

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-K

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2006

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 0-18761

HANSEN NATURAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

39-1679918
(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: **(951) 739 - 6200**

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Not Applicable	Not Applicable

Securities registered pursuant to Section 12(g) of the Act:

Title of class
Common Stock, \$0.005 par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act.) Yes No

The aggregate market value of the common equity held by nonaffiliates of the registrant was \$3,547,763,048 computed by reference to the closing sale price for such stock on the NASDAQ Capital Market on June 30, 2006, the last business day of the registrant's most recently completed second fiscal quarter.

The number of shares of the registrant's common stock, \$0.005 par value per share (being the only class of common stock of the registrant),

outstanding on May 16, 2007 was 90,059,124 shares.



HANSEN NATURAL CORPORATION

FORM 10-K

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PART I

ITEM 1. BUSINESS

Overview

Hansen Natural Corporation was incorporated in Delaware on April 25, 1990. Our principal place of business is at 1010 Railroad Street, Corona, California 92882 and our telephone number is (951) 739-6200. When this report uses the words “Hansen”, “HBC”, “the Company”, “we”, “us”, and “our”, these words refer to Hansen Natural Corporation and our subsidiaries other than Monster LDA Company (“MLDA”), unless the context otherwise requires.

We are a holding company and carry on no operating business except through our direct wholly owned subsidiaries, Hansen Beverage Company (“HBC”) which was incorporated in Delaware on June 8, 1992, and MLDA, formerly known as Hard e Beverage Company, and previously known as Hard Energy Company and as CVI Ventures, Inc., which was incorporated in Delaware on April 30, 1990. HBC generates all of our operating revenues.

We develop, market, sell and distribute “alternative” beverage category natural sodas, fruit juices and juice drinks, energy drinks and energy sports drinks, fruit juice smoothies and “functional drinks,” non-carbonated ready-to-drink iced teas, lemonades, juice cocktails, children’s multi-vitamin juice drinks, Junior Juice® juices and non-carbonated lightly flavored energy waters under the Hansen’s® brand name. We also develop, market, sell and distribute energy drinks under the following brand names; Monster Energy®, Lost® Energy™, Joker Mad Energy™, Unbound Energy® and Ace™ brand names as well as Rumba™ brand energy juice. We also market, sell and distribute Java Monster™ non-carbonated dairy based coffee drinks. We also market, sell and distribute natural sodas, premium natural sodas with supplements, organic natural sodas, seltzer waters, sports drinks and energy drinks under the Blue Sky® brand name. Our fruit juices for toddlers are marketed under the Junior Juice® brand name. We also market, sell and distribute vitamin and mineral drink mixes in powdered form under the Fizzit™ brand name.

The Company has two reportable segments, namely Direct Store Delivery (“DSD”), whose principal products comprise energy drinks, and the Warehouse segment (“Warehouse”), whose principal products comprise juice based and soda beverages. The DSD segment develops, markets and sells products primarily through an exclusive distributor network whereas the Warehouse segment develops, markets and sells products primarily directly to retailers.

Corporate History

In the 1930’s, Hubert Hansen and his three sons started a business to sell fresh non-pasteurized juices in Los Angeles, California. This business eventually became Hansen’s Juices, Inc., which subsequently became known as The Fresh Juice Company of California, Inc. (“FJC”). FJC retained the right to market and sell fresh non-pasteurized juices under the Hansen trademark. In 1977, Tim Hansen, one of the grandsons of Hubert Hansen, perceived a demand for pasteurized natural juices and juice blends that are shelf stable and formed Hansen Foods, Inc. (“HFI”). HFI expanded its product line from juices to include Hansen’s Natural Sodas®. California Co-Packers Corporation (d/b/a/ Hansen Beverage Company) (“CCC”) acquired certain assets of HFI, including the right to market the Hansen’s® brand name, in January 1990. On July 27, 1992, HBC acquired the Hansen’s® brand natural soda and apple juice business from CCC. Under our ownership, the Hansen beverage business has significantly expanded and includes a wide range of beverages within the growing “alternative” beverage category including in particular, energy drinks. In September 1999, we acquired all of FJC’s rights to manufacture, sell and distribute fresh non-pasteurized juice products under the Hansen’s® trademark together with certain additional rights. In 2000, HBC, through its wholly-owned subsidiary, Blue Sky Natural Beverage Co. (“Blue Sky”), which was incorporated in Delaware on September 8, 2000, acquired the natural soda business previously conducted by Blue Sky Natural Beverage Co., a New Mexico

corporation (“BSNBC”), under the Blue Sky® trademark. In 2001, HBC, through its wholly-owned subsidiary Hansen Junior Juice Company, (“Junior Juice”), which was incorporated in Delaware on May 7, 2001, acquired the Junior Juice business previously conducted by Pasco Juices, Inc. (“Pasco”) under the Junior Juice® trademark.

Industry Overview

The alternative beverage category combines non-carbonated ready-to-drink iced teas, lemonades, juice cocktails, single serve juices and fruit beverages, ready-to-drink dairy and coffee drinks, energy drinks, sports drinks, and single-serve still water (flavored, unflavored and enhanced) with “new age” beverages, including sodas that are considered natural, sparkling juices and flavored sparkling waters. The alternative beverage category is the fastest growing segment of the beverage marketplace according to Beverage Marketing Corporation. According to Beverage Marketing Corporation, wholesale sales in 2006 for the alternative beverage category of the market are estimated at \$22.0 billion representing a growth rate of approximately 14.5% over the estimated wholesale sales in 2005 of approximately \$19.2 billion.

Reportable Segments

The Company has two reportable segments, namely DSD, whose principal products comprise energy drinks and Warehouse, whose principal products comprise juice based and soda beverages. The DSD segment develops, markets and sells products primarily through an exclusive distributor network whereas the Warehouse segment develops, markets and sells products primarily direct to retailers. Corporate and unallocated amounts that do not relate to the DSD or Warehouse segments specifically have been allocated to “Corporate & Unallocated.”

For financial information about our reporting segments and geographic areas, refer to Note 16 of Notes to the Consolidated Financial Statements set forth in Part II, Item 8. “Financial Statements and Supplementary Data” of this report, incorporated herein by reference. For certain risks with respect to our energy drinks see Item 1A. “Risk Factors” below.

Products

Natural Sodas. Hansen’s Natural Sodas® have been a leading natural soda brand in Southern California for the past 25 years. In 2006, according to Information Resources, Inc.’s Analyzer Reports for California, our natural sodas recorded the highest sales among comparable carbonated new age category beverages measured by unit volume in the California market. Our natural sodas are available in fourteen regular flavors consisting of mandarin lime, key lime, grapefruit, raspberry, ginger ale, creamy root beer, grapefruit, vanilla cola, cherry vanilla creme, orange mango, kiwi strawberry, tropical passion, black cherry and tangerine. In early 2001, we introduced a new line of diet sodas using Splenda® sweetener as the primary sweetener. We initially introduced this line in four flavors: peach, black cherry, tangerine lime, and kiwi strawberry, and have since added three additional flavors: ginger ale, creamy root beer and grapefruit. Our natural sodas contain no preservatives, sodium, caffeine or artificial coloring and are made with high quality natural flavors, citric acid and high fructose corn syrup or, in the case of diet sodas, with Splenda® and Acesulfame-K. We package our natural sodas in 12-ounce aluminum cans. In 2002, we introduced a line of natural mixers in 8-ounce aluminum cans comprising club soda, tonic water and ginger ale.

In January 1999, we introduced a premium line of Signature Sodas in unique proprietary 14-ounce glass bottles. This line was marketed under the Hansen’s® brand name, primarily through our distributor network, in six flavors. In early 2003, we repositioned this line into lower cost 12-ounce glass packaging to market our repositioned Signature Soda line at lower price points directly to our retail customers such as grocery chains, club stores, specialty retail chains and mass merchandisers and to the health food sector through specialty and health food distributors (collectively referred to as our “direct retail customers”). Signature Soda is available in 12-ounce glass bottles in four flavors: orange crème, vanilla crème, ginger beer and sarsaparilla.

In September 2000, we acquired the Blue Sky® natural soda business from BSNBC. Our Blue Sky® product line comprises natural sodas, premium sodas, organic natural sodas, seltzer water, energy drinks, tea sodas and isotonic sports drinks. Blue Sky® natural sodas are available in twelve regular flavors consisting of lemon lime, grapefruit, cola, root beer, raspberry, cherry vanilla creme, Jamaican ginger ale, black cherry, orange creme, Dr. Becker, grape and cream soda. We also offer a premium line of Blue Sky® natural sodas which contain supplements such as ginseng. This line is available in six flavors consisting of ginseng creme, ginseng cola, ginseng root beer, ginseng very berry creme, ginseng ginger ale, and ginseng cranberry raspberry. During 1999, Blue Sky® introduced a line of organic natural sodas, which are available in six flavors consisting of lemon lime cream, new century cola, orange divine, ginger ale, black cherry cherish, and root beer. We also market a seltzer water under the Blue Sky® label in three flavors: natural, lime and lemon. In 2002, we introduced a lightly carbonated Blue Sky® energy drink in an 8.3-ounce slim can. In 2006, we introduced a 16-ounce size of Blue Energy as well as both an 8.3-ounce and 16-ounce size of Blue Sky Juiced Energy, which is lightly carbonated and contains 50% juice. In 2004, we introduced a new line of Blue Sky® natural tea sodas in four flavors consisting of Imperial Lime Green Tea, Peach Mist Green Tea, Pomegranate White Tea and Raspberry Red Tea. The Blue Sky® products contain no preservatives, sodium or caffeine (other than the energy drink) or artificial coloring and are made with high quality natural flavors. Blue Sky® natural sodas, seltzer waters and tea sodas are all packaged in 12-ounce aluminum cans and are marketed primarily to our direct retail customers. In March 2005, we introduced a new light line of Blue Sky® sodas using natural sweeteners in four flavors: cherry vanilla crème, creamy root beer, Jamaican ginger ale and wild raspberry in 12-ounce cans. In the third quarter of 2005, we introduced a new line of Blue Sky® natural sodas with real sugar in 12-ounce cans in four flavors: cherry vanilla crème, cola, ginger ale and root beer. In December 2005, we introduced a new line of Blue Sky® isotonic sports drinks in 16-ounce polyethylene terephthalate (“PET”) plastic bottles in three flavors: orange, lemon lime and fruit punch.

In 2001, we introduced a new line of sparkling lemonades (regular and pink) and orangeades in unique proprietary 1-liter glass bottles and towards the end of 2002, we introduced diet versions of these products. In 2003, we extended this line into unique proprietary 12-ounce glass bottles in both regular and diet versions. This product line was marketed to our direct retail customers. The contract packer who produced these products on our behalf underwent a change of ownership, and experienced production difficulties in 2003, and as a result we discontinued this product line. We are currently evaluating alternative packages for this line.

In 2006, we introduced a new line of Hansen’s green tea sodas under the Hansen® brand name in 16-ounce aluminum cans that contain no preservatives, sodium, caffeine or artificial colors, in four flavors; ginger, lemon mint, tangerine and pomegranate. We also introduced a diet version that contains no carbohydrates or sugar in three flavors; tangerine, lemon mint, ginger and in 2007, introduced an additional diet flavor, pomegranate.

