

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

June 30, 1996

For the quarterly period ended.....  
Or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number	Name of Registrant as specified in its charter	State of Incorporation	IRS Employer Identification Number
1-11439	ENOVA CORPORATION	California	33-0643023
1-3779	SAN DIEGO GAS & ELECTRIC COMPANY	California	95-1184800

101 ASH STREET, SAN DIEGO, CALIFORNIA 92101  
-----  
(Address of principal executive offices) (Zip Code)

Registrants' telephone number, including area code (619) 696-2000  
-----  
No Change

-----  
Former name, former address and former fiscal year, if changed since last report

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock outstanding June 30, 1996:

Enova Corporation 116,565,775  
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San Diego Gas & Electric Company Wholly owned by Enova Corporation

ENOVA CORPORATION  
AND  
SAN DIEGO GAS & ELECTRIC COMPANY

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STATEMENTS OF INCOME (unaudited)  
 In thousands except per share amounts

	Enova Corporation and Subsidiaries		SDG&E	
	1996	1995	1996	1995
For the three months ended June 30				
Operating Revenues				
Electric	\$376,971	\$354,716	\$376,971	\$354,716
Gas	81,250	76,745	81,250	76,745
Diversified operations	12,746	13,778	--	--
Total operating revenues	470,967	445,239	458,221	431,461
Operating Expenses				
Electric fuel	25,580	20,481	25,580	20,481
Purchased power	76,525	84,937	76,525	84,937
Gas purchased for resale	33,689	28,477	33,388	28,477
Maintenance	16,839	17,425	16,839	17,425
Depreciation and decommissioning	92,741	68,027	87,990	64,908
Property and other taxes	11,377	11,191	11,377	11,191
General and administrative	52,294	44,630	49,190	43,923
Other	50,423	52,547	38,601	41,751
Income taxes	36,974	38,036	48,889	43,979
Total operating expenses	396,442	365,751	388,379	357,072
Operating Income	74,525	79,488	69,842	74,389
Other Income and (Deductions)				
Allowance for equity funds used during construction	1,467	1,453	1,467	1,453
Taxes on nonoperating income	1,540	1,398	740	198
Other - net	(2,996)	(3,350)	(3,091)	(1,088)
Total other income and (deductions)	11	(499)	(884)	563
Income Before Interest Charges	74,536	78,989	68,958	74,952
Interest Charges				
Long-term debt	21,871	25,355	19,116	21,068
Short-term debt and other	4,897	4,411	4,897	4,804
Allowance for borrowed funds used during construction	(1,227)	(671)	(1,227)	(671)
Preferred dividend requirements of SDG&E	1,645	1,915	--	--
Net interest charges	27,186	31,010	22,786	25,201
Income From Continuing Operations	47,350	47,979	46,172	49,751
Discontinued Operations, net of Income Taxes	--	(678)	--	(535)
Net Income	47,350	47,301	46,172	49,216
Preferred Dividend Requirements	--	--	1,645	1,915
Earnings Applicable to Common Shares	\$47,350	\$47,301	\$44,527	\$47,301
Average Common Shares Outstanding	116,565	116,534		
Earnings Per Common Share from Continuing Operations	\$0.41	\$0.41		
Earnings Per Common Share	\$0.41	\$0.41		
Dividends Declared Per Common Share	\$0.39	\$0.39		

See notes to financial statements.

STATEMENTS OF INCOME (unaudited)  
In thousands except per share amounts

For the six months ended June 30	Enova Corporation and Subsidiaries		SDG&E	
	1996	1995	1996	1995
Operating Revenues				
Electric	\$744,264	\$734,004	\$744,264	\$734,004
Gas	165,899	161,323	165,899	161,323
Diversified operations	26,701	27,867	--	--
Total operating revenues	936,864	923,194	910,163	895,327
Operating Expenses				
Electric fuel	49,404	44,329	49,404	44,329
Purchased power	148,148	171,201	148,148	171,201
Gas purchased for resale	69,187	63,142	68,886	63,142
Maintenance	31,653	36,708	31,653	36,708
Depreciation and decommissioning	163,929	135,845	154,804	129,372
Property and other taxes	23,211	22,679	23,211	22,679
General and administrative	97,932	85,587	94,360	84,377
Other	103,401	104,483	80,433	82,638
Income taxes	82,482	86,077	105,252	99,860
Total operating expenses	769,347	750,051	756,151	734,306
Operating Income	167,517	173,143	154,012	161,021
Other Income and (Deductions)				
Allowance for equity funds used during construction	2,716	3,013	2,716	3,013
Taxes on nonoperating income	1,085	1,177	285	(23)
Other - net	(2,622)	(2,945)	(2,489)	(1,335)
Total other income and (deductions)	1,179	1,245	512	1,655
Income Before Interest Charges	168,696	174,388	154,524	162,676
Interest Charges				
Long-term debt	44,433	49,646	38,210	42,122
Short-term debt and other	9,364	8,891	9,364	9,641
Allowance for borrowed funds used during construction	(1,794)	(1,383)	(1,794)	(1,383)
Preferred dividend requirements of SDG&E	3,291	3,831	--	--
Net interest charges	55,294	60,985	45,780	50,380
Income From Continuing Operations	113,402	113,403	108,744	112,296
Discontinued Operations, net of Income Taxes	--	(6,168)	--	(1,230)
Net Income	113,402	107,235	108,744	111,066
Preferred Dividend Requirements	--	--	3,291	3,831
Earnings Applicable to Common Shares	\$113,402	\$107,235	\$105,453	\$107,235
Average Common Shares Outstanding	116,568	116,533		
Earnings Per Common Share from Continuing Operations	\$0.97	\$0.97		
Earnings Per Common Share	\$0.97	\$0.92		
Dividends Declared Per Common Share	\$0.78	\$0.78		

See notes to financial statements.

BALANCE SHEETS  
In thousands of dollars

	Enova Corporation and Subsidiaries		SDG&E	
	June 30, 1996 (unaudited)	December 31, 1995	June 30, 1996 (unaudited)	December 31, 1995
Balance at				
<b>ASSETS</b>				
Utility plant - at original cost	\$5,600,584	\$5,533,554	\$5,600,584	\$5,533,554
Accumulated depreciation and decommissioning	(2,479,654)	(2,355,213)	(2,479,654)	(2,355,213)
Utility plant - net	3,120,930	3,178,341	3,120,930	3,178,341
Investments and other property	591,584	532,289	314,176	448,860
<b>Current assets</b>				
Cash and temporary investments	131,406	96,429	58,703	20,755
Accounts receivable	180,921	178,155	180,321	178,091
Due from affiliates	--	--	24,649	--
Notes receivable	35,090	34,498	--	--
Inventories	70,344	67,959	70,036	67,959
Other	44,488	41,012	13,460	29,419
Total current assets	462,249	418,053	347,169	296,224
Deferred taxes recoverable in rates	286,828	298,748	286,828	298,748
Deferred charges and other assets	279,685	321,193	223,647	250,440
Total	\$4,741,276	\$4,748,624	\$4,292,750	\$4,472,613
<b>CAPITALIZATION AND LIABILITIES</b>				
<b>Capitalization</b>				
Common equity	\$1,541,917	\$1,520,070	\$1,384,352	\$1,520,070
Preferred stock of SDG&E				
Not subject to mandatory redemption	78,475	93,475	78,475	93,475
Subject to mandatory redemption	25,000	25,000	25,000	25,000
Long-term debt	1,332,692	1,350,094	1,183,328	1,217,026
Total capitalization	2,978,084	2,988,639	2,671,155	2,855,571
<b>Current liabilities</b>				
Long-term debt redeemable within one year	115,000	115,000	115,000	115,000
Current portion of long-term debt	71,439	36,316	33,881	8,835
Accounts payable	137,360	145,517	137,173	145,273
Dividends payable	47,106	47,383	47,106	47,383
Interest and taxes accrued	23,088	22,537	19,480	23,621
Regulatory balancing accounts overcollected-net	162,643	170,761	162,643	170,761
Other	138,336	125,438	87,511	90,119
Total current liabilities	694,972	662,952	602,794	600,992
Customer advances for construction	33,828	34,698	33,828	34,698
Accumulated deferred income taxes-net	556,209	523,335	561,570	536,324
Accumulated deferred investment tax credits	101,566	104,226	101,566	104,226
Deferred credits and other liabilities	376,617	434,774	321,837	340,802
Contingencies (Note 2)	--	--	--	--
Total	\$4,741,276	\$4,748,624	\$4,292,750	\$4,472,613

See notes to financial statements.

STATEMENTS OF CASH FLOWS (unaudited)  
In thousands of dollars

For the six months ended June 30	Enova Corporation and Subsidiaries		SDG&E	
	1996	1995	1996	1995
<b>Cash Flows from Operating Activities</b>				
Income from continuing operations	\$113,402	\$113,403	\$108,744	\$112,296
Adjustments to reconcile income from continuing operations to net cash provided by operating activities				
Depreciation and decommissioning	163,929	135,845	154,804	129,372
Amortization of deferred charges and other assets	2,873	6,392	2,873	6,392
Amortization of deferred credits and other liabilities	(17,537)	(16,147)	(585)	(584)
Allowance for equity funds used during construction	(2,716)	(3,013)	(2,716)	(3,013)
Deferred income taxes and investment tax credits	(23,146)	(4,511)	(23,573)	(4,803)
Other-net	20,508	19,811	(697)	(2,899)
Changes in working capital components				
Accounts and notes receivable	(3,358)	25,652	(2,230)	26,467
Regulatory balancing accounts	(8,118)	11,011	(8,118)	11,011
Inventories	(2,385)	(2,775)	(2,077)	(2,775)
Other current assets	(108)	(1,935)	23	(1,852)
Interest and taxes accrued	36,783	36,623	51,152	42,878
Accounts payable and other current liabilities	(9,662)	(43,228)	(10,708)	(44,777)
Cash flows provided (used) by discontinued operations	--	(168)	(11,544)	13,078
<b>Net cash provided by operating activities</b>	<b>270,465</b>	<b>276,960</b>	<b>255,348</b>	<b>280,791</b>
<b>Cash Flows from Financing Activities</b>				
Dividends paid	(90,927)	(89,732)	(94,488)	(93,563)
Short-term borrowings - net	--	(89,325)	--	(58,325)
Issuance of long-term debt	2,300	124,641	--	123,734
Repayment of long-term debt	(23,588)	(100,695)	(293)	(74,922)
Redemption of common stock	(480)	(50)	--	(50)
Redemption of preferred stock	(15,155)	--	(15,155)	--
<b>Net cash used by financing activities</b>	<b>(127,850)</b>	<b>(155,161)</b>	<b>(109,936)</b>	<b>(103,126)</b>
<b>Cash Flows from Investing Activities</b>				
Utility construction expenditures	(85,743)	(91,225)	(85,743)	(91,225)
Contributions to decommissioning funds	(11,016)	(11,016)	(11,016)	(11,016)
Other-net	(10,879)	2,544	(990)	(759)
Discontinued operations	--	5,122	(9,715)	(48,670)
<b>Net cash used by investing activities</b>	<b>(107,638)</b>	<b>(94,575)</b>	<b>(107,464)</b>	<b>(151,670)</b>
Net increase	34,977	27,224	37,948	25,995
Cash and temporary investments, beginning of period	96,429	25,405	20,755	11,605
Cash and temporary investments, end of period	\$131,406	\$52,629	\$58,703	\$37,600
<b>Supplemental disclosure of Cash Flow Information</b>				
Income tax payments	\$ 80,334	\$47,240	\$80,334	\$47,240
Interest payments, net of amounts capitalized	\$ 51,452	\$59,411	\$42,340	\$49,649
<b>Supplemental Schedule of Noncash Investing and Financing Activities</b>				
Real estate investments	\$ 47,367	\$25,303	\$ --	\$ --
Cash paid	--	(250)	--	--
Liabilities assumed	\$ 47,367	\$25,053	\$ --	\$ --
Net assets of affiliates transferred to parent	\$ --	\$ --	\$150,069	\$ --

See notes to financial statements.

