

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

March 31, 1997

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 April 30, 1997:

Enova Corporation 113,616,714  
 -----  
 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	
	1997	1996	1997	1996
For the three months ended March 31				
Operating Revenues				
Electric	\$373,670	\$367,293	\$373,670	\$367,293
Gas	120,966	84,649	120,966	84,649
Other	13,294	13,955	--	--
Total operating revenues	507,930	465,897	494,636	451,942
Operating Expenses				
Electric fuel	39,681	23,824	39,681	23,824
Purchased power	87,750	71,623	87,661	71,623
Gas purchased for resale	67,881	35,498	67,761	35,498
Maintenance	21,966	14,814	21,966	14,814
Depreciation and decommissioning	85,707	71,188	80,622	66,814
Property and other taxes	11,712	11,834	11,626	11,834
General and administrative	44,601	45,638	39,070	45,170
Other	54,864	52,978	42,565	41,832
Income taxes	24,373	45,508	40,754	56,363
Total operating expenses	438,535	372,905	431,706	367,772
Operating Income	69,395	92,992	62,930	84,170
Other Income and (Deductions)				
Allowance for equity funds used during construction	1,423	1,249	1,423	1,249
Taxes on nonoperating income	5,068	(455)	432	(455)
Other - net	(405)	374	(1,691)	602
Net other income and (deductions)	6,086	1,168	164	1,396
Income Before Interest Charges	75,481	94,160	63,094	85,566
Interest Charges				
Long-term debt	21,729	22,562	17,925	19,094
Short-term debt and other	3,872	4,467	3,872	4,467
Allowance for borrowed funds used during construction	(632)	(567)	(632)	(567)
Preferred dividend requirements of SDG&E	1,646	1,646	--	--
Net interest charges	26,615	28,108	21,165	22,994
Net Income	48,866	66,052	41,929	62,572
Preferred Dividend Requirements	--	--	1,646	1,646
Earnings Applicable to Common Shares	\$48,866	\$66,052	\$40,283	\$60,926
Average Common Shares Outstanding	116,452	116,570		
Earnings Per Common Share	\$0.42	\$0.57		
Dividends Declared Per Common Share	\$0.39	\$0.39		

See notes to financial statements.

BALANCE SHEETS  
In thousands of dollars

	Enova Corporation and Subsidiaries		SDG&E	
	March 31, 1997 (unaudited)	December 31, 1996	March 31, 1997 (unaudited)	December 31, 1996
Balance at				

ASSETS				
Utility plant - at original cost	\$5,733,446	\$5,704,464	\$5,733,446	\$5,704,464
Accumulated depreciation and decommissioning	(2,707,568)	(2,630,093)	(2,707,568)	(2,630,093)
Utility plant-net	3,025,878	3,074,371	3,025,878	3,074,371
Investments and other property	727,592	650,188	347,808	337,520
Current assets				
Cash and temporary investments	131,238	173,079	54,375	81,409
Accounts receivable	183,776	186,529	184,735	187,986
Notes receivable	33,564	33,564	--	--
Inventories	53,201	63,437	52,112	63,078
Other	23,490	47,094	20,372	33,227
Total current assets	425,269	503,703	311,594	365,700
Deferred taxes recoverable in rates	182,875	189,193	182,875	189,193
Deferred charges and other assets	222,696	231,782	193,700	193,732
Total	\$4,584,310	\$4,649,237	\$4,061,855	\$4,160,516
CAPITALIZATION AND LIABILITIES				
Capitalization				
Common equity	\$1,506,742	\$1,569,670	\$1,328,940	\$1,404,136
Preferred stock of SDG&E				
Not subject to mandatory redemption	78,475	78,475	78,475	78,475
Subject to mandatory redemption	25,000	25,000	25,000	25,000
Long-term debt	1,522,271	1,479,338	1,283,342	1,284,816
Total capitalization	3,132,488	3,152,483	2,715,757	2,792,427
Current liabilities				
Current portion of long-term debt	53,471	69,902	6,696	33,639
Accounts payable	120,967	175,815	120,734	174,884
Due to affiliates	--	--	3,850	7,214
Dividends payable	47,125	47,213	47,125	47,131
Interest and taxes accrued	32,177	21,259	62,586	12,824
Regulatory balancing accounts overcollected-net	56,548	35,338	56,548	35,338
Other	146,959	158,317	92,885	110,743
Total current liabilities	457,247	507,844	390,424	421,773
Customer advances for construction	33,102	34,666	33,102	34,666
Accumulated deferred income taxes-net	508,480	497,400	493,316	487,119
Accumulated deferred investment tax credits	63,795	64,410	63,795	64,410
Deferred credits and other liabilities	389,198	392,434	365,461	360,121
Total	\$4,584,310	\$4,649,237	\$4,061,855	\$4,160,516

See notes to financial statements.

