

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 March 31, 1998 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 (I.R.S. Employer  
incorporation or organization Identification No.)

2380 Railroad Street, Suite 101,  
Corona, California 91720  
(Address of principal executive offices) (Zip Code)

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

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

The registrant had 9,138,909 shares of common stock  
outstanding as of May 1, 1998

HANSEN NATURAL CORPORATION AND SUBSIDIARIES  
March 31, 1998

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HANSEN NATURAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	March 31, 1998	December 31, 1997
ASSETS		
CURRENT ASSETS:		
Cash .....	\$ 465,919	\$ 395,231
Accounts receivable (net of allowance for doubtful accounts, sales returns and cash discounts of \$418,027 in 1998 and \$315,629 in 1997 and promotional allowances of \$1,224,414 in 1998 and \$1,067,749 in 1997) .....	2,196,885	1,533,748
Inventories .....	3,492,822	3,915,983
Prepaid expenses and other current assets .....	176,733	214,468
	-----	-----
Total current assets .....	6,332,359	6,059,430
PROPERTY AND EQUIPMENT, net .....	600,471	412,496
INTANGIBLE AND OTHER ASSETS:		
Trademark license and trademarks (net of accumulated amortization of \$2,464,678 in 1998 and \$2,390,878 in 1997) .....	10,151,549	10,208,116
Notes receivable from officer and director .....	57,363	68,235
Deposits and other assets .....	192,866	185,082
	-----	-----
Total intangible and other assets .....	10,401,778	10,461,433
	-----	-----
	\$ 17,334,608	\$ 16,933,359
	=====	=====
LIABILITIES & SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable .....	\$ 1,755,775	\$ 2,195,200
Accrued liabilities .....	317,657	444,807
Accrued compensation .....	251,125	322,114
Current portion of long-term debt .....	537,660	520,835
Income taxes payable .....	540,590	81,800
	-----	-----
Total current liabilities .....	3,402,807	3,564,756
LONG-TERM DEBT .....	3,264,991	3,407,824
SHAREHOLDERS' EQUITY:		
Common stock - \$.005 par value; 30,000,000 shares authorized; 9,130,869 shares issued and outstanding .....	45,654	45,654
Additional paid-in capital .....	10,858,315	10,858,315
Accumulated deficit .....	(170,763)	(875,949)

Foreign currency translation adjustment .....	(66,396)	(67,241)
	-----	-----
Total shareholders' equity .....	10,666,810	9,960,779
	-----	-----
	\$ 17,334,608	\$ 16,933,359
	=====	=====

See accompanying notes to the consolidated financial statements

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HANSEN NATURAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE MONTHS ENDED MARCH 31, 1998 AND 1997 (Unaudited)

	1998	1997
NET SALES .....	\$11,264,856	\$ 7,119,586
COST OF SALES .....	5,613,428	4,236,246
	-----	-----
GROSS PROFIT .....	5,651,428	2,883,340
OPERATING EXPENSES:		
Selling, general and administrative .....	4,278,486	2,587,765
Amortization of trademark license and trademarks .....	73,800	73,500
Other expenses .....	15,000	74,144
	-----	-----
Total operating expenses .....	4,367,286	2,735,409
	-----	-----
OPERATING INCOME .....	1,284,142	147,931
NET INTEREST AND FINANCING EXPENSE .....	108,833	124,376
	-----	-----
INCOME BEFORE PROVISION FOR INCOME TAXES .....	1,175,309	23,555
PROVISION FOR INCOME TAXES .....	470,123	2,400
	-----	-----
NET INCOME .....	\$ 705,186	\$ 21,155
	=====	=====
NET INCOME PER COMMON SHARE:		
Basic .....	\$ 0.08	\$ 0.00
	=====	=====
Diluted .....	\$ 0.07	\$ 0.00
	=====	=====
NUMBER OF COMMON SHARES USED IN PER SHARE COMPUTATIONS:		
Basic .....	9,130,869	9,122,868
	=====	=====
Diluted .....	9,740,264	9,123,005
	=====	=====

See accompanying notes to the consolidated financial statements

## HANSEN NATURAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED MARCH 31, 1998 AND 1997 (Unaudited)

	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income .....	\$ 705,186	\$ 21,155
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of trademark license and trademarks .....	73,800	73,500
Depreciation and other amortization .....	76,466	52,903
Effect on cash of changes in operating assets and liabilities:		
Accounts receivable .....	(663,137)	(65,154)
Inventories .....	423,161	349,282
Prepaid expenses and other current assets .....	37,735	(79,271)
Accounts payable .....	(439,425)	(123,659)
Accrued liabilities .....	(127,150)	(47,552)
Accrued compensation .....	(70,989)	
Income taxes payable .....	458,790	
	-----	-----
Net cash provided by operating activities .....	474,437	181,204
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment .....	(264,441)	(40,299)
Increase in trademark license and trademarks .....	(17,233)	(10,218)
Decrease (increase) in notes receivable from officer and director	10,872	(1,518)
Increase in deposits and other assets .....	(7,784)	(10,396)
	-----	-----
Net cash used in investing activities .....	(278,586)	(62,431)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in short-term borrowings .....	(234,736)	
Principal payments on long-term debt .....	(126,008)	
	-----	-----
Net cash used in financing activities .....	(126,008)	(234,736)
EFFECT OF EXCHANGE RATE CHANGES ON CASH .....	845	(13,416)
	-----	-----
NET INCREASE (DECREASE) IN CASH .....	70,688	(129,379)
CASH, beginning of period .....	395,231	186,931
	=====	=====
CASH, end of period .....	\$ 465,919	\$ 57,552
	=====	=====
SUPPLEMENTAL INFORMATION:		
Cash paid during the year for:		
Interest .....	\$ 96,544	\$ 114,735
	=====	=====
Income taxes .....	\$ 2,400	\$ 2,400
	=====	=====

See accompanying notes to the consolidated financial statements.