ENOVA CORPORATION/SAN DIEGO GAS & ELECTRIC COMPANY  
NOTES TO FINANCIAL STATEMENTS (Unaudited)

1. GENERAL

On January 1, 1996 Enova Corporation became the parent of SDG&E and its subsidiaries. SDG&E's outstanding common stock was converted on a share-for-share basis into Enova Corporation common stock. SDG&E's debt securities, preferred stock and preference stock were unaffected and remain with SDG&E. On January 31, 1996 SDG&E's ownership interests in its subsidiaries were transferred to Enova Corporation at book value, completing the parent company structure. Additional information concerning the effects of the parent company structure is provided in Note 3 herein.

This Quarterly Report on Form 10-Q is a combined filing of Enova Corporation and SDG&E. The financial statements presented herein represent the consolidated statements of Enova Corporation and its subsidiaries (including SDG&E), as well as the stand-alone statements of SDG&E. Unless otherwise indicated, the "Notes to Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" herein pertain to Enova Corporation as a consolidated entity.

The Registrants believe all adjustments necessary to present a fair statement of the financial position and results of operations for the periods covered by this report, consisting of recurring accruals, have been made. Certain prior-year amounts have been reclassified for comparability.

The Registrants' significant accounting policies are described in the notes to consolidated financial statements in the 1995 Annual Report to Shareholders. The same accounting policies are followed for interim reporting purposes.

This quarterly report should be read in conjunction with the Registrants' 1995 Annual Report on Form 10-K and its Quarterly Report on Form 10-Q for the three months ended March 31, 1996. The consolidated financial statements and Management's Discussion & Analysis of Financial Condition and Results of Operations included in the 1995 Annual Report to Shareholders were incorporated by reference into the 1995 Annual Report on Form 10-K and filed as an exhibit thereto.

2. MATERIAL CONTINGENCIES

ELECTRIC INDUSTRY RESTRUCTURING -- CALIFORNIA

In December 1995, the CPUC issued its policy decision on the restructuring of California's electric utility industry to stimulate competition and reduce rates. The decision provides that, beginning in January 1998, customers will be able to buy their electricity through a power exchange that will obtain power from the lowest-bidding suppliers. The exchange is a spot market with published pricing. An independent system operator (ISO) will schedule power transactions and access to the transmission system. Consumers also may choose to continue to purchase from their local utility under regulated tariffs. As a third option, a cross section of all customer groups (residential, industrial, commercial and agricultural) will be able to go directly to any energy supplier and enter into private contracts with generators, brokers or others (direct access). As the direct-access mechanism has many technical issues to be resolved, a five-year phase-in is planned. All

California electricity consumers will have the option to purchase generation services directly by 2003. The utilities will continue to provide transmission and distribution services to customers who choose to purchase their energy from other providers.

Within certain limits, utilities will be allowed to recover their "stranded" costs incurred for CPUC-approved facilities through the establishment of a non-bypassable competition transition charge (CTC) over a transition period that ends in 2005. In addition to \$287 million of deferred taxes recoverable in rates, SDG&E has approximately \$203 million of other regulatory assets at June 30, 1996 (included in "Deferred Charges and Other Assets" on the Balance Sheets), offset by \$130 million of regulatory liabilities (included in "Accumulated Deferred Investment Tax Credits" and "Deferred Credits and Other Liabilities" on the Balance Sheets). Of these amounts (deferred taxes and regulatory assets and liabilities), approximately \$73 million is related to generation operations, of which \$58 million is related to nuclear operations. Recovery periods currently range from one to 30 years.

It is estimated that at June 30, 1996, SDG&E had approximately \$909 million of net generating plant (including approximately \$709 million of nuclear facilities) currently being recovered in rates over various periods of time. Under the CPUC's industry restructuring decision, to the extent these investments exceed their market values, they must be recovered by 2005 through the CTC mechanism. In April 1996 the CPUC approved the accelerated recovery of existing capital costs in San Onofre Nuclear Generating Station (SONGS) Units 2 and 3 over an eight-year period. In August 1996 the utilities' filings to the CPUC will address sunk costs of non-nuclear generation and CTC rates for the calendar year commencing January 1, 1998.

In addition, SDG&E has entered into significant long-term purchased-power commitments with various utilities and other providers totaling \$3.3 billion. Also, under the CPUC's Biennial Resource Plan Update decision, SDG&E may be required to contract for an additional 500 megawatts of power over 17-year terms. The present value of ratepayer payments beginning in 1997 over the life of these contracts is estimated to be \$2.3 billion. Prices under these contracts could significantly exceed the future market price. Both purchased-power and BRPU commitments are indexed to natural-gas prices and are subject to significant fluctuation. SDG&E has challenged the CPUC's BRPU decision and the FERC has declared the BRPU auction procedures unlawful under federal law. The CPUC has issued a ruling encouraging SDG&E and other utilities to reach settlements with the auction winners. SDG&E has reached settlement with two auction winners. Settlement discussions with three others are ongoing. Under the CPUC's industry restructuring decision, purchased-power obligations (including existing qualifying facilities contracts and the costs of settling BRPU planned projects) would be recovered over the duration of the contracts through the CTC mechanism.

For purposes of CTC, rates for customers choosing traditional utility service (instead of power exchange or direct access) will be capped at January 1, 1996 levels. Including the CTC, rates cannot exceed the cap and therefore, recovery of the CTC is limited by the cap. Customers choosing to purchase power directly or from the exchange will also be obligated to pay CTC.

In April 1996 the CPUC issued an order in response to Pacific Gas and Electric's motion for interim CTC recovery and its concerns over lost revenues from large customers' choosing other suppliers before plans for deregulation are finalized. The CPUC found that PG&E's request to require customers to pay all of the CTC before leaving the system was too severe a remedy in a competitive market, but that these customers have the responsibility to pay their fair share of transition costs. The CPUC deferred the setting of the interim CTC to a joint committee process open to all parties. On April 12, 1996 SDG&E filed a motion requesting that it also be afforded interim CTC treatment and that this effort be consolidated with PG&E's and addressed by the joint committee. The CPUC is currently reviewing the issue.

Performance-based regulation will replace cost-of-service regulation for generation and distribution services. On an experimental basis SDG&E is participating in a Performance-Based Ratemaking process for gas procurement, electric generation and dispatch, and base rates. It began in 1993 and runs through 1997. In July 1996 SDG&E filed a new generation PBR proposal with the CPUC. Additional information concerning the generation PBR proposal is provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 14 herein.

California's three major investor-owned utilities have filed plans with the CPUC to implement direct access and new or revised PBR proposals. Plans to establish the power exchange and ISO have also been filed by the utilities with the CPUC.

The CPUC is currently working on building a consensus on the new market structure with the California Legislature, the governor, utilities and customers. The California Legislature has passed a resolution forming an oversight committee to ensure the legislature's involvement in the policies presented by the CPUC, and that the policies comply with federal and state laws, and achieve the objectives both of competition and of the various social programs that are currently funded through utility rates. There have been several bills introduced in the California Legislature related to various aspects of electric industry restructuring, including CTC. A two-house conference committee met for the first time in July 1996 to fashion legislation in response to the CPUC's industry restructuring decision. The conference process will continue through late August 1996.

As restructuring evolves, SDG&E will become more vulnerable to competition. However, based on recent CPUC decisions, recovery of stranded costs is provided for, subject to the January 1, 1996 rate cap (see discussion on previous page). Due to the recent decisions, SDG&E does not anticipate incurring a material charge against earnings for its generating facilities, the related regulatory assets and other long-term commitments. In addition, although California utilities' rates are significantly higher than the national average, SDG&E has a lower concentration of industrial customers and is in its eighth year of being the lowest-cost provider among the investor-owned utilities in California.

SDG&E accounts for the economic effects of regulation in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," under which a regulated entity may record a regulatory asset if it is probable that, through the rate-making process, the utility will recover that asset from customers.

Regulatory liabilities represent future reductions in revenues for amounts due to customers. Once the restructuring transition is final, SDG&E may not continue to meet the criteria for applying SFAS 71 to all of its operations in the new regulatory framework. In a non-SFAS 71 environment, among other things, additions to plant would need to be recovered through market prices.

#### ELECTRIC INDUSTRY RESTRUCTURING -- FEDERAL

In April 1996 the FERC issued a final rule that will require all utilities to offer wholesale "open-access" transmission service on a nondiscriminatory basis and to share information about available transmission capacity. In addition, utilities will be required to functionally price their generation and transmission services separately from each other. The FERC also stated its belief that utilities should be allowed to recover the costs of assets and obligations made uneconomic by the changed regulatory environment. In July 1996 SDG&E filed open-access transmission tariffs that comply with the FERC's April 1996 rule described above. These tariffs immediately became effective.

In April 1996 California's three major investor-owned utilities filed plans to establish the power exchange and ISO with the FERC, which has jurisdiction over the exchange, the ISO and interstate transmission.

Federal legislation on electric industry restructuring was introduced in July 1996. This legislation would make states establish rules to let all residences, businesses and industries choose their own power suppliers by December 15, 2000, or force states to give way to the FERC to open the local market to competition after 2000.