STATEMENTS OF CASH FLOWS (unaudited)  
In thousands of dollars

	Enova Corporation and Subsidiaries		SDG&E	
	1997	1996	1997	1996
For the three months ended March 31				
Cash Flows from Operating Activities				
Net income	\$ 48,866	\$ 66,052	\$ 41,929	\$ 62,572
Adjustments to reconcile income from continuing operations to net cash provided by operating activities				
Depreciation and decommissioning	85,707	71,188	80,622	66,814
Amortization of deferred charges and other assets	1,902	1,425	1,701	1,425
Amortization of deferred credits and other liabilities	(9,832)	(8,768)	(1,060)	(292)
Allowance for equity funds used during construction	(1,423)	(1,249)	(1,423)	(1,249)
Deferred income taxes and investment tax credits	2,214	(29,087)	30	(27,864)
Other-net	340	(2,182)	(2,140)	(4,860)
Changes in working capital components				
Accounts and notes receivable	2,753	4,917	3,251	8,778
Regulatory balancing accounts	21,210	9,403	21,210	9,403
Inventories	10,236	797	10,966	797
Other current assets	(1,413)	1,029	814	968
Interest and taxes accrued	53,313	38,198	75,796	47,975

Accounts payable and other current liabilities	(66,206)	(41,633)	(79,222)	(48,908)
Cash used by discontinued operations	---	---	---	(11,544)
Net cash provided by operating activities	147,667	110,090	152,474	104,015
<b>Cash Flows from Financing Activities</b>				
Regular dividends paid	(45,567)	(45,467)	(47,131)	(47,383)
Special dividend paid	--	--	(66,150)	--
Short-term borrowings-net	--	3,400	--	3,400
Issuances of long-term debt	279	2,300	--	--
Repayment of long-term debt	(45,001)	(11,758)	(25,000)	--
Repurchase of common stock	(66,314)	(480)	--	--
Redemption of preferred stock	--	(15,155)	--	(15,155)
Net cash used by financing activities	(156,603)	(67,160)	(138,281)	(59,138)
<b>Cash Flows from Investing Activities</b>				
Utility construction expenditures	(34,074)	(39,863)	(34,074)	(39,863)
Contributions to decommissioning funds	(5,505)	(5,505)	(5,505)	(5,505)
Other-net	6,674	(11,519)	(1,648)	(10,918)
Net cash used by investing activities	(32,905)	(56,887)	(41,227)	(56,286)
Net decrease	(41,841)	(13,957)	(27,034)	(11,409)
Cash and temporary investments, beginning of period	173,079	96,429	81,409	20,755
Cash and temporary investments, end of period	\$131,238	\$ 82,472	\$ 54,375	\$ 9,346
<b>Supplemental disclosure of Cash Flow Information</b>				
Income tax payments (refunds)	\$(19,001)	\$ 51,260	\$(19,001)	\$ 51,260
Interest payments, net of amounts capitalized	\$ 23,764	\$ 24,124	\$ 15,113	\$ 18,779
<b>Supplemental Schedule of Noncash Activities:</b>				
Investing and Financing				
Real estate investments	\$ 74,641	\$ 31,012	--	--
Liabilities assumed	\$ 74,641	\$ 31,012	--	--
Net assets of affiliates transferred to parent	--	--	--	\$150,095

See notes to financial statements.

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

1. GENERAL

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 consolidated financial position and results of operations for the periods covered by this report, consisting of recurring accruals, have been made.

The Registrants' significant accounting policies, as well as those of their subsidiaries, are described in the notes to consolidated financial statements in Enova Corporation's 1996 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' 1996 Annual Report on Form 10-K which included the financial statements and notes thereto. The "Management's Discussion & Analysis of Financial Condition and Results of Operations" included in the Registrants' 1996 Annual Report to Shareholders was incorporated by reference into the Registrants' 1996 Annual Report on Form 10-K and filed as an exhibit thereto.

2. BUSINESS COMBINATION

On March 11, 1997 the shareholders of both Enova Corporation and Pacific Enterprises approved the proposed business combination. Shareholder votes in favor of the combination totaled 76 percent of outstanding shares for Enova and 79 percent for PE (96 percent and 98 percent of total votes cast for Enova and PE, respectively). Consummation of the combination is conditional upon the approvals of the California Public Utilities Commission, the Federal Energy Regulatory Commission and

various other regulatory bodies.

On April 30, 1997 the FERC issued a decision stating that it has jurisdiction over the proposed business combination and that it will formally review the January 27, 1997 application to approve the merger under the FERC's recently issued merger guidelines. The guidelines provide, that within 60 to 90 days of the close of the comment period (March 28 for Enova/PE), the FERC will: request additional information; set issues for hearing; or approve or reject the merger.

Enova and PE submitted a joint Proponents' Environmental Assessment to the CPUC stating that the plan of merger will not result in any activities or operational changes that may cause a significant effect on the environment. In April 1997 the CPUC issued a draft Negative Declaration concluding that the plan of merger will not result in significant effects on the environment and, therefore, no Environmental Impact Report or mitigation is necessary. Under the current schedule, the period during which the public may comment on the draft Negative Declaration ends in May 1997 and the final version of the proposed Negative Declaration will be published in June 1997. The Negative Declaration will become final when it is certified by the Commission.

Effective April 1997 substantially all of the activities and certain assets of Enova subsidiaries, Enova Energy and Enova Technologies, were transferred to Energy Pacific, the joint venture between certain unregulated subsidiaries of Enova and PE to provide integrated energy and energy-related products and services.

