than nominal consideration or in exchange for an interest in a qualified transferee), and (b) will not compromise the Company's ability to register shares issuable under this Plan on SEC Form S-8 under the Securities Act of 1933, as amended, or to rely on such registration in connection with an Option exercise.

The exercise and transfer restrictions in the first paragraph of this Section 6.10 will not, however, apply to:

- (a) transfers to the Company;
- (b) the designation of a beneficiary to receive benefits in the event of the Eligible Director's death or, if the Eligible Director has died, transfers to or exercises by the Eligible Director's beneficiary, or, in the absence of a validly designated beneficiary, transfers by will or the laws of descent and distribution;
- (c) transfers to a family member (or former family member) pursuant to a domestic relations order if received by the Board prior to the exercise of the Option or other payment of the Award;
- (d) if the Eligible Director has suffered a disability, permitted transfers or exercises on behalf of the Eligible Director by his or her legal representative; or
- (e) the authorization by the Board of "cashless exercise" procedures with third parties who provide financing for the purpose of (or who otherwise facilitate) the exercise of Options consistent with applicable laws and the express authorization of the Board.

6.11 BENEFICIARY DESIGNATION. Any beneficiary designation made by an Eligible Director will revoke all prior designations by the same director, shall be in a form prescribed by the Board, and will be effective only when filed by the director in writing with the Company during his or her lifetime.

6.12 DIVIDEND EQUIVALENTS. The Board may, in its sole discretion, grant dividend equivalents in connection with any Option awarded under this Plan. Any dividend equivalents granted by the Board shall be either expressly provided for in the related written stock option agreement or evidenced by a separate written award agreement executed by an authorized officer of the Company. The Board may provide that dividend equivalents will be settled in cash or the delivery of shares of Common Stock.

### Section 7 Restricted Stock Grants

7.1 INITIAL GRANT. Each Eligible Director in office on the Stockholder Approval Date shall be granted a Restricted Stock Award for a number of restricted shares of Common Stock equal to \$10,000 divided by the Fair Market Value of a share of Common Stock as of the Stockholder Approval Date.

7.2 ANNUAL AWARDS. On the first business day of each

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calendar year during the term of this Plan after the Stockholder Approval Date, each person who is an Eligible Director on that date shall be granted a Restricted Stock Award for a number of restricted shares of Common Stock equal to \$10,000 divided by the Fair Market Value of a share of Common Stock as of that date.

7.3 RESTRICTED STOCK AWARDS. Stock certificates evidencing shares of restricted stock subject to a Restricted Stock Award pending the lapse of the restrictions shall bear a legend making appropriate reference to the restrictions imposed hereunder and, if so provided by the Board, shall be held by the Company or by a third party designated by the Board until the restrictions on such shares shall have lapsed and the shares shall have vested in accordance with the provisions hereof. Restricted Stock Awards granted under this Plan will be evidenced by an agreement in writing, signed by a duly authorized officer of the Company and, if required by the Board, by the Restricted Stock Award recipient.

7.4 VESTING. Each Restricted Stock Award granted under this Section 7 shall become vested as to 100% of the total number of shares of Common Stock subject thereto on the third anniversary of the date of grant of the award; provided that the Eligible Director who received the award has remained a member of the Board through such vesting date. Promptly after the vesting date and satisfaction of all applicable restrictions, a certificate or certificates evidencing the number of the shares of Common Stock as to which the restrictions have lapsed shall be delivered to the Participant holding the award (to the extent such certificate had not previously been so delivered). Certificates evidencing vested shares and any other amounts deliverable in respect thereof shall be delivered and paid only to the Participant holding the award or his or her personal representative, as the case may be.