#### NUCLEAR INSURANCE

SDG&E and the co-owners of SONGS have purchased primary insurance of \$200 million, the maximum amount available, for public liability claims. An additional \$8.7 billion of coverage is provided by secondary financial protection required by the Nuclear Regulatory Commission and provides for loss sharing among the utilities owning nuclear reactors if a costly accident occurs. SDG&E could be assessed retrospective premium adjustments of up to \$32 million in the event of a nuclear incident involving any of the licensed, commercial reactors in the United States, if the amount of the loss exceeds \$200 million. In the event the public liability limit stated above is insufficient, federal law provides for Congress to enact further revenue-raising measures to pay claims. These measures could include an additional assessment on all licensed reactor operators.

Insurance coverage is provided for up to \$2.8 billion of property damage and decontamination liability. Coverage is also provided for the cost of replacement power, which includes payments for up to 2 years, after a waiting period of 21 weeks. Coverage is provided primarily through mutual insurance companies owned by utilities with nuclear facilities. If losses at any of the nuclear facilities covered by the risk-sharing arrangements were to exceed the accumulated funds available from these insurance programs, SDG&E could be assessed retrospective premium adjustments of up to \$9 million.

CANADIAN GAS

As discussed in the 1995 Annual Report on Form 10-K, SDG&E has long-term pipeline capacity commitments related to its contracts for Canadian natural gas supplies. These contracts are currently in litigation, as described in Part II, Item 1, "Legal Proceedings," herein. If the supply of Canadian natural gas to SDG&E is not resumed, SDG&E intends to use the capacity in other ways.

3. DISCONTINUED OPERATIONS

ENOVA CORPORATION:

On June 6, 1995 Enova Corporation sold its investment in Wahlco Environmental Systems, Inc. for \$5 million. The sale of Wahlco has been accounted for as a disposal of a segment of business. Enova Corporation's financial statements for prior periods have been restated to reflect Wahlco as a discontinued operation in accordance with Accounting Principles Board Opinion No. 30 "Reporting the Effects of a Disposal of a Segment of Business." Enova Corporation's discontinued operations are summarized in the table below:

	Six Months Ended June 30, 1995	1995	Year Ended December 31, 1994	1993
-----				
In millions of dollars				
Revenues	\$24	\$24	\$70	\$82
Loss from operations before income taxes	-	-	(70)	(14)
Loss on disposal of Wahlco before income taxes	(10)	(12)	-	-
Income tax benefits	4	12	7	5
-----				

The loss on disposal of Wahlco was recorded in 1995 and reflects the sale of Wahlco and Wahlco's net operating losses after 1994. The loss from discontinued operations for 1994 was primarily due to the \$59 million writedown of Wahlco's goodwill and other intangible assets as a result of the depressed air pollution-control market and increasing competition. The 1995 income tax benefit includes the effects of the 1994 writedown to the extent recognizable as of December 31, 1995.

SDG&E:

SDG&E's financial statements for periods prior to 1996 have been restated to reflect the results of its transferred subsidiaries (described in Note 1 herein) and the sale of Wahlco as discontinued operations. SDG&E's discontinued operations are summarized in the table below.

	Six Months Ended June 30, 1995	1995	Year Ended December 31 1994	1993
-----				
In millions of dollars				
Revenues	\$51	\$81	\$126	\$119
Loss from operations before income taxes	(10)	(24)	(105)	(19)
Loss on disposal of Wahlco before income taxes	(10)	(12)	-	-
Income tax benefits	19	50	43	22
-----				

The net assets of the subsidiaries (included in "Investments and Other Property" on SDG&E's Balance Sheets) at December 31, 1995 are summarized as follows:

-----	
In millions of dollars	
Current assets	\$ 122
Non-current assets	286
Current liabilities	( 62)
Long-term debt and other liabilities	(214)
-----	
Net assets	\$ 132
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ITEM 2.

ENOVA CORPORATION/SAN DIEGO GAS & ELECTRIC COMPANY  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW:

In January 1996 Enova Corporation became the parent of SDG&E, and SDG&E's ownership interests in its subsidiaries were transferred to the parent company. Effective January 1, 1996 SDG&E's financial statements for periods prior to 1996 have been restated to reflect the net results of subsidiaries as discontinued operations in accordance with Accounting Principles Board Opinion No. 30 "Reporting the Effects of a Disposal of a Segment of Business." For additional information see Notes 1 and 3 of the notes to financial statements herein, and the 1995 Annual Report on Form 10-K.

INFORMATION REGARDING FORWARD-LOOKING COMMENTS

This Quarterly Report on Form 10-Q includes forward-looking comments within the definition of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. When used in the following "Management's Discussion and Analysis of Financial Condition and Results of Operations," the words "estimates", "expects", "anticipates", "plans" and similar expressions are intended to identify forward-looking comments that involve risks and uncertainties.

Although the Registrants believe that their expectations are based on reasonable assumptions, they can give no assurance that those expectations will be realized. Important factors that could cause actual results to differ materially from those in the forward-looking comments herein include political developments affecting state and federal regulatory agencies, the pace of electric industry deregulation in California and in the United States, and the timing and extent of changes in interest rates and prices for natural gas and electricity.

RESULTS OF OPERATIONS:

The following discussions reflect the results for the six months ended June 30, 1996 compared to the corresponding period in 1995:

OPERATING REVENUES

Electric revenues increased for the six months ended June 30, 1996 from the corresponding period in 1995 primarily due to increased sales volume due to weather. Gas revenues and revenues from Enova Corporation's diversified operations did not change significantly over that same period.

OPERATING EXPENSES

Purchased-power expense decreased due to the availability of lower-cost nuclear generation in 1996. Electric fuel expense increased primarily due to increased nuclear and natural-gas-fired generation in 1996.

REGULATORY MATTERS:

CALIFORNIA PUBLIC UTILITIES COMMISSION'S INDUSTRY RESTRUCTURING

In December 1995 the CPUC issued its policy decision on the restructuring of California's electric utility industry to stimulate

competition and reduce rates. See additional discussion of industry restructuring in Note 2 of the notes to financial statements.

#### ELECTRIC RATES

In June 1996 the CPUC issued its decision on SDG&E's 1996 Energy Cost Adjustment Clause application, approving a one-time \$35 million refund and a \$22 million annual rate decrease. These result from lower fuel and purchased-power costs, balancing account overcollections and the new incremental cost incentive pricing covering SONGS 2 & 3. The rate change lowers the typical residential customer's monthly electric bill by 2.1 percent, placing SDG&E's system average rate at 9.64 cents/kwh effective June 1, 1996. SDG&E's authorized system average rate prior to the rate change was 9.87 cents/kwh.

#### GAS RATES

In April 1996 SDG&E filed its application under the Biennial Cost Allocation Proceeding, proposing a \$42 million decrease in natural-gas rates. If approved as filed, the monthly bill of a typical residential natural-gas customer would decrease about 63 cents effective January 1997. The decrease results from lower transportation costs. The CPUC Division of Ratepayer Advocates is recommending a decrease of \$26 million primarily due to the DRA's recommended higher level of Southern California Gas Company costs to be allocated to SDG&E. SDG&E's and SoCal Gas' BCAP filings are being reviewed by the CPUC in tandem because a significant portion of costs incurred by SDG&E are those allocated from SoCal Gas, which provides transportation and storage services to SDG&E. Hearings are scheduled for August 1996 and a final decision is expected by December 1996.

In June 1996 the CPUC approved SDG&E's application to change its core gas procurement rate on a monthly basis instead of annually in order to better reflect market price changes in SDG&E's customer rates.

#### PERFORMANCE-BASED RATEMAKING

In May 1996 SDG&E filed an application with the CPUC for a \$5.5 million Base Rates PBR reward for 1995. All performance targets, consisting of customer rates, employee safety, electric system reliability and customer satisfaction, were met or exceeded. A decision is expected in the third quarter of 1996.

A new generation PBR proposal was filed with the CPUC in July 1996. The proposed mechanism contains two basic elements. It establishes a revenue requirement to recover fixed operating costs necessary to maintain the availability of the units needed for reliability in the San Diego area. In addition, it establishes the bid price into the power exchange based on the units' variable cost of production. By limiting SDG&E's compensation to its fixed and variable costs, SDG&E's ability to exercise market power by raising prices will be eliminated. The proposed term of this mechanism is three years, beginning with the commencement of the power exchange in 1998. The mechanism will replace the electric generation and dispatch mechanism, including the purchased-power portion, due to the fact that SDG&E will be purchasing all its energy

from the power exchange. In addition, the generation PBR will reduce the revenue requirements of the base rates mechanism.

A distribution PBR proposal is planned to be filed once the FERC provides criteria on differentiating transmission and distribution. This is expected in late 1996.

#### COST OF CAPITAL

In June 1996 the CPUC approved the Market Indexed Capital Adjustment Mechanism. The mechanism replaces the traditional cost of capital proceeding with an automatic market-based adjustment based on several variables, including the costs of long-term debt, equity and preferred stock. The decision goes into effect January 1, 1998. It requires SDG&E to participate in the 1997 cost of capital proceeding, which will provide the basis for the MICAM, after which SDG&E will discontinue participation in the annual proceeding. The decision also recommends that MICAM be modified to reflect any changes resulting from industry restructuring. SDG&E is required to file a report on the performance of the mechanism in March 2000.

In May 1996 SDG&E filed its 1997 cost of capital application with the CPUC, requesting an overall rate of return of 9.52 percent. SDG&E's 1996 authorized rate of return is 9.37 percent. The application reflects an increase in the return on common equity from 11.60 percent to 11.85 percent due to higher interest rates and continuing uncertainty with respect to industry restructuring. If approved, the increase in the rate of return would result in a \$6.5 million increase in revenues. Hearings are scheduled for August 1996 and a decision is expected by late 1996.

#### DEMAND-SIDE MANAGEMENT

In May 1996 SDG&E filed its application for 1995 shareholder rewards totaling \$39 million from its DSM programs. This \$30 million increase over 1994 results is due to completion of several large government projects. The rewards will be collected and recorded in earnings over a ten-year period and are subject to CPUC approval. The DRA proposes to reduce SDG&E's 1994 and 1995 DSM rewards based on the DRA's claim that 1994 reductions in energy volume were less than anticipated and that the forecasted cost of energy used to calculate the 1995 DSM rewards is too high. If the CPUC agrees, this would reduce SDG&E's 1994 DSM reward from \$9 million to \$6 million and its 1995 DSM reward from \$39 million to \$13 million. Hearings are scheduled for August 1996 and a decision is expected by late 1996.

#### ENVIRONMENTAL MATTERS

##### WOOD-POLE PRESERVATIVES

Mateel Environmental Justice Foundation voluntarily dismissed, without prejudice, its complaint against Pacific Bell, PG&E and two wood-pole manufacturers. The complaint alleged that utility-pole owners and manufacturers failed to warn the public that the poles are treated with hazardous chemicals. SDG&E was not directly involved in the litigation, but is a member of the joint defense team comprised of the pole manufacturers and all California utilities owning utility poles. The

complaint could be refiled by Mateel, depending on the outcome of laboratory tests.