### 3. MATERIAL CONTINGENCIES

#### INDUSTRY RESTRUCTURING -- CALIFORNIA PUBLIC UTILITIES COMMISSION

Electric industry restructuring is scheduled to commence on January 1, 1998. Discussion is ongoing as to whether direct access will be available to all electric customers on that date as anticipated by California law (AB 1890) or phased in over a longer period as expected by the CPUC's electric restructuring policy decision. The CPUC's Direct Access Working Group concluded that there are no technical or operational barriers to justify limited direct access availability once electric restructuring commences. A CPUC decision is expected in May 1997.

As discussed in Note 10 in the notes to consolidated financial statements of the 1996 Annual Report to Shareholders, utilities will be allowed a reasonable opportunity to recover their stranded costs through December 31, 2001. SDG&E's transition cost application filed in October 1996 identifies transition costs totaling \$2 billion (net present value in 1998 dollars). These identified transition costs have been audited by independent auditors selected by the CPUC. The auditors found SDG&E's recorded and forecasted cost estimates reasonable and have identified \$73 million as requiring further action before being deemed a recoverable transition cost. A draft decision issued in April 1997 includes guidance on the prioritization of recovery of the various transition costs, on interest on over- and under-collected balances during the interim, and on various related matters. A CPUC decision is expected in October 1997. This proceeding will not include generation plant additions made after December 20, 1995. Instead, each utility must file a separate application seeking a reasonableness review thereof. SDG&E expects to file such an application during the third quarter of 1997 addressing 1996 capital additions and another in early 1998 to address 1997 additions.

AB 1890 provides for a 10-percent reduction of residential and small commercial customers' rates beginning in January 1998 as a result of the utilities' receiving the proceeds of rate-reduction bonds issued by an agency of the State of California. SDG&E estimates that it will need \$600 million to \$800 million of bond proceeds to enable it to effect a sufficient decrease in rate base to result in the desired rate reduction. These bonds will be repaid over 10 years by SDG&E's residential and small commercial customers via a charge on their electric bills. In May 1997 SDG&E will be filing an application with the CPUC requesting authorization for the issuance of these rate-reduction bonds. The Securities and Exchange Commission has ruled that these bonds should be reflected on the utilities' balance sheets as debt.

In addition, the California legislation includes a rate freeze for all customers. Until the earlier of March 31, 2002, or when transition cost recovery is complete, SDG&E's system average rate will be frozen at June 10, 1996 levels (9.64 cents per kwh), except for the impact of fuel cost changes and the 10-percent rate reduction. In any event, rates cannot be increased above 9.985 cents per kwh. The rate cap will be reduced in conjunction with the 10-percent rate reduction for residential and small commercial customers. In January and February 1997, soaring natural-gas prices resulted in electric rate increases that raised SDG&E's system average rate from 9.64 cents per kwh to 9.985 cents per kwh. Natural-gas prices have since decreased, but the mechanism, which is based on a 12-month rolling average, continues to push SDG&E's system average rate against the 9.985 cents-per-kwh rate cap.

SDG&E currently accounts for the economic effects of regulation in accordance with SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," as described in the notes to consolidated financial statements in the 1996 Annual Report to Shareholders. The SEC has indicated a concern that the California investor-owned utilities may not meet the criteria of SFAS No. 71 with respect to their electric generation net regulatory assets. Discussions are ongoing with the SEC, which has requested discussion by the Emerging Issues Task Force of the Financial Accounting Standards Board which the SEC may then interpret as to application to the California utilities. Both bodies are expected to act in mid-1997. If a decision is ultimately made that would result in the discontinuation of the application of SFAS No. 71 for electric-generation operations, the impact of a writeoff of these net regulatory assets would not be material to SDG&E's results of operations, financial position or liquidity.

#### INDUSTRY RESTRUCTURING -- FEDERAL ENERGY REGULATORY COMMISSION

On March 31, 1997 the utilities jointly filed plans with the FERC detailing the structure of California's independent system operator that will manage the state's transmission grid and outlining the development of a power exchange to act as a spot market for trading electricity. In November 1996 the FERC conditionally approved joint recommendations from the utilities on the creation of an ISO and power exchange, but required further information from the utilities as to how they would be structured and operate. The FERC will be holding hearings during the next few months.

#### NUCLEAR INSURANCE

SDG&E and the co-owners of the San Onofre units 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 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, the Price-Anderson Act provides for Congress to enact further revenue-raising measures to pay claims, which could include an additional assessment on all licensed reactor operators.

Insurance coverage is provided for up to \$2.75 billion of property damage and decontamination liability. Coverage is also provided for the cost of replacement power, which includes indemnity payments for up to three years, after a waiting period of 21 weeks. Coverage is provided 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 \$5.1 million.

#### CANADIAN GAS

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 "Legal Proceedings" in the 1996 Annual Report on Form 10-K beginning on page 19. If the supply of Canadian natural gas to SDG&E is not resumed to a level approximating the related committed long-term pipeline capacity, SDG&E intends to continue using the capacity in other ways.