Hansen’s® Energy Drinks. In 1997, we introduced a lightly carbonated citrus flavored Hansen’s® energy drink in 8.3-ounce cans in 4 packs. Our energy drink competes in the “functional” beverage category, namely, beverages that provide a real or perceived benefit in addition to simply delivering refreshment. We also offered additional functional energy drinks as well as other functional drinks including a ginger flavored d-stress® drink, an orange flavored b-well™ drink, a guarana berry flavored stamina® drink, a grape flavored power drink, and a berry flavored “slim-down” drink that contained no calories, in the same size cans. We have since discontinued sales of such functional products. Our energy drinks contain vitamins, minerals, nutrients, herbs and supplements (collectively “supplements”). In 2004, we offered our Hansen’s® energy drink in 16-ounce cans which has subsequently been discontinued. In 2006, we reintroduced our energy products through the Warehouse segment and introduced Hansen’s® Energy Pro™ 8.3-ounce cans in four packs. In 2001, we introduced Energade®, a non-carbonated energy sports drink in 23.5-ounce cans in two flavors, citrus and orange,

and subsequently introduced a third flavor, red rocker, which we have since discontinued. In 2001 we also introduced E₂O Energy Water®, a non-carbonated lightly flavored water, in 24-ounce blue PET plastic bottles, in four flavors: tangerine, apple, berry and lemon. We subsequently discontinued the apple flavor and introduced a green tea flavor in its place. In 2002, we expanded our E₂O Energy Water® line with four additional flavors in clear PET plastic bottles: mango melon, kiwi strawberry, grapefruit and green tea. We have since discontinued the E₂O Energy Water® line in clear PET plastic bottles. Our Energade® and E₂O Energy Water® drinks also contain different combinations and levels of supplements. At the end of 2002, we introduced a lightly carbonated diet energy drink in 8.3-ounce cans under the Hansen's Diet Red Energy® brand name. Our Diet Red Energy® energy drink is sweetened with Splenda® and Acesulfame-K. We market our energy and Energade® drinks primarily through our full service distributor network. We market our E₂O Energy Water® drinks in blue bottles to our direct retail customers and are currently in the process of reevaluating this line. In 2003, we introduced a new carbonated energy drink under the Hansen's® Deuce brand name, in 16-ounce cans, but with a different flavor from our existing Hansen's® energy drinks in 8.3-ounce cans. We have since discontinued this product.

Monster Energy® Drinks. In 2002, we launched a new carbonated energy drink under the Monster Energy® brand name, in 16-ounce cans, which was almost double the size of our regular energy drinks in 8.3-ounce cans and the vast majority of competitive energy drinks on the market at that time. Our Monster Energy® drink contains different types and levels of supplements than our Hansen's® energy drinks and is marketed through our full service distributor network. In 2003, we introduced a low carbohydrate ("Lo-Carb") version of our Monster Energy® energy drink. In 2004, we introduced 4-packs of our Monster Energy® energy drinks including our Lo-Carb version thereof and, towards the end of 2004, we launched a new Monster Energy® Assault™ energy drink in 16-ounce cans. During the first half of 2005, we introduced our Monster Energy® drinks and Lo-Carb Monster Energy® in 24-ounce size cans as well as Monster Energy®, Lo-Carb Monster Energy® and Monster Energy® Assault™ in 8.3-ounce size cans. In September 2005, we introduced a new Monster Energy® Khaos™ energy drink in 16-ounce cans. Monster Energy® Khaos™ is lightly carbonated and contains 70% juice. In 2006, we introduced our Monster Energy® Assault™ and Monster Energy® Khaos™ energy drinks in 24-ounce size cans. Also in 2006, we introduced Monster Energy® Khaos™ energy drinks in 8.3-ounce size cans. During the first quarter 2007 we introduced a new Monster M-80™ energy drink in 16-ounce size cans. Monster M-80™ energy drinks are lightly carbonated and contain 80% juice. We also introduced Monster Energy® energy drinks in 8-packs.

Lost® Energy™ Drinks. In 2004, we launched a new carbonated energy drink under the Lost® brand name, in 16-ounce cans. Towards the end of 2005, we introduced a lo-carb version of Lost® under the Perfect 10™ brand name as well as a new Lost® Five-O™ energy drink, all in 16-ounce cans. Lost® Five-O™ contains 50% juice and is lightly carbonated. In December 2005, we introduced Lost® and Lost® Five-O™ in 24-ounce size cans. The Lost® brand name is owned by Lost International LLC and the drinks are produced, sold and distributed by us under exclusive license from Lost International LLC.

Rumba™ Energy Juice. In December 2004, we launched a new non-carbonated energy juice under the Rumba™ brand name in 15.5-ounce cans. Rumba™ energy juice is a 100% juice product that targets male and female morning beverage consumers and is positioned as a substitute for coffee, caffeinated sodas and 100% orange or other juices.

Joker Mad Energy™ Drinks. In the first quarter of 2005, we introduced Joker Mad Energy™ energy drinks in 16-ounce cans. Joker Mad Energy™ energy drinks come in regular, lo-carb and juice versions in 16-ounce cans.

Ace™ Energy Drinks. In August 2006, we introduced Ace™ energy drinks in 16-ounce cans. Ace™ energy drinks come in regular, lo-carb and juice versions in 16-ounce cans.

Unbound Energy® Drinks. In October 2006, we acquired the Unbound Energy® trademark and assumed the production, marketing and sale of Unbound Energy® energy drinks in 16-ounce cans. We subsequently introduced lo-carb and juice versions in 16-ounce cans.

Java Monster™ Coffee Drinks. In May 2007, we launched a new non-carbonated dairy based coffee drink under the Java Monster™ brand name in 16-ounce cans. Java Monster™ comes in three versions, “Big Black,” “Loca Moca” and “Mean Bean.”

Juice Products and Smoothies. Our fruit juice product line includes Hansen’s® Natural Apple Juice, which is packaged in 64-ounce PET plastic bottles and 128-ounce polypropylene bottles and White Grape, White Grape Peach, Purple Grape, Orange, Pomegranate, Apple Strawberry and Apple Grape juice blends, in 64-ounce PET plastic bottles. These Hansen’s® juice products contain 100% juice (except Pomegranate which contains 27% juice) as well as Vitamin C. Hansen’s® juice products compete in the shelf-stable juice category. We also offer light juices (light grape, cranberry and apple) and juice cocktails (apple medley, apple pear, apple berry and apple white grape) in 64-ounce PET plastic bottles, as well as juice cocktails (apple cranberry, apple white grape, apple berry and apple) in 32-ounce PET plastic bottles.

In March 1995, we introduced a line of fruit juice smoothie drinks in 11.5-ounce aluminum cans. Certain flavors were subsequently offered in glass and PET plastic bottles. We have since discontinued offering smoothies in glass and PET plastic bottle packages. Hansen’s fruit juice smoothies have a smooth texture that is thick but lighter than a nectar. In 2006, we reformulated Hansen’s smoothies by adding more fruit purees. Hansen’s smoothies in 11.5-ounce aluminum cans now contain approximately 25% juice. Our fruit juice smoothies provide 100% of the recommended daily intake for adults of Vitamins A, C & E and represented Hansen’s entry into what is commonly referred to as the “functional” beverage category. Hansen’s® fruit juice smoothies are available in ten flavors: strawberry banana, peach berry, mango pineapple, guava strawberry, pineapple coconut, apricot nectar, tropical passion, whipped orange, as well as the blast line comprising Island Energy Blast and Colada Energy Blast. In 2004, we repositioned our cranberry raspberry lite smoothie as part of our new lo-carb line of smoothies. Our lo-carb smoothie line currently consists of peach, mango and cran-raspberry flavors in 12-ounce cans.

We market the above juice and smoothie products to our direct retail customers.

Sparkling Apple Cider. In 2002, we introduced a Sparkling Cider 100% juice drink in a 1.5-liter Magnum glass bottle. However, due to reports of some bottles breaking, we promptly voluntarily recalled this product in the fourth quarter of 2003. We still intend to reevaluate relaunching this product once certain production issues are resolved and a suitable co-packer has been identified.

Iced Teas, Lemonades and Juice Cocktails. We introduced Hansen’s® ready-to-drink iced teas and lemonades in 1993 and juice cocktails in 1994 in 16-ounce glass bottles. At the end of 2002, we converted this line from 16-ounce glass bottles to 16-ounce polypropylene bottles. This line was discontinued in 2006.

In 1999, we introduced a line of specialty teas in 20-ounce glass bottles, which we named our “Gold Standard” line. This line was discontinued in 2006.

In 2006, we introduced a new line of iced teas in sleek 16-ounce wide mouth PET plastic bottles. This line is sweetened with cane sugar and includes green tea, peach green tea, lycee green tea and pomegranate green tea. In addition, we offer a sugar free peach green tea with sucralose and an unsweetened black tea.

Juices for Children. In 1999, we introduced two new lines of children’s multi-vitamin juice drinks in 8.45-ounce aseptic boxes. Each drink contains eleven essential vitamins and six essential minerals. We introduce new flavors in place of existing flavors from time to time. One of these two

lines is a dual-branded 100% juice line named Juice Blast® that was launched in conjunction with Costco Wholesale Corporation (“Costco”) and is sold through Costco stores. The other line was a 10% juice line named “Hansen’s Natural Multi-Vitamin Juice Slam®” that was available to all of our customers. During 2000, we repositioned that line as a 100% juice line under the Juice Slam® name and market that line to grocery store chain customers, the health food trade, and other customers. Both the Juice Blast® and Juice Slam® lines are marketed in 6.75-ounce aseptic boxes. The Juice Slam® line has four flavors and the Juice Blast® line has three flavors.

In 2003 we further extended our fruit juice product line by introducing a 100% apple juice in 6.75-ounce aseptic pouches under the Apple Blasters™ brand. In 2006 we discontinued our Apple Blasters™ product and repositioned our pouch line by introducing two Juice Slam® organic pouches in organic apple and organic fruit punch flavors.

In May 2001, we acquired the Junior Juice® beverage business. The Junior Juice® product line is comprised of seven flavors of 100% juice in 4.23-ounce aseptic packages and is targeted at toddlers. Six flavors of the Junior Juice® line have calcium added and all flavors have vitamin C added. The current flavors in the Junior Juice® line are apple, apple berry, orange twist, apple grape, mixed fruit, fruit punch and white grape.

In 2006, we extended the Junior Juice® line by adding organic apple and organic berry medley juice products in 4.23-ounce aseptic boxes. Each of our organic Junior Juice® products have 100% juice and contain 100% of the daily recommended allowance of vitamin C and 10% of the daily recommended allowance of calcium.

Bottled Water. Our still water products were introduced in 1993 and are primarily sold in 0.5-liter plastic bottles to the food service trade. Sales of this product line are very limited.

Fizzit™ Powdered Drink Mixes. In December 2005, we introduced a new line of vitamin and mineral drink mixes in powdered form under the Fizzit™ brand name in both functional and vitamin and mineral formulas. The functional formulas are offered in raspberry (joint formula), orange (immune support formula), strawberry (immune support formula) and cranberry (women’s health formula). The vitamin and mineral formula is offered in lemon line and strawberry flavors.

During 2006, we continued to expand our existing product lines and further develop our markets. In particular, we continued to focus on developing and marketing beverages that fall within the category generally described as the “alternative” beverage category, with particular emphasis on energy type drinks.

Other Products

We continue to evaluate and, where considered appropriate, introduce additional flavors and other types of beverages to complement our existing product lines. We will also evaluate, and may, where considered appropriate, introduce functional foods/snack foods that utilize similar channels of distribution and/or are complementary to our existing products and/or to which our brand names are able to add value.

We also develop and supply, on a limited basis, selected beverages in different formats to a limited number of customers with the objective of solidifying our relationship with those customers.

Manufacture and Distribution

We do not directly manufacture our products but instead outsource the manufacturing process to third party bottlers and contract packers.

We purchase concentrates, juices, flavors, supplements, cans, bottles, aseptic boxes, aseptic pouches, caps, labels, trays, boxes and other ingredients for our beverage products which are delivered to our various third party bottlers and co-packers. Depending on the product, the third party bottlers or packers add filtered water and/or high fructose corn syrup, or sucrose, or cane sugar or Splenda® brand sweetener, Acesulfame-K and/or citric acid or other ingredients and supplements for the manufacture and packaging of the finished products into approved containers in accordance with our formulas. In the case of sodas and other carbonated beverages, the bottler/packer adds carbonation to the products as part of the production process.

We are generally responsible for arranging for the purchase of and delivery to our third party bottlers and co-packers of the containers in which our beverage products are packaged.