#### AIR QUALITY

The estimated capital costs to comply with the San Diego Air Pollution Control District's Rule 69 has been revised to \$62 million from \$110 million. See additional discussion of Rule 69 in the 1995 Annual Report on Form 10-K.

#### LIQUIDITY AND CAPITAL RESOURCES:

Utility operations continue to be a major source of liquidity. In addition, financing needs are met primarily through the issuance of short-term and long-term debt, and common and preferred stock. These capital resources are expected to remain available. SDG&E's cash requirements include plant construction and other capital expenditures. Nonutility cash requirements include capital expenditures related to new products; affordable-housing, leasing and other investments; and repayments and retirements of long-term debt. In addition to changes described elsewhere, major changes in cash flows are described below.

#### OPERATING ACTIVITIES

Depreciation and decommissioning expense increased during the six months ended June 30, 1996 compared to the corresponding 1995 period due to the accelerated recovery of SONGS Units 2 and 3 approved by the CPUC in April 1996. See additional discussion in Note 2 on page 8.

#### FINANCING ACTIVITIES

Enova Corporation anticipates that it will require only minimal amounts of short-term debt in 1996. Enova Corporation and its subsidiaries do not expect to issue stock or long-term debt in 1996, other than for SDG&E refinancings. Enova Financial repaid \$20 million of long-term debt in the ordinary course of business.

In May 1996 the CPUC approved SDG&E's request to issue up to \$300 million of long-term debt to refinance previously issued long-term debt. The decision also grants a two-year extension of a prior CPUC authorization to issue \$138 million of additional long-term debt and \$100 million of additional preferred stock.

In July 1996 SDG&E issued \$130 million of Pollution Control Bonds at an interest rate of 5.9 percent, due June 1, 2014. The funds obtained from this issue will be used to refinance the following Pollution Control Bonds: Series CC, DD and FF (all variable rate), Series 1979A (7.2 percent) and Series 1977A (6.375 percent). These refinancings are planned to occur in August and September 1996. In addition, a \$44 million variable-rate issue is planned for August 1996 in order to refinance Series GG (7.625 percent).

At June 30, 1996 SDG&E had short-term bank lines of \$30 million and long-term bank lines of \$280 million. Commitment fees are paid on the unused portion of the lines. There are no requirements for compensating balances.

Quarterly cash dividends of \$0.39 per share were declared for each of the first and second quarters of 1996 and for each quarter during the year ended December 31, 1995. The dividend payout ratio for the twelve months ended June 30, 1996 and years ended December 31, 1995, 1994, 1993, 1992 and 1991 were 78 percent, 80 percent, 130 percent, 82 percent, 81 percent and 79 percent, respectively. The high payout ratio for the year ended December 31, 1994 was due to the writedowns recorded during 1994. For additional information regarding the writedowns, see the 1995 Annual Report on Form 10-K. The payment of future dividends is at the discretion of Enova's directors and is dependent upon future business conditions, earnings and other factors. Net cash flows provided by operating activities currently are sufficient to maintain the payment of dividends at the present level.

SDG&E maintains its capital structure so as to obtain long-term financing at the lowest possible rates. The following table shows the percentages of capital represented by the various components. The capital structures are net of the construction funds held by a trustee in 1992 and 1993.

	1991	1992	1993	1994	1995	June 30, 1996
Common equity	47%	47%	47%	48%	49%	49%
Preferred stock	5	5	4	4	4	4
Debt and leases	48	48	49	48	47	47
Total	100%	100%	100%	100%	100%	100%

The following table lists key financial ratios for SDG&E.

	Twelve months ended June 30, 1996	Year ended December 31, 1995
Pretax interest coverage	4.6 X	4.5 X
Internal cash generation	113 %	115 %
Construction expenditures as a percent of capitalization	7.6 %	7.7 %

DERIVATIVES: Registrants' policy is to use derivative financial instruments to reduce exposure to fluctuations in interest rates and foreign currency exchange rates. These financial instruments are with major investment firms and, along with cash and cash equivalents and accounts receivable, expose Registrants to market and credit risks. These risks may at times be concentrated with certain counterparties, although counterparty non-performance is not anticipated. Registrants do not use derivatives for trading or speculative purposes.

At June 30, 1996 SDG&E had two interest-rate swap and cap agreements: an index cap agreement maturing in 1996 on \$75 million of bonds, and a floating-to-fixed-rate swap maturing in 2002 associated with \$45 million of variable-rate bonds. SDG&E's pension fund periodically uses foreign currency forward contracts to reduce its exposure from exchange-rate fluctuations associated with certain investments in foreign equity securities. At June 30, 1996 there were no forward contracts

outstanding. Registrants contemplate use of similar instruments to reduce exposure to fluctuations in natural gas prices.

#### INVESTING ACTIVITIES

For the six months ended June 30, 1996 cash used in SDG&E's investing activities included utility construction expenditures and payments to its nuclear decommissioning trust. Utility construction expenditures, excluding nuclear fuel and the allowance for equity funds used during construction, were \$221 million in 1995 and are estimated to be \$220 million in 1996. SDG&E continuously reviews its construction, investment and financing programs and revises them in response to changes in competition, customer growth, inflation, customer rates, the cost of capital, and environmental and regulatory requirements. Among other things, the level of SDG&E's expenditures in the next few years will depend heavily on the impact of the CPUC's industry restructuring decision and on the timing of expenditures to comply with air emission reduction and other environmental requirements. Payments to the nuclear decommissioning trust are expected to continue until SONGS is decommissioned, which is not expected to occur before 2013. Although Unit 1 was permanently shut down in 1992, it is expected to be decommissioned concurrently with Units 2 and 3.

Enova Corporation's level of non-utility expenditures in the next few years will depend primarily on the activities of its non-utility subsidiaries, some of which are discussed below.

Enova International has formed two partnerships to participate in the development of the natural-gas market in Mexico. These partnerships have announced their active pursuit of two Northern Baja California projects: 1) construction and operation of a natural gas distribution network in the capital city of Mexicali; and 2) construction of a natural-gas-fired electric generating plant at Rosarito Beach, as well as a gas pipeline to transport fuel from the US-Mexican border at San Diego to Rosarito (approx. 20 miles). The proposal for the Mexicali gas distribution system was presented in June 1996. Four proposals, including Enova International's, were submitted and the award of the contract is scheduled for August 1996.

Enova Corporation has informed the CPUC of its intent to invest in a foreign utility and the CPUC has certified to the Securities and Exchange Commission the CPUC's ability to protect SDG&E's ratepayers from foreign-investment risk. The Commission Advisory and Compliance Division is required to monitor Enova Corporation investments in foreign affiliates and to report back to the CPUC if the investments exceed ten percent of Enova Corporation's equity.

As discussed in the 1995 Annual Report to Shareholders, Enova Corporation, through its Enova Technologies subsidiary, had formed an alliance with Philips Home Services to establish an electronic consumer network based on the Philips screen phone. That relationship has since been terminated. Enova Technologies remains committed to the electronic consumer network concept and is continuing to explore various technologies for bringing interactive electronic commerce into consumers' homes.

#### OTHER SIGNIFICANT BALANCE SHEET CHANGES

Besides the effects of items discussed in the preceding pages, there were significant changes to Enova Corporation's and SDG&E's balance sheets at June 30, 1996, compared to December 31, 1995. The increase in investments and other property for Enova Corporation was due to Enova Financial's affordable-housing investments. The decrease in investments and other property for SDG&E was due to SDG&E's transfer of its subsidiaries to Enova Corporation in January 1996. The increases in other current assets and accumulated deferred income taxes were due to differences in the timing of income tax payments. The decreases in deferred charges and other assets and in deferred credits and other liabilities were due primarily to a decrease in the projected pension benefit obligation as a result of a lower assumed actuarial discount rate.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no significant subsequent developments in the SONGS Personal Injury, and Electric and Magnetic Fields (Covalt and North City West) proceedings. Background information concerning these and the following proceedings is contained in Enova Corporation's 1995 Annual Report on Form 10-K and in its March 31, 1996 Quarterly Report on Form 10-Q.

Canadian Natural Gas

In May 1996 the U.S. District Court granted Canadian Hunter's and Summit's motion to dismiss the case, finding that the Alberta Sales of Goods Act rendered the gas purchase agreements between SDG&E and the defendants voidable by either party. SDG&E expects this order will be certified to the Ninth Circuit Court of Appeals by the District Court Judge during the third quarter of 1996. On June 1, 1996 Canadian Hunter ceased deliveries of gas under its agreement with SDG&E. Summit had previously stopped deliveries.

SDG&E is unable to predict the ultimate outcome of these proceedings.

Public Service Company of New Mexico

There were no significant subsequent developments in the Public Service Company of New Mexico complaint filed in 1993.

On March 18, 1996 SDG&E filed a second complaint with the FERC against PNM, alleging in part that applying the same methodology as SDG&E had used in the 1993 complaint, but based on more recent cost information, results in charges under the 1985 power purchase agreement that are unjust, unreasonable and discriminatory. SDG&E requested that the FERC investigate the rates charged under the 1985 agreement and establish May 17, 1996 as the effective refund date. The relief, if granted, would reduce annual demand charges paid by SDG&E to PNM by up to \$12 million per year. On April 26, 1996 PNM answered the second complaint and moved that it be dismissed for the same reasons stated in its answer to the 1993 complaint.

SDG&E is unable to predict the ultimate outcome of this litigation.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit 3 - Bylaws and Articles of Incorporation

3.1 Restated Bylaws of Enova Corporation.

3.2 Restated Bylaws of San Diego Gas & Electric Company.

Exhibit 12 - Computation of ratios

12.1 Computation of Ratio of Earnings to Combined Fixed Charges  
and Preferred Stock Dividends as required under SDG&E's  
August 1993 registration of 5,000,000 shares of Preference  
Stock (Cumulative).

