

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

Quarterly Report under Section 13 or 15(d)  
of the Securities Exchange Act of 1934

For the Quarterly Period Ended September 30, 2002

Commission file number 0-18761

HANSEN NATURAL CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware	39-1679918
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1010 Railroad Street  
Corona, California 92882  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code:  
(909) 739 - 6200

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes X No  
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The registrant had 10,053,003 shares of common stock outstanding as of  
October 31, 2002

HANSEN NATURAL CORPORATION AND SUBSIDIARIES  
September 30, 2002

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HANSEN NATURAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
SEPTEMBER 30, 2002 (Unaudited) AND DECEMBER 31, 2001

	September 30, 2002 ----- (Unaudited)	December 31, 2001 -----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,912,236	\$ 247,657
Accounts receivable (net of allowance for doubtful accounts, sales returns and cash discounts of \$948,077 in 2002 and \$625,270 in 2001 and promotional allowances of \$4,438,494 in 2002 and \$2,981,556 in 2001)	5,428,853	4,412,422
Inventories, net	11,893,017	11,956,680
Prepaid expenses and other current assets	1,036,772	974,155
Deferred income tax asset	949,176	949,176
	-----	-----
Total current assets	22,220,054	18,540,090
PROPERTY AND EQUIPMENT, net	1,901,501	1,945,146
INTANGIBLE AND OTHER ASSETS:		
Trademark licenses and trademarks (net of accumulated amortization of \$68,859 in 2002 and \$29,772 in 2001)	17,354,376	17,350,221
Deposits and other assets	458,389	725,825
	-----	-----
Total intangible and other assets	17,812,765	18,076,046
	-----	-----
	\$ 41,934,320	\$ 38,561,282
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 5,896,773	\$ 3,919,741
Accrued liabilities	663,752	871,841
Accrued compensation	231,711	432,896
Current portion of long-term debt	249,950	337,872
	-----	-----
Total current liabilities	7,042,186	5,562,350
LONG-TERM DEBT, less current portion	4,784,354	5,851,105
DEFERRED INCOME TAX LIABILITY	1,814,278	1,814,278
SHAREHOLDERS' EQUITY:		
Common stock - \$.005 par value; 30,000,000 shares authorized; 10,259,764 shares issued, 10,053,003 outstanding in 2002; 10,251,764 shares issued, 10,045,003 outstanding in 2001.	51,299	51,259
Additional paid-in capital	11,934,564	11,926,604
Retained earnings	17,122,184	14,170,231
Common stock in treasury; at cost - 206,761 shares in 2002 and 2001 respectively	(814,545)	(814,545)
	-----	-----
Total shareholders' equity	28,293,502	25,333,549
	-----	-----
	\$ 41,934,320	\$ 38,561,282
	=====	=====

See accompanying notes to consolidated financial statements.

HANSEN NATURAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME  
FOR THE THREE-MONTHS AND NINE-MONTHS ENDED SEPTEMBER 30, 2002 AND 2001

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
GROSS SALES	\$ 34,458,591	\$ 28,290,423	\$ 89,632,151	\$ 76,225,508
LESS: Discounts, allowances and promotional payments	7,473,335	5,193,660	17,789,713	13,707,170
NET SALES	26,985,256	23,096,763	71,842,438	62,518,338
COST OF SALES	17,307,405	14,623,137	45,520,669	39,355,740
GROSS PROFIT	9,677,851	8,473,626	26,321,769	23,162,598
OPERATING EXPENSES:				
Selling, general and administrative	7,478,308	6,154,448	21,138,618	17,874,811
Amortization of trademark licenses and trademarks	13,415	129,824	39,087	379,025
Total operating expenses	7,491,723	6,284,272	21,177,705	18,253,836
OPERATING INCOME	2,186,128	2,189,354	5,144,064	4,908,762
NONOPERATING EXPENSE (INCOME)				
Interest and financing expense	51,850	92,624	184,177	430,927
Interest income	(555)	(1,158)	(1,379)	(8,340)
Net nonoperating expense	51,295	91,466	182,798	422,587
INCOME BEFORE PROVISION FOR INCOME TAXES	2,134,833	2,097,888	4,961,266	4,486,175
PROVISION FOR INCOME TAXES	864,608	839,156	2,009,313	1,794,470
NET INCOME	\$ 1,270,225	\$ 1,258,732	\$ 2,951,953	\$ 2,691,705
NET INCOME PER COMMON SHARE:				
Basic	\$ 0.13	\$ 0.13	\$ 0.29	\$ 0.27
Diluted	\$ 0.12	\$ 0.12	\$ 0.29	\$ 0.26
NUMBER OF COMMON SHARES USED IN PER SHARE COMPUTATIONS:				
Basic	10,053,003	10,045,003	10,052,302	10,033,697
Diluted	10,389,920	10,322,676	10,356,586	10,306,091

See accompanying notes to consolidated financial statements.