All of our beverage products are manufactured by various third party bottlers and co-packers situated throughout the United States and Canada under separate arrangements with each of such parties. The majority of our co-packaging arrangements are on a month-to-month basis. However, certain of our material co-packing arrangements are described below:

(a) Our agreement with Gluek Brewing Company (“Gluek”) pursuant to which Gluek packages certain of our energy drinks in 8.3-, 15.5-, 16- and 24-ounce cans. This contract continues until August 2008 and is automatically renewed for one year periods thereafter. Either party is entitled at any time to terminate the agreement upon 180 days prior written notice to the other party.

(b) Our agreement with Seven-Up/RC Bottling Company of Southern California, Inc. (“Seven-Up”) pursuant to which Seven-Up packages certain of our Monster™ and Lost® Energy™ brand energy drinks and a portion of our Hansen’s Natural Sodas®. This contract continues until March 2009. Upon termination prior to such time we are entitled to recover certain equipment we have purchased and installed at Seven-Up’s facility.

(c) Our agreement with City Brewing Company LLC (“City Brew”) pursuant to which City Brew packages certain of our Energade® energy sports drinks and energy drinks in 16- and 24-ounce cans. This contract continues until July 31, 2007. Either party is entitled, at any time, to terminate the agreement upon 90 days prior written notice to the other party.

(d) Our agreement with Nor-Cal Beverage Co., Inc. (“Nor-Cal”) pursuant to which Nor-Cal packages certain of our Hansen’s® juices in PET plastic bottles. This contract continues until August 2007 and is renewable annually thereafter from year-to-year unless terminated by Hansen’s not less than 60 days before the end of the then current term.

(e) Our agreement with Whitlock Packaging, Inc. (WPI) pursuant to which WPI packages certain of our 4.23-ounce and 6.75-ounce aseptic juice beverages which include Junior Juice, Juice Slam and Juice Blast. This contract, which commenced on January 1, 2001, is renewable annually thereafter and may be terminated by either party with not less than 60 days notice.

(f) Our agreement with Dr. Pepper Bottling Co. (“Dr. Pepper”) pursuant to which Dr. Pepper packages certain of our energy drinks in 16-ounce cans. This contract continues until December 31, 2009 and is renewable annually thereafter, unless terminated by either party with not less than 30 days notice.

(g) Our agreement with Lucerne Foods, Inc. (“Safeway-Norwalk”) pursuant to which Safeway-Norwalk packages certain of our energy drinks in 16-ounce cans and Hansen’s Natural Sodas® in 12-ounce cans. This contract continues until March 31, 2009 and is renewable annually thereafter unless terminated by either party not less than 6 months.

(h) Our agreement with Pri-Pak, Inc. (“Pri-Pak”) pursuant to which Pri-Pak packages certain of our energy drinks. This contract continues indefinitely but may be terminated at any time by either party upon ninety (90) days prior written notice to the other.

(i) Our agreement with Carolina Beer & Beverage pursuant to which Carolina Beer & Beverage packages certain of our energy drinks in 8-ounce, 16-ounce and 24-ounce cans. This contract continues until April 10, 2009 and is renewable annually thereafter, unless terminated by either party with not less than 180 days notice.

(j) Our agreement with Southeast Atlantic Beverage Corporation (“Southeast”) pursuant to which Southeast packages certain of our Monster Energy® and Lost® Energy™ brand energy drinks. This contract continues until July 2007 and is renewable annually thereafter, unless terminated by either party not less than 180 days prior to the end of the then current term.

(k) Our agreement with Southwest Canning and Packaging, Inc. (“Southwest”) pursuant to which Southwest packages certain of our Hansen’s Natural Sodas®. This contract continues indefinitely and is subject to termination upon 60 days written notice from either party.

(l) Our agreement with Olympic Foods, Inc. (“OFI”) pursuant to which OFI packages certain of our 4.23-ounce and 6.75-ounce aseptic juice beverages which include Junior Juice, Juice Slam and Juice Blast. This contract continues until January 1, 2008 and is renewable annually thereafter, unless terminated by either party not less than 120 days.

In certain instances, equipment is purchased by us and installed at the facilities of our co-packers to enable them to produce certain of our products. In general, such equipment remains our property and is to be returned to us upon termination of the packing arrangements with such co-packers or is amortized over a pre-determined number of cases that are to be produced at the facilities concerned.

We pack certain products outside of the West Coast region to enable us to produce products closer to the markets where they are sold and thereby reduce freight costs. As volumes in markets outside of California grow, we continue to secure additional packing arrangements closer to such markets to further reduce freight costs.

Our ability to estimate demand for our products is imprecise, particularly with new products, and may be less precise during periods of rapid growth, particularly in new markets. If we materially underestimate demand for our products or are unable to secure sufficient ingredients or raw materials including, but not limited to, glass, PET/plastic bottles, cans, labels, flavors or supplement ingredients or certain sweeteners, or packing arrangements, we might not be able to satisfy demand on a short-term basis.

Although our production arrangements are generally of short duration or are terminable upon request, we believe a short disruption or delay would not significantly affect our revenues since alternative packing facilities in the United States with adequate capacity can usually be obtained for many of our products at commercially reasonable rates and/or within a reasonably short time period. However, there are limited packing facilities in the United States with adequate capacity and/or suitable equipment for many of our newer products, including Hansen’s® brand energy drinks in 8.3-ounce cans, aseptic juice products, Energade® in 24-ounce cans, teas in 16-ounce PET/plastic bottles, Monster Energy®, Lost® Energy™, Rumba™, Joker Mad Energy™, Ace™, Unbound Energy® energy drinks in 8.3-, 15.5-, 16-, and 24-ounce cans and Java Monster™ coffee drinks in 16-ounce cans. A disruption or delay in production of any of such products could significantly affect our revenues from such products as alternative co-packing facilities in the United States with adequate capacity may not be available for such products either at commercially reasonable rates and/or within a reasonably short time period, if at all. Consequently, a disruption in production of such products could affect our revenues. We continue to seek alternative and/or additional co-packing facilities in the United States or Canada with adequate capacity for the production of our various products to minimize the risk of any disruption in production.

On April 28, 2006, HBC entered into a distribution agreement with Cadbury Bebidas, S.A. de C.V. (“Cadbury Bebidas”), for exclusive distribution by Cadbury Bebidas throughout Mexico, excluding Baja California, of our Monster Energy® and Lost® Energy™ energy products.

On May 8, 2006, HBC entered into the Monster Beverages Off-Premise Distribution Coordination Agreement and the Allied Products Distribution Coordination Agreement (jointly, the “Off-Premise Agreements”) with Anheuser-Busch, Inc., a Missouri corporation (“AB”). Under the Off-Premise Agreements, select Anheuser-Busch distributors (the “AB Distributors”) will distribute and sell, in markets designated by HBC, HBC’s Monster Energy® and Lost® Energy™ brands non-alcoholic energy drinks, Rumba™ brand energy juice and Unbound Energy® brand energy drinks, as well as additional products that may be agreed between the parties. We intend to continue building our national distributor network primarily with select AB distributors as well as with our sales force throughout 2007 to support and grow the sales of our products.

Pursuant to the Anheuser-Busch Distribution Agreements (the “AB Distribution Agreements”) entered into with newly appointed AB Distributors, non-refundable payments totaling \$20.9 million were made to the Company by such newly appointed AB Distributors for the costs of terminating the Company’s prior distributors through December 31, 2006. Such receipts have been accounted for as deferred revenue in the accompanying consolidated balance sheet as of December 31, 2006 and will be recognized as revenue ratably over the anticipated 20 year life of the respective AB Distribution Agreements.

As of December 31, 2006, amounts totaling \$3.3 million had been paid to the Company by certain other AB Distributors in anticipation of executing AB Distribution Agreements with the Company. Such receipts have been accounted for as customer deposit liabilities in the accompanying condensed consolidated balance sheet as of December 31, 2006.

Through December 31, 2006, the Company incurred termination costs amounting to \$12.7 million in aggregate to certain of its prior distributors. Such termination costs have been expensed in full and are included in operating expenses for the year ended December 31, 2006. Certain amounts totaling \$7.0 million included in such termination costs were not paid to our prior distributors before the end of our fiscal year and are therefore included in accrued liabilities in the accompanying consolidated balance sheet as of December 31, 2006.

On February 8, 2007, HBC entered into the On-Premise Distribution Coordination Agreement (the “On-Premise Agreement”) with AB. Under the On-Premise Agreement, AB will manage and coordinate the sales, distribution and merchandising of Monster Energy® energy drinks to on-premise retailers including bars, nightclubs and restaurants in territories approved by HBC.

On March 1, 2007, HBC entered into a distribution agreement with Pepsi-QTG Canada, a division of PepsiCo Canada, ULC (“Pepsi Canada”), for the exclusive distribution by Pepsi Canada throughout Canada of our Monster Energy®, Lost® Energy™, Hansen’s® and Joker Mad Energy™ energy products.

Distribution levels vary from state to state and from product to product. Certain of our products are sold in Canada and Mexico. We also sell a limited range of our products to distributors outside of the United States, including in the Caribbean, Central and South America, Japan, Korea, and Saudi Arabia.

We continually seek to expand distribution of our products by entering into agreements with regional bottlers or other direct store delivery distributors having established sales, marketing and distribution organizations. Many of our bottlers and distributors are affiliated with and manufacture and/or distribute other soda and non-carbonated brands and other beverage products. In many cases, such products compete directly with our products.

We continue to endeavor to reduce our inventory levels.

During 2006, we continued to expand distribution of our natural sodas and smoothies outside of California. We expanded our national sales force to support and grow sales, primarily of Monster Energy® drinks, Lost® Energy™, Ace™, Unbound Energy®, and Joker Mad Energy™ energy drinks, Rumba™ energy juice and Energade® energy sports drinks and we intend to continue to build such sales force in 2007.

Our Blue Sky® products are sold primarily to the health food trade, natural food chains and mainstream grocery store chains, through specialty health food distributors.

During 2004, we entered into exclusive contracts with the State of California (“State”) Department of Health Services, Women, Infant and Children (“WIC”) Supplemental Nutrition Branch (“DHS”) to supply 100% apple juice and 100% blended juice in 64-ounce PET plastic bottles. The contracts commenced on July 12, 2004 and were due to expire in July 2007. The parties have mutually agreed to extend the contracts until July 11, 2008.

Under these contracts Hansen’s is the exclusive supplier for both Apple Juice and for the blended juice category, a new WIC category, initially with our 100% Apple Grape Juice. During 2005, our Apple Strawberry Juice was approved within the blended juice category and became eligible for redemption under the WIC contract in addition to our 100% Apple Grape Juice. The WIC contracts have expanded the distribution of Hansen’s juices, resulting in increased exposure for the Hansen’s® brand. WIC-approved items are stocked by the grocery trade and by WIC-only stores. Products are purchased by WIC consumers with vouchers given by the DHS to qualified participants.

Our principal warehouse and distribution center and corporate offices relocated to our current facility in October 2000. In January 2004, we leased an additional warehouse facility in Corona, California to consolidate additional space that had been leased by us on short term leases from time to time to meet our increased warehousing needs due to increases in both sales volumes and products and terminated two short term leases concerned. This facility was subsequently sublet on April 1, 2007. In June 2006, the Company leased additional warehouse and office space in Corona, California for a one-year period. In October 2006, we entered into a lease agreement pursuant to which we leased 346,495 square feet of warehouse and distribution space also located in Corona, California. This lease commitment provides for minimum rental payments for 120 months commencing March 2007, excluding renewal options. The monthly rental payments are \$167,586 at the commencement of the lease and increase over the lease term by 7.5% at the end of each 30 month period. The new warehouse and distribution space will replace our existing warehouse and distribution space located in Corona, California. We plan to sublet our existing office, warehouse and distribution space for the remainder of the lease term, unless we are able to find a tenant acceptable to the landlord and the landlord agrees to the early termination of the lease.