#### ITEM 2.

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

#### INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes forward-looking statements 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 "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 statements 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 statements herein include political developments affecting state and federal regulatory agencies, the pace and substance of electric industry deregulation in California and in the United States, the existence of or ability to create a market for rate-reduction bonds, the ability to

effect a coordinated and orderly implementation of both state legislation and the CPUC's restructuring regulations, the consummation and timing of the combination of Enova Corporation and Pacific Enterprises, international political developments, 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 three months ended March 31, 1997 compared to the corresponding period in 1996:

#### EARNINGS

Earnings per common share for the first quarter were \$0.42 in 1997, compared to \$0.57 for the corresponding period in 1996. The decrease in earnings in 1997 is primarily due to previously announced changes related to the elimination of electric balancing accounts. Although no significant effect is expected for any full year, quarterly earnings will fluctuate significantly, depending on monthly or seasonal changes in electric sales. Earnings are expected to be higher in high sales-volume months and lower in others.

#### OPERATING EXPENSES

For the quarter ended March 31, 1997 electric fuel expense increased from the corresponding period in 1996 primarily due to increased natural-gas-fired generation and increases in natural gas prices, offset by a decrease in nuclear generation as a result of SONGS Unit 2 refueling. This decrease in nuclear generation availability resulted in an increase in purchased-power expense for the same period. Gas purchased for resale increased due to increases in both natural gas prices and sales volume.

In addition, for the quarter ended March 31, 1997 compared to the corresponding period in 1996, maintenance expense increased due to the additional costs incurred during SONGS Unit 2 refueling (see additional discussion under "San Onofre Nuclear Generating Station Units 2 & 3," below). Depreciation and decommissioning expense increased due to the accelerated recovery of SONGS Units 2 and 3 which commenced in April 1996. Additional information concerning the recovery of SONGS Units 2 and 3 is provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 1996 Annual Report to Shareholders on page 27. Income tax expense decreased due to the decrease in operating income and the increase in income tax benefits related to Enova Financial's increased investments in affordable-housing projects.

#### OTHER

The tax benefits on nonoperating income for the quarter ended March 31, 1997 are due to the 1995 sale of Wahlco Environmental Systems, Inc. Additional information concerning the sale of Wahlco is provided in Note 3 in the notes to consolidated financial statements of the 1996 Annual Report to Shareholders.

#### 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. In addition, in September 1996 California Governor Wilson signed into law a bill restructuring the industry. See additional discussion of industry restructuring in Note 3 of the notes to financial statements.

#### CONSUMER EDUCATION

The CPUC has approved a plan for the Consumer Education Program (CEP) jointly submitted by California's investor-owned utilities. The plan establishes a 19-member Electric Restructuring Education Group (EREG) that will include one member from each IOU. The EREG will design and implement the CEP. The initial funding of the CEP will be \$20 million to be provided by the IOUs in proportion to their 1995 kwh sales. These funds will be recoverable through rates. The details of how these costs will be recovered under the rate cap are still being finalized. The CEP's objective will be to provide electric customers information to help them compare and choose among electric products and services when competition begins on January 1, 1998. The CEP's work is anticipated to begin by September 1, 1997 and end by May 31, 1998.

#### PUBLIC POLICY PROGRAMS

The CPUC has established a new administrative structure and initial funding levels to manage demand-side management, renewable-energy, low-income assistance, and research and development programs beginning in January 1998. The CPUC has formed independent boards to oversee a competitive bidding process to administer demand-side management and

low-income assistance programs. Until the transition to a fully competitive energy-services market is complete, customers will be required to provide the funding. SDG&E will be funded \$32 million annually for demand-side management programs from January 1998 to December 2001. SDG&E will contribute \$12 million in renewables funding. Low-income assistance funding will remain at 1996 authorized levels. The California Energy Commission will be allocated most of the \$63 million authorized to administer the research and development programs, of which SDG&E will contribute \$4 million.

#### NATURAL-GAS RATES

In late 1996 natural-gas prices began rapidly increasing primarily due to weather-related factors and low storage levels. As the price of natural gas has increased beyond what SDG&E is authorized to charge for it, a \$26 million shortfall has resulted. SDG&E has requested permission to raise gas rates by 5 cents per therm for 12 months beginning in the summer of 1997. This would cost the average customer about \$2 more per month. SDG&E has also asked the CPUC to lift a two-year cap on natural-gas rates that currently limits the amount that can be charged to 25 cents per therm.

#### PERFORMANCE-BASED RATEMAKING

Distribution PBR: On April 23, 1997 the CPUC issued a decision instructing SDG&E to file a distribution PBR in the fourth quarter of 1997.

Base-Rates PBR: On April 23, 1997 the CPUC issued a decision suspending the requirement for SDG&E's 1999 General Rate Case, provided the Base-Rates PBR mid-course review agrees with that conclusion. The mid-course review is currently in process.

Generation PBR: Pursuant to CPUC direction, SDG&E has filed to withdraw its generation PBR application effective immediately. The CPUC has acknowledged that an ISO contract will be developed for all must-run generating units. Currently, all of SDG&E's plants are considered must run. However, the ISO will evaluate this issue and make a determination of which plants are must run as industry restructuring progresses.