Exhibit 27 - Financial Data Schedules

27.1 Financial Data Schedule for the quarter ended June 30,  
1996 for Enova Corporation.

27.2 Financial Data Schedule for the quarter ended June 30,  
1996 for SDG&E.

(b) Reports on Form 8-K

None

SIGNATURE

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

ENOVA CORPORATION

SAN DIEGO GAS & ELECTRIC COMPANY

(Registrants)

Date: July 25, 1996

By: /s/ F. H. Ault

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(Signature)

Vice President and Controller

F. H. AULT

EXHIBIT 12.1  
SAN DIEGO GAS & ELECTRIC COMPANY  
COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES  
AND PREFERRED STOCK DIVIDENDS

	1991	1992	1993	1994	1995	6 Months Ended 6/30/96
<b>Fixed Charges:</b>						
<b>Interest:</b>						
Long-Term Debt	\$ 95,124	\$ 97,067	\$ 84,830	\$ 81,749	\$ 82,591	\$ 38,210
Short-Term Debt	7,010	5,043	6,676	8,894	17,886	6,958
Amortization of Debt Discount and Expense, Less Premium	2,471	2,881	4,162	4,604	4,870	2,406
Interest Portion of Annual Rentals	18,067	14,558	9,881	9,496	9,631	4,361
<b>Total Fixed Charges</b>	<b>122,672</b>	<b>119,549</b>	<b>105,549</b>	<b>104,743</b>	<b>114,978</b>	<b>51,935</b>
Preferred Dividends Requirements	10,535	9,600	8,565	7,663	7,663	3,291
Ratio of Income Before Tax to Net Income	1.64160	1.71389	1.79353	1.83501	1.78991	1.96527
Preferred Dividends for Purpose of Ratio	17,294	16,453	15,362	14,062	13,716	6,468
<b>Total Fixed Charges and Preferred Dividends for Purpose of Ratio</b>	<b>\$139,966</b>	<b>\$136,002</b>	<b>\$120,911</b>	<b>\$118,805</b>	<b>\$128,694</b>	<b>\$ 58,403</b>
<b>Earnings:</b>						
Net Income (before preferred dividend requirements)	\$202,544	\$224,177	\$215,872	\$206,296	\$219,049	\$108,744
Add:						
Fixed Charges (from above)	122,672	119,549	105,549	104,743	114,978	51,935
Less: Fixed Charges Capitalized	2,322	1,262	1,483	1,424	2,040	670
Taxes on Income	129,953	160,038	171,300	172,259	173,029	104,967
<b>Total Earnings for Purpose of Ratio</b>	<b>\$452,847</b>	<b>\$502,502</b>	<b>\$491,238</b>	<b>\$481,874</b>	<b>\$505,016</b>	<b>\$264,976</b>
Ratio of Earnings to Combined Fixed Charges and Preferred Dividends	3.24	3.69	4.06	4.06	3.92	4.54

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YEAR	DEC-31-1996	JUN-30-1996	PER-BOOK
	3,120,930		
	591,584		
	462,249		
	131,176		
		435,337	
		4,741,276	
			291,414
	565,455		
	685,048		
1,541,917			
	25,000		
		78,475	
	1,095,051		
		0	
	149,364		
	0		
177,895			
		0	
	88,277		
		8,544	
1,576,753			
4,741,276			
	936,864		
		82,482	
	686,865		
	769,347		
	167,517		
		1,179	
168,696			
	55,294		
		113,402	
	0		
113,402			
	90,920		
	44,433		
	270,465		
		0.97	
		0.97	

PREFERRED DIVIDEND OF SUBSIDIARY INCLUDED IN INTEREST EXPENSE

## ARTICLE ONE

## CORPORATE MANAGEMENT

The business and affairs of the Corporation shall be managed, and all corporate powers shall be exercised, by or under the direction of the Board of Directors ("the Board"), subject to the Articles of Incorporation and the California Corporations Code.

## ARTICLE TWO

## OFFICERS

Section 1. Designation. The officers of the Corporation shall consist of a Chairman of the Board (the "Chairman") or a President, or both, one or more Vice Presidents, a Secretary, one or more Assistant Secretaries, a Treasurer, one or more Assistant Treasurers, a Contoller, one or more Assistant Controllers, and such other officers as the Board may from time to time elect. Any two or more of such offices may be held by the same person.

Section 2. Term. The officers shall be elected by the Board as soon as possible after the annual meeting of the Shareholders, and shall hold office for one year or until their successors are duly elected. Any officers may be removed from office at any time, with or without cause, by the vote of a majority of the authorized number of Directors. The Board may fill vacancies or elect new officers at any time.

Section 3. Chairman. The Chairman shall preside over meetings of the Shareholders and of the Board, make a full report to each Shareholders' annual meeting covering the next preceding fiscal year, and perform all other duties designated by the Board.

Section 4. The President. The President shall have the general management and direction of the affairs of the Corporation, subject to the control of the Board. In the absence or disability of the Chairman, the President shall perform the duties and exercise the powers of the Chairman.

Section 5. Vice Presidents. The Vice Presidents, one of whom shall be the Chief Financial Officer, shall have such duties as the President or the Board shall designate.

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Section 6. Chief Financial Officer. The Chief Financial Officer shall be responsible for the issuance of securities and the management of the Corporation's cash, receivables and temporary investments.

Section 7. Secretary and Assistant Secretary. The Secretary shall attend all meetings of the Shareholders and the Board, keep a true and accurate record of the proceedings of all such meetings and attest the same by his or her signature, have charge of all books, documents and papers which appertain to the office, have custody of the corporate seal and affix it to all papers and documents requiring sealing, give all notices of meetings, have the custody of the books of stock certificates and transfers, issue all stock certificates, and perform all other duties usually appertaining to the office and all duties designated by the bylaws, the President or the Board. In the absence of the Secretary, any Assistant Secretary may perform the duties and shall have the powers of the Secretary.

Section 8. Treasurer and Assistant Treasurer. The Treasurer shall perform all duties usually appertaining to the office and all duties designated by the President or the Board. In the absence of the Treasurer, any Assistant Treasurer may perform the duties and shall have all the powers of the Treasurer.

Section 9. Contoller and Assistant Contoller. The Contoller shall be responsible for establishing financial control policies for the Corporation, shall be its principal accounting officer, and shall perform all duties usually appertaining to the office and all duties designated by the President or the Board. In the absence of the Contoller, any Assistant Contoller may perform the duties and shall have all the powers of the Contoller.

Section 10. Chief Executive Officer. Either the Chairman or the President shall be the Chief Executive Officer.

Section 11. Chief Operating Officer. Either the President or any Vice President shall be the Chief Operating Officer.

## ARTICLE THREE

## DIRECTORS

Section 1. Number. The authorized number of Directors shall be determined as set forth in the Articles of Incorporation

Section 2. Election. A Board shall be elected as set forth in the Articles of Incorporation. Any candidate nominated by management for election to the Board shall be so nominated without regard to his or her sex, race, color or creed.

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Section 3. Vacancies. Vacancies in the Board may be filled as set forth in the Articles of Incorporation.

Section 4. Compensation. Members of the Board shall receive such compensation as the Board may from time to time determine.

Section 5. Regular Meetings. A regular meeting of the Board shall be held without other notice than this bylaw immediately after each annual meeting of the Shareholders, and at such other times as provided for by resolution, at the principal office of the Corporation. The Board may cancel, or designate a different date, time or place for any regular meeting.

Section 6. Special Meetings. Special meetings of the Board may be called at any time by the Chairman, the President, or any two Directors.

Section 7. Notice of Meetings. Written notice shall be given to each Director of the date, time and place of each regular meeting and each special meeting of the Board. If given by mail, such notice shall be mailed to each Director at least four days before the date of such meeting, or such notice may be given to each Director personally or by telegram at least 48 hours before the time of such meeting. Every notice of special meeting shall state the purpose for which such meeting is called. Notice of a meeting need not be given to any Director who signs a waiver of notice, whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such Director.

Section 8. Quorum. A majority of the authorized number of Directors shall be necessary to constitute a quorum for the transaction of business, and every act or decision of a majority of the Directors present at a meeting at which a quorum is present shall be valid as the act of the Board, provided that a meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of Directors, if any action taken is approved by at least a majority of the required quorum for such meeting. A majority of Directors present at any meeting, in the absence of a quorum, may adjourn to another time.

Section 9. Action Upon Consent. Any action required or permitted to be taken by the Board may be taken without a meeting, if all members of the Board shall individually or collectively consent in writing to such action.

Section 10. Telephonic Participation. Members of the Board may participate in a meeting through use of a conference telephone or similar communications equipment, so long as all members participating in the meeting can hear one another. Such participation constitutes presence in person at the meeting.

Section 11. Directors Emeritus. The Board may from time to time elect one or more Directors Emeritus. Each Director Emeritus shall have the privilege of attending

meetings of the Board, upon invitation of the Chairman or the President. No Director Emeritus shall be entitled to vote on any business coming before the Board or be counted as a member of the Board for any purpose whatsoever.

#### ARTICLE FOUR

##### COMMITTEES

Section 1. Executive Committee. The Board shall appoint an Executive Committee. The Chairman shall be ex officio the Chairman thereof, unless the Board shall appoint another member as Chairman. The Executive Committee shall be composed of members of the Board, and shall at all times be subject to its control. The Executive Committee shall have all the authority of the Board, except with respect to:

- (a) The approval of any action which also requires Shareholders' approval.
- (b) The filling of vacancies on the Board or on any committee.
- (c) The fixing of compensation of the Directors for serving on the Board or on any committee.
- (d) The amendment or repeal of bylaws or the adoption of new bylaws.
- (e) The amendment or repeal of any resolution of the Board which by its express terms is not so amendable or repealable.
- (f) A distribution to the Shareholders.
- (g) The appointment of other committees of the Board or the members thereof.

Section 2. Audit Committee. The Board shall appoint an Audit Committee comprised solely of Directors who are neither officers nor employees of the Corporation and who are free from any relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment as committee members. The Audit Committee shall review and make recommendations to the Board with respect to:

- (a) The engagement of an independent accounting firm to audit the Corporation's financial statements and the terms of such engagement.
- (b) The policies and procedures for maintaining the Corporation's books and records and for furnishing appropriate information to the independent auditor.
- (c) The evaluation and implementation of any recommendations made by the independent auditor.

(d) The adequacy of the Corporation's internal audit controls and related personnel.

(e) Such other matters relating to the Corporation's financial affairs and accounts as the Committee deems desirable.

Section 3. Other Committees. The Board may appoint such other committees of its members as it shall deem desirable, and, within the limitations specified for the Executive Committee, may vest such committees with such powers and authorities as it shall see fit, and all such committees shall at all times be subject to its control.

Section 4. Notice of Meetings. Notice of each meeting of any committee of the Board shall be given to each member of such committee, and the giving of such notice shall be subject to the same requirements as the giving of notice of meetings of the Board, unless the Board shall establish different requirements for the giving of notice of committee meetings.

Section 5. Conduct of Meetings. The provisions of these bylaws with respect to the conduct of meetings of the Board shall govern the conduct of committee meetings. Written minutes shall be kept of all committee meetings.

## ARTICLE FIVE

### SHAREHOLDER MEETINGS

Section 1. Annual Meeting. The annual meeting of the Shareholders shall be held on a date and at a time fixed by the Board.