7.5 TRANSFER RESTRICTIONS. Prior to the time that they have become vested, neither the restricted shares comprising any Restricted Stock Award, nor any interest therein, amount payable in respect thereof, or Restricted Property (as defined in Section 7.6), may be sold, assigned, transferred, pledged or otherwise disposed of, alienated or encumbered, either voluntarily or involuntarily. The transfer restrictions in the preceding sentence shall not apply to (a) transfers to the Company, and (b) the designation of a beneficiary to receive benefits in the event of the director's death or, if the director has died, transfers to the director's beneficiary, or, in the absence of a validly designated beneficiary, transfers by will or the laws of descent and distribution.

7.6 VOTING; DIVIDENDS. After the applicable date of grant of a Restricted Stock Award, the Participant holding the Restricted Stock Award shall have voting rights and dividend rights with respect to the shares of Common Stock subject to the award. Any securities or other property receivable in respect of the shares subject to the award as a result of any dividend or other distribution (other than cash dividends), conversion or exchange of or with respect to the shares ("Restricted Property") will be subject to the restrictions set forth in this Agreement to the same extent as the shares to which such securities or other property relate and shall be held and accumulated for the benefit of the Participant, but subject to such risks. The Participant's voting and dividend rights shall terminate

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immediately as to any shares that are forfeited back to the Company in accordance with Section 8.2.

### Section 8 Termination of Service

8.1 STOCK OPTIONS. If a director ceases to be a member of the Board for any reason, then the director's (and his or her permitted transferee's, as the case may be) rights under any then outstanding Option shall be as follows:

- (a) if the director ceases to be a Board member due to the director's death or Total Disability: (1) the Option shall continue to vest for the 12-month period following the date the director ceased to be a member of the Board (the director's "Termination Date"); and (2) the Option, to the extent then vested, may be exercised at any time within the 12-month period following the director's Termination Date;
- (b) if the director ceases to be a Board member due to the director's Retirement, or due to the director's death or Total Disability upon or after attaining age 62: (1) the Option shall vest on its scheduled vesting dates irrespective of the director's Retirement, death or Total Disability, as the case may be; and (2) the Option, to the extent then vested, may be exercised at any time within the term of the Option;
- (c) if the director ceases to be a Board member for any reason other than due to the director's death, Total Disability, Retirement, or involuntary termination for Cause: (1) the Option shall continue to vest for the 3-month period following the director's Termination Date; and (2) the Option, to the extent then vested, may be exercised at any time within the 3-month period following the director's Termination Date;
- (d) if the director's service as a member of the Board is terminated for Cause, the Option shall terminate (whether or not vested) on the director's Termination Date.

In any case where a director's Option continues to be exercisable following the director's Termination Date, the Option, to the extent exercisable following the director's Termination Date and not exercised on or before the applicable date determined under clause (a), (b) or (c) above, shall terminate on that applicable date. In any case where an director's Option continues to vest following the director's Termination Date in accordance with clause (a), (b) or (c) above, the Option, to the extent not vested as of the director's Termination Date and not scheduled to vest following the director's Termination Date in accordance with clause (a), (b) or (c) above, shall terminate on the director's Termination Date. In each case, the Option shall be subject to earlier termination in accordance with Section 6.7 or Section 10 notwithstanding anything else to the contrary in this Section 8.1.

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8.2 RESTRICTED STOCK AWARDS. If a director ceases to be a member of the Board for any reason, then the director's rights under any then outstanding Restricted Stock Award shall be as follows:

- (a) if the director ceases to be a Board member due to the director's death, Total Disability or Retirement, the director's Restricted Stock Award shall vest as of the director's Termination Date;
- (b) if the director ceases to be a Board member for any reason other than due to the director's death, Total Disability, or Retirement, any shares subject to the director's Restricted Stock Award that are not fully vested and free from restriction as of the director's Termination Date shall thereupon be forfeited and returned to the Company.