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HANSEN NATURAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001 (Unaudited)

	2002	2001
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,951,953	\$ 2,691,705
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of trademark license and trademarks	39,087	379,025
Depreciation and other amortization	360,705	322,951
Gain on disposal of fixed assets		(11,410)
Effect on cash of changes in operating assets and liabilities:		
Accounts receivable	(1,016,431)	(760,703)
Inventories	63,663	(955,503)
Prepaid expenses and other current assets	59,416	(5,107)
Accounts payable	1,977,032	1,907,233
Accrued liabilities	(208,089)	158,869
Accrued compensation	(201,185)	(15,260)
Income taxes	(122,033)	(651,487)
Net cash provided by operating activities	3,904,118	3,060,313
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(317,060)	(464,443)
Proceeds from sale of fixed assets		22,754
Increase in trademark licenses and trademarks	(43,242)	(110,100)
Decrease (increase) in deposits and other assets	267,436	(96,451)

Net cash used in investing activities	(92,866)	(648,240)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(1,154,673)	(2,011,023)
Issuance of common stock	8,000	28,621
Net cash used in financing activities	(1,146,673)	(1,982,402)
NET INCREASE IN CASH		
CASH AND CASH EQUIVALENTS, beginning of the period	2,664,579	429,671
CASH AND CASH EQUIVALENTS, end of the period	\$ 2,912,236	\$ 560,336
SUPPLEMENTAL INFORMATION		
Cash paid during the period for:		
Interest	\$ 188,818	\$ 470,007
Income taxes	\$ 2,131,346	\$ 2,445,957

#### NONCASH TRANSACTIONS:

During the nine month period ended September 30, 2001, the Company assumed long-term debt of \$750,000 and accrued liabilities of \$196,677 in connection with the acquisition of the Junior Juice trademark.

See accompanying notes to consolidated financial statements.

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#### HANSEN NATURAL CORPORATION AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

##### 1. BASIS OF PRESENTATION

Reference is made to the Notes to Consolidated Financial Statements, in the Company's Form 10-K for the year ended December 31, 2001, which is incorporated by reference, for a summary of significant policies utilized by Hansen Natural Corporation ("Hansen" or "Company") and its wholly-owned subsidiaries, Hansen Beverage Company ("HBC") and Hard e Beverage Company ("HEB"). Additionally, the Company's reporting on Form 10-Q does not include all the information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America. HBC owns all of the issued and outstanding common stock of Blue Sky Natural Beverage Co. and Hansen Junior Juice Company. The information set forth in these interim consolidated financial statements for the three- and nine-months ended September 30, 2002 and 2001 is unaudited and may be subject to normal year-end adjustments. The information contained in these interim condensed, consolidated financial statements reflects all adjustments, which include only normal recurring adjustments, which in the opinion of management are necessary to make the interim consolidated financial statements not misleading. Results of operations covered by this report may not necessarily be indicative of results of operations for the full year.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America necessarily requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

##### 2. NEW ACCOUNTING PRONOUNCEMENTS

During 2000 and 2001, the Emerging Issues Task Force ("EITF") addressed various issues related to the income statement classification of certain promotional payments, including consideration from a vendor to a reseller or another party that purchases the vendor's products. EITF No. 01-9, Accounting for Consideration Given by a Vendor to a Customer or Reseller of the Vendor's Products, was issued in November 2001 and codified earlier pronouncements. The consensus requires certain sales promotions and customer allowances previously classified as selling, general and administrative expenses to be classified as a reduction of net sales or as cost of goods sold. The Company adopted EITF No. 01-9 on January 1, 2002. The effect of the change in accounting related to the adoption of EITF No. 01-9 for the three-months ended September 30, 2002 was to decrease net sales by \$4,835,486, increase cost of goods sold by \$112,290 and decrease selling, general and administrative expenses by \$4,947,776. For the nine-months ended September 30, 2002 net sales decreased by \$10,793,500, cost of goods sold increased by \$184,138 and selling, general and administrative

expenses decreased by \$10,977,638. For the three-months ended September 30, 2001, \$3,083,306 has been classified as a reduction of net sales and \$86,126 as an increase in cost of goods sold and for the nine-months ended September 30, 2001, \$8,145,598 has been classified as a reduction of net sales and \$261,980 as

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an increase in cost of goods sold, all of which were previously reported as selling, general and administrative expense respectively.