## HANSEN NATURAL CORPORATION

## 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, 1997, which is incorporated by reference, for a summary of significant policies utilized by Hansen Natural Corporation ("Hansen" or "Company") and its subsidiaries, Hansen Beverage Company ("HBC") and CVI Ventures, Inc., and its indirect subsidiary, Hansen Beverage Company (UK) Limited, which is in the course of being deregistered. The information set forth in these interim financial statements is unaudited and may be subject to normal year-end adjustments. The information reflects all adjustments, which include only normal recurring adjustments, which in the opinion of management are necessary to make the financial statements not misleading. Results of operations covered by this report may not necessarily be indicative of results of operations for the full fiscal year.

## 2. INVENTORIES

Inventories consist of the following at:

	March 31, 1998	December 31, 1997
	-----	-----
Raw materials	\$ 916,899	\$ 388,877
Finished goods	2,575,923	3,527,106
	=====	=====
	\$ 3,492,822	\$3,915,983
	=====	=====

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

### General

During the three months ended March 31, 1998, the Company continued to make progress towards achieving its goal of geographically expanding the Hansen's(R) brand as well as expanding the Hansen's(R) brand product range. During the three months ended March 31, 1998, the expansion of distribution of certain of the Company's products into markets outside of California continued to make good progress. In April 1997, the Company introduced its lightly carbonated functional energy drink in an 8.2-ounce slim can. Repeat sales of this product have been encouraging. During the first quarter of 1998, the Company extended its "functional" beverage product line by introducing three additional functional drinks in 8.2-ounce slim cans, a ginger flavored d-stress drink, an orange flavored anti-ox drink and a guarana flavored stamina drink. The Company intends to introduce additional functional drinks and a new line of premium functional Smoothies later in 1998. In addition, the Company intends to introduce a new line of premium natural sodas and premium functional iced teas in proprietary glass bottles later in 1998 or in 1999.

Net sales and profitability were positively affected by increased sales of all of the Company's products and, in particular, the Company's new functional drinks in 8.2-ounce slim cans. The increase in net sales of Smoothie products was primarily due to increased sales to club stores and retail stores. The increase in net sales of soda, iced teas, lemonades and juice cocktails was primarily due to increased sales to club stores. The increase in net sales of apple juice was primarily attributable to aggressive pricing and promotions undertaken by the Company. Management believes that the redesign of the apple juice label late in 1997 may also have contributed towards such increase.

Attention is drawn to the fact that during the comparable period in 1997, the Company did not have any sales of its lightly carbonated functional energy drinks in 8.2-ounce slim cans, such drinks having been introduced in April 1997. Moreover, the majority of the sales of functional drinks in 8.2-ounce slim cans during the three months ended March 31, 1998 were attributable to opening orders from distributors for the three new functional drinks prior to their launching such products in their respective territories. Consequently, the sales of the three new functional drinks during the three months ended March 31, 1998 may not be indicative of the sales that will be achieved in subsequent periods.

The Company continues to incur expenditures in connection with the development and introduction of new products and flavors.

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Results of Operations For The Three-month period ended March 31, 1998 Compared to The Three-month period ended March 31, 1997

**Net Sales.** For the three months ended March 31, 1998, net sales were approximately \$11.3 million, an increase of \$4.1 million or 58.2% over the \$7.1 million net sales for the three months ended March 31, 1997. The increase in net sales was primarily attributable to sales of the Company's new functional energy drink which was introduced during April 1997, sales of the Company's other functional drinks which were introduced during the first quarter of 1998 and an increase in net sales of the Company's remaining product lines.

**Gross Profit.** Gross profit was \$5.7 million for the three months ended March 31, 1998, an increase of \$2.8 million or 96.0% over the \$2.9 million gross profit for the three months ended March 31, 1997. The increase in gross profit was primarily attributable to the increase in net sales and, to a lesser extent, to cost reductions achieved for certain raw materials and packaging. Gross profit as a percentage of net sales increased to 50.2% for the three months ended March 31, 1998 from 40.5% for the three months ended March 31, 1997. The increase in gross profit as a percentage of net sales was primarily attributable to higher margins achieved as a result of a change in the Company's product mix.

**Total Operating Expenses.** Total operating expenses were \$4.4 million for the three months ended March 31, 1998, an increase of \$1.6 million or 59.7% higher than total operating expenses of \$2.7 million for the three months ended March 31, 1997. The increase in total operating expenses was primarily attributable to increases in selling, general and administrative expenses, which were partially offset by a decrease in other expenses. Total operating expenses as a percentage of net sales increased to 38.8% for the three months ended March 31, 1998 from 38.4% for the three months ended March 31, 1997. The increase in total operating expenses as a percentage of net sales was primarily attributable to an increase in selling, general and administrative expenses, which were partially offset by a decrease in amortization of trademark license and trademarks, and other expenses.