8.3 CONTINUANCE OF SERVICE. The vesting schedule applicable to an Award requires continued service through each applicable vesting date as a condition to the vesting of the applicable installment of the Award and the rights and benefits under this Plan. Service for only a portion of a vesting period, even if substantial, will not entitle the award recipient to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of services as provided in Section 8.1 or 8.2, as applicable. Nothing contained in this Plan constitutes an employment or service commitment by the Company or any affiliate, confers upon any Award recipient any right to remain employed by or in service to the Company or any affiliate, interferes in any way with the right of the Company or any affiliate at any time to terminate such employment or service, or affects the right of the Company or any affiliate to increase or decrease the recipient's other compensation.

### Section 9 Adjustment in Capitalization

9.1 ADJUSTMENT IN CAPITALIZATION. Upon or in contemplation of any reclassification, recapitalization, stock split (including a stock split in the form of a stock dividend) or reverse stock split ("stock split"); any merger, combination, consolidation, or other reorganization; any spin-off, split-up, or similar extraordinary dividend distribution ("spin-off") in respect of the Common Stock (whether in the form of securities or property); any exchange of Common Stock or other securities of the Company, or any similar, unusual or extraordinary corporate transaction in respect of the Common Stock; or a sale of all or substantially all the assets of the Company as an entirety ("asset sale"); then the Board shall, in such manner, to such extent (if any) and at such time as it deems appropriate and equitable in the circumstances:

- (a) proportionately adjust any or all of (1) the number and type of shares of Common Stock (or other securities) that thereafter may be made the subject of Awards (including the specific share limits and numbers of shares set forth elsewhere in this Plan), (2) the number, amount and type of shares of Common Stock (or other securities or property) subject to any or all outstanding Awards, (3) the

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grant, purchase, or exercise price of any or all outstanding Awards, or (4) the securities, cash or other property deliverable upon exercise of any outstanding Awards; or

- (b) make provision for a cash payment or for the assumption, substitution or exchange of any or all outstanding Awards or the cash, securities or property deliverable to the holder of any or all outstanding Awards, based upon the distribution or consideration payable to holders of the Common Stock upon or in respect of such event.

The Board may adopt such valuation methodologies for outstanding Awards as it deems reasonable in the event of a cash or property settlement and, in the case of Options, but without limitation on other methodologies, may base such settlement solely upon the excess if any of the per share amount payable upon or in respect of such event over the exercise price of the Option.

In any of such events, the Board may take such action prior to such event to the extent that the Board deems the action necessary to permit the Award holder to realize the benefits intended to be conveyed with respect to the underlying shares in the same manner as is or will be available to stockholders generally. In the case of any stock split or reverse stock split, if no action is taken by the Board, the proportionate adjustments contemplated by clause (a) above shall nevertheless be made.

### Section 10 Change in Control

10.1 IN GENERAL. In the event of a Change in Control (as defined in Section 10.3), all Options then outstanding under this Plan shall vest 100% and shall be immediately exercisable by the holder, and all shares subject to Restricted Stock Awards then outstanding under this Plan shall vest 100% free of restrictions. Any acceleration of Awards shall comply with applicable legal requirements and, if necessary to accomplish the purposes of the acceleration or if the circumstances require, may be deemed by the Board to occur a limited period of time not greater than 30 days before the event. Without limiting the generality of the foregoing, the Board may deem an acceleration to occur immediately prior to the applicable event and/or reinstate the original terms of an Award if an event giving rise to an acceleration does not occur.

10.2 POSSIBLE EARLY TERMINATION OF OPTIONS. Without limiting the authority of the Board under Section 9, if any Option under this Plan is fully vested (after giving effect to, without limitation, any accelerated vesting pursuant to Section 10.1), but is not exercised prior to (1) a dissolution of the Company, or (2) an event described in Section 9 that the Company does not survive (or does not survive as a public company in respect of its Common Stock), such Option shall terminate, subject to any provision that has been expressly made by the Board, through a plan of reorganization or otherwise, for the survival, substitution, assumption, exchange or other continuation or settlement of such Option; provided that the Option holder shall be given reasonable advance notice of the impending termination and a reasonable opportunity to exercise

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the Option in accordance with its terms before the termination (except that in no case shall more than ten day's notice be required).