#### BIENNIAL COST ALLOCATION PROGRAM

On April 23, 1997 the CPUC issued its decision on SDG&E's BCAP application. The decision calls for an overall revenue decrease of \$26 million for SDG&E. SDG&E's utility electric generation, noncore and core customers will receive 15 percent, 24 percent and 3 percent decreases, respectively.

#### SAN ONOFRE NUCLEAR GENERATION STATION UNITS 2 & 3

On April 10, 1997 the California Coastal Commission ruled that the SONGS owners must provide 150 acres of wetlands restoration, 150 acres of kelp reef and other mitigation. SDG&E's share of the cost is estimated to be \$23 million. The SONGS owners have the option of paying the actual cost of the mitigation work or depositing the estimated cost in a trust and ending their responsibility for actual mitigation costs. Analysis is ongoing in order to determine how best to comply.

Cracked and dented tubes were found during the latest refueling of Unit 2. This delayed the restart of the unit and added to the cost of the refueling. The problems and the resultant need to plug a small percentage of the unit's tubes will trigger a mid-cycle review and pose the possibilities that the reactor may be taken out of service prior to 2013 or that the reactor's license would not be extended to 2023 or an interim date. The unit returned to service in April 1997.

Unit 3 was shut down in April 1997 for a 75-day scheduled refueling. While conducting routine inspections, it was noted that, in several areas, the thickness of the heat transfer tubes' structural supports was significantly reduced, apparently due to erosion. The cause of this condition is being investigated. One possible corrective action would be to remove the affected tubes from service by plugging them. It is anticipated that the plugging can be completed within the scheduled refueling period. Unit 2, which recently went through inspection of its steam generators, showed no signs of this type of erosion.

#### 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 associated with subsidiary activities related to the plan to distribute natural gas in Mexico; 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

Besides the effects of other items discussed in this report, the only significant changes in cash flows from operations for the three months ended March 31, 1997 compared to the corresponding 1996 period were related to the changes in regulatory balancing accounts and inventories. Regulatory balancing accounts increased due to overcollections in the gas fixed cost account as a result of higher than authorized sales volumes. Inventories decreased due to use of storage gas as the result of colder weather.

## FINANCING ACTIVITIES

Enova Corporation anticipates that it will require only minimal amounts of short-term debt in 1997, primarily for utility operations. Enova does not expect to issue stock or long-term debt in 1997, other than for SDG&E-related refinancings. In conjunction with electric industry restructuring, rate-reduction bonds will be issued by an agency of the State of California. Additional information concerning these bonds is provided in Note 3 of the notes to financial statements, above.

Enova Financial repaid \$20 million and issued \$75 million of long-term debt during the first quarter of 1997 during the ordinary course of business. During that same period SDG&E repaid \$25 million of long-term debt.

SDG&E had short-term bank lines of \$50 million and long-term bank lines of \$330 million with no short-term loans outstanding at March 31, 1997. Commitment fees are paid on the unused portion of the lines. There are no requirements for compensating balances.

On March 27, 1997 Enova Corporation repurchased three million shares of its outstanding common stock.

Quarterly cash dividends of \$0.39 per share were declared for the first quarter of 1997 and for each quarter during the year ended December 31, 1996. The dividend payout ratio for the twelve months ended March 31, 1997 and years ended December 31, 1996, 1995, 1994, 1993 and 1992 were 85 percent, 79 percent, 80 percent, 130 percent, 82 percent and 81 percent, respectively. The increase in the payout ratio for the year ended December 31, 1994 was due to the writedowns recorded during 1994. For additional information regarding the writedowns, see Enova Corporation's 1996 Annual Report on Form 10-K. The payment of future dividends is within the discretion of the directors and is dependent upon future business conditions, earnings and other factors. Enova's directors have set a goal to reach a dividend payout of 60 percent to 70 percent of earnings through earnings growth and new investment. Net cash flows provided by operating activities currently are sufficient to maintain the payment of dividends at the anticipated 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.

	1992	1993	1994	1995	1996	March 31, 1997
Common equity	47%	47%	48%	49%	50%	49%
Preferred stock	5	4	4	4	4	4
Debt and leases	48	49	48	47	46	47
Total	100%	100%	100%	100%	100%	100%

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

	Twelve months ended March 31, 1997	Year ended December 31, 1996
Pretax interest coverage	4.9 X	5.2 X
Internal cash generation	115 %	127 %
Construction expenditures as a percent of capitalization	7.5 %	7.4 %

DERIVATIVES: Registrants' policy is to use derivative financial instruments to reduce its exposure to fluctuations in interest rates, foreign currency exchange rates and natural gas prices. These financial instruments are with major investment firms and 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 March 31, 1997 SDG&E had one interest-rate swap agreement: 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. These contracts generally have maturities ranging from three to six months. Such contracts may expose the pension fund to credit loss if the counterparties fail to perform.

Other than the interest-rate swap described above, there were no derivative financial instruments outstanding at March 31, 1997.