In October 2006, we also entered into an agreement to acquire 1.8 acres of vacant land for a purchase price of \$1.4 million, located adjacent to the newly leased warehouse and distribution space in Corona, California for the purpose of constructing a new office building which will replace our existing office space in Corona, California. In the interim, we have leased additional office space located near our existing corporate offices. (See “Part I Item 2 – Properties”).

Raw Materials and Suppliers

The principal raw materials used by us are aluminum cans, glass bottles and PET plastic bottles as well as juices, high fructose corn syrup, sucrose and sucralose, the costs of which are subject to fluctuations. Due to the consolidations that have taken place in the glass industry over the past few years, the prices of glass bottles continue to increase. The prices of PET plastic bottles and aluminum cans increased significantly in 2006 and again in 2007. The prices of high fructose corn syrup, sucrose and certain juice concentrates, including apple, increased in 2006 and certain of these ingredients continued to increase in 2007. These increased costs, together with increased costs primarily of energy,

gas and freight, resulted in increases in certain product costs which are ongoing and are expected to continue to exert pressure on our gross margins in 2007. We are uncertain whether the prices of these or any other raw materials or ingredients will continue to rise in the future.

Generally, raw materials utilized by us in our business are readily available from numerous sources. However, certain raw materials are manufactured by only one company. Sucralose, which is used alone or in combination with Acesulfame-K in the Company's low-calorie products, is purchased by us from a single manufacturer. Certain of our cans are only manufactured by a single company in the United States.

With regard to fruit juice and juice-drink products, the industry is subject to variability of weather conditions, which may result in higher prices and/or lower consumer demand for juices.

We purchase beverage flavors, concentrates, juices, supplements, high-fructose corn syrup, cane sugar, sucrose, sucralose and other sweeteners as well as other ingredients from independent suppliers located in the United States and abroad.

Generally, flavor suppliers hold the proprietary rights to their flavors. Consequently, we do not have the list of ingredients or formulae for our flavors and certain of our concentrates readily available to us and we may be unable to obtain these flavors or concentrates from alternative suppliers on short notice. We have identified alternative suppliers of many of the supplements contained in many of our beverages. However, industry-wide shortages of certain fruits and fruit juices, and supplements and sweeteners have been and could, from time to time in the future, be experienced, which could interfere with and/or delay production of certain of our products.

We continually endeavor to develop back-up sources of supply for certain of our flavors and concentrates from other suppliers as well as to conclude arrangements with suppliers which would enable us to obtain access to certain concentrates or flavor formulas in certain circumstances. We have been partially successful in these endeavors. Additionally, in a limited number of cases, contractual restrictions and/or the necessity to obtain regulatory approvals and licenses may limit our ability to enter into agreements with alternative suppliers and manufacturers and/or distributors.

In connection with the development of new products and flavors, independent suppliers bear a large portion of the expense of product development, thereby enabling us to develop new products and flavors at relatively low cost. We have historically developed and successfully introduced new products and flavors and packaging for our products and intend to continue developing and introducing additional new beverages and flavors.

Competition

The beverage industry is highly competitive. The principal areas of competition are pricing, packaging, development of new products and flavors and marketing campaigns. Our products compete with a wide range of drinks produced by a relatively large number of manufacturers, most of which have substantially greater financial, marketing and distribution resources than we do.

Important factors affecting our ability to compete successfully include taste and flavor of products, trade and consumer promotions, rapid and effective development of new, unique cutting edge products, attractive and different packaging, branded product advertising and pricing. We also compete for distributors who will concentrate on marketing our products over those of our competitors, provide stable and reliable distribution and secure adequate shelf space in retail outlets. Competitive pressures in the alternative, energy and functional beverage categories could cause our products to be unable to gain or to lose market share or we could experience price erosion, which could have a material adverse affect on our business and results.

Over the past five years we have experienced substantial competition from new entrants in the energy drink category. A number of companies who market and distribute iced teas and juice cocktails in larger volume packages, such as 16- and 20-ounce glass bottles, including Sobe, Snapple Elements, Arizona and Fuse, have added supplements to their products with a view to marketing their products as “functional” or “energy” beverages or as having functional benefits. We believe that many of those products contain lower levels of supplements and principally deliver refreshment. In addition, many competitive products are positioned differently than our energy or functional drinks. Our smoothies and tea lines are positioned more closely against those products.

We compete not only for consumer acceptance, but also for maximum marketing efforts by multi-brand licensed bottlers, brokers and distributors, many of which have a principal affiliation with competing companies and brands. Our products compete with all liquid refreshments and with products of much larger and substantially better financed competitors, including the products of numerous nationally and internationally known producers such as The Coca-Cola Company, PepsiCo, Inc., Cadbury Schweppes plc, Red Bull GmbH, Kraft Foods, Inc., Nestle Beverage Company, Tree Top and Ocean Spray. We also compete with companies that are smaller or primarily local in operation. Our products also compete with private label brands such as those carried by grocery store chains, convenience store chains and club stores.

Our natural sodas compete directly with traditional soda products including those marketed by The Coca-Cola Company, PepsiCo, Inc. and Cadbury Schweppes plc, as well as with carbonated beverages marketed by smaller or primarily local companies such as Jones Soda Co., Clearly Canadian Beverage Company, Crystal Geysler, J.M. Smucker Company and with private label brands such as those carried by grocery store chains, convenience store chains and club stores.

Our fruit juice smoothies compete directly with Kem’s, Jumex, Jugos del Valle and Libby’s nectars, V8 Smoothies, as well as with single serve juice products produced by many competitors. Such competitive products are packaged in glass and PET bottles ranging from 8- to 48-ounces in size and in 11.5-ounce aluminum cans. The juice content of such competitive products ranges from 1% to 100%.

Our apple and other juice products compete directly with Tree Top, Mott’s, Martinelli’s, Welch’s, Ocean Spray, Tropicana, Minute Maid, Langers, Apple and Eve, Seneca, Northland and also with other brands of apple juice and juice blends, especially store brands.

Our energy drinks, including Hansen’s® energy, Diet Red, Monster Energy®, Lost® Energy™, Joker Mad Energy™, Ace™ Energy, Unbound Energy® and Rumba™ energy juice in 8.3-, 15.5-, 16- and 24-ounce cans, compete directly with Red Bull, Rockstar, Full Throttle, No Fear, Amp, Adrenaline Rush, 180, Extreme Energy Shot, Red Devil, Rip It, NOS, Boo Koo, and many other brands. The Coca-Cola Company and PepsiCo Inc. also market and/or distribute additional products in that market segment such as Mountain Dew, Mountain Dew MDX and Vault.

Our Java Monster™ coffee drinks compete directly with Starbucks Frappuccino and other coffee drinks, Cinnabon coffee drinks and Godiva dairy based drinks.

Our E2O Energy Water® and still water products compete directly with Vitamin Water, Propel, Dasani, Aquafina, Fruit2O, Evian, Crystal Geysler, Naya, Palomar Mountain, Sahara, Arrowhead, Dannon, and other brands of flavored water and still water, especially store brands.

Sales and Marketing

Our sales and marketing strategy is to focus our efforts on developing brand awareness and trial through sampling both in stores and at events in respect of all our beverages and drink mixes. We use our branded vehicles and other promotional vehicles at events at which we distribute our products to consumers for sampling. We utilize “push-pull” methods to achieve maximum shelf and display space exposure in sales outlets and maximum demand from consumers for our products including advertising,

in store promotions and in store placement of point of sale materials and racks, prize promotions, price promotions, competitions, endorsements from selected public and extreme sports figures, coupons, sampling and sponsorship of selected causes such as cancer research and SPCA's as well as of extreme sports teams such as the Pro Circuit – Kawasaki Motocross and Supercross teams, Kawasaki Factory Motocross and Supercross teams, Alan Pflueger Desert Racing Team, Kenny Bernstein Drag Racing Team, extreme sports figures and athletes, sporting events such as the Monster Energy® Pipeline Pro Surfing competition, marathons, 10k runs, bicycle races, volleyball tournaments and other health and sports related activities, including extreme sports, particularly supercross, freestyle motocross, surfing, skateboarding, wakeboarding, skiing, snowboarding, BMX, mountain biking, snowmobile racing, and also participate in product demonstrations, food tasting and other related events. Posters, print, radio and television advertising together with price promotions and coupons, may also be used to promote our brands.

Additionally, in 2003 we entered into a multi-year sponsorship agreement to advertise on the new Las Vegas Monorail (“Monorail Agreement”) with the Las Vegas Monorail Company (“LVMC”) which includes the right to vend our MonsterEnergy® drinks and natural sodas on all stations. The initial term of the Monorail Agreement commenced on January 1, 2005 and has been renewed annually thereafter. We have renewed the agreement for 2007 but at a lower annual rate.

We believe that one of the keys to success in the beverage industry is differentiation such as making Hansen's® products visually distinctive from other beverages on the shelves of retailers. We review our products and packaging on an ongoing basis and, where practical, endeavor to make them different, better and unique. The labels and graphics for many of our products are redesigned from time to time to maximize their visibility and identification, wherever they may be placed in stores and we will continue to reevaluate the same from time to time.

Where appropriate we partner with retailers to assist our marketing efforts. For example, while we retain responsibility for the marketing of the Juice Slam® line of children's multi-vitamin juice drinks, Costco has undertaken partial responsibility for the marketing of the Juice Blast® line.

We increased expenditures for our sales and marketing programs by approximately 50% in 2006 compared to 2005. As of December 31, 2006, we employed 591 employees in sales and marketing activities, of which 231 were employed on a full-time basis.

Customers

Our customers are typically retail grocery and specialty chains, wholesalers, club stores, drug chains, mass merchandisers, convenience chains, full service beverage distributors, health food distributors and food service customers. Sales to our various customer types for 2006 are reflected below. The allocations below reflect changes made by the Company to the categories historically reported.

Retail Grocery, specialty chains and wholesalers	12%
Club stores, drug chains & mass merchandisers	14%
Full service distributors	69%
Health food distributors	2%
Other	3%

Our customers include Cadbury Schweppes Bottling Group (formally known as Dr. Pepper Bottling/7UP Bottling Group), Wal-Mart, Inc. (including Sam's Club), Kalil Bottling Group, Trader Joe's, John Lenore & Company, Costco, Kroger, Safeway and Albertsons. A decision by any large customer to decrease amounts purchased from the Company or to cease carrying our products could have a material negative effect on our financial condition and consolidated results of operations. Cadbury Schweppes Bottling Group, a customer of the DSD division, accounted for approximately 19%, 18% and

13% of our net sales for the years ended December 31, 2006, 2005 and 2004, respectively. Wal-Mart, Inc. (including Sam's Club), a customer of both the DSD and Warehouse divisions, accounted for approximately 12% of our net sales for the year ended December 31, 2006.

Seasonality

Sales of ready-to-drink beverages are somewhat seasonal, with the second and third calendar quarters accounting for the highest sales volumes. The volume of sales in the beverage business may be affected by weather conditions. Sales of our beverage products may become increasingly subject to seasonal fluctuations as more sales occur outside of California with respect to our products. However, the energy drink category appears to be less seasonal than traditional beverages. As the percentage of our sales that are represented by such products continues to increase, seasonal fluctuations will be further mitigated. Quarterly fluctuations may also be affected by other factors, including the introduction of new products, the opening of new markets where temperature fluctuations are more pronounced, the addition of new bottlers and distributors, changes in the mix of sales of our finished products and changes in and/or increased advertising, marketing and promotional expenses.

Intellectual Property

We own numerous trademarks that are very important to our business. Depending upon the jurisdiction, trademarks are valid as long as they are in use and/or their registrations are properly maintained and they have not been found to have become generic. Registrations of trademarks can generally be renewed as long as the trademarks are in use. We also own the copyright in and to numerous statements made and content appearing on the packaging of our products.