Selling, general and administrative expenses were approximately \$4.3 million for the three months ended March 31, 1998, an increase of \$1.7 million or 65.3% higher than \$2.6 million for the three months ended March 31, 1997. Selling, general and administrative expenses as a percentage of net sales increased to 38.0% for the three months ended March 31, 1998 compared to 36.3% for the three months ended March 31, 1997. The increase in selling expenses was primarily attributable to increases in distribution costs, promotional allowances and costs of promotional materials primarily to support the expansion of distribution and sales of the Company's functional product line and Smoothie products in bottles. The increase in general and administrative expenses was primarily attributable to increased payroll and other costs incurred in connection with the Company's expansion activities into additional states.

Other expenses were approximately \$15,000 for the three months ended March 31, 1998 compared to \$74,000 for the three months ended March 31, 1997. The decrease in other expenses was primarily attributable to the expiration of certain consulting agreements entered into in connection with the acquisition of the Hansen business. The decrease was partially offset by a new consulting agreement entered into with the former president of HBC in June 1997.

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**Operating Income.** Operating income was \$1.3 million for the three months ended March 31, 1998 compared to operating income of \$148,000 for the three months ended March 31, 1997. The increase in operating income is primarily attributable to the increase in gross profit, which was partially offset, by an increase in total operating expenses.

**Net Interest and Financing Expense.** Net interest and financing

expense for the three months ended March 31, 1998 was \$109,000 compared to \$124,000 for the three months ended March 31, 1997. The decrease in interest and financing expense was attributable to the fact that during the three months ended March 31, 1998, no amounts were outstanding under the Company's revolving line of credit and lower principal amounts were outstanding on the Company's term loan during the three months ended March 31, 1998 than during the comparable period in 1997.

Net Income. Net income was \$705,000 for the three months ended March 31, 1998 compared to net income of \$21,000 for the three months ended March 31, 1997. The \$684,000 increase in net income is attributable to an increase in operating income of \$1.1 million and a decrease in total nonoperating expenses of \$15,000, but was partially offset by an increase in the provision for income taxes of \$468,000.

#### Liquidity and Capital Resources

As of March 31, 1998, the Company had working capital of \$2,930,000 compared to working capital of \$2,495,000 as of December 31, 1997. Net cash provided by operating activities increased to \$474,000 for the three months ended March 31, 1998 as compared to \$181,000 for the comparable period in 1997. The increase in working capital and net cash provided by operating activities was primarily attributable to net income earned after adjustments for certain noncash expenses, primarily amortization of trademark license and trademarks and depreciation and other amortization, during the quarter ended March 31, 1998.

Management believes that cash generated from operations and its cash resources and amounts available under the revolving line of credit, will be sufficient to meet its operating cash requirements in the foreseeable future, including purchase commitments for raw materials, debt servicing, expansion and development needs as well as any purchases of capital assets or equipment.

Net cash used in investing activities increased to \$279,000 for the three months ended March 31, 1998 as compared to \$62,000 for the comparable period in 1997. The increase in net cash used in investing activities was primarily attributable to purchases of property and equipment to support the Company's expansion and development plans. Although the Company has no current plans to incur any material capital expenditures, management, from time to time, considers the acquisition of capital equipment, particularly coolers and vans, and businesses compatible with the image of the Hansen's(R) brand as well as the introduction of new product lines. The Company may require additional capital resources in the event of any such transaction, depending upon the cash requirements relating thereto. Any such transaction will also be subject to the terms and restrictions of HBC's credit facilities.

Net cash used in financing activities decreased to \$126,000 for the three months ended March 31, 1998 as compared to \$235,000 during the comparable period in 1997. The decrease in net cash used in financing activities was primarily attributable to the fact that during the three-month period ended March 31, 1998, no amounts were borrowed by the Company under its revolving line of credit. Such decrease in net cash used in financing activities was partially offset by principal payments made during the three months ended March 31, 1998 on the term loan. As of March 31, 1998, the sum of \$3,791,665 was outstanding under the term loan.

The revolving line of credit is renewable on July 1, 1998. The Company anticipates that such line will be renewed by this date; however, there can be no assurance that it will, in fact, be renewed or, if renewed, that the terms of such renewal will not be disadvantageous to HBC and its business.

#### Year 2000 Compliance

Many currently installed computer systems and software products are coded to accept only two digit entries in the date code field. These date code fields will need to accept four digit entries or be modified in some fashion to distinguish 21st century dates from 20th century dates. This problem could force computers to either shut down or provide incorrect data. As a result, in less than two years, computer systems and software used by many companies may need to be upgraded to comply with such "Year 2000" requirements. The Company has

examined its internal computer systems and contacted its software providers to determine whether the Company's software applications are compliant with the Year 2000. While the Company believes that its internal systems are fully Year 2000 compliant, the Company intends to continue to review its internal systems for any problems as well as monitor its key customers and suppliers for any impact that the Year 2000 may have on their information systems which in turn could impact the Company. While it is difficult to quantify the total cost to the Company of the Year 2000 compliance activities, the Company does not expect the cost to be material.

#### Forward Looking Statements

Certain statements made in this Report, including certain statements made in this Management's Discussion and Analysis, contain "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E 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.

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Management cautions that these statements are qualified by their terms and/or important factors, many of which are outside of the control of the Company, that could cause actual results and events to differ materially from the statements made herein, including, but not limited to, the following: changes in consumer preferences, changes in demand that are weather related, particularly in areas outside of California, competitive pricing pressures, changes in the price of the raw materials for the Company's beverage products, the marketing efforts of the distributors of the Company's products, most of which distribute products that are competitive with the products of the Company, and the introduction of new products, as well as unilateral decisions that may be made by grocery chain stores, specialty chain stores and club stores to discontinue carrying all or any of the Company's products that they are carrying at any time. Management further notes that the Company's plans and results may be affected by the terms of the Company's credit facilities and the actions of its creditors.