Effective January 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets. This statement discontinued the amortization of goodwill and indefinite-lived intangible assets, subject to periodic impairment testing. Upon adoption of SFAS No. 142, the Company evaluated the useful lives of its various trademark licenses and trademarks and concluded that certain of the trademark licenses and trademarks have indefinite lives. Unamortized trademark licenses and trademarks ceased to be amortized effective January 1, 2002 and will be subject to periodic impairment analysis. The effect of the change in accounting during the nine-months ended September 30, 2002 was to increase net income by \$209,073, or \$0.02 per basic and diluted share.

	For the nine-months ended September 30,	
	2002	2001
	-----	-----
Net income, as reported	\$2,951,953	\$2,691,705
Add back: Amortization of trademark licenses and trademarks (net of tax effect)	-	219,918
Adjusted net income	=====	=====
	\$2,951,953	\$2,911,623
Net income per common share - basic, as reported	\$ 0.29	\$ 0.27
Amortization of trademark licenses and trademarks (net of tax effect)	-	0.02
Adjusted net income per common share - basic	=====	=====
	\$ 0.29	\$ 0.29
Net income per common share - diluted, as reported	\$ 0.29	\$ 0.26
Amortization of trademark licenses and trademarks (net of tax effect)	-	0.02
Adjusted net income per common share - diluted	=====	=====
	\$ 0.29	\$ 0.28

On January 1, 2002, the trademark licenses and trademarks were tested for impairment in accordance with the provisions of SFAS No. 142. Fair values were estimated based on the Company's best estimate of the expected present value of future cash flows. No amounts were impaired at that time. In addition, the remaining useful lives of trademark licenses and trademarks being amortized were reviewed and deemed to be appropriate. The following provides additional information concerning the Company's trademark licenses and trademarks as of September 30, 2002:

Amortizing trademark licenses and trademarks	\$ 1,137,835
Accumulated amortization	(68,859)
	-----
	1,068,976
Non-amortizing trademark licenses and trademarks	16,285,400
	-----
	\$ 17,354,376
	=====

All amortizing trademark licenses and trademarks have been assigned an estimated finite useful life, and are amortized on a straight-line basis over the number

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of years that approximate their respective useful lives ranging from 1 to 40 years. The straight-line method of amortization allocates the cost of the trademark licenses and trademarks to earnings in proportion to the amount of economic benefits obtained by the Company in that report period. Total amortization expense during the nine-month period ended September 30, 2002 was \$39,087. As of September 30, 2002, future estimated amortization expense related to amortizing trademark licenses and trademarks through the year ended December

31, 2007 is:

2002 - Remainder	\$ 13,736
2003	41,384
2004	38,159
2005	38,159
2006	38,045
2007	32,799

Effective January 1, 2002, the Company also adopted the provisions of SFAS No. 141, Business Combinations, and SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, respectively. The initial adoption of these Statements did not have a material impact on the Condensed Consolidated Statements of Income.

The Financial Accounting Standards Board ("FASB") recently issued SFAS No. 143, Accounting for Asset Retirement Obligations, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after September 15, 2002. The Company is currently in the process of evaluating the impact of this Statement on its financial condition and results of operations.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, which addresses financial accounting and reporting for costs associated with exit or disposal activities and supersedes EITF No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring.) The Company will adopt the provisions of SFAS No. 146 for exit or disposal activities that are initiated after December 31, 2002.

### 3. INVENTORIES

Inventories consist of the following at:

	September 30, 2002 (Unaudited)	December 31, 2001
Raw materials	\$ 4,972,394	\$ 4,742,102
Finished goods	7,567,062	7,615,345
	-----	-----
	12,539,456	12,357,447
Less inventory reserves	(646,439)	(400,767)
	-----	-----
	\$ 11,893,017	\$ 11,956,680
	=====	=====

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

The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Company's historical consolidated financial statements and notes thereto.

### Critical Accounting Policies

The following summarize the most significant accounting and reporting policies and practices of the Company.

Trademark License and Trademarks - Trademark license represents the Company's exclusive world-wide right to use the Hansen's(R) trademark in connection with the manufacture, sale and distribution of carbonated beverages and waters, shelf stable fruit juices and drinks containing fruit juices on a royalty free basis and other non-carbonated beverages and water and non-beverage products in consideration of royalty payments. In September 1999, HBC entered into an Assignment and Agreement with the Fresh Juice Company of California, Inc. ("FJC"), pursuant to which HBC acquired exclusive ownership of the Hansen's(R) trademark and trade names and its obligation to pay royalties on certain product lines fell away. The Company also owns in its own right, a number of other trademarks in the United States as well as in a number of

countries around the world. The Company also owns the Blue Sky(R) trademark, which was acquired in September 2000, and the Junior Juice(R) trademark, which was acquired in May 2001. The Company amortizes its trademark license and trademarks over 40 years. Upon adoption of SFAS No. 142 (Note 2), the Company ceased the amortization of its various trademark license and trademarks that have indefinite lives. Unamortized trademark license and trademarks will be subjected to periodic impairment analysis. All amortizing trademark licenses and trademarks are being amortized on a straight-line basis over their expected useful lives ranging from 1 to 40 years (Note 2).