Section 2. Special Meetings. Special meetings of the Shareholders for any purpose whatsoever may be called at any time by the Chairman, the President, or the Board, or by one or more Shareholders holding not less than one-tenth of the voting power of the Corporation.

Section 3. Place of Meetings. All meetings of the Shareholders shall be held at the principal office of the Corporation in San Diego, California or at such other locations as may be designated by the Board.

Section 4. Notice of Meetings. Written notice shall be given to each Shareholder entitled to vote of the date, time, place and general purpose of each meeting of Shareholders. Notice may be given personally, or by mail, or by telegram, charges prepaid, to the Shareholder's address appearing on the books of the Corporation. If a Shareholder supplies no address to the Corporation, notice shall be deemed to be given if mailed to the place where the principal office of the Corporation is situated, or published at least once in some newspaper of general circulation in the county of said principal

office. Notice of any meeting shall be sent to each Shareholder entitled thereto not less than 10 or more than 60 days before such meeting.

Section 5. Voting. The Board may fix a time in the future not less than 10 or more than 60 days preceding the date of any meeting of Shareholders, or not more than 60 days preceding the date fixed for the payment of any dividend or distribution, or for the allotment of rights, or when any change or conversion or exchange of shares shall go into effect, as a record date for the determination of the Shareholders entitled to notice of and to vote at any such meeting or entitled to receive any such dividend or distribution, or any such allotment of rights, or to exercise the rights in respect to any such change, conversion, or exchange of shares. In such case only Shareholders of record at the close of business on the date so fixed shall be entitled to notice of and to vote at such meeting or to receive such dividend, distribution or allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the Corporation after any record date fixed as aforesaid. The Board may close the books of the Corporation against any transfer of shares during the whole or any part of such period.

Section 6. Quorum. At any Shareholders' meeting a majority of the shares entitled to vote must be represented in order to constitute a quorum for the transaction of business, but a majority of the shares present, or represented by proxy, though less than a quorum, may adjourn the meeting to some other date, and from day to day or from time to time thereafter until a quorum is present.

## ARTICLE SIX

### CERTIFICATE OF SHARES

Section 1. Form. Certificates for shares of the Corporation shall state the name of the registered holder of the shares represented thereby, and shall be signed by the Chairman or the President or a Vice President, and by the Secretary or an Assistant Secretary. Any such signature may be by facsimile thereof.

Section 2. Surrender. Upon a surrender to the Secretary, or to a transfer agent or transfer clerk of the Corporation, of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, the Corporation shall issue a new certificate to the party entitled thereto, cancel the old certificate and record the transaction upon its books.

Section 3. Right of Transfer. When a transfer of shares on the books is requested, and there is a reasonable doubt as to the rights of the persons seeking such transfer, the Corporation, or its transfer agent or transfer clerk, before entering the transfer of the shares on its books or issuing any certificate therefor, may require from such person reasonable proof of his or her rights, and, if there remains a reasonable doubt in respect thereto, may refuse a transfer unless such person shall give adequate security or a

bond of indemnity executed by a corporate surety, or by two individual sureties, satisfactory to the Corporation as to form, amount and responsibility of sureties.

Section 4. Conflicting Claims. The Corporation shall be entitled to treat the holder of record of any shares as the holder in fact thereof and shall not be bound to recognize any equitable or other claim to or interest in such shares on the part of any other person, whether or not it shall have express or other notice thereof, save as expressly provided by the laws of the State of California.

Section 5. Loss, Theft and Destruction. In the case of the alleged loss, theft or destruction of any certificate of shares, another may be issued in its place as follows: (1) the owner of the lost, stolen or destroyed certificate shall file with the transfer agent of the Corporation a duly executed affidavit of loss and indemnity agreement and certificate of coverage, accompanied by a check representing the cost of the bond as outlined in any blanket lost securities and administration bond previously approved by the Directors of the Corporation and executed by a surety company satisfactory to them, which bond shall indemnify the Corporation, its transfer agents and registrars; or (2) the Board may, in its discretion, authorize the issuance of a new certificate to replace a lost, stolen or destroyed certificate on such other terms and conditions as it may determine to be reasonable.

## ARTICLE SEVEN

### INDEMNIFICATION OF AGENTS OF THE CORPORATION

Section 1. Definitions. For the purposes of this Article Seven, "agent" means any person who (i) is or was a Director, officer, employee or other agent of the Corporation, (ii) is or was serving at the request of the Corporation as a director, officer, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust or other enterprise or (iii) was a director, officer, employee or agent of a foreign or domestic corporation which was a predecessor corporation of the Corporation or of another enterprise at the request of such predecessor corporation; "proceeding" means any threatened, pending or completed action or proceeding, whether civil, criminal, administrative or investigative; and "expenses" includes, without limitation, attorneys' fees and any expenses of establishing a right to indemnification under Sections 4 or 5(c) of this Article Seven.

Section 2. Indemnification for Third Party Actions. The Corporation shall have the power to indemnify any person who is or was a party, or is threatened to be made a party, to any proceeding (other than an action by or in the right of the Corporation to procure a judgment in its favor) by reason of the fact that such person is or was an agent of the Corporation against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in connection with such proceeding if such person acted in good faith and in a manner such person reasonably believed to be in the best interests of the Corporation and, in the case of a criminal proceeding, had no reasonable cause to believe the conduct of such person was unlawful. The termination of any proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent shall not, of

itself, create a presumption that the person did not act in good faith and in a manner which the person reasonably believed to be in the best interests of the Corporation or that the person had reasonable cause to believe that the person's conduct was unlawful.

Section 3. Indemnification for Derivative Actions. The Corporation shall have the power to indemnify any person who is or was a party, or is threatened to be made a party, to any threatened, pending or completed action by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that such person is or was an agent of the Corporation against expenses actually and reasonably incurred by such person in connection with the defense or settlement of such action if such person acted in good faith and in a manner such person believed to be in the best interests of the Corporation and its Shareholders. No indemnification shall be made under this Section 3:

(a) In respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation in the performance of such person's duty to the Corporation and its Shareholders, unless and only to the extent that the court in which such proceeding is or was pending shall determine upon application that, in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for expenses and then only to the extent that the court shall determine; or

(b) Of amounts paid in settling or otherwise disposing of a pending action without court approval; or

(c) Of expenses incurred in defending a pending action which is settled or otherwise disposed of without court approval.

Section 4. Successful Defense. Notwithstanding any other provision of this Article, to the extent that an agent of the Corporation has been successful on the merits or otherwise (including the dismissal of an action without prejudice or the settlement of a proceeding or action without admission of liability) in defense of any proceeding referred to in Sections 2 or 3 of this Article, or in defense of any claim, issue or matter therein, he or she shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred in connection therewith.

Section 5. Discretionary Indemnification. Except as provided in Section 4 of this Article Seven, any indemnification under Section 3 thereof shall be made by the Corporation only if authorized in the specific case, upon a determination that indemnification of the agent is proper in the circumstances because the agent has met the applicable standard of conduct set forth in Section 3, by:

(a) A majority vote of a quorum consisting of Directors who are not parties to such proceeding;

(b) If such a quorum of Directors is not obtainable, by independent legal counsel in a written opinion;

(c) Approval by the affirmative vote of a majority of the shares of this Corporation represented and voting at a duly held meeting at which a quorum is present (which shares voting affirmatively also constitute at least a majority of the required quorum) or by the written consent of holders of a majority of the outstanding shares which would be entitled to vote at such meeting and, for such purpose, the shares owned by the person to be indemnified shall not be considered outstanding or entitled to vote; or

(d) The court in which such proceeding is or was pending, upon application made by the Corporation, the agent or the attorney or other person rendering services in connection with the defense, whether or not such application by said agent, attorney or other person is opposed by the Corporation.

Section 6. Advancement of Expenses. Expenses incurred in defending any proceeding may be advanced by the Corporation prior to the final disposition of such proceeding upon receipt of an undertaking by or on behalf of the agent to repay such amount if it shall be determined ultimately that the agent is not entitled to be indemnified as authorized in this Article Seven.

Section 7. Restriction on Indemnification. No indemnification or advance shall be made under this Article Seven, except as provided in Sections 4 and 6 thereof, in any circumstance where it appears:

(a) That it would be inconsistent with a provision of the Articles of Incorporation of the Corporation, its bylaws, a resolution of the Shareholders or an agreement in effect at the time of the accrual of the alleged cause of action asserted in the proceeding in which the expenses were incurred or other amounts were paid which prohibits or otherwise limits indemnification; or

(b) That it would be inconsistent with any condition expressly imposed by a court in approving a settlement.

Section 8. Non-Exclusive. In the absence of any other basis for indemnification of an agent, the Corporation can indemnify such agent pursuant to this Article Seven. The indemnification provided by this Article Seven shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any statute, bylaw, agreement, vote of Shareholders or disinterested Directors or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office. The rights to indemnification under this Article Seven shall continue as to a person who has ceased to be a Director, officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of the person. Nothing contained in this

Section 8 shall affect any right to indemnification to which persons other than such Directors and officers may be entitled by contract or otherwise.

Section 9. Expenses as a Witness. To the extent that any agent of the Corporation is by reason of such position, or a position with another entity at the request of the Corporation, a witness in any action, suit or proceeding, he or she shall be indemnified against all costs and expenses actually and reasonably incurred by him or her or on his or her behalf in connection therewith.

Section 10. Insurance. The Board may purchase and maintain directors and officers liability insurance, at its expense, to protect itself and any Director, officer or other named or specified agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss asserted against or incurred by the agent in such capacity or arising out of the agent's status as such, whether or not the Corporation would have the power to indemnify the agent against such expense, liability or loss under the provisions of this Article Seven or under California Law.

Section 11. Separability. Each and every paragraph, sentence, term and provision of this Article Seven is separate and distinct so that if any paragraph, sentence, term or provision hereof shall be held to be invalid or unenforceable for any reason, such invalidity or unenforceability shall not affect the validity or unenforceability of any other paragraph, sentence, term or provision hereof. To the extent required, any paragraph, sentence, term or provision of this Article may be modified by a court of competent jurisdiction to preserve its validity and to provide the claimant with, subject to the limitations set forth in this Article and any agreement between the Corporation and claimant, the broadest possible indemnification permitted under applicable law. If this Article Seven or any portion thereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless have the power to indemnify each Director, officer, employee, or other agent against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit, proceeding or investigation, whether civil, criminal or administrative, and whether internal or external, including a grand jury proceeding and including an action or suit brought by or in the right of the Corporation, to the full extent permitted by any applicable portion of this Article Seven that shall not have been invalidated by any other applicable law.

Section 12. Agreements. Upon, and in the event of, a determination of the Board to do so, the Corporation is authorized to enter into indemnification agreements with some or all of its Directors, officers, employees and other agents providing for indemnification to the fullest extent permissible under California law and the Corporation's Articles of Incorporation.