#### Inflation

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

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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 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: May 13, 1998

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

Date: May 13, 1998

/s/ HILTON H. SCHLOSBERG  
Hilton H. Schlosberg  
Vice Chairman of the Board,  
President, Chief Operating  
Officer, Chief Financial  
Officer and Secretary  
(Principal Financial and  
Accounting Officer)

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EXHIBIT INDEX

Exhibit 10 (bbb)	Stock Option Agreement dated as of January 30, 1998 between Hansen Natural Corporation and Rodney C. Sacks
Exhibit 10 (ccc)	Stock Option Agreement dated as of January 30, 1998 between Hansen Natural Corporation and Hilton H. Schlosberg
Exhibit 27	Financial Data Schedule

STOCK OPTION AGREEMENT

This Stock Option Agreement ("Agreement") is made as of January 30, 1998, by and between Hansen Natural Corporation, a Delaware corporation (the "Company"), and Rodney C. Sacks ("Holder").

Preliminary Recitals

A. Holder is an employee of the Company or one of its subsidiaries or affiliates.

B. Pursuant to the Hansen Natural Corporation Stock Option Plan (the "Plan"), the Company desires to grant Holder an incentive stock option to purchase shares of the Company's common stock, par value \$.005 per share (the "Common Stock"), subject to the terms and conditions of the Plan and subject further to the terms and conditions set forth below.

NOW, THEREFORE, the Company and Holder agree as follows:

1. Grant of Incentive Stock Option. The Company hereby grants to Holder, subject to the terms and conditions set forth herein, the incentive stock option ("ISO") to purchase up to 75,000 shares of Common Stock, at the purchase price of \$1.59 per share, such ISO to be exercisable and exercised as hereinafter provided.

2. Exercise Period. The ISO shall expire three months after the termination of the Holder's employment with the Company and its subsidiaries and affiliates (the "Hansen Group") unless the employment is terminated by a member of the Hansen Group for Cause (as defined below) or unless the employment is terminated by reason of the death or Total Disability (as defined below) of Holder. If the Holder's employment is terminated by a member of the Hansen Group for Cause, the ISO shall expire as of the date employment terminates. If the Holder's employment terminates due to his death or Total Disability, then the ISO may be exercised by Holder or the person or persons to which Holder's rights under this Agreement pass by will, or if no such person has such right, by his executors or administrators, within six months after the date of death or Total Disability, but no later than the expiration date specified in Section 3(d) below. "Cause" means the Holder's act of fraud or dishonesty, knowing and material failure to comply with applicable laws or regulations, drug or alcohol abuse, as determined by the Committee of the Hansen Natural Corporation Stock Option Plan (the "Committee"). "Total Disability" means the complete and permanent inability of Holder to perform all of his duties of employment with the Company, as determined by the Committee upon the basis of such evidence, including independent medical reports and data, as the Committee deems appropriate or necessary.

3. Exercise of Option

(a) Subject to the other terms of this Agreement regarding the exercisability of the ISO, the ISO may only be exercised in respect of the number of shares listed in column A from and after the exercise dates listed in column B,

Column "A" Number of Shares	Column "B" Exercise Date
37,500	January 30, 1998
37,500	January 30, 1999
75,000	

(b) This ISO may be exercised, to the extent exercisable by its terms, from time to time in whole or in part at any time prior to the expiration thereof. Any exercise shall be accompanied by a written notice to the Company specifying the number of shares as to which this ISO is being exercised (the "Option Shares"). Notations of any partial exercise or installment exercise, shall be made by the Company on Schedule A hereto.

(c) Notwithstanding the above, this ISO shall be fully exercisable in the event Holder's employment with the Hansen Group is terminated by Holder for "Good Reason" (as defined below), or a member of the Hansen Group terminates his employment without "Cause" (as defined above). "Good Reason" means the Holder's termination of employment with the Hansen Group on or after a reduction in his compensation or benefits, his removal as the Company's Chairman of the Board or Chief Executive Officer, or his being assigned duties or responsibilities that are inconsistent with the dignity, importance or scope of his position with the Company.

(d) Notwithstanding anything else herein to the contrary, this

ISO shall expire ten years from the date indicated above.

(e) The Holder hereby agrees to notify the Company in writing in the event shares acquired pursuant to the exercise of this ISO are transferred, other than by will or by the laws of descent and distribution, within two years after the date indicated above or within one year after the issuance of such shares pursuant to such exercise.

4. Payment of Purchase Price Upon Exercise. At the time of any exercise of the ISO the purchase price of the ISO shall be paid in full to the Company in either of the following ways or in any combination of the following ways:

(a) By check or other immediately available funds.

(b) With property consisting of shares of Common Stock. (The shares of Common Stock to be used as payment shall be valued as of the date of exercise of the ISO at the Closing Price as defined below. For example, if Holder exercises the option for 4,000 shares at a total Exercise Price of \$7,000, assuming exercise price of \$1.75 per share, and the Closing Price is \$5.00, he may pay for the 4,000 Option Shares by transferring 1,400 shares of Common Stock to the Company.)

(c) For purposes of this Agreement, the term "Closing Price" means, with respect to the Company's Common Stock, the last sale price regular-way or, in case no such sale takes place on such date, the average of the closing bid and asked prices regular-way on the principal national securities exchange on which the securities are listed or admitted to trading; or, if they are not listed or admitted to trading on any national securities exchange, the last sale price of the securities on the consolidated transaction reporting system of the National Association of Securities Dealers (NASD), if such last sale information is reported on such system or, if not so reported, the average of the closing bid and asked prices of the securities on the National Association of Securities Dealers Automatic Quotation System ("NASDAQ") or any comparable system or, if the securities are not listed on NASDAQ or a comparable system, the average of the closing bid and asked prices as furnished by two members of the NASD selected from time to time by the Company for that purpose.