Long-Lived Assets - The Company accounts for the impairment and disposition of long-lived assets in accordance with Statement of Financial Accounting Standard ("SFAS") No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. In accordance with SFAS No. 121, long-lived assets to be held are reviewed for events or changes in circumstances that indicate that their carrying value may not be recoverable. The Company periodically reviews the carrying value of long-lived assets to determine whether or not impairment to such value has occurred. As of September 30, 2002, management does not believe that the Company's long-lived assets have been impaired. If the carrying value of the long-lived asset is considered impaired, an impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value.

Advertising and Promotional Allowances - The Company accounts for advertising production costs by expensing such production costs the first time the related advertising takes place. In addition, the Company supports its customers with promotional allowances, a portion of which is utilized for marketing and indirect advertising by them. In certain instances, portion of the promotional allowances payable to customers based on the levels of sales to such customers, promotion requirements or expected use of the allowances, are estimated by the Company. If the level of sales, promotion requirements or use of the allowances are different from such estimates, the promotional allowances could, to the extent based on estimates, be affected.

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#### New Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") recently issued SFAS No. 143, Accounting for Asset Retirement Obligations, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after September 15, 2002. The Company is currently in the process of evaluating the impact of this Statement on its financial condition and results of operations.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, which addresses financial accounting and reporting for costs associated with exit or disposal activities and supersedes EITF No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring.) The Company will adopt the provisions of SFAS No. 146 for exit or disposal activities that are initiated after December 31, 2002.

#### General

The increase in gross sales during the third quarter of 2002 was primarily attributable to sales of the Company's Monster<sup>TM</sup> energy drink, which was introduced in April 2002 as well as increased sales of Natural Sodas in cans, Apple Juice, E2O Energy Water<sup>TM</sup>, which was introduced in June 2001, Smoothies in cans, Energade(R) energy sports drinks, which were introduced in July 2001, energy drinks in 8.3-ounce cans and Children's Multi-Vitamin juice drinks. The Company also benefited from sales of the Company's new Soy Smoothie line. The increase in gross sales was partially offset by decreased sales of Junior Juice, Signature Sodas, Healthy Start, teas, lemonades and juice cocktails and Hard e.

Gross profit for the three-months ended September 30, 2002, as a percentage of net sales, was 35.9%, which was lower than the 36.7% achieved in the three-months ended September 30, 2001. Gross profit for the nine-months ended September 30, 2002, as a percentage of net sales, decreased to 36.6% from 37.0% in the nine-months ended September 30, 2001. The change in gross profit was primarily due to a change in the Company's product and customer mix.

The Company continues to incur expenditures in connection with the

development and introduction of new products and flavors.

Results of Operations for the Three-months Ended September 30, 2002 Compared to the Three-months Ended September 30, 2001

Gross Sales. For the three-months ended September 30, 2002, gross sales were \$34.5 million, an increase of \$6.2 million or 21.8% higher than the \$28.3 million gross sales for the three-months ended September 30, 2001. The increase in gross sales during the third quarter of 2002 was primarily attributable to sales of the Company's Monster™ energy drink, which was introduced in April 2002 as well as increased sales of Natural Sodas in cans, Apple Juice, E2O Energy Water™, which was introduced in June 2001, Smoothies in cans, Energade(R) energy sports drinks, which were introduced in July 2001, energy drinks in 8.3-ounce cans and Children's Multi-Vitamin juice drinks. The Company also benefited from sales of the Company's new Soy Smoothie line. The increase in gross sales was partially offset by decreased sales of Junior Juice, Signature Sodas, Healthy Start, teas, lemonades and juice cocktails and Hard e.

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Net Sales. For the three-months ended September 30, 2002, net sales were \$27.0 million, an increase of \$3.9 million or 16.8% higher than the \$23.1 million net sales for the three-months ended September 30, 2001. The increase in net sales was primarily attributable to the increase in gross sales of \$6.2 million which was partially offset by increased discounts, allowances and promotional payments and coupon promotions.