Section 13. Retroactive Appeal. In the event this Article Seven is repealed or modified so as to reduce the protection afforded herein, the indemnification provided by this Article shall remain in full force and effect with respect to any act or omission occurring prior to such repeal or modification.

ARTICLE EIGHT

OBLIGATIONS

All obligations of the Corporation, including promissory notes, checks, drafts, bills of exchange, and contracts of every kind, and evidences of indebtedness issued in the name of, or payable to, or executed on behalf of the Corporation, shall be signed or endorsed by such officer or officers, or agent or agents, of the Corporation and in such manner as, from time to time, shall be determined by the Board.

ARTICLE NINE

CORPORATE SEAL

The corporate seal shall set forth the name of the Corporation, state, and date of incorporation.

ARTICLE TEN

AMENDMENTS

These bylaws may be amended or repealed as set forth in the Articles of Incorporation.

ARTICLE ELEVEN

AVAILABILITY OF BYLAWS

A current copy of these bylaws shall be mailed or otherwise furnished to any Shareholder of record within five days after receipt of a request therefor.

RESTATED AS OF MAY 28, 1996

ARTICLE ONE  
Corporate Management

The business and affairs of the corporation shall be managed, and all corporate powers shall be exercised, by or under the direction of the Board of Directors ("the Board"), subject to the Articles of Incorporation and the California Corporations Code.

ARTICLE TWO  
Officers

Section 1. Designation. The officers of the corporation shall consist of a Chairman of the Board ("Chairman") or a President, or both, one or more Vice Presidents, a Secretary, one or more Assistant Secretaries, a Treasurer, one or more Assistant Treasurers, a Controller, one or more Assistant Controllers, and such other officers as the Board may from time to time elect. Any two or more of such offices may be held by the same person.

Section 2. Term. The officers shall be elected by the Board as soon as possible after the annual meeting of the Shareholders, and shall hold office for one year or until their successors are duly elected. Any officers may be removed from office at any time, with or without cause, by the vote of a majority of the authorized number of Directors. The Board may fill vacancies or elect new officers at any time.

Section 3. Chairman. The Chairman, or any officer designated by the Chairman, shall preside over meetings of the Shareholders and of the Board. The Chairman shall perform all other duties designated by the Board.

Section 4. The President. The President shall have the general management and direction of the affairs of the corporation, subject to the control of the Board. In the absence or disability of the Chairman, the President shall perform the duties and exercise the powers of the Chairman.

Section 5. Vice Presidents. The Vice Presidents, one of whom shall be the Chief Financial Officer, shall have such duties as the President or the Board shall designate.

Section 6. Chief Financial Officer. The Chief Financial Officer shall be responsible for the issuance of securities and the management of the corporation's cash, receivables and temporary investments.

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Section 7. Secretary and Assistant Secretary. The Secretary shall attend all meetings of the Shareholders and the Board, keep a true and accurate record of the proceedings of all such meetings and attest the same by his or her signature, have charge of all books, documents and papers which appertain to the office, have custody of the corporate seal and affix it to all papers and documents requiring sealing, give all notices of meetings, have the custody of the books of stock certificates and transfers, issue all stock certificates, and perform all other duties usually appertaining to the office and all duties designated by the bylaws, the President or the Board. In the absence of the Secretary, any Assistant Secretary may perform the duties and shall have the powers of the Secretary.

Section 8. Treasurer and Assistant Treasurer. The Treasurer shall perform all duties usually appertaining to the office and all duties designated by the President or the Board. In the absence of the Treasurer, any Assistant Treasurer may perform the duties and shall have all the powers of the Treasurer.

Section 9. Controller and Assistant Controller. The Controller shall be responsible for establishing financial control policies for the corporation, shall be its principal accounting officer, and shall perform all duties usually appertaining to the office and all duties designated by the President or the Board. In the absence of the Controller, any Assistant Controller may perform the duties and shall have all the powers of the Controller.

Section 10. Chief Executive Officer. Either the Chairman or the President shall be the Chief Executive Officer.

Section 11. Chief Operating Officer. Either the President or any Vice President shall be the Chief Operating Officer.

ARTICLE THREE  
Directors

Section 1. Number. The authorized number of Directors shall be from a minimum of seven to a maximum of thirteen, unless changed by the vote or written consent of holders of a majority of outstanding shares entitled to vote. The Board of Directors shall fix by resolution the number of Directors comprising the Board within the stated minimum and maximum number at its discretion and without Shareholder approval.

Section 2. Election. A Board shall be elected at each annual meeting of the Shareholders, at any adjournment thereof, or at

any special meeting of the Shareholders called for that purpose. The Directors shall hold office for one year or until their successors are duly elected. Any candidate nominated by management for election to the Board shall be so nominated without regard to his or her sex, race, color or creed.

Section 3. Vacancies. Vacancies in the Board may be filled by a majority of the remaining Directors, though less than a quorum, and each Director so elected shall hold office for the unexpired term and until his or her successor is elected.

Section 4. Compensation. Members of the Board shall receive such compensation as the Board may from time to time determine.

Section 5. Regular Meetings. A regular meeting of the Board shall be held without other notice than this bylaw immediately after each annual meeting of the Shareholders, and at such other times as provided for by resolution, at the principal office of the corporation. The Board may cancel, or designate a different date, time or place for any regular meeting.

Section 6. Special Meetings. Special meetings of the Board may be called at any time by the Chairman, the President or any two Directors.

Section 7. Notice of Meetings. Written notice shall be given to each Director of the date, time and place of each regular meeting and each special meeting of the Board. If given by mail, such notice shall be mailed to each Director at least four days before the date of such meeting, or such notice may be given to each Director personally or by telegram at least 48 hours before the time of such meeting. Every notice of special meeting shall state the purpose for which such meeting is called. Notice of a meeting need not be given to any Director who signs a waiver of notice, whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such Director.

Section 8. Quorum. A majority of the authorized number of Directors shall be necessary to constitute a quorum for the transaction of business, and every act or decision of a majority of the Directors present at a meeting at which a quorum is present shall be valid as the act of the Board, provided that a meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of Directors, if any action taken is approved by at least a majority of the required quorum for such meeting. A majority of Directors present at any meeting, in the absence of a quorum, may adjourn to another time.

Section 9. Action Upon Consent. Any action required or permitted to be taken by the Board may be taken without a meeting, if all members of the Board shall individually or collectively consent in writing to such action.

Section 10. Telephonic Participation. Members of the Board may participate in a meeting through use of a conference telephone or similar communications equipment, so long as all members participating in the meeting can hear one another. Such participation constitutes presence in person at the meeting.

Section 11. Directors Emeritus. The Board may from time to time elect one or more Directors Emeritus. Each Director Emeritus shall have the privilege of attending meetings of the Board, upon invitation of the Chairman or the President. No Director Emeritus shall be entitled to vote on any business coming before the Board or be counted as a member of the Board for any purpose whatsoever.

ARTICLE FOUR  
Committees

Section 1. Executive Committee. The Board shall appoint an Executive Committee. The Chairman shall be ex officio the Chairman thereof, unless the Board shall appoint another member as Chairman. The Executive Committee shall be composed of members of the Board, and shall at all times be subject to its control. The Executive Committee shall have all the authority of the Board, except with respect to:

- (a) The approval of any action which also requires Shareholders' approval.
- (b) The filling of vacancies on the Board or on any committee.
- (c) The fixing of compensation of the Directors for serving on the Board or on any committee.
- (d) The amendment or repeal of bylaws or the adoption of new bylaws.
- (e) The amendment or repeal of any resolution of the Board which by its express terms is not so amendable or repealable.
- (f) A distribution to the Shareholders.
- (g) The appointment of other committees of the Board or the members thereof.

Section 2. Audit Committee. The Board shall appoint an Audit Committee comprised solely of Directors who are neither officers nor employees of the corporation and who are free from any relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment as committee members. The Audit Committee shall review and make recommendations to the Board with respect to:

- (a) The engagement of an independent accounting firm to audit the corporation's financial statements and the terms of such engagement.
- (b) The policies and procedures for maintaining the corporation's books and records and for furnishing appropriate information to the independent auditor.

(c) The evaluation and implementation of any recommendations made by the independent auditor.

(d) The adequacy of the corporation's internal audit controls and related personnel.

(e) Such other matters relating to the corporation's financial affairs and accounts as the Committee deems desirable.

Section 3. Other Committees. The Board may appoint such other committees of its members as it shall deem desirable, and, within the limitations specified for the Executive Committee, may vest such committees with such powers and authorities as it shall see fit, and all such committees shall at all times be subject to its control.

Section 4. Notice of Meetings. Notice of each meeting of any committee of the Board shall be given to each member of such committee, and the giving of such notice shall be subject to the same requirements as the giving of notice of meetings of the Board, unless the Board shall establish different requirements for the giving of notice of committee meetings.

Section 5. Conduct of Meetings. The provisions of these bylaws with respect to the conduct of meetings of the Board shall govern the conduct of committee meetings. Written minutes shall be kept of all committee meetings.

#### ARTICLE FIVE Shareholder Meetings

Section 1. Annual Meeting. The annual meeting of the Shareholders shall be held on a date and at a time fixed by the Board.

Section 2. Special Meetings. Special meetings of the Shareholders for any purpose whatsoever may be called at any time by the Chairman, the President, or the Board, or by one or more Shareholders holding not less than one-tenth of the voting power of the corporation.

Section 3. Place of Meetings. All meetings of the Shareholders shall be held at the principal office of the corporation in San Diego, California, or at such other locations as may be designated by the Board.

Section 4. Notice of Meetings. Written notice shall be given to each Shareholder entitled to vote of the date, time, place and general purpose of each meeting of Shareholders. Notice may be given personally, or by mail, or by telegram, charges prepaid, to the Shareholder's address appearing on the books of the corporation. If a Shareholder supplies no address to the corporation, notice shall be deemed to be given if mailed to the

place where the principal office of the corporation is situated, or published at least once in some newspaper of general circulation in the county of said principal office. Notice of any meeting shall be sent to each Shareholder entitled thereto not less than 10 or more than 60 days before such meeting.

Section 5. Voting. The Board may fix a time in the future not less than 10 or more than 60 days preceding the date of any meeting of Shareholders, or not more than 60 days preceding the date fixed for the payment of any dividend or distribution, or for the allotment of rights, or when any change or conversion or exchange of shares shall go into effect, as a record date for the determination of the Shareholders entitled to notice of and to vote at any such meeting or entitled to receive any such dividend or distribution, or any such allotment of rights, or to exercise the rights in respect to any such change, conversion, or exchange of shares. In such case only Shareholders of record at the close of business on the date so fixed shall be entitled to notice of and to vote at such meeting or to receive such dividend, distribution or allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after any record date fixed as aforesaid. The Board may close the books of the corporation against any transfer of shares during the whole or any part of such period.