5. Purchase for Investment; Resale Restrictions. Unless at the time of exercise of the ISO there shall be a valid and effective registration statement under the Securities Act of 1933 ("33 Act") and appropriate qualification and registration under applicable state securities laws relating to the Option Shares being acquired, Holder shall upon exercise of the ISO give a representation that he is acquiring such shares for his own account for investment and not with a view to, or for sale in connection with, the resale or distribution of any such shares. In the absence of such registration statement, Holder shall execute a written affirmation, in a form reasonably satisfactory to the Company, of such investment intent. Holder further agrees that he will not sell or transfer any Option Shares until he requests and receives an opinion of the Company's counsel or other counsel reasonably satisfactory to the Company to the effect that such proposed sale or transfer will not result in a violation of the '33 Act, or a registration statement covering the sale or transfer of the shares has been declared effective by the Securities and Exchange Commission, or he obtains a no-action letter from the Securities and Exchange Commission with respect to the proposed transfer.

6. Nontransferability. This ISO shall not be transferable other than by will or by the laws of descent and distribution. During the lifetime of Holder, this ISO shall be exercisable only by Holder.

7. Adjustments.

(a) If the Company hereafter (i) declares a distribution on its shares in shares, (ii) splits its outstanding shares, (iii) combines its outstanding shares into a smaller number of securities or (iv) issues any shares or other securities by reclassification of its shares (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing entity), the purchase price in effect at the time of the record date for such distribution or the effective date of such subdivision, combination or reclassification shall be adjusted so that it shall equal the price determined by multiplying the purchase price by a fraction, the denominator of which shall be the number of shares outstanding immediately after giving effect to such action, and the numerator of which shall be the number of shares outstanding immediately prior to such action. Whenever the purchase price payable upon exercise of the ISO is adjusted pursuant to the preceding sentence above, the number of shares purchasable upon exercise of the ISO shall simultaneously be adjusted by multiplying the number of shares issuable upon exercise of the ISO immediately prior to the event which causes the adjustment by the purchase price in effect immediately prior to the event which causes the adjustment and dividing the product so obtained by the purchase price, as adjusted. Such adjustments shall be made successively whenever any event listed above shall occur.

(b) If, at any time, as a result of an adjustment made pursuant to paragraph 7(a) above, the Holder shall become entitled to receive

any securities of the Company other than shares, the number of such other securities so receivable upon exercise of the ISO shall thereafter be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the shares contained in paragraph 7(a) above.

(c) If any other event contemplated in Section 10(a) of the Plan occurs, adjustments to the number and kind of shares subject to this ISO and/or to the purchase price for each share subject to this ISO may be made in accordance with Section 10(a) of the Plan.

(d) No adjustments shall be made under this Section 7 that would have the effect of modifying this ISO under Internal Revenue Code ss.ss. 422 or 424.

(e) Whenever the purchase price or the number of shares is adjusted, as herein provided, Hansen shall within 10 business days of the event causing such adjustment give a notice setting forth the adjusted purchase price and adjusted number of shares issuable upon exercise of the ISO to be mailed to the Holder.

(f) Notwithstanding anything else herein to the contrary, upon the occurrence of a change in control (as defined in (g) below), the option or any portion thereof not theretofore exercisable, shall immediately become exercisable in its entirety and the option (being the option to purchase shares of Common Stock subject to the applicable provisions of the Plan and awarded in accordance with the Plan in terms of section 1 above) may, with the consent of Holder, be purchased by the Company for cash at a price equal to the fair market value (as defined in 7(g) below) less the purchase price payable by Holder to exercise the option as set out in Article 1 above for one (1) share of Common Stock of the Company multiplied by the number of shares of Common Stock which Holder has the option to purchase in terms of Article 1 above.

(g) For the purposes of this agreement

(i) "Change in Control" means;

(A) the acquisition of "Beneficial Ownership"

by any person (as defined in rule 13 (d) - 3 under the Securities Exchange Act 1934), corporation or other entity other than the Company or a wholly owned subsidiary of the Company of 20% or more of the outstanding Stock,

(B) the sale or disposition of substantially all of the assets of the Company, or

(C) the merger of the Company with another corporation in which the Common Stock of the Company is no longer outstanding after such merger.

(ii) "Fair Market Value" means, as of any date, the

Closing Price for one share of the Common Stock of the Company on such date.

8. The provisions of Section 5(b) (iii) of the Plan, regarding the execution of a shareholder's agreement as a condition precedent to the Company's obligation to issue shares under the Plan, shall not apply to the ISO or any shares issued pursuant to the ISO.

9. The Company represents and warrants to Holder that (a) there are no options to purchase the Company's Common Stock, containing the same or substantially the same terms as the ISO, which are actively traded on an established market within the meaning of Internal Revenue Code ss.83 and the regulations promulgated thereunder; and (b) the shares of the Company's Common Stock issued upon exercise of the ISO, when issued in accordance with the terms hereof, will be duly authorized, validly issued, fully paid and non-assessable. The Company shall reserve and keep reserved out of its authorized shares of Common Stock the number of shares of Common Stock that may be issuable from time to time upon exercise of the ISO.