Gross Profit. Gross profit was \$9.7 million for the three-months ended September 30, 2002, an increase of \$1.2 million or 14.2% higher than the gross profit for the three-months ended September 30, 2001 of \$8.5 million. Gross profit as a percentage of net sales, decreased to 35.9% for the three-months ended September 30, 2002 from 36.7% for the three-months ended September 30, 2001. The increase in gross profit was primarily attributable to the increase in gross sales whereas the decrease in gross profit as a percentage of net sales was primarily attributable to a change in the Company's product and customer mix.

Total Operating Expenses. Total operating expenses were \$7.5 million for the three-months ended September 30, 2002, an increase of \$1.2 million or 19.2% higher than total operating expenses of \$6.3 million for the three-months ended September 30, 2001. Total operating expenses as a percentage of net sales increased to 27.8% for the three-months ended September 30, 2002 as compared to 27.2% for the three-months ended September 30, 2001. The increase in total operating expenses was primarily attributable to increased selling, general and administrative expenses which was partially offset by decreased amortization of trademark licenses and trademarks due to the adoption of SFAS No. 142 in the first quarter of 2002 (Note 2 of financial statements). In 2002, the Company adopted SFAS No. 142 which eliminated amortization on indefinite-lived intangible assets. Amortization of trademark licenses and trademarks for the three-months ended September 30, 2002 was \$13,000, a decrease of \$116,000 from amortization of \$130,000 for the three-months ended September 30, 2001.

Selling, general and administrative expenses were \$7.5 million for the three-months ended September 30, 2002, an increase of \$1.3 million or 21.5% higher than selling, general and administrative expenses of \$6.2 million for the three-months ended September 30, 2001. The increase in selling expenses was primarily attributable to an increase in distribution and expenditures for in-store demonstrations as well as point-of-sale materials. The increase in selling expenses was partially offset primarily by a decrease in advertising expense and expenditures for merchandise displays and premium items. The increase in general and administrative expenses was primarily attributable to increased payroll expenses primarily for sales, marketing and administrative activities, charitable promotional activities and travel expense.

Operating Income. Operating income was \$2.2 million for the three-months ended September 30, 2002, which was comparable to the operating income for the three-months ended September 30, 2001. Operating income as a percentage of net sales decreased to 8.1% for the three-months ended September 30, 2002 from 9.5% for the three-months ended September 30, 2001. The decrease in operating income as a percentage of net sales was attributable to lower gross profit as a percentage of net sales as well as higher selling, general and administrative expenses as a percentage of net sales.

Net Nonoperating Expense. Net nonoperating expense was \$51,000 for the



three-months ended September 30, 2002, a decrease of \$40,000 from net non-operating expense of \$91,000 for the three-months ended September 30, 2001. The decrease in net non-operating expense was primarily attributable to decreased interest expense incurred on the Company's borrowings, which was

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primarily attributable to the decrease in outstanding loan balances and lower interest rates on the Company's borrowings.

Provision for Income Taxes. Provision for income taxes for the three-months ended September 30, 2002 was \$865,000 as compared to provision for income taxes of \$839,000 for the comparable period in 2001. The effective tax rate for the three-months ended September 30, 2002 was 40.5% which was slightly higher than the 40.0% effective tax rate for the three-months ended September 30, 2001. The \$26,000 increase in provision for income taxes was primarily attributable to the increase in income before provision for income taxes as well as an increase in the effective tax rate.

Net Income. Net income was \$1.3 million for the three-months ended September 30, 2002, a slight increase of \$11,000 over net income for the three-months ended September 30, 2001. The increase in net income was attributable to the increase in gross profit of \$1.2 million and decrease in nonoperating expense of \$40,000 which was partially offset by the increase in operating expenses of \$1.2 million.

Results of Operations For the Nine-months Ended September 30, 2002 Compared to the Nine-months Ended September 30, 2001

Gross Sales. For the nine-months ended September 30, 2002, gross sales were \$89.6 million, an increase of \$13.4 million or 17.6% over the \$76.2 million gross sales for the nine-months ended September 30, 2001. The increase in gross sales was primarily attributable to sales of the Company's Monster™ energy drink which was introduced in April 2002, as well as increased sales of E2O Energy Water™ which was introduced in June 2001, Energade(R) energy sports drinks which were introduced in July 2001, Natural Sodas in cans, Apple Juice, energy drinks in 8.3-ounce cans and Children's Multi-Vitamin juice drinks. The Company also benefited from sales of the Company's new Soy Smoothie line. The increase in gross sales was partially offset by decreased sales of Smoothies in cans and glass bottles, Signature Sodas, Hard e, Healthy Start and teas, lemonades and juice cocktails.