Section 6. Quorum. At any Shareholders' meeting a majority of the shares entitled to vote must be represented in order to constitute a quorum for the transaction of business, but a majority of the shares present, or represented by proxy, though less than a quorum, may adjourn the meeting to some other date, and from day to day or from time to time thereafter until a quorum is present.

Section 7. Elimination of Cumulative Voting. No holder of any class of stock of the corporation shall be entitled to cumulate votes at any election of Directors of the corporation.

#### ARTICLE SIX Certificate of Shares

Section 1. Form. The Certificates of Shares of the corporation shall state the name of the registered holder of the shares represented thereby, and shall be signed by the Chairman or the President or a Vice President, and by the Secretary or an Assistant Secretary. Any such signature may be by facsimile thereof.

Section 2. Surrender. Upon a surrender to the Secretary, or to a transfer agent or transfer clerk of the corporation, of a Certificate of Shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, the corporation shall issue a new certificate to the party entitled thereto, cancel the old certificate and record the transaction upon its books.

Section 3. Right of Transfer. When a transfer of shares on the books is requested, and there is a reasonable doubt as to the rights of the persons seeking such

transfer, the corporation, or its transfer agent or transfer clerk, before entering the transfer of the shares on its books or issuing any certificate therefor, may require from such person reasonable proof of his or her rights, and, if there remains a reasonable doubt in respect thereto, may refuse a transfer unless such person shall give adequate security or a bond of indemnity executed by a corporate surety, or by two individual sureties, satisfactory to the corporation as to form, amount and responsibility of sureties.

Section 4. Conflicting Claims. The corporation shall be entitled to treat the holder of record of any shares as the holder in fact thereof and shall not be bound to recognize any equitable or other claim to or interest in such shares on the part of any other person, whether or not it shall have express or other notice thereof, save as expressly provided by the laws of the State of California.

Section 5. Loss, Theft and Destruction. In the case of the alleged loss, theft or destruction of any Certificate of Shares, another may be issued in its place as follows: (1) the owner of the lost, stolen or destroyed certificate shall file with the transfer agent of the corporation a duly executed Affidavit or Loss and Indemnity Agreement and Certificate of Coverage, accompanied by a check representing the cost of the bond as outlined in any blanket lost securities and administration bond previously approved by the Directors of the corporation and executed by a surety company satisfactory to them, which bond shall indemnify the corporation, its transfer agents and registrars; or (2) the Board may, in its discretion, authorize the issuance of a new certificate to replace a lost, stolen or destroyed certificate on such other terms and conditions as it may determine to be reasonable.

#### ARTICLE SEVEN

##### Indemnification of Agents of the Corporation

Section 1. Definitions. For the purposes of this Article Seven, "agent" means any person who (i) is or was a Director, officer, employee or other agent of the corporation, (ii) is or was serving at the request of the corporation as a director, officer, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust or other enterprise or (iii) was a director, officer, employee or agent of a foreign or domestic corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation; "proceeding" means any threatened, pending or completed action or proceeding, whether civil, criminal, administrative or investigative; and "expenses" includes, without limitation, attorneys' fees and any expenses of establishing a right to indemnification under Sections 4 or 5(c) of this Article Seven.

Section 2. Indemnification for Third Party Actions. The corporation shall have the power to indemnify any person who is or was a party, or is threatened to be made a party, to any proceeding (other than an action by or in the right of the corporation to procure a judgment in its favor) by reason of the fact that such person is or was an agent of the corporation against expenses, judgments, fines, settlements and other amounts actually

and reasonably incurred in connection with such proceeding if such person acted in good faith and in a manner such person reasonably believed to be in the best interests of the corporation and, in the case of a criminal proceeding, had no reasonable cause to believe the conduct of such person was unlawful. The termination of any proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the person did not act in good faith and in a manner which the person reasonably believed to be in the best interests of the corporation or that the person had reasonable cause to believe that the person's conduct was unlawful.

Section 3. Indemnification for Derivative Actions. The corporation shall have the power to indemnify any person who is or was a party, or is threatened to be made a party, to any threatened, pending or completed action by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person is or was an agent of the corporation against expenses actually and reasonably incurred by such person in connection with the defense or settlement of such action if such person acted in good faith and in a manner such person believed to be in the best interests of the corporation and its Shareholders. No indemnification shall be made under this Section 3:

(a) In respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation in the performance of such person's duty to the corporation and its Shareholders, unless and only to the extent that the court in which such proceeding is or was pending shall determine upon application that, in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for expenses and then only to the extent that the court shall determine; or

(b) Of amounts paid in settling or otherwise disposing of a pending action without court approval; or

(c) Of expenses incurred in defending a pending action which is settled or otherwise disposed of without court approval.

Section 4. Successful Defense. Notwithstanding any other provision of this Article, to the extent that an agent of the corporation has been successful on the merits or otherwise (including the dismissal of an action without prejudice or the settlement of a proceeding or action without admission of liability) in defense of any proceeding referred to in Sections 2 or 3 of this Article, or in defense of any claim, issue or matter therein, he or she shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred in connection therewith.

Section 5. Discretionary Indemnification. Except as provided in Section 4 of this Article Seven, any indemnification under Section 3 thereof shall be made by the corporation only if authorized in the specific case, upon a determination that

indemnification of the agent is proper in the circumstances because the agent has met the applicable standard of conduct set forth in Section 3, by:

(a) A majority vote of a quorum consisting of Directors who are not parties to such proceeding;

(b) If such a quorum of Directors is not obtainable, by independent legal counsel in a written opinion;

(c) Approval by the affirmative vote of a majority of the shares of this corporation represented and voting at a duly held meeting at which a quorum is present (which shares voting affirmatively also constitute at least a majority of the required quorum) or by the written consent of holders of a majority of the outstanding shares which would be entitled to vote at such meeting and, for such purpose, the shares owned by the person to be indemnified shall not be considered outstanding or entitled to vote; or

(d) The court in which such proceeding is or was pending, upon application made by the corporation, the agent or the attorney or other person rendering services in connection with the defense, whether or not such application by said agent, attorney or other person is opposed by the corporation.

Section 6: Advancement of Expenses. Expenses incurred in defending any proceeding may be advanced by the corporation prior to the final disposition of such proceeding upon receipt of an undertaking by or on behalf of the agent to repay such amount if it shall be determined ultimately that the agent is not entitled to be indemnified as authorized in this Article Seven.

Section 7: Restriction on Indemnification. No indemnification or advance shall be made under this Article Seven, except as provided in Sections 4 and 6 thereof, in any circumstance where it appears:

(a) That it would be inconsistent with a provision of the Articles of Incorporation of the corporation, its bylaws, a resolution of the Shareholders or an agreement in effect at the time of the accrual of the alleged cause of action asserted in the proceeding in which the expenses were incurred or other amounts were paid which prohibits or otherwise limits indemnification; or

(b) That it would be inconsistent with any condition expressly imposed by a court in approving a settlement.

Section 8: Non-Exclusive. In the absence of any other basis for indemnification of an agent, the corporation can indemnify such agent pursuant to this

Article Seven. The indemnification provided by this Article Seven shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any statute, bylaw, agreement, vote of Shareholders or disinterested Directors or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office. The rights to indemnification under this Article Seven shall continue as to a person who has ceased to be a Director, officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of the person. Nothing contained in this Section 8 shall affect any right to indemnification to which persons other than such Directors and officers may be entitled by contract or otherwise.

Section 9: Expenses as a Witness. To the extent that any agent of the corporation is by reason of such position, or a position with another entity at the request of the corporation, a witness in any action, suit or proceeding, he or she shall be indemnified against all costs and expenses actually and reasonably incurred by him or her or on his or her behalf in connection therewith.

Section 10: Insurance. The Board may purchase and maintain directors and officers liability insurance, at its expense, to protect itself and any Director, officer or other named or specified agent of the corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss asserted against or incurred by the agent in such capacity or arising out of the agent's status as such, whether or not the corporation would have the power to indemnify the agent against such expense, liability or loss under the provisions of this Article Seven or under California Law.

Section 11: Separability. Each and every paragraph, sentence, term and provision of this Article Seven is separate and distinct so that if any paragraph, sentence, term or provision hereof shall be held to be invalid or unenforceable for any reason, such invalidity or unenforceability shall not affect the validity or unenforceability of any other paragraph, sentence, term or provision hereof. To the extent required, any paragraph, sentence, term or provision of this Article may be modified by a court of competent jurisdiction to preserve its validity and to provide the claimant with, subject to the limitations set forth in this Article and any agreement between the corporation and claimant, the broadest possible indemnification permitted under applicable law. If this Article Seven or any portion thereof shall be invalidated on any ground by any court of competent jurisdiction, then the corporation shall nevertheless have the power to indemnify each Director, officer, employee, or other agent against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit, proceeding or investigation, whether civil, criminal or administrative, and whether internal or external, including a grand jury proceeding and including an action or suit brought by or in the right of the corporation, to the full extent permitted by any applicable portion of this Article Seven that shall not have been invalidated by any other applicable law.

Section 12: Agreements. Upon, and in the event of, a determination of the Board to do so, the corporation is authorized to enter into indemnification agreements with some or all of its Directors, officers, employees and other agents providing for

indemnification to the fullest extent permissible under California law and the corporation's Articles of Incorporation.

Section 13: Retroactive Appeal. In the event this Article Seven is repealed or modified so as to reduce the protection afforded herein, the indemnification provided by this Article shall remain in full force and effect with respect to any act or omission occurring prior to such repeal or modification.

ARTICLE EIGHT  
Obligations

All obligations of the corporation, including promissory notes, checks, drafts, bills of exchange, and contracts of every kind, and evidences of indebtedness issued in the name of, or payable to, or executed on behalf of the corporation, shall be signed or endorsed by such officer or officers, or agent or agents, of the corporation and in such manner as, from time to time, shall be determined by the Board.

ARTICLE NINE  
Corporate Seal

The corporate seal shall set forth the name of the corporation, state, and date of incorporation.

ARTICLE TEN  
Amendments

These bylaws may be adopted, amended, or repealed by the vote of Shareholders entitled to exercise a majority of the voting power of the corporation or by the written assent of such Shareholders. Subject to such right of Shareholders, these bylaws, other than a bylaw or amendment thereof changing the authorized number of Directors, may be adopted, amended or repealed by the Board.

ARTICLE ELEVEN  
Availability of Bylaws

A current copy of these bylaws shall be mailed or otherwise furnished to any Shareholder of record within five days after receipt of a request therefor.