10. No Rights as Stockholder. Holder shall have no rights as a stockholder with respect to any shares of Common Stock subject to this ISO prior to the date of issuance to him of a certificate or certificates for such shares.

11. No Right to Continue Employment. This Agreement shall not confer upon Holder any right with respect to continuance of employment with any member of the Hansen Group nor shall it interfere in any way with the right of any such member to terminate his employment at any time.

12. Compliance With Law and Regulation. This Agreement and the obligation of the Company to sell and deliver shares of Common Stock hereunder shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any government or regulatory agency as may be required. If at any time the Board of Directors of the Company shall determine that (i) the listing, registration or qualification of the shares of Common Stock subject or related thereto upon any securities exchange or under any state or federal law, or (ii) the consent or approval of any government regulatory body, is necessary or desirable as a condition of or in connection with the issue or purchase of shares of Common Stock hereunder, this ISO may not be exercised in whole or in part unless such listing, registration, qualification, consent, approval or agreement shall have been effected or obtained free of any conditions not acceptable to the Board of Directors. The Company agrees to use its reasonable efforts to obtain any necessary listing, registration,

qualification, consent, approval or agreement as expeditiously as possible, and the term of this ISO shall be extended until 30 days following the date such listing, registration, qualification, consent, approval or agreement is effected or obtained. Moreover, this ISO may not be exercised if its exercise or the receipt of shares of Common Stock pursuant thereto would be contrary to applicable law.

13. Tax Withholding Requirements. The Company shall have the right to require Holder to remit to the Company an amount sufficient to satisfy any federal, state or local withholding tax requirements prior to the delivery of any certificate or certificates for Common Stock.

14. Fractional Shares. Notwithstanding any other provision of this Agreement, no fractional shares of stock shall be issued upon the exercise of this ISO and the Company shall not be under any obligation to compensate Holder in any way for such fractional shares.

15. Notices. Any notice hereunder to the Company shall be addressed to it at its office at 2380 Railroad Street, Suite 101, Corona, California 91720, Attention: Hilton Schlosberg with a copy to Benjamin Polk, Whitman, Breed, Abbott & Morgan 200 Park Avenue, New York, New York 10166, and any notice hereunder to Holder shall be addressed to him at 22 Halfmoon, Irvine, California 92714, subject to the right of either party to designate at any time hereafter in writing some other address.

16. Amendment. No modification, amendment or waiver of any of the provisions of this Agreement shall be effective unless in writing specifically referring hereto, and signed by both parties.

17. Governing Law. This Agreement shall be construed according to the laws of the State of Delaware and all provisions hereof shall be administered according to and its validity shall be determined under, the laws of such State, except where preempted by federal laws.

18. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall constitute one and the same instrument.

IN WITNESS WHEREOF, Hansen Natural Corporation has caused this Agreement to be executed by a duly authorized officer and Holder has executed this Agreement both as of the day and year first above written.

HANSEN NATURAL CORPORATION

By: \_\_\_\_\_  
Title: Vice Chairman

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Rodney C. Sacks

STOCK OPTION AGREEMENT

This Stock Option Agreement ("Agreement") is made as of January 30, 1998, by and between Hansen Natural Corporation, a Delaware corporation (the "Company"), and Hilton H. Schlosberg ("Holder").

Preliminary Recitals

A. Holder is an employee of the Company or one of its subsidiaries or affiliates.

B. Pursuant to the Hansen Natural Corporation Stock Option Plan (the "Plan"), the Company desires to grant Holder an incentive stock option to purchase shares of the Company's common stock, par value \$.005 per share (the "Common Stock"), subject to the terms and conditions of the Plan and subject further to the terms and conditions set forth below.

NOW, THEREFORE, the Company and Holder agree as follows:

1. Grant of Incentive Stock Option. The Company hereby grants to Holder, subject to the terms and conditions set forth herein, the incentive stock option ("ISO") to purchase up to 75,000 shares of Common Stock, at the purchase price of \$1.59 per share, such ISO to be exercisable and exercised as hereinafter provided.

2. Exercise Period. The ISO shall expire three months after the termination of the Holder's employment with the Company and its subsidiaries and affiliates (the "Hansen Group") unless the employment is terminated by a member of the Hansen Group for Cause (as defined below) or unless the employment is terminated by reason of the death or Total Disability (as defined below) of Holder. If the Holder's employment is terminated by a member of the Hansen Group for Cause, the ISO shall expire as of the date employment terminates. If the Holder's employment terminates due to his death or Total Disability, then the ISO may be exercised by Holder or the person or persons to which Holder's rights under this Agreement pass by will, or if no such person has such right, by his executors or administrators, within six months after the date of death or Total Disability, but no later than the expiration date specified in Section 3(d) below. "Cause" means the Holder's act of fraud or dishonesty, knowing and material failure to comply with applicable laws or regulations, drug or alcohol abuse, as determined by the Committee of the Hansen Natural Corporation Stock Option Plan (the "Committee"). "Total Disability" means the complete and permanent inability of Holder to perform all of his duties of employment with the Company, as determined by the Committee upon the basis of such evidence, including independent medical reports and data, as the Committee deems appropriate or necessary.

3. Exercise of Option

(a) Subject to the other terms of this Agreement regarding the exercisability of the ISO, the ISO may only be exercised in respect of the number of shares listed in column A from and after the exercise dates listed in column B,

Column "A" Number of Shares	Column "B" Exercise Date
37,500	January 30, 1998
37,500	January 30, 1999
75,000	

(b) This ISO may be exercised, to the extent exercisable by its terms, from time to time in whole or in part at any time prior to the expiration thereof. Any exercise shall be accompanied by a written notice to the Company specifying the number of shares as to which this ISO is being exercised (the "Option Shares"). Notations of any partial exercise or installment exercise, shall be made by the Company on Schedule A hereto.