#### INVESTING ACTIVITIES

Cash used in investing activities for the three months ended March 31, 1997 included utility construction expenditures and payments to the SONGS decommissioning trust. Utility construction expenditures, excluding nuclear fuel and the allowance for equity funds used during construction, were \$209 million in 1996 and are estimated to be \$230 million in 1997. The company 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 expenditures in the next few years will depend heavily on the impact of the CPUC's industry restructuring decision, on the timing of expenditures to comply with air emission reduction and other environmental requirements, and on the company's plan to transport natural gas to Mexico. 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.

#### OTHER SIGNIFICANT BALANCE SHEET CHANGES

Besides the effects of items discussed in the preceding pages, there were significant changes to the Registrants' balance sheets at March 31, 1997, compared to December 31, 1996. The increase in investments and other property for Enova Corporation was due to Enova Financial's affordable-housing investments. The decrease in other current assets resulted from a shift in Enova's net deferred tax position from current assets to current liabilities.

### PART II - OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

There have been no significant subsequent developments in litigation proceedings that were outstanding at December 31, 1996 and there have been no significant new litigation proceedings since that date.

#### ITEM 4. - SUBMISSION OF MATTERS TO VOTE

##### ENOVA CORPORATION

The shareholders of Enova Corporation elected two Class II Directors at the annual meeting on April 22, 1997. The name of each nominee and the number of shares voted for or withheld were as follows:

Nominees	Votes For	Votes Withheld
D.W. Derbes	91,787,857	3,011,101
R.H. Goldsmith	91,732,863	3,066,095

The results of the voting on a shareholder proposal that the Board of Directors institute the additional criterion that before any officer options and bonuses are granted, the Company's financial performance should be in the top 30% of the Edison Electric Institute 100 Index of Investor-Owned Electrics (EEI 100) were as follows:

In Favor	13,313,711
Opposed	56,631,748
Abstained	3,748,783
Broker Non-Vote	19,391,252

Additional information concerning the election of the board of directors and the other proposal is contained in Enova Corporation's 1997 Proxy Statement and Notice of Annual Meeting.

##### SAN DIEGO GAS & ELECTRIC COMPANY

The shareholders of San Diego Gas & Electric Company elected 11 directors at the annual meeting on April 22, 1997. The name of each nominee and the number of preferred shares voted for or withheld are summarized below. All 116,583,358 common shares, which are owned by Enova Corporation, were voted for the nominees.

Nominees	Votes For	Votes Withheld
----------	-----------	----------------

Richard C. Atkinson	118,871,922		31,688	
Stephen L. Baum	118,872,230		31,380	
Ann Burr		118,871,030		32,580
Richard A. Collato	118,871,830		31,780	
Daniel W. Derbes		118,871,830		31,780
Donald E. Felsinger	118,872,230		31,380	
Richard H. Goldsmith	118,872,230		31,380	
William D. Jones		118,871,830		31,780
Ralph R. Ocampo	118,871,830		31,780	
Thomas A. Page	118,872,030			31,580
Thomas C. Stickel	118,872,030		31,580	

Additional information concerning the election of the board of directors is contained in SDG&E's 1997 Proxy Statement and Notice of Annual Meeting.

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 as of January 27, 1997.
- 3.2 Restated Bylaws of San Diego Gas & Electric Company as of January 27, 1997.

Exhibit 10 - Material Contracts

- 10.1 Form of Enova Corporation 1986 Long-Term Incentive Plan Nonqualified Stock Option Agreement as Amended.

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 March 31, 1997 for Enova Corporation.
- 27.2 Financial Data Schedule for the quarter ended March 31, 1997 for SDG&E.

(b) Reports on Form 8-K

A Current Report on Form 8-K was filed on January 29, 1997 announcing Enova Corporation's consolidated net income for the year ended December 31, 1996.

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: May 2, 1997

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

	1992	1993	1994	1995	1996	3 Months Ended 3/31/97
Fixed Charges:						
Interest:						
Long-Term Debt	\$ 97,067	\$ 84,830	\$ 81,749	\$ 82,591	\$ 76,463	\$ 17,925
Short-Term Debt	5,043	6,676	8,894	17,886	12,635	2,612
Amortization of Debt Discount and Expense, Less Premium	2,881	4,162	4,604	4,870	4,881	1,260
Interest Portion of Annual Rentals	14,558	9,881	9,496	9,631	8,446	2,476
<b>Total Fixed Charges</b>	<b>119,549</b>	<b>105,549</b>	<b>104,743</b>	<b>114,978</b>	<b>102,425</b>	<b>24,273</b>
Preferred Dividends Requirements	9,600	8,565	7,663	7,663	6,582	1,646
Ratio of Income Before Tax to Net Income	1.71389	1.79353	1.83501	1.78991	1.88864	1.96167
Preferred Dividends for Purpose of Ratio	16,453	15,362	14,062	13,716	12,431	3,229
<b>Total Fixed Charges and Preferred Dividends for Purpose of Ratio</b>	<b>\$136,002</b>	<b>\$120,911</b>	<b>\$118,805</b>	<b>\$128,694</b>	<b>\$114,856</b>	<b>\$ 27,502</b>
Earnings:						
Net Income (before preferred dividend requirements)	\$224,177	\$215,872	\$206,296	\$219,049	\$222,765	\$ 41,929
Add:						
Fixed Charges (from above)	119,549	105,549	104,743	114,978	102,425	24,273
Less: Fixed Charges Capitalized	1,262	1,483	1,424	2,040	1,495	814
Taxes on Income	160,038	171,300	172,259	173,029	197,958	40,322
<b>Total Earnings for Purpose of Ratio</b>	<b>\$502,502</b>	<b>\$491,238</b>	<b>\$481,874</b>	<b>\$505,016</b>	<b>\$521,653</b>	<b>\$105,710</b>
Ratio of Earnings to Combined Fixed Charges and Preferred Dividends	3.69	4.06	4.06	3.92	4.54	3.84