We own the Hansen's® trademark. This trademark is crucial to our business and is registered in the U.S. Patent and Trademark Office and in various countries throughout the world. We own a number of other trademark registrations including, but not limited to, A New Kind a Buzz®, Unleash the Beast!®, Hansen's Energy®, Blue Energy®, Energade®, Hansen's E₂O Energy Water®, Hansen's Slim Down®, Power Formula®, The Real Deal®, Liquidfruit®, California's Natural Choice®, Medicine Man®, Hansen's Power®, B·Well®, Anti-ox®, D-stress®, Stamina®, Defense®, Immunejuice®, Hansen's Natural Multi-Vitamin Juice Slam®, Juice Blast®, Red Rocker®, Monster Energy®, M (stylized)®, M Monster Energy® and Hansen's Natural Soda® in the United States and, the Monster®, Monster Energy®, M(stylized)®, Hansen's® and Smoothie® trademarks in a number of countries around the world.

We have applied to register a number of trademarks in the United States and elsewhere including, but not limited to, Monster™, Monster Energy™, M(stylized)™, Assault™, Energy Pro™, Khaos™, Monster M-80™, Predator™, M Monster Mutant™, Joker Mad Energy™, Ace™, Rumba™, Fizzit™ and Fizz Bomb™, Java Monster™, Mean Bean™, Java Monster Big Black™, Loca Moca™ and The Juice is Loose™.

In September 2000, in connection with the acquisition of the Blue Sky Natural Beverage business, we acquired the Blue Sky® trademark which is registered in the United States and Canada, through our wholly owned subsidiary Blue Sky.

In May 2001, in connection with the acquisition of the Junior Juice beverage business, we acquired the Junior Juice® trademark, which is registered in the United States, through our wholly owned subsidiary Junior Juice.

In October 2006, we acquired the Unbound Energy® trademark which is registered in the United States.

On April 4, 2000, the United States Patent and Trademark Office issued a patent to us for an invention related to a shelf structure (rolling rack) and, more particularly, a shelf structure for a walk-in cooler. Such shelf structure is utilized by us to secure shelf space for and to merchandise our energy and functional drinks in cans in refrigerated Vesi coolers and walk-in coolers in retail stores.

Government Regulation

The production, distribution and sale in the United States of many of our products is subject to the Federal Food, Drug and Cosmetic Act; the Dietary Supplement Health and Education Act of 1994; the Occupational Safety and Health Act; various environmental statutes; and various other federal, state and local statutes and regulations applicable to the production, transportation, sale, safety, advertising, labeling and ingredients of such products. California law requires that a specific warning appear on any product that contains a component listed by the State as having been found to cause cancer or birth defects. The law exposes all food and beverage producers to the possibility of having to provide warnings on their products because the law recognizes no generally applicable quantitative thresholds below which a warning is not required. Consequently, even trace amounts of listed components can expose affected products to the prospect of warning labels. Products containing listed substances that occur naturally in the product or that are contributed to the product solely by a municipal water supply are generally exempt from the warning requirement. While none of our beverage products are required to display warnings under this law, we cannot predict whether an important component of any of our products might be added to the California list in the future. We also are unable to predict whether or to what extent a warning under this law would have an impact on costs or sales of our products.

Measures have been enacted in various localities and states that require that a deposit be charged for certain non-refillable beverage containers. The precise requirements imposed by these measures vary. Other deposit, recycling or product stewardship proposals have been introduced in certain states and localities and in Congress, and we anticipate that similar legislation or regulations may be proposed in the future at the local, state and federal levels, both in the United States and elsewhere.

Our facilities in the United States are subject to federal, state and local environmental laws and regulations. Compliance with these provisions has not had, and we do not expect such compliance to have, any material adverse effect upon our capital expenditures, net income or competitive position.

Employees

As of December 31, 2006, we employed a total of 748 employees of which 377 were employed on a full-time basis. Of our 748 employees, we employ 157 in administrative and operational capacities and 591 persons in sales and marketing capacities. We have not experienced any work stoppages and we consider relations with our employees to be good.

Compliance with Environmental Laws

In California, we are required to collect redemption values from our customers and to remit such redemption values to the State of California Department of Conservation based upon the number of cans and bottles of certain carbonated and non-carbonated products sold. In certain other states and Canada where Hansen's® products are sold, we are also required to collect deposits from our customers and to remit such deposits to the respective state agencies based upon the number of cans and bottles of certain carbonated and non-carbonated products sold in such states.

Available Information

Our Internet address is www.hansens.com. Information contained on our website is not part of this annual report on Form 10-K. Our annual report on Form 10-K and quarterly reports on Form 10-Q will be made available free of charge on www.hansens.com, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. In addition, you may request a copy of these filings (excluding exhibits) at no cost by writing or telephoning us at the following address or telephone number:

Hansen Beverage Company
1010 Railroad Street
Corona, CA 92882
(951) 739-6200
(800) HANSENS
(800) 426-7367

ITEM 1A. RISK FACTORS

In addition to the other information in this report, you should carefully consider the following risks. If any of the following risks actually occur, our business, financial condition and/or operating results could be materially adversely affected. The risk factors summarized below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

If we fail to maintain effective disclosure controls and procedures and internal control over financial reporting on a consolidated basis, our stock price and investor confidence in our Company could be materially and adversely affected.

We are required to maintain both disclosure controls and procedures and internal control over financial reporting that are effective for the purposes described in Part II, Item 9A. If we fail to do so, our business, results of operations or financial condition and the value of our stock could be materially harmed.

Part II, Item 9A reports our changes in internal control over financial reporting relating to the documentation of stock option grants. We cannot assure that these efforts will be successful and we may face additional risks of errors or delays in preparing our consolidated financial statements and associated risks of potential late filings of periodic reports and increased expenses arising from such matters.

Legal proceedings related to our historical stock option grant practices and other issues may significantly harm our business.

Several lawsuits have been filed against us and current officers and members of the Board of Directors in connection with our prior stock option practices. These lawsuits are described more fully in Part I, Item 3. "Legal Proceedings" and in Part II, Item 8, Note 10 to our consolidated financial statements contained in this Form 10-K. Defending these lawsuits will result in significant expenditures and the continued diversion of our management's time and attention from the operation of our business, which could have a negative effect on our business operations. From time to time, we may become involved in other litigation or other proceedings. Matters arising out of or related to our review of historic stock option granting practices, including the outcome of the informal inquiry commenced by the SEC, any other proceedings which may be brought against us by the SEC or other governmental agencies, the outcome of our delisting proceedings and the outcome of litigation could possibly harm our future results of operations or financial condition due to expenses we may incur to defend ourselves or the ramifications of an adverse decision.

Increased competition could hurt our business.

The beverage industry is highly competitive. The principal areas of competition are pricing, packaging, development of new products and flavors and marketing campaigns. Our products compete with a wide range of drinks produced by a relatively large number of manufacturers, most of which have substantially greater financial, marketing and distribution resources than we do.

Important factors affecting our ability to compete successfully include taste and flavor of products, trade and consumer promotions, rapid and effective development of new, unique cutting edge products, attractive and different packaging, branded product advertising and pricing. Our products compete with all liquid refreshments and with products of much larger and substantially better financed competitors, including the products of numerous nationally and internationally known producers such as The Coca-Cola Company, PepsiCo Inc., Cadbury Schweppes plc, Red Bull GmbH, Kraft Foods Inc., Nestle Beverage Company, Tree Top and Ocean Spray. We also compete with companies that are smaller or primarily local in operation. Our products also compete with private label brands such as

those carried by grocery store chains, convenience store chains, and club stores. There can be no assurance that we will not encounter difficulties in maintaining our current revenues or market share or position due to competition in the beverage industry. If our revenues decline, our business, financial condition and results of operations could be adversely affected.

We derive a substantial portion of revenues from our energy drinks and competitive pressure in the "energy drink" category could adversely affect our operating results.

A substantial portion of our sales are derived from our energy drinks, including in particular our Monster Energy® brand energy drinks. Our DSD segment which comprises primarily energy drinks, represented 85% of net sales for the year ended December 31, 2006. Any decrease in the sales of our Monster Energy® brand energy drinks could significantly adversely affect our future revenues and net income. Historically, we have experienced substantial competition from new entrants in the energy drink category. Our energy drinks compete directly with Red Bull, Rockstar, Full Throttle, No Fear, Amp, Adrenaline Rush, 180, Extreme Energy Shot, Red Devil, Rip It, Nos, Boo Koo and many other brands. A number of companies who market and distribute iced teas and juice cocktails in different packages, such as 16- and 20-ounce glass bottles, including Sobe, Snapple Elements, Arizona, Fuse, and Vitamin Water, have added supplements to their products with a view to marketing their products as "functional" or "energy" beverages or as having functional benefits. In addition, certain large companies such as The Coca-Cola Company and PepsiCo Inc. market and/or distribute products in that market segment such as Mountain Dew, Mountain Dew MDX, and Vault. Competitive pressures in the energy drink category could impact our revenues or we could experience price erosion or lower market share, any of which could have a material adverse affect on our business and results.

Change in consumer preferences may reduce demand for some of our products.

There is increasing awareness and concern for the health consequences of obesity. This may reduce demand for our non-diet beverages, which could affect our profitability.

Consumers are seeking greater variety in their beverages. Our future success will depend, in part, upon our continued ability to develop and introduce different and innovative beverages. In order to retain and expand our market share, we must continue to develop and introduce different and innovative beverages and be competitive in the areas of quality and health, although there can be no assurance of our ability to do so. There is no assurance that consumers will continue to purchase our products in the future. Additionally, many of our products are considered premium products and to maintain market share during recessionary periods we may have to reduce profit margins which would adversely affect our results of operations. Product lifecycles for some beverage brands and/or products and/or packages may be limited to a few years before consumers' preferences change. The beverages we currently market are in varying stages of their lifecycles and there can be no assurance that such beverages will become or remain profitable for us. The beverage industry is subject to changing consumer preferences and shifts in consumer preferences may adversely affect us if we misjudge such preferences. We may be unable to achieve volume growth through product and packaging initiatives. We also may be unable to penetrate new markets. If our revenues decline, our business, financial condition and results of operations will be adversely affected.

We rely on bottlers and other contract packers to manufacture our products. If we are unable to maintain good relationships with our bottlers and contract packers and/or their ability to manufacture our products becomes constrained or unavailable to us, our business could suffer.

We do not directly manufacture our products, but instead outsource such manufacturing to bottlers and other contract packers. Although our production arrangements are generally of short duration or are terminable upon request, in the event of a disruption or delay, we may be unable to procure alternative packing facilities at commercially reasonable rates and/or within a reasonably short time period. In addition, there are limited packing facilities in the United States with adequate capacity

and/or suitable equipment for many of our products, including Hansen's® brand energy drinks in 8.3-ounce and 16-ounce cans, our PET tea line, aseptic juice products, juices in 64-ounce PET plastic bottles, Energade®, Monster Energy®, Lost® Energy™, Ace™, Unbound Energy®, Rumba™ and Joker Mad Energy™ energy drinks in 8.3-, 15.5-, 16-, and 24-ounce cans, Java Monster™ coffee drinks in 16-ounce cans and other products. There are also limited shrink sleeve labeling facilities available to us in the United States with adequate capacity for our E2O Energy Water®. A disruption or delay in production of any of such products could significantly affect our revenues from such products as alternative co-packing facilities in the United States with adequate capacity may not be available for such products either at commercially reasonable rates, and/or within a reasonably short time period, if at all. Consequently, a disruption in production of such products could adversely affect our revenues.

We rely on bottlers and distributors to distribute our DSD products. If we are unable to secure such bottlers and distributors and/or we are unable to maintain good relationships with our existing bottlers and distributors, our business could suffer.

We continually seek to expand distribution of our products by entering into agreements with regional bottlers or other direct store delivery distributors having established sales, marketing and distribution organizations. Many of our bottlers and distributors are affiliated with and manufacture and/or distribute other soda and non-carbonated brands and other beverage products (both alcoholic and non-alcoholic), including energy drinks. In many cases, such products compete directly with our products.