Net Sales. For the nine-months ended September 30, 2002, net sales were \$71.8 million, an increase of \$9.3 million or 14.9% higher than net sales of \$62.5 million for the nine-months ended September 30, 2001. The increase in net sales was primarily related to the increase in gross sales which was partially offset by increased discounts, allowances and promotional payments and coupon promotions. However, expenditures for slotting fees were lower.

Gross Profit. Gross profit was \$26.3 million for the nine-months ended September 30, 2002, an increase of \$3.1 million or 13.6% over the \$23.2 million gross profit for the nine-months ended September 30, 2001. Gross profit as a percentage of net sales decreased to 36.6% for the nine-months ended September 30, 2002 from 37.0% for the nine-months ended September 30, 2001. The increase in gross profit was primarily attributable to increased net sales. The decrease in gross profit as a percentage of net sales was primarily attributable to slightly lower margins achieved as a result of a change in the Company's product and customer mix.

Total Operating Expenses. Total operating expenses were \$21.2 million for the nine-months ended September 30, 2002, an increase of \$2.9 million or 16.0% over total operating expenses of \$18.3 million for the nine-months ended September 30, 2001. Total operating expenses as a percentage of net sales

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increased to 29.5% for the nine-months ended September 30, 2002 from 29.2% for the nine-months ended September 30, 2001. The increase in total operating expenses and operating expenses as a percentage of net sales was primarily attributable to increased selling, general and administrative expenses which was partially offset by decreased amortization of trademark licenses and trademarks due to the adoption of SFAS No. 142 in the first quarter of 2002 (Note 2 of financial statements). In 2002, the Company adopted SFAS No. 142 which eliminated amortization on indefinite-lived intangible assets. Amortization of trademark licenses and trademarks for the nine-months ended September 30, 2002

was \$39,000, a decrease of \$340,000 from amortization of \$379,000 for the nine-months ended September 30, 2001.

Selling, general and administrative expenses were \$21.1 million for the nine-months ended September 30, 2002, an increase of \$3.3 million or 18.3% over selling, general and administrative expenses of \$17.9 million for the nine-months ended September 30, 2001. Selling, general and administrative expenses as a percentage of net sales increased to 29.4% for the nine-months ended September 30, 2002 as compared to 28.6% for the nine-months ended September 30, 2001. The increase in selling expenses and selling expenses as a percentage of net sales was primarily attributable to an increase in distribution, advertising and graphic design expense and expenditures for point of sale materials and in-store demonstrations. The increase in selling expenses was partially offset by decreased expenditures for premiums. The increase in general and administrative expenses was primarily attributable to increased payroll expenses primarily for sales, marketing and administrative activities, charitable promotional activities, bad debt, travel and other operating expenses.

Operating Income. Operating income was \$5.1 million for the nine-months ended September 30, 2002, an increase of \$235,000 or 4.8% higher than operating income of \$4.9 million for the nine-months ended September 30, 2001. Operating income as a percentage of net sales decreased to 7.2% for the nine-months ended September 30, 2002 from 7.9% in the comparable period in 2001. The increase in operating income was primarily attributable to the increase in gross profit and the decrease in amortization of trademark licenses and trademarks which was partially offset by the increase in selling, general and administrative expenses. The decrease in operating income as a percentage of net sales was primarily due to an increase in selling, general and administrative expenses as a percentage of net sales and a decrease in gross profit as a percentage of net sales.

Net Nonoperating Expense. Net nonoperating expense was \$183,000 for the nine-months ended September 30, 2002, a decrease of \$240,000 from net nonoperating expense of \$423,000 for the nine-months ended September 30, 2001. The decrease in net nonoperating expense was primarily attributable to decreased interest expense incurred on the Company's borrowings, which was primarily attributable to the decrease in outstanding loan balances and lower interest rates on the Company's borrowings for the nine-months ended September 30, 2002 as compared to the nine-months ended September 30, 2001.

Provision for Income Taxes. Provision for income taxes was \$2.0 million for the nine-months ended September 30, 2002, an increase of \$215,000 over the provision for income taxes of \$1.8 million for the comparable period in 2001. The effective tax rate for the nine-months ended September 30, 2002 was 40.5% which was slightly higher than the 40.0% effective tax rate for the nine-months ended September 30, 2001. The increase in provision for income taxes was attributable to the increase in income before provision for income taxes.

Net Income. Net income was \$3.0 million for the nine-months ended September 30, 2002 compared to net income of \$2.7 million for the nine-months ended

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September 30, 2001. The \$260,000 increase in net income is attributable to an increase in operating income of \$235,000 and a decrease in nonoperating expense of \$240,000 which was partially offset by a \$215,000 increase in provision for income taxes.