10.3 DEFINITION. For purposes of this Plan, a "Change in Control" shall mean any of the following events:

- (a) The dissolution or liquidation of the Company, other than in the context of a transaction that does not constitute a Change in Control under clause (b) below.
- (b) Consummation of a merger, consolidation, or other reorganization, with or into, or the sale of all or substantially all of the Company's business and/or assets as an entirety to, one or more entities that are not Subsidiaries (as defined below) (a "Business Combination"), unless (1) as a result of the Business Combination more than 50% of the outstanding securities voting generally in the election of directors of the surviving or resulting entity or a parent thereof (the "Successor Entity") immediately after the reorganization are, or will be, owned, directly or indirectly, by stockholders of the Company immediately before the Business Combination; (2) no person (as defined in clause (c) below, but excluding the Successor Entity or an Excluded Person) beneficially owns, directly or indirectly, more than 30% of the outstanding shares of the combined voting power of the outstanding voting securities of the Successor Entity, after giving effect to the Business Combination; and (3) more than 50% of the members of the board of directors of the Successor Entity were members of the Board at the time of the execution of the initial agreement or of the action of the Board approving the Business Combination.
- (c) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) other than an Excluded Person becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than 30% of the combined voting power of the Company's then outstanding securities entitled to then vote generally in the election of directors of the Company, other than as a result of (1) an acquisition directly from the Company or a Subsidiary, (2) an acquisition by the Company or a Subsidiary, (3) an acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company, a Subsidiary, or a Successor Entity, or (4) or an acquisition by any entity pursuant to a transaction which is expressly excluded under clause (b) above.
- (d) During any period not longer than two consecutive years, individuals who at the beginning of such period constituted the Board cease to constitute at least a majority thereof, unless the election, or the nomination for election by the Company's stockholders, of each new Board

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member was approved by a vote of at least two-thirds of the Board members then still in office who were Board members at the beginning of such period (including for these purposes, new members whose election or nomination was so approved), but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board.

### Section 11 Amendment, Modification, and Termination of Plan

11.1 AMENDMENT, MODIFICATION, AND TERMINATION OF PLAN. The Board at any time may terminate, and from time to time amend or modify this Plan and/or any outstanding Award. Without limiting the generality of the foregoing, the Board may at any time prospectively amend the Award grant levels set forth in Sections 6 and 7 and prospectively change the other terms of Award grants hereunder. Any amendment or termination of this Plan or change in or affecting any outstanding Award that materially and adversely affects the rights of an Award holder under and with respect to that Award shall be subject to the consent of the holder. Adjustments contemplated by Section 9 shall not be deemed to constitute a change requiring such consent. Stockholder approval for any amendment shall not be required unless (a) required by applicable law or deemed necessary or advisable by the Board, or (b) such approval is required pursuant to Section 4.1 for the repricing of an Option.

### Section 12 Requirements of Law; Miscellaneous

12.1 REQUIREMENTS OF LAW. This Plan, the granting and vesting of Awards under this Plan, the offer, issuance and delivery of shares of Common Stock, and the payment of money under this Plan or under Awards are subject to compliance with all applicable federal and state laws, rules and regulations (including but not limited to state and federal securities law) and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Company, be necessary or advisable in connection therewith. The person acquiring any securities under this Plan will, if requested by the Company and as a condition to any exercise and/or payment of an Award, provide such assurances and representations to the Company as the Board may deem necessary or desirable to assure compliance with all applicable legal requirements.