The marketing efforts of our distributors are important for our success. If our DSD brands prove to be less attractive to our existing bottlers and distributors and/or if we fail to attract additional bottlers and distributors, and/or our bottlers and/or distributors do not market and promote our products above the products of our competitors, our business, financial condition and results of operations could be adversely affected.

Our customers are material to our success. If we are unable to maintain good relationships with our existing customers, our business could suffer.

Unilateral decisions could be taken by our distributors, and/or convenience chains, grocery chains, specialty chain stores, club stores and other customers to discontinue carrying all or any of the our products that they are carrying at any time, which could cause our business to suffer.

Two customers accounted for approximately 19% and 12% of the Company's net sales for the year ended December 31, 2006, respectively. One customer accounted for approximately 18% and 13% of the Company's net sales for the years ended December 31, 2005 and 2004, respectively. A decision by either customer, or any other large customer, to decrease the amount purchased from the Company or to cease carrying the Company's products could have a material adverse effect on the Company's financial condition and consolidated results of operations.

We have exclusive contracts with the State of California ("State") Department of Health Services, Women, Infant and Children ("WIC") Supplemental Nutrition Branch ("DHS") to supply 100% apple juice and 100% blended juice, in 64-ounce PET plastic bottles. The contracts are each for a period of three years with a further one-year extension option to be mutually agreed between Hansen's and the State of California. The parties have mutually agreed to extend the contracts until July 11, 2008. There is no certainty whether we will be successful in securing any new future WIC contracts with the State. If we are unsuccessful in securing new future WIC contracts with the State, our revenues from those products could be materially adversely affected.

Increases in cost or shortages of raw materials or increases in costs of co-packings could harm our business.

The principal raw materials used by us comprise aluminum cans, glass bottles and PET plastic bottles as well as juices, high fructose corn syrup, sucrose and sucralose, the costs of which are subject to

fluctuations. Due to the consolidations that have taken place in the glass industry over the past few years, the prices of glass bottles continue to increase. The prices of PET plastic bottles and aluminum cans increased in 2006 and again in 2007. The prices of high fructose corn syrup, sucrose and certain juice concentrates, including apple, increased in 2006 and certain of these ingredients continued to increase in early 2007. These increased costs, together with increased costs primarily of energy and gas and freight resulted in increases in certain product costs which are ongoing and are expected to continue to exert pressure on our gross margins in 2007. In addition, certain of our co-pack arrangements allow such co-packers to increase their charges based on certain of their own cost increases. We are uncertain whether the prices of any of the above or any other raw materials or ingredients will continue to rise in the future and whether we will be able to pass any of such increases on to our customers.

In addition, some of these raw materials, such as a sucralose and certain sizes of cans, are available from a limited number of suppliers. Sucralose, which is used in many of the Company's products including the Company's low-calorie products, is purchased by us from a single manufacturer. While we believe that our 2007 sucralose volume allocation will be sufficient to meet the demand for our products that contain sucralose, we may need to reformulate certain of those products that contain sucralose with alternative sweetener systems to avoid an interruption in supply of those products, should the need arise.

We may not correctly estimate demand for our products. Our ability to estimate demand for our products is imprecise, particularly with new products, and may be less precise during periods of rapid growth, particularly in new markets. If we materially underestimate demand for our products or are unable to secure sufficient ingredients or raw materials including, but not limited to, PET plastic bottles, cans, glass, labels, sucralose, flavors, supplements, certain sweeteners, or packing arrangements, we might not be able to satisfy demand on a short-term basis. Moreover, industry-wide shortages of certain juice concentrates, supplements and sweeteners have been and could, from time to time in the future, be experienced, which could interfere with and/or delay production of certain of our products and could have a material adverse effect on our business and financial results. We do not use hedging agreements or alternative instruments to manage this risk.

The costs of packaging supplies are subject to price increases from time to time and we may be unable to pass all or some of such increased costs on to our customers.

The majority of our packaging supplies contracts allow our suppliers to alter the costs they charge us for packaging supplies based on changes in the costs of the underlying commodities that are used to produce those packaging supplies, such as resin for PET bottles, aluminum for cans, pulp for cartons and/or trays. These changes in the prices we pay for our packaging supplies occur at certain predetermined times that vary by product and supplier. Accordingly, we bear the risk of increases in the costs of these packaging supplies, including the underlying costs of the commodities that comprise these packaging supplies. We do not use derivative instruments to manage this risk. If the costs of these packaging supplies increase, we may be unable to pass these costs along to our customers through corresponding adjustments to the prices we charge, which could have a material adverse effect on our results of operations.

We rely upon our ongoing relationships with our key flavor suppliers. If we are unable to source our flavors on acceptable terms from our key suppliers, we could suffer disruptions in our business.

Generally, flavor suppliers hold the proprietary rights to their flavors. Consequently, we do not have the list of ingredients or formulae for our flavors and certain of our concentrates readily available to us and we may be unable to obtain these flavors or concentrates from alternative suppliers on short notice. Industry-wide shortages of certain juice concentrates, supplements and sweeteners have been and could, from time to time in the future, be experienced, which could interfere with and/or delay production of certain of our products. If we have to replace a flavor supplier, we could experience temporary disruptions in our ability to deliver products to our customers which could have a material adverse effect on our results of operations.

Our intellectual property rights are critical to our success, the loss of such rights could materially adversely affect our business.

We own numerous trademarks that are very important to our business. We also own the copyright in and to portion of the content on the packaging of our products. We regard our trademarks, copyrights, and similar intellectual property as critical to our success and attempt to protect such property with registered and common law trademarks and copyrights, restrictions on disclosure and other actions to prevent infringement. Product packages, mechanical designs and artwork are important to our success and we take action to protect against imitation of our packaging and trade dress and to protect our trademarks and copyrights as necessary. However, there can be no assurance that other third parties will not infringe or misappropriate our trademarks and similar proprietary rights. If we lose some or all of our intellectual property rights, our business may be materially adversely affected.

Significant changes in government regulation may hinder sales.

The production, distribution and sale in the United States of many of our products is subject to the Federal Food, Drug and Cosmetic Act; the Dietary Supplement Health and Education Act of 1994; the Occupational Safety and Health Act; various environmental statutes; and various other federal, state and local statutes and regulations applicable to the production, transportation, sale, safety, advertising, labeling and ingredients of such products. New statutes and regulations may also be instituted in the future. If a regulatory authority finds that a current or future product or production run is not in compliance with any of these regulations, we may be fined, or such products may have to be recalled and/or reformulated and/or packaging changed, thus adversely affecting our financial condition and operations. California law requires that a specific warning appear on any product that contains a component listed by the State as having been found to cause cancer or birth defects. While none of our beverage products are required to display warnings under this law, we cannot predict whether an important component of any of our products might be added to the California list in the future. We also are unable to predict whether or to what extent a warning under this law would have an impact on costs or sales of our products.

If we are unable to maintain brand image or product quality, or if we encounter product recalls, our business may suffer.

Our success depends on our ability to maintain and build brand image for our existing products, new products and brand extensions. We have no assurance that our advertising, marketing and promotional programs will have the desired impact on our products' brand image and on consumer preferences. Product quality issues, real or imagined, or allegations of product contamination, even if fake or unfounded, could tarnish the image of the affected brands and may cause consumers to choose other products. We may be required from time to time to recall products entirely or from specific co-packers, markets or batches. Product recalls could adversely affect our profitability and our brand image. We do not maintain recall insurance.

While we have to date not experienced any credible product liability litigation, there is no assurance that we will not experience such litigation in the future. In the event we were to experience product liability claims or a product recall, our financial condition and business operations could be materially adversely effected.

If we do not maintain sufficient inventory levels or if we are unable to deliver our products to our customers in sufficient quantities, or if our retailer's inventory levels are too high, our operating results will be adversely affected.

If we do not accurately anticipate the future demand for a particular product or the time it will take to obtain new inventory, our inventory levels will not be appropriate and our results of operations

may be negatively impacted. If we fail to meet our shipping schedules, we could damage our relationships with distributors and/or retailers, increase our shipping costs or cause sales opportunities to be delayed or lost. In order to be able to deliver our products on a timely basis, we need to maintain adequate inventory levels of the desired products. If the inventory of our products held by our distributors and/or retailers is too high, they will not place orders for additional products, which would unfavorably impact our future sales and adversely affect our operating results.

If we are not able to retain the full-time services of senior management there may be an adverse effect on our operations and/or our operating performance until we find suitable replacements.

Our business is dependent, to a large extent, upon the services of our senior management. We do not maintain key person life insurance for any members of our senior management. We currently have employment agreements with Mr. Sacks and Mr. Schlosberg which end on December 31, 2008. The loss of services of either of these persons or any other key members of our senior management could adversely affect our business until suitable replacements can be found. There may be a limited number of personnel with the requisite skills to serve in these positions and we may be unable to locate or employ such qualified personnel on acceptable terms.

Weather could adversely affect our supply chain and demand for our products.

With regard to fruit juice, fruit juice concentrates and natural flavors, the beverage industry is subject to variability of weather conditions, which may result in higher prices and/or the nonavailability of any of such items. Sales of our products may also be influenced to some extent by weather conditions in the markets in which we operate, particularly in areas outside of California. Weather conditions may influence consumer demand for certain of our beverages, which could have an adverse effect on our results of operations.

Potential changes in accounting practices and/or taxation may adversely affect our financial results.

We cannot predict the impact that future changes in accounting standards or practices may have on our financial results. New accounting standards could be issued that could change the way we record revenues, expenses, assets and liabilities. These changes in accounting standards could adversely affect our reported earnings. Increases in direct and indirect income tax rates could affect after tax income. Equally, increases in indirect taxes (including environmental taxes pertaining to the disposal of beverage containers) could affect our products' affordability and reduce our sales.

Volatility of stock price may restrict sale opportunities.

Our stock price is affected by a number of factors, including stockholder expectations, financial results, the introduction of new products by us and our competitors, general economic and market conditions, estimates and projections by the investment community and public comments by other persons and many other factors, many of which are beyond our control. We may be unable to achieve analysts' 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. As a result, our stock price is subject to significant volatility and stockholders may not be able to sell our stock at attractive prices.

Provisions in our organizational documents and control by insiders may prevent changes in control even if such changes would be beneficial to other stockholders.

Our organizational documents may limit changes in control. Furthermore, on May 16, 2007, Mr. Sacks and Mr. Schlosberg together may be deemed to control a maximum of 21.8% of our outstanding common stock. Consequently, Mr. Sacks and Mr. Schlosberg could exercise significant control on matters submitted to a vote of our stockholders, including electing directors, amending organizational documents and approving extraordinary transactions such as a takeover attempt, even though such actions may be favorable to the other common stockholders.

Our cash flow may not be sufficient to fund our long term goals.

We may be unable to generate sufficient cash flow to support our capital expenditure plans and general operating activities. In addition, the terms and/or availability of our credit facility and/or the activities of our creditors could affect the financing of our future growth.

Litigation or legal proceedings could expose us to significant liabilities and thus negatively affect our financial results.

We are a party, from time to time, to various litigation claims and legal proceedings, which could adversely affect our financial results.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate offices and main warehouse are currently located at 1010 Railroad Street, Corona, California 92882. Our lease for this facility expires in October 2010. The area of the facility is approximately 141,000 square feet. Additionally, in January 2004 we entered into a lease for additional warehouse space in Corona, California. The area of this facility is approximately 80,000 square feet. This lease will expire at the end of March 2008 with an option to extend the lease until October 2010. This facility was subsequently sublet on April 1, 2007. In June 2006, the Company leased additional warehouse and office space in Corona, California for a one year period.

In October 2006, we entered into a lease agreement pursuant to which we leased 346,495 square feet of warehouse and distribution space located in Corona, California. This lease commitment provides for minimum rental payments for 120 months commencing March 2007, excluding renewal options. The monthly rental payments are \$167,586 at the commencement of the lease and increase over the lease term by 7.5% at the end of each 30 month period. The new warehouse and distribution space will replace our existing warehouse and distribution space located in Corona, California. We plan to sublet our existing office, warehouse and distribution space for the remainder of the lease term, unless we are able to find a tenant acceptable to the landlord and the landlord agrees to the early termination of the lease.