#### Liquidity and Capital Resources

As of September 30, 2002, the Company had working capital of \$15.2 million, as compared to working capital of \$13.0 million as of December 31, 2001. The increase in working capital is primarily attributable to net income earned after adjustment for certain noncash expenses, primarily depreciation and other amortization, an increase in deposits and other assets and receipts from the issuance of common stock which was partially offset by the repayment by the Company of a portion of the Company's long-term debt and the acquisition of property and equipment and trademarks.

Net cash provided by operating activities was \$3.9 million for the nine-months ended September 30, 2002 as compared to net cash provided by operating activities of \$3.1 million in the comparable period in 2001. For the nine-months ended September 30, 2002, cash provided by operating activities was attributable to net income plus amortization of trademark license and

trademarks, depreciation and other amortization, as well as increases in accounts payable and a decrease in inventories and prepaid expenses and other current assets. For the nine-months ended September 30, 2002, cash used in operating activities was attributable to an increase in accounts receivable, prepaid income taxes and decreases in accrued compensation and accrued liabilities.

Net cash used in investing activities decreased to \$93,000 for the nine-months ended September 30, 2002 as compared to net cash used in investing activities of \$648,000 for the comparable period in 2001. The decrease in cash used in investing activities was primarily attributable to decreased acquisitions of property and equipment and trademarks as well as cash provided by deposits and other assets. Management, from time to time, considers the acquisition of capital equipment, particularly manufacturing equipment and coolers, merchandise display racks, storage racks, vans and promotional vehicles, and businesses compatible with the image of the Hansen's(R) brand, as well as the development and introduction of new product lines. The Company may require additional capital resources for or as a result of any such activities or transactions, depending upon the cash requirements relating thereto. Any such activities or transactions will also be subject to the terms and restrictions of HBC's credit facilities.

Net cash used in financing activities decreased to \$1.1 million for the nine-months ended September 30, 2002 as compared to net cash used in financing activities of \$2.0 million for the comparable period in 2001. The decrease in net cash used in financing activities as compared to the prior year was primarily attributable to decreased principal payments of long-term debt.

HBC's revolving line of credit was renewed by its bank until September 2005. The rate of interest payable by the Company on advances under the line of credit is based on the bank's base (prime) rate plus an additional percentage of up to 0.5%, or the LIBOR rate plus an additional percentage of up to 2.5%, depending upon certain financial ratios of the Company from time to time. As of September 30, 2002, approximately \$4.1 million was outstanding under the revolving line of credit at an effective interest rate of 4.0%.

The credit facility contains financial covenants, which require the Company to maintain certain financial ratios and achieve certain levels of annual

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income. The facility also contains certain non-financial covenants. As of September 30, 2002, the Company was in compliance with all covenants.

Management believes that cash available from operations, including cash resources and the revolving line of credit, will be sufficient for its working capital needs, including purchase commitments for raw materials, payments of tax liabilities, debt servicing, expansion and development needs, purchases of shares of common stock of the Company, as well as any purchases of capital assets or equipment over the current year.

#### Forward Looking Statements

The Private Security Litigation Reform Act of 1995 (the "Act") provides a safe harbor for forward-looking statements made by or on behalf of the Company. The Company and its representatives may from time to time make written or oral forward looking statements, including statements contained in this report and other filings with the Securities and Exchange Commission and in reports to shareholders and announcements. Certain statements made in this report, including certain statements made in management's discussion and analysis, may constitute forward looking statements (within the meaning of Section 27.A of the Securities Act 1933 as amended and Section 21.E of the Securities Exchange Act of 1934, as amended) regarding the expectations of management with respect to revenues, profitability, adequacy of funds from operations and the Company's existing credit facility, among other things. All statements which address operating performance, events or developments that management expects or anticipates will or may occur in the future including statements related to new products, volume growth, revenues, profitability, adequacy of funds from operations, and/or the Company's existing credit facility, earnings per share growth, statements expressing general optimism about future operating results and non-historical Year 2002 information, are forward looking statements within the meaning of the Act.