12.2 PLAN NOT FUNDED. Awards payable under this Plan shall be payable in shares or from the general assets of the Company, and (other than a reservation of shares corresponding to the number of shares that may be issued under this Plan) no special or separate reserve, fund or deposit shall be made to assure payment of such Awards. No participant, beneficiary or other person shall have any right, title or interest in any fund or in any specific asset (including shares of Common Stock, except as expressly otherwise provided) of the Company by reason of any Award hereunder. Neither the provisions of this Plan (or of any



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related documents), nor the creation or adoption of this Plan, nor any action taken pursuant to the provisions of this Plan shall create, or be construed to create, a trust of any kind or a fiduciary relationship between the Company and any Participant or other person. To the extent that a Participant or other person acquires a right to receive payment pursuant to any Award hereunder, such right shall be no greater than the right of any unsecured general creditor of the Company.

12.3 GOVERNING LAW. This Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the State of Arizona.

12.4 NO STOCKHOLDER RIGHTS. Except as otherwise expressly authorized by the Board or this Plan: (a) a Participant shall not be entitled to any privilege of stock ownership as to any shares of Common Stock not actually delivered to and held of record by the Participant, and (b) no adjustment will be made for dividends or other rights as a stockholder for which a record date is prior to such date of delivery.

12.5 CONSTRUCTION. It is the intent of the Company that the Awards and transactions permitted by Awards be interpreted in a manner that satisfies the applicable requirements for exemptions under SEC Rule 16b-3 promulgated under the Exchange Act. Notwithstanding the foregoing, the Company shall have no liability to any person for Exchange Act Section 16 consequences of Awards or events under Awards.

12.6 NON-EXCLUSIVITY OF PLAN. Nothing in this Plan shall limit or be deemed to limit the authority of the Board to grant awards or authorize any other compensation, with or without reference to the Common Stock, under any other plan or authority.

12.7 CAPTIONS. Captions and headings are given to the sections and subsections of this Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of this Plan or any provision thereof.

12.8 NO CORPORATE ACTION RESTRICTION. The existence of this Plan and the Awards granted hereunder shall not limit, affect or restrict in any way the right or power of the Board or the stockholders of the Company to make or authorize: (a) any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, (b) any merger, amalgamation, consolidation or change in the ownership of the Company, (c) any issue of bonds, debentures, capital, preferred or prior preference stock ahead of or affecting the Company's capital stock or the rights thereof, (d) any dissolution or liquidation of the Company, (e) any sale or transfer of all or any part of the Company's assets or business, or (f) any other corporate act or proceeding by the Company. No Participant or any other person shall have any claim under any Award or Award agreement against any member of the Board, or the Company or any employees, officers or agents of the Company, as a result of any such action.

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APPENDIX C  
FORM OF PROXY CARD

UNISOURCE ENERGY

Two New Ways to Vote

VOTE BY TELEPHONE OR INTERNET

24 Hours a Day - 7 Days a Week  
Save Your Company Money - It's Fast and Convenient

TELEPHONE

-----

1-866-358-4695

- Use any touch-tone telephone.
- Have your proxy card ready.
- Enter your Control Number located in the box below.
- Follow the simple recorded instructions.

OR

INTERNET

-----

<https://www.proxyvotenow.com/uns>

- Go to the website address listed above.
- Have your proxy card ready.
- Enter your Control Number located in the box below.
- Follow the simple instructions on the website.

OR

MAIL

-----

- Mark, sign and date your proxy card.
- Detach your proxy card.
- Return your proxy card in the postage-paid envelope provided.

You can vote your shares by telephone, the Internet, mail or in person at the Annual Shareholders' Meeting. Your telephone or Internet vote authorizes

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the named proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card. If you have submitted your proxy by the Internet or telephone there is no need to mail your proxy card.

1-866-358-4695  
CALL TOLL-FREE TO VOTE

CONTROL NUMBER  
FOR TELEPHONE OR INTERNET VOTING

THE INTERNET AND TELEPHONE VOTING FACILITIES WILL BE AVAILABLE UNTIL 5:00 P.M. E.S.T. ON THURSDAY, MAY 9, 2002.