(c) Notwithstanding the above, this ISO shall be fully exercisable in the event Holder's employment with the Hansen Group is terminated by Holder for "Good Reason" (as defined below), or a member of the Hansen Group terminates his employment without "Cause" (as defined above). "Good Reason" means the Holder's termination of employment with the Hansen Group on or after a reduction in his compensation or benefits, his removal as the Company's Chairman of the Board or Chief Executive Officer, or his being assigned duties or responsibilities that are inconsistent with the dignity, importance or scope of his position with the Company.

(d) Notwithstanding anything else herein to the contrary, this ISO shall expire ten years from the date indicated above.

(e) The Holder hereby agrees to notify the Company in writing in the event shares acquired pursuant to the exercise of this ISO are transferred, other than by will or by the laws of descent and distribution, within two years after the date indicated above or within one year after the issuance of such shares pursuant to such exercise.

4. Payment of Purchase Price Upon Exercise. At the time of any exercise of the ISO the purchase price of the ISO shall be paid in full to the Company in either of the following ways or in any combination of the following ways:

(a) By check or other immediately available funds.

(b) With property consisting of shares of Common Stock. (The shares of Common Stock to be used as payment shall be valued as of the date of exercise of the ISO at the Closing Price as defined below. For example, if Holder exercises the option for 4,000 shares at a total Exercise Price of \$7,000, assuming exercise price of \$1.75 per share, and the Closing Price is \$5.00, he may pay for the 4,000 Option Shares by transferring 1,400 shares of Common Stock to the Company.)

(c) For purposes of this Agreement, the term "Closing Price" means, with respect to the Company's Common Stock, the last sale price regular-way or, in case no such sale takes place on such date, the average of the closing bid and asked prices regular-way on the principal national securities exchange on which the securities are listed or admitted to trading; or, if they are not listed or admitted to trading on any national securities exchange, the last sale price of the securities on the consolidated transaction reporting system of the National Association of Securities Dealers (NASD"), if such last sale information is reported on such system or, if not so reported, the average of the closing bid and asked prices of the securities on the National Association of Securities Dealers Automatic Quotation System ("NASDAQ") or any comparable system or, if the securities are not listed on NASDAQ or a comparable system, the average of the closing bid and asked prices as furnished by two members of the NASD selected from time to time by the Company for that purpose.

5. Purchase for Investment; Resale Restrictions. Unless at the time of exercise of the ISO there shall be a valid and effective registration statement under the Securities Act of 1933 ("33 Act") and appropriate qualification and registration under applicable state securities laws relating to the Option Shares being acquired, Holder shall upon exercise of the ISO give a representation that he is acquiring such shares for his own account for investment and not with a view to, or for sale in connection with, the resale or distribution of any such shares. In the absence of such registration statement, Holder shall execute a written affirmation, in a form reasonably satisfactory to the Company, of such investment intent. Holder further agrees that he will not sell or transfer any Option Shares until he requests and receives an opinion of the Company's counsel or other counsel reasonably satisfactory to the Company to the effect that such proposed sale or transfer will not result in a violation of the '33 Act, or a registration statement covering the sale or transfer of the shares has been declared effective by the Securities and Exchange Commission, or he obtains a no-action letter from the Securities and Exchange Commission with respect to the proposed transfer.

6. Nontransferability. This ISO shall not be transferable other than by will or by the laws of descent and distribution. During the lifetime of Holder, this ISO shall be exercisable only by Holder.

7. Adjustments.

(a) If the Company hereafter (i) declares a distribution on its shares in shares, (ii) splits its outstanding shares, (iii) combines its outstanding shares into a smaller number of securities or (iv) issues any shares or other securities by reclassification of its shares (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing entity), the purchase price in effect at the time of the record date for such distribution or the effective date of such subdivision, combination or reclassification shall be adjusted so that it shall equal the price determined by multiplying the purchase price by a fraction, the denominator of which shall be the number of shares outstanding immediately after giving effect to such action, and the numerator of which shall be the number of shares outstanding immediately prior to such action. Whenever the purchase price payable upon exercise of the ISO is adjusted pursuant to the preceding sentence above, the number of shares purchasable upon exercise of the ISO shall simultaneously be adjusted by multiplying the number of shares issuable upon exercise of the ISO immediately prior to the event which causes the adjustment by the purchase price in effect immediately prior to the event which causes the adjustment and dividing the product so obtained by the purchase price, as adjusted. Such adjustments shall be made successively whenever any event listed above shall occur.

(b) If, at any time, as a result of an adjustment made

pursuant to paragraph 7(a) above, the Holder shall become entitled to receive any securities of the Company other than shares, the number of such other securities so receivable upon exercise of the ISO shall thereafter be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the shares contained in paragraph 7(a) above.

(c) If any other event contemplated in Section 10(a) of the Plan occurs, adjustments to the number and kind of shares subject to this ISO and/or to the purchase price for each share subject to this ISO may be made in accordance with Section 10(a) of the Plan.

(d) No adjustments shall be made under this Section 7 that would have the effect of modifying this ISO under Internal Revenue Code ss.ss. 422 or 424.

(e) Whenever the purchase price or the number of shares is adjusted, as herein provided, Hansen shall within 10 business days of the event causing such adjustment give a notice setting forth the adjusted purchase price and adjusted number of shares issuable upon exercise of the ISO to be mailed to the Holder.