Management cautions that these statements are qualified by their terms and/or important factors, many of which are outside the control of the Company

that could cause actual results and events to differ materially from the statements made including, but not limited to, the following:

- o Company's ability to generate sufficient cash flows to support capital expansion plans and general operating activities;
- o Changes in consumer preferences;
- o Changes in demand that are weather related, particular in areas outside of California;
- o Competitive products and pricing pressures and the Company's ability to gain or maintain share of sales in the marketplace as a result of actions by competitors;
- o The introduction of new products;
- o Laws and regulations, and/or any changes therein, including changes in accounting standards, taxation requirements (including tax rate changes, new tax laws and revised tax law interpretations) and environmental laws as well as the Federal Food Drug and Cosmetic Act, the Dietary Supplement Health and Education Act, and regulations made thereunder or in connection therewith, especially those that may affect the way in which the Company's products are marketed and/or labeled, including the contents thereof, as well as laws and regulations or rules made or enforced by the Food and Drug Administration and/or the Bureau of Alcohol, Tobacco and Firearms and/or Federal Trade Commission and/or certain state regulatory agencies;
- o Changes in the cost and availability of raw materials and the ability to maintain favorable supply arrangements and relationships and procure timely and/or adequate production of all or any of the Company's products;

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- o The Company's ability to achieve earnings forecasts, which may be based on projected volumes and sales of many product types and/or new products, certain of which are more profitable than others. There can be no assurance that the Company will achieve projected levels or mixes of product sales;
- o The Company's ability to penetrate new markets;
- o The marketing efforts of distributors of the Company's products, most of which distribute products that are competitive with the products of the Company;
- o Unilateral decisions by distributors, grocery chains, specialty chain stores, club stores and other customers to discontinue carrying all or any of the Company's products that they are carrying at any time;
- o The terms and/or availability of the Company's credit facilities and the actions of its creditors;
- o The effectiveness of the Company's advertising, marketing and promotional programs;
- o Adverse weather conditions, which could reduce demand for the Company's products;
- o The Company's ability to make suitable arrangements for the co-packing of any of its products.

The foregoing list of important factors is not exhaustive.

#### Inflation

The Company does not believe that inflation has a significant impact on the Company's results of operations for the periods presented.

#### ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISKS

The principal market risks (i.e., the risk of loss arising from adverse changes in market rates and prices) to which the Company is exposed, are fluctuations in commodity prices, affecting the cost of raw materials, and changes in interest rates on the Company's long term debt. The Company is subject to market risk with respect to the cost of commodities because its ability to recover increased costs through higher pricing may be limited by the competitive environment in which it operates.

At September 30, 2002, the majority of the Company's debt consisted of variable rate debt. The amount of variable rate debt fluctuates during the year based on the Company's cash requirements. If average interest rates were to increase one percent for the nine-months ended September 30, 2002, the net impact on the Company's pre-tax earnings would have been approximately \$23,000.

#### ITEM 4. CONTROL AND PROCEDURES

As of September 30, 2002, the Company, including the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities and Exchange Act of 1934.)

Based upon the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed in the reports

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the Company files and submits under the Exchange Act are recorded, processed, summarized and reported as and when required. There were no significant changes in the Company's internal controls subsequent to September 30, 2002, including any corrective actions with regard to significant deficiencies and material weaknesses.

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#### PART II - OTHER INFORMATION

- Items 1 - 5. Not Applicable
- Item 6. Exhibits and Reports on Form 8-K
- (a) Exhibits - See Exhibit Index
- (b) Reports on Form 8-K - None

#### SIGNATURES

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

HANSEN NATURAL CORPORATION  
Registrant

Date: November 14, 2002

/s/ RODNEY C. SACKS  
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Rodney C. Sacks  
Chairman of the Board of Directors  
and Chief Executive Officer

Date: November 14, 2002

/s/ HILTON H. SCHLOSBERG  
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Hilton H. Schlosberg  
Vice Chairman of the Board of Directors,  
President and Chief Financial Officer

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#### CERTIFICATIONS PURSUANT TO RULE 13a-14 AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Rodney Sacks, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hansen Natural Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such

- statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
  4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
    - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
    - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
    - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
  5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
    - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors and material weaknesses in internal controls; and
    - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
  6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls of in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ RODNEY C. SACKS

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Rodney C. Sacks  
Chairman of the Board of Directors  
and Chief Executive Officer

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I, Hilton Schlosberg, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hansen Natural Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

- c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
- a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors and material weaknesses in internal controls; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ HILTON H. SCHLOSBERG

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Hilton H. Schlosberg  
Vice Chairman of the Board of Directors,  
President and Chief Financial Officer

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CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Hansen Natural Corporation (the "Company") on Form 10-Q for the period ended September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Rodney C. Sacks, Chairman of the Board of Directors and Chief Executive Officer of the Company, and Hilton H. Schlosberg, Vice Chairman of the Board of Directors, President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2002

/s/ RODNEY C. SACKS

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Rodney C. Sacks  
Chairman of the Board of Directors  
and Chief Executive Officer

Date: November 14, 2002

/s/ HILTON H. SCHLOSBERG

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Hilton H. Schlosberg  
Vice Chairman of the Board of Directors,  
President and Chief Financial Officer

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