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ENOVA CORPORATION

1,000

YEAR	DEC-31-1997	MAR-31-1997	PER-BOOK
	3,025,878		
	727,592		
	425,269		
	93,475		
		312,096	
		4,584,310	
			284,036
	507,694		
		715,012	
1,506,742			
	25,000		
		78,475	
	1,188,148		
		0	
	238,929		
	0		
	46,827		
		0	
	95,194		
		6,644	
1,398,351			
4,584,310			
	507,930		
		24,373	
	414,162		
	438,535		
	69,395		
		6,086	
75,481			
	26,615		
		48,866	
	0		
48,866			
	45,567		
	17,925		
	147,667		
			.42
			.42

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0000086521

SAN DIEGO GAS & ELECTRIC COMPANY

1,000

YEAR	DEC-31-1997	MAR-31-1997	PER-BOOK
	3,025,878		
	347,808		
	311,594		
	93,475		
		283,100	
		4,061,855	
			291,458
	566,233		
		471,249	
1,328,940			
	25,000		
		78,475	
	1,188,148		
		0	
	0		
	52		
		0	
	95,194		
		6,644	
1,339,402			
4,061,855			
	494,636		
		40,754	
	390,952		
	431,706		
	62,930		
		164	
63,094			
	21,165		
		41,929	
	1,646		
40,283			
	113,281		
	17,925		
	152,474		
		0	
		0	

## 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 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 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.

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. 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 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.

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 Vice Chairman or the President or a Vice President, and by the Chief Financial Officer or an Assistant Treasurer or 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 JANUARY 27, 1997

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. 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. 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. 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 there to 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. 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 Vice Chairman or the President or a Vice President, and by the Chief Financial Officer or an Assistant Treasurer or 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.

ENOVA CORPORATION  
1986 LONG-TERM INCENTIVE PLAN

NONQUALIFIED STOCK OPTION AGREEMENT

Enova Corporation, a California corporation ("Enova"), hereby grants an option to purchase shares of its common stock to the optionee named below. The terms and conditions of the option are set forth in this cover sheet, in the attachment and in the Enova Corporation 1986 Long-Term Incentive Plan (the "Plan").

Date of Option Grant: \_\_\_\_\_, 199\_\_

Name of Optionee: \_\_\_\_\_

Optionee's Social Security Number: \_\_\_\_-\_\_\_\_-\_\_\_\_\_

Number of Shares of Enova Common Stock Covered by Option: \_\_\_\_\_

Exercise Price per Share: \$\_\_.

Vesting Start Date: \_\_\_\_\_, 199\_\_

By signing this cover sheet, you agree to all of the terms and conditions described in the attachment and in the Plan.

Optionee: \_\_\_\_\_  
(Signature)

Enova: \_\_\_\_\_  
(Signature)

Title: \_\_\_\_\_

Attachment

ENOVA CORPORATION  
1986 LONG-TERM INCENTIVE PLAN  
NONQUALIFIED STOCK OPTION AGREEMENT

Nonqualified Stock Option

This option is not intended to be an incentive stock option under section 422 of the Internal Revenue Code.

"Company" as used in this agreement refers to your employer, which may be Enova or a subsidiary of Enova.

Vesting

Your right to exercise this option vests on a quarterly basis over the four-year period starting on the Vesting Start Date, as shown on the cover sheet. The percentage of the total number of shares for which this option will be exercisable at any given time is equal to the product of 0.0625 times the number of completed quarters of Service that have elapsed since the Vesting Start Date. The resulting number of shares will be rounded to the nearest whole number. No part of this option, however, is exercisable until you have completed 12 consecutive months of Service commencing with the Date of Option Grant. Service means service as an employee, director, consultant or advisor of the Company.

The entire option vests and will be exercisable in full in the event you retire under the Company's Pension Plan at age 62 or older or the Company is subject to a "Change in Control" (as defined in the Plan) while you are an employee, director, consultant or advisor of the Company.

No additional shares become exercisable after your Service has terminated for any other reason.

Term

Your option will expire in any event at the close of business at Company headquarters on the day before the 10th anniversary of the Date of Option Grant, as shown on the cover sheet. (It will expire earlier if your Service terminates, as described below.)

Regular Termination

If your Service terminates for any reason except retirement on or after age 62, death or total and permanent disability, then your option will expire at the close of business at Company headquarters on the 90th day after your termination date.

The Company determines when your Service terminates for this purpose.

#### Death

If you die as an employee, director, consultant or advisor of the Company, then your option will expire at the close of business at Company headquarters on the date 12 months after the date of death. During that 12-month period, your estate or heirs may exercise the vested portion of your option.