DETACH PROXY CARD HERE IF YOU ARE NOT VOTING BY THE INTERNET OR TELEPHONE

(FORM OF PROXY CARD - FRONT)

Please Sign, Date and Return the Proxy Promptly Using the Enclosed Envelope.

[X]  
Votes MUST be indicated (x) in Black or Blue Ink.

The Board of Directors Recommends a vote "FOR" the following proposals:

1. Election of Directors

FOR all nominees listed below  WITHHOLD AUTHORITY to vote for all nominees listed below  \*EXCEPTIONS

Nominees: 01-James S. Pignatelli, 02-Lawrence J. Aldrich, 03-Larry W. Bickle, 04-Elizabeth T. Bilby, 05-Harold W. Burlingame, 06-John L. Carter, 07-Daniel W. L. Fessler, 08-Kenneth Handy, 09-Warren Y. Jobe, 10-H. Wilson Sundt

(INSTRUCTIONS: To withhold authority to vote for any individual nominee, mark the "Exceptions" box and write that nominee's name in the space provided below).

\*Exceptions -----

2. UniSource Energy Corporation Amended and Restated 1994 Outside Director Stock Option Plan. FOR  AGAINST  ABSTAIN

If you agree to access our Annual Report and Proxy Statement electronically in the future, please mark this box.

To change your address,  
please mark this box. [ ]

To include any comments,  
please mark this box. [ ]

-----  
SCAN LINE  
-----

PLEASE SIGN EXACTLY AS YOUR NAME APPEARS  
HEREON. When shares are held by joint  
tenants in common or as community  
property, both should sign. When  
signing as attorney, executor,  
administrator, trustee, guardian or  
custodian, please give full title as  
such. If a corporation, please sign in  
corporate name by President or other  
authorized officer. If a partnership,  
please sign in partnership name by  
authorized person. Receipt is hereby  
acknowledged of Notice of Annual  
Meeting, Proxy Statement and the 2001  
Annual Report.

Date            Share Owner sign here  
-----  
-----

Date            Co-Owner sign here  
-----  
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[A street map showing the location  
of the Annual Shareholders' Meeting  
is set forth in this area.]

SHERATON TUCSON  
-----  
Hotel & Suites

LOCATION  
5151 East Grant Road  
Tucson, Arizona 85712  
(Between Swan and Craycroft)

520.323.6262 Hotel Direct  
800.257.7275 Reservations  
520.321.7637 Facsimile

TRANSPORTATION

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From Tucson International Airport

Shuttle Service  
Arizona Stagecoach  
Call 800.889.1000 for pricing  
and reservations

Automobile - Interstate 10 to  
Grant Road exit

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(FORM OF PROXY CARD - BACK)

UNISOURCE ENERGY

This Proxy is Solicited on Behalf of the Board of Directors of the Company  
for the Annual Shareholders' Meeting to be held Friday, May 10, 2002

P R O X Y

The undersigned hereby appoints James S. Pignatelli and Kevin P. Larson, and each of them, with the power of substitution, to represent and to vote on behalf of the shareholder all shares of Common Stock which the shareholder is entitled to vote at the Annual Shareholders' Meeting scheduled to be held at the Sheraton Tucson Hotel and Suites, 5151 East Grant Road, Tucson, Arizona, on Friday, May 10, 2002, and at any adjournments thereof, with all powers the shareholder would possess if personally present and particularly with respect to Proposals 1 and 2 and in their discretion, upon such other business as may properly come before the meeting. This proxy, when properly executed, will be voted in the manner directed herein by the shareholder. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED "FOR" Proposals 1 and 2.

(Continued, and to be dated and signed on reverse side.)

UNISOURCE ENERGY CORPORATION  
C/O THE BANK OF NEW YORK  
P.O. BOX 11030  
NEW YORK, N.Y. 10203-0030