In October 2006, we also entered into an agreement to acquire 1.8 acres of vacant land for a purchase price of \$1.4 million, located adjacent to the new leased warehouse and distribution space located in Corona, California for the purpose of constructing a new office building which will replace the Company's existing office space in Corona, California. In the interim, we have leased additional office space located near our existing corporate offices.

We also rent additional warehouse space on a short-term basis from time to time in public warehouses situated throughout the United States and Canada.

ITEM 3. LEGAL PROCEEDINGS

Litigation - In June 2006, HBC filed a lawsuit against Rockstar, Inc., Rockstar Beverage Corporation and Rockstar Brewing Company, Inc., all Nevada corporations (collectively "Rockstar"), for false designation of origin, trademark infringement, unfair competition, deceptive trade practices and unfair competition, seeking an injunction and damages based on Rockstar's unauthorized use of HBC's valuable and distinctive Monster Energy® trade dress in connection with its alcoholic energy beverage

known as “Rockstar 21.” HBC alleges that the overall appearance of Rockstar’s “Rockstar 21” beverage container is confusingly similar to the appearance of HBC’s Monster Energy® beverages. Further, HBC alleges that Rockstar is infringing on other trademarks owned and used by HBC. Rockstar has denied HBC’s allegations and filed counterclaims against HBC based on allegations that HBC has removed and destroyed Rockstar point-of-sale advertisements from retail stores. Hansen believes Rockstar’s counterclaims are without merit and intends to diligently defend against those counterclaims. In September 2006, the court dismissed HBC’s claims on summary judgment and Rockstar’s counterclaims were withdrawn without prejudice. Hansen has appealed the court’s decision which is currently pending before the United States Court of Appeals for the Ninth Circuit.

In August 2006, HBC filed a lawsuit against National Beverage Company, Shasta Beverages, Inc., Newbevco Inc. and Freek ’N Beverage Corp. (collectively “National”) seeking an injunction and damages for trademark infringement, trademark dilution, unfair competition and deceptive trade practices based on National’s unauthorized use of HBC’s valuable and distinctive Monster Energy® trade dress in connection with a line of energy drinks it launched under the “Freek” brand name. On October 5, 2006 the United States District Court for the Central District of California issued a preliminary injunction enjoining National from manufacturing, distributing, shipping, marketing, selling or offering to sell Freek energy drinks in containers that are the same or similar to the current containers or any containers confusingly similar to HBC’s current Monster Energy® trade dress. National has appealed the decision of the United States District Court for the Central District of California to grant the preliminary injunction and this appeal is currently pending before the United States Court of Appeals for the Ninth Circuit. National has filed a counter claim against HBC for injunctive relief preventing HBC and its agents from continuing to destroy “Freek” point of sale materials, disparaging “Freek” products and intentionally interfering with National’s economic and business relationships. Based on the allegations contained in the National counter claims, the Company believes the National claims are without merit. The trial in the above complaint for HBC’s claims for a permanent injunction, damages and costs, and with respect to National’s counter claims, is scheduled to begin on August 7, 2007. The ultimate outcome of this matter cannot be predicted with certainty.

In August 2006, HBC filed an action in the Federal Courts of Australia, Victoria District Registry against Bickfords Australia (Pty) Limited and Meak (Pty) Ltd. (collectively “Bickfords”), in which HBC is seeking an injunction restraining Bickfords from selling or offering for sale or promoting for sale in Australia any energy drink or beverage under the Monster Energy or Monster marks or any similar marks and for damages and costs. The hearing took place in February 2007 and was adjourned for argument to be presented to the court in June 2007.

In September 2006, Christopher Chavez purporting to act on behalf of himself and a class of consumers yet to be defined filed an action in the United States District Court, Northern District of California, against the company and its subsidiaries for unfair business practices, false advertising, violation of California Consumers Legal Remedies Act, fraud, deceit and/or misrepresentation alleging that the company misleadingly labels its Blue Sky beverages as originating in and/or being canned under the authority of a company located in Santa Fe, New Mexico. The company has been advised by counsel that it has valid defenses to Chavez’s class action lawsuit and intends to vigorously defend the action.

The Company is subject to litigation from time to time in the normal course of business. Although it is not possible to predict the outcome of such litigation, based on the facts known to the Company and after consultation with counsel, management believes that such litigation in the aggregate will likely not have a material adverse effect on the Company’s financial position or results of operations.

Derivative Litigation - From November 2006 through January 2007, purported derivative lawsuits relating to the Company’s past stock option grants were filed by parties identifying themselves as shareholders of Hansen. These lawsuits name as defendants certain of Hansen’s current and former employees, officers and directors, and name Hansen as a nominal defendant. Three of these cases, Chandler v. Sacks, et al. (No. RIC460186), Plotkin v. Sacks, et al. (No. RIC460485), and Alama v. Sacks, et al. (No. RIC463968), were filed in the Superior Court of California, County of Riverside (the “State

Derivative Actions”). Two additional shareholder derivative lawsuits, *Linan v. Sacks, et al.* (No. ED CV 06-01393) and *Cribbs v. Blower et al.* (No. ED CV 07-00037), were filed in the United States District Court for the Central District of California. On March 26, 2007, the *Cribbs* and *Linan* actions were consolidated for all purposes before the District Court, which appointed lead and local counsel and restyled the action as *In re Hansen Natural Corporation Derivative Litigation* (No. ED CV 07-37 JFW (PLAx)) (the “Federal Derivative Action”).

Plaintiffs in both the State Derivative Actions and the Federal Derivative Action, who purport to bring suit on behalf of the Company, have made no demand on the Board of Directors and allege that such demand is excused. The complaints in the derivative actions allege, among other things, that by improperly dating certain Hansen stock option grants, defendants breached their fiduciary duties, wasted corporate assets, unjustly enriched themselves and violated federal and California statutes. Plaintiffs seek, among other things, unspecified damages to be paid to Hansen, corporate governance reforms, an accounting, rescission, restitution and the creation of a constructive trust.

On April 4, 2007, the plaintiff in the Chandler action applied for a temporary restraining order and a preliminary injunction, seeking, *inter alia*, to restrain an April 20, 2007 shareholders meeting, to impose restrictions on the defendants’ ability to issue or exercise stock options or to transfer the proceeds of stock option grants, and to compel discovery. On April 6, 2007, the Superior Court of California denied plaintiff’s application for a temporary restraining order in its entirety. On April 24, 2007, the plaintiff in the Chandler action filed a motion for a preliminary injunction again seeking, *inter alia*, to impose restrictions on the defendants’ ability to issue or exercise stock options or to transfer the proceeds of stock option grants, and to compel discovery. On April 24, 2007, defendants filed a motion to consolidate the State Derivative Actions as well as a motion seeking to stay the State Derivative Actions. By stipulation that was so ordered by the Court on May 25, 2007, the parties agreed to resolve the April 24, 2007 motions as follows: (i) the Chandler and Plotkin actions are now consolidated; (ii) the consolidated State Derivative Actions are stayed for all purposes until February 29, 2008; and (iii) the motion for a preliminary injunction has been withdrawn and may not be refiled while the stay is pending.

On April 16, 2007, the *Alama v. Sacks* lawsuit filed in California Superior Court was voluntarily dismissed. On May 23, 2007, *Alama* filed a substantially similar complaint in the Chancery Court of Delaware, New Castle County (No. 2978).

On April 11, 2007, plaintiffs in the Federal Derivative Action filed an application for a temporary restraining order and preliminary injunction seeking to prevent an April 20, 2007, shareholders meeting and alleged violation of federal laws relating to proxy statements. On April 16, 2007, the District Court denied plaintiffs’ application for a temporary restraining order and *sua sponte* ordered plaintiffs to show cause why sanctions should not be issued against plaintiffs’ law firm for the filing of a frivolous motion. On May 30, 2007, the District Court, while noting that it still found that plaintiffs’ application for a temporary restraining order “bordered on the frivolous,” declined to impose sanctions against plaintiffs’ law firm. On April 23, 2007, the Federal Derivative Action plaintiffs filed an amended consolidated complaint. The Company must answer or otherwise respond to the complaint by June 11, 2007.

Based on the allegations contained in the complaints, the Company believes that Plaintiffs’ claims are without merit, and the Company intends to vigorously defend against the lawsuits. However, the ultimate outcome of these matters cannot be predicted with certainty.

Securities Litigation - From November 2006 through December 2006, several plaintiffs filed shareholder class actions in the United States District Court for the Central District of California against Hansen and certain of its employees, officers and directors, entitled *Hutton v. Hansen Natural Corp., et al.* (No. 06-07599), *Kingery v. Hansen Natural Corp., et al.* (No. 06-07771), *Williams v. Hansen Natural Corp., et al.* (No. 06-01369), *Ziolkowski v. Hansen Natural Corp., et al.* (No. ED 06-01403), *Walker v. Hansen Natural Corp., et al.* (No. 06-08229) (the “Class Actions”). On February 27, 2007, the Class Actions were consolidated by the District Court and styled as *In re Hansen Natural Corporation Securities Litigation* (CV06-07599 JFW (PLAx)). The Court appointed Jason E. Peltier as lead plaintiff

("Lead Plaintiff") and approved lead counsel. Lead Plaintiff filed a consolidated class action complaint on April 30, 2007. The consolidated class action complaint supersedes all previously filed class action complaints and is the operative complaint to which the Company must respond. The Company must answer or otherwise respond to the complaint by June 25, 2007. Lead Plaintiff alleges, on behalf of all persons who purchased Hansen common stock during the period beginning November 12, 2001 through November 9, 2006 (the "Class Period"), that Hansen and the individual defendants made misleading statements and omissions of material fact which artificially inflated the market price of Hansen common stock throughout the Class Period. Plaintiffs further allege that defendants violated Sections 10(b) and 20(a) of the Securities and Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by misrepresenting or failing to disclose that defendants incorrectly dated stock option grants, that the Company's internal controls were inadequate, and that, as a result, defendants engaged in improper accounting practices. Plaintiffs seek an unspecified amount of damages.

Based on the allegations contained in the amended consolidated complaint, the Company believes that Plaintiffs' claims are without merit, and the Company intends to vigorously defend against the lawsuit. However, the ultimate outcome of this matter cannot be predicted with certainty.

SEC Inquiry - On October 26, 2006, the Company received a letter from the Staff of the Pacific Regional Office of the Securities and Exchange Commission (the "SEC") requesting that the Company voluntarily produce certain documents and information relating to the Company's filing of SEC Forms 4 and the Company's stock option grant practices from January 1, 1996 to the present. The SEC subsequently agreed, in the absence of any further requests, to limit the voluntary production of certain documents and information from January 1, 2001 to the present. The Company has cooperated with the SEC and believes it has completed its production of the documents and information requested in the October 26, 2006 letter.

Except as described above, there are no material pending legal proceedings to which we or any of our subsidiaries is a party or to which any of our properties is subject, other than ordinary and routine litigation incidental to our business.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On June 1, 2006, the Company held a special meeting of stockholders for the following purposes: (1) to approve an amendment to the Company's Certificate of Incorporation to increase the number of authorized shares of common stock, par value \$0.005 per share, from 30,000,000 (pre-split) to 120,000,000 (post-split); and (2) to approve an amendment to the Company's 2001 Stock Option Plan to increase the number of shares of common stock reserved for issuance thereunder by 1,500,000 pre-split; 6,000,000 post-split (see Part II, Item 8, Notes 1 and 12 to our consolidated financial statements contained in this Form 10-K). The stockholders approved the increase in the number of authorized shares and the amendment to the Company's 2001 Stock Option Plan.