#### Disability

If your Service terminates because of your total and permanent disability, then your option will expire at the close of business at Company headquarters on the date 12 months after your termination date. During that period, you may exercise the vested portion of your option.

"Total and permanent disability" means that you are unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted, or can be expected to last, for a continuous period of not less than one year.

#### Retirement

If your Service terminates because of your retirement on or after age 62, then your option will expire on the day before the tenth anniversary of the Date of Option Grant.

#### Leaves of Absence

For purposes of this option, your Service does not terminate when you go on a military leave, a sick leave or another bona fide leave of absence, if the leave was approved by the Company in writing. But your Service will be treated as terminating 90 days after you went on leave, unless your right to return to active work is guaranteed by law or by a contract. And your Service terminates in any event when the approved leave ends, unless you immediately return to active work.

The Company determines which leaves count for this purpose.

#### Restrictions on Exercise

The Company will not permit you to exercise this option if the issuance of shares at that time would violate any law or regulation.

#### Notice of Exercise

When you wish to exercise this option, you must notify the Company by filing the proper "Notice of Exercise" form at the address given on the form. Your notice must specify how many shares you wish to purchase. Your notice must also specify how your shares should be registered (in your name only or in your and your spouse's names as community property or as joint tenants with right of survivorship). The notice will be effective when it is received by the Company.

If someone else wants to exercise this option after your death, that person must prove to the Company's satisfaction that he or she is entitled to do so.

#### Form of Payment

When you submit your notice of exercise, you must include payment of the option price for the shares you are purchasing. Payment may be made in one (or a combination of two or more) of the following forms:

- Your personal check, a cashier's check or a money order.

- Certificates for Enova stock that you have owned for at least six months, along with any forms needed to effect a transfer of the shares to the Company. The value of the shares, determined as of the effective date of the option exercise, will be applied to the option price.

- To the extent permitted by law, arrangements can be made to permit a "cashless exercise" whereby you direct a securities broker approved by the Company to sell your option shares and to deliver all or a portion of the sale proceeds to the Company in payment of the option price and any required withholding. (The balance of the sale proceeds, if any, will be delivered to you.) The directions must be given by signing a special "Notice of Exercise" form provided by the Company.

#### Withholding Taxes

You will not be allowed to exercise this option unless you make acceptable arrangements to pay any withholding taxes that may be due as a result of the option exercise. Payment of withholding taxes may be made by any combination of the methods described under "Form of Payment."

#### Restrictions on Resale

By signing this Agreement, you agree not to sell any option shares at a time when applicable laws or Company policies prohibit a sale. This restriction will apply as long as you are an employee of the Company.

#### Transfer of Option

Prior to your death, only you or the trustee of a revocable living trust established by you or your spouse may exercise this option. You cannot otherwise transfer or assign this option. For instance, you may not sell this option or use it as security for a loan. If you attempt to do any of these things, this option will immediately become invalid. You may, however, dispose of this option in your will.

#### Retention Rights

Your option or this Agreement does not give you the right to be retained by the Company (or any subsidiaries) in any capacity. The Company (and any subsidiaries) reserves the right to terminate your service at any time, with or without cause.

#### Stockholder Rights

You, or your estate or heirs, have no rights as a stockholder of Enova until a certificate for your option shares has been issued. No adjustments are made for dividends or other rights if the applicable record date occurs before your stock certificate is issued, except as described in the Plan.

#### Adjustments

In the event of a stock split, a stock dividend or a similar change in Enova stock, the number of shares covered by this option and the exercise price per share may be adjusted pursuant to the Plan.

#### Applicable Law

This Agreement will be interpreted and enforced under the laws of the State of California.

#### The Plan and Other Agreements

The text of the Plan is incorporated in this Agreement by reference.

This Agreement and the Plan constitute the entire understanding between you and the Company regarding this option. Any prior agreements, commitments or negotiations concerning this option are superseded.

By signing the cover sheet of this Agreement, you agree to all of the terms and conditions described above and in the Plan.

### ENOVA CORPORATION 1986 LONG-TERM INCENTIVE PLAN

#### NONQUALIFIED STOCK OPTION AGREEMENT AMENDMENT

Enova Corporation, a California corporation ("Enova"), and Optionee, hereby agree to amend the terms and conditions of the Nonqualified Stock Option Agreement entered into effective October 21, 1996 for nonqualified stock options granted that date, as follows:

**Vesting:** Delete the first two sentences, "Your right to exercise this option vests on a quarterly basis over the four-year period starting on the Vesting Start Date, as shown on the cover sheet. The percentage of the total number of shares for which this option will be exercisable at any given time is equal to the products of 6.25 times the number of completed quarters of Service that have elapsed since the Vesting Start Date."

Insert in its place, "Your right to exercise the total number of shares granted in this option vests 25% per year over a four-year period starting on the Vesting Start Date, as shown on the cover sheet."

The remaining portion of the terms and conditions for vesting and for the remainder of the subject Nonqualified Stock Option Agreement remain unchanged.

Optioneer: \_\_\_\_\_  
(Signature)

Enova: \_\_\_\_\_  
(Signature)

Title: \_\_\_\_\_