(f) Notwithstanding anything else herein to the contrary, upon the occurrence of a change in control (as defined in (g) below), the option or any portion thereof not theretofore exercisable, shall immediately become exercisable in its entirety and the option (being the option to purchase shares of Common Stock subject to the applicable provisions of the Plan and awarded in accordance with the Plan in terms of section 1 above) may, with the consent of Holder, be purchased by the Company for cash at a price equal to the fair market value (as defined in 7(g) below) less the purchase price payable by Holder to exercise the option as set out in Article 1 above for one (1) share of Common Stock of the Company multiplied by the number of shares of Common Stock which Holder has the option to purchase in terms of Article 1 above.

(g) For the purposes of this agreement

(i) "Change in Control" means;

(A) the acquisition of "Beneficial Ownership" by any person (as defined in rule 13 (d) - 3 under the Securities Exchange Act 1934), corporation or other entity other than the Company or a wholly owned subsidiary of the Company of 20% or more of the outstanding Stock,

(B) the sale or disposition of substantially all of the assets of the Company, or

(C) the merger of the Company with another corporation in which the Common Stock of the Company is no longer outstanding after such merger.

(ii) "Fair Market Value" means, as of any date, the Closing Price for one share of the Common Stock of the Company on such date.

8. The provisions of Section 5(b) (iii) of the Plan, regarding the execution of a shareholder's agreement as a condition precedent to the Company's obligation to issue shares under the Plan, shall not apply to the ISO or any shares issued pursuant to the ISO.

9. The Company represents and warrants to Holder that (a) there are no options to purchase the Company's Common Stock, containing the same or substantially the same terms as the ISO, which are actively traded on an established market within the meaning of Internal Revenue Code ss.83 and the regulations promulgated thereunder; and (b) the shares of the Company's Common Stock issued upon exercise of the ISO, when issued in accordance with the terms hereof, will be duly authorized, validly issued, fully paid and nonassessable. The Company shall reserve and keep reserved out of its authorized shares of Common Stock the number of shares of Common Stock that may be issuable from time to time upon exercise of the ISO.

10. No Rights as Stockholder. Holder shall have no rights as a stockholder with respect to any shares of Common Stock subject to this ISO prior to the date of issuance to him of a certificate or certificates for such shares.

11. No Right to Continue Employment. This Agreement shall not confer upon Holder any right with respect to continuance of employment with any member of the Hansen Group nor shall it interfere in any way with the right of any such member to terminate his employment at any time.

12. Compliance With Law and Regulation. This Agreement and the obligation of the Company to sell and deliver shares of Common Stock hereunder shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any government or regulatory agency as may be required. If at any time the Board of Directors of the Company shall determine that (i) the listing, registration or qualification of the shares of Common Stock subject or related thereto upon any securities exchange or under any state or federal law, or (ii) the consent or approval of any government regulatory body, is necessary or desirable as a condition of or in connection with the issue or purchase of shares of Common Stock hereunder, this ISO may not be exercised in whole or in part unless such listing, registration, qualification, consent, approval or agreement shall have been effected or obtained free of any



conditions not acceptable to the Board of Directors. The Company agrees to use its reasonable efforts to obtain any necessary listing, registration, qualification, consent, approval or agreement as expeditiously as possible, and the term of this ISO shall be extended until 30 days following the date such listing, registration, qualification, consent, approval or agreement is effected or obtained. Moreover, this ISO may not be exercised if its exercise or the receipt of shares of Common Stock pursuant thereto would be contrary to applicable law.

13. Tax Withholding Requirements. The Company shall have the right to require Holder to remit to the Company an amount sufficient to satisfy any federal, state or local withholding tax requirements prior to the delivery of any certificate or certificates for Common Stock.

14. Fractional Shares. Notwithstanding any other provision of this Agreement, no fractional shares of stock shall be issued upon the exercise of this ISO and the Company shall not be under any obligation to compensate Holder in any way for such fractional shares.

15. Notices. Any notice hereunder to the Company shall be addressed to it at its office at 2380 Railroad Street, Suite 101, Corona, California 91720, Attention: Rodney Sacks with a copy to Benjamin Polk, Whitman, Breed, Abbott & Morgan 200 Park Avenue, New York, New York 10166, and any notice hereunder to Holder shall be addressed to him at 2 Nidden, Irvine, California 92715, subject to the right of either party to designate at any time hereafter in writing some other address.

16. Amendment. No modification, amendment or waiver of any of the provisions of this Agreement shall be effective unless in writing specifically referring hereto, and signed by both parties.

17. Governing Law. This Agreement shall be construed according to the laws of the State of Delaware and all provisions hereof shall be administered according to and its validity shall be determined under, the laws of such State, except where preempted by federal laws.

18. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall constitute one and the same instrument.

IN WITNESS WHEREOF, Hansen Natural Corporation has caused this Agreement to be executed by a duly authorized officer and Holder has executed this Agreement both as of the day and year first above written.

HANSEN NATURAL CORPORATION

By: \_\_\_\_\_ Title: Chairman and CEO

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Hilton H. Schlosberg

<ARTICLE>

5

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AND CONSOLIDATED STATEMENTS OF OPERATIONS FOUND ON PAGES 3 AND 4 OF THE COMPANY'S FORM 10-Q FOR THE YEAR-TO-DATE AND IS QUALIFIED IN ITS ENTIRETY TO SUCH FINANCIAL STATEMENTS.

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