The annual meeting of stockholders of the Company was held on November 10, 2006. At the meeting, the following individuals were elected as directors of the Company and received the number of votes set opposite their respective names:

Director	Votes For	Votes Withheld
Rodney C. Sacks	67,477,688	17,816,862
Hilton H. Schlosberg	66,570,408	18,724,142
Benjamin M. Polk	67,240,983	18,053,567
Norman C. Epstein	80,210,176	5,084,374
Harold C. Taber, Jr.	79,732,948	5,561,602
Mark S. Vidergauz	65,720,322	19,574,228
Sydney Selati	82,881,289	2,413,261

In addition, at the meeting our stockholders ratified the appointment of Deloitte & Touche LLP as the independent registered public accounting firm of the Company for the year ended December 31, 2006, by a vote of 84,784,685 for, 323,722 against, 186,141 abstaining and zero broker non-votes.

On April 20, 2007, the Company held a special meeting of stockholders to approve an amendment to Section 4(a) of the Company's Stock Option Plan for Outside Directors (the "1994 Plan"), which extended the time period during which grants may be made under the 1994 Plan through November 30, 2004. The stockholders approved the amendment by a vote of 51,977,232 for, 10,496,620 against, 115,816 abstaining and no broker non-votes. The Company has informed Nasdaq that such stockholder approval was obtained.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Principal Market

The Company's common stock began trading in the over-the-counter market on November 8, 1990 and is quoted on the Nasdaq Capital Market under the symbol "HANS". As of May 16, 2007, there were 90,059,124 shares of the Company's common stock outstanding held by approximately 411 holders of record.

Stock Price and Dividend Information

The following table sets forth high and low bid closing quotations of our common stock for the periods indicated (as adjusted for the stock split that occurred on July 7, 2006 and the stock split that occurred on August 8, 2005) (see Part II, Item 8, Note 1 to our consolidated financial statements contained in this Form 10-K):

<u>Year Ended December 31, 2007</u>	<u>High</u>	<u>Low</u>
First Quarter	\$42.24	\$32.50

<u>Year Ended December 31, 2006</u>	<u>High</u>	<u>Low</u>
First Quarter	\$31.72	\$19.40
Second Quarter	\$50.53	\$30.29
Third Quarter	\$52.72	\$26.06
Fourth Quarter	\$35.57	\$24.75

<u>Year Ended December 31, 2005</u>	<u>High</u>	<u>Low</u>
First Quarter	\$ 7.50	\$ 4.19
Second Quarter	\$10.77	\$ 6.66
Third Quarter	\$13.43	\$10.12
Fourth Quarter	\$21.68	\$10.50

The quotations for the common stock set forth above represent bid quotations between dealers, do not include retail markups, mark-downs or commissions and bid quotations may not necessarily represent actual transactions and "real time" sale prices. The source of the bid information is the NASDAQ Stock Market, Inc.

We have not paid cash dividends to our stockholders since our inception and do not anticipate paying cash dividends in the foreseeable future.

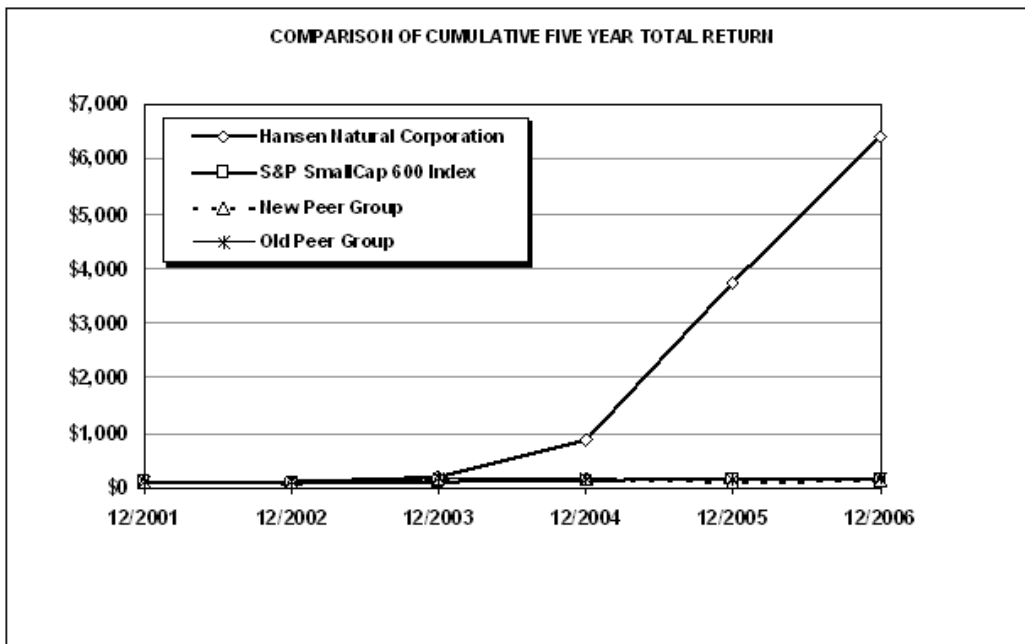
Equity Compensation Plan Information

The following table sets forth information as of December 31, 2006 with respect to shares of our common stock that may be issued under our equity compensation plans.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by stockholders	12,534,450	\$ 5.17	6,902,450
Equity compensation plans not approved by stockholders	—	—	—
Total	12,534,450	\$ 5.17	6,902,450

Performance Graph

The following graph shows a five-year comparison of cumulative total returns:(1)



(1) Annual return assumes reinvestment of dividends. Cumulative total return assumes an initial investment of \$100 on December 31, 2001. The Company's new self-selected peer group is comprised of National Beverage Corporation, Clearly Canadian Beverage Company, Leading Brands, Inc., Jones Soda Company and Cott Corporation. The Company's old self-selected peer group is comprised of National Beverage Corporation, Clearly Canadian Beverage Company, Triarc Companies, Inc., Leading Brands, Inc., Cott Corporation and Northland Cranberries (acquired by Sun Northland LLC in November 2005).

ITEM 6. SELECTED FINANCIAL DATA

The consolidated statements of operations data set forth below with respect to each of the years ended December 31, 2002 through 2006 and the balance sheet data as of December 31, for the years indicated, are derived from our audited consolidated financial statements and should be read in conjunction with those financial statements and notes thereto, and with the Management's Discussion and Analysis of Financial Condition and Results of Operations included as Part II, Item 7 of this Annual Report on Form 10-K.

(in thousands, except per share information)	2006	2005	2004	2003	2002
Gross sales*	\$ 696,322	\$ 415,417	\$ 224,098	\$ 135,655	\$ 112,885
Net sales	\$ 605,774	\$ 348,886	\$ 180,341	\$ 110,352	\$ 92,046
Gross profit	\$ 316,594	\$ 182,543	\$ 83,466	\$ 43,775	\$ 32,032
Gross profit as a percentage to net sales	52.3%	52.3%	46.3%	39.7%	34.8%
Operating income	\$ 158,579	\$ 103,443	\$ 33,886	\$ 9,826	\$ 5,293
Net income	\$ 97,949	\$ 62,775	\$ 20,387	\$ 5,930	\$ 3,029
Net income per common share					
Basic	\$ 1.09	\$ 0.71	\$ 0.24	\$ 0.07	\$ 0.04
Diluted	\$ 0.99	\$ 0.65	\$ 0.22	\$ 0.07	\$ 0.04
Total assets	\$ 308,372	\$ 163,890	\$ 82,022	\$ 47,997	\$ 40,464
Long-term debt	\$ 303	\$ 525	\$ 583	\$ 602	\$ 3,837
Stockholders' equity	\$ 225,084	\$ 125,509	\$ 58,571	\$ 35,050	\$ 28,371

* Gross sales, although used internally by management as an indicator of operating performance, should not be considered as an alternative to net sales, which is determined in accordance with generally accepted accounting principals in the United States of America ("GAAP"), and should not be used alone as an indicator of operating performance in place of net sales. Additionally, gross sales may not be comparable to similarly titled measures used by other companies as gross sales has been defined by the Company's internal reporting requirements. However, gross sales is used by management to monitor operating performance including sales performance of particular products, salesperson performance, product growth or declines and overall Company performance. The use of gross sales allows evaluation of sales performance before the effect of any promotional items, which can mask certain performance issues. Management believes the presentation of gross sales allows a more comprehensive presentation of the Company's operating performance. Gross sales may not be realized in the form of cash receipts as promotional payments and allowances may be deducted from payments received from customers (See "Part II, Item 7 - Results of Operations").

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is provided as a supplement to – and should be read in conjunction with – our financial statements and the accompanying notes ("Notes") included in Part II, Item 8 of this Form 10-K. This discussion contains forward-looking statements that are based on management's current expectations, estimates and projections about our business and operations. Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements.

This overview provides our perspective on the individual sections of MD&A. MD&A includes the following sections:

- *Review of Historic Stock Option Granting Practices* – a discussion of our review of historic stock option granting practices and related findings.
- *Nasdaq Proceedings* – a discussion of our Nasdaq proceedings.
- *Our Business* – a general description of our business; the value drivers of our business; and opportunities and risks;
- *Results of Operations* – an analysis of our consolidated results of operations for the three years presented in our financial statements;
- *Liquidity and Capital Resources* – an analysis of our cash flows, sources and uses of cash and contractual obligations;
- *Accounting Policies and Pronouncements* – a discussion of accounting policies that require critical judgments and estimates including newly issued accounting pronouncements;
- *Sales* – details of our sales measured on a quarterly basis in both dollars and cases;
- *Inflation* – information about the impact that inflation may or may not have on our results;
- *Forward Looking Statements* – cautionary information about forward looking statements and a description of certain risks and uncertainties that could cause our actual results to differ materially from the company's historical results or our current expectations or projections; and
- *Market Risks* – Information about market risks and risk management. See ("*Forward Looking Statements*" and "Part II, Item 7A. - Qualitative AND Quantitative Disclosures About Market Risks").

Review of Historic Stock Option Granting Practices

On October 26, 2006, we received a letter from the Staff of the Pacific Regional Office of the SEC requesting that we voluntarily produce certain documents and information relating to the filing of SEC Forms 4 and our stock option granting practices from January 1, 1996 to the present. The SEC subsequently agreed, in the absence of any further requests, to limit the voluntary production of certain documents and information from January 1, 2001 to the present. We have cooperated with the SEC and believe that we have completed our production of the documents and information requested in the October 26, 2006 letter.

In November 2006, we appointed a special committee of the Board of Directors (the "Special Committee") to undertake an independent investigation relating to our stock option grants and our stock option granting practices. The Special Committee retained independent counsel and accounting advisors to assist in conducting the investigation. The Special Committee reviewed all stock option grants from January 1, 2001 through November 13, 2006. In the course of its investigation, the Special Committee reviewed over one million documents and emails and extensively interviewed numerous officers and directors, as well as certain other personnel.

The Special Committee has completed its independent investigation and found no willful or intentional misconduct in connection with the granting or dating of, or accounting for, stock options. The Special Committee also found that the late filing of certain Form 4 reports, as identified in a report issued

last year by Glass Lewis & Co., did not indicate that option grants had been backdated. The Special Committee found no evidence raising concerns with the integrity of management and found that management and other company personnel interviewed in the course of the investigation were cooperative and credible.

Based on the Special Committee's review of all stock option grants and our evaluation of applicable accounting rules, management concluded that the terms with respect to 10 new hire grants and two merit grants, had not been determined with finality as at the grant date, resulting in a decision to change the measurement dates for such grants. Additionally, seven grants were identified where the stock option agreements mistakenly reflected the exercise price at either the closing price of our common stock on the date prior to the grant date or the opening price of our common stock on the grant date instead of the closing price on the grant date, resulting in minor pricing errors. The pre-tax compensation expense resulting from the above-described accounting errors is approximately \$0.1 million, which should have been recorded within operating expenses over the period from January 1, 2001 through the second quarter ended June 30, 2006.

Additionally, we identified one grant where there was an error in the application of APB No. 25 related to a grant modification given to a non-executive employee in fiscal 2001 and a separate error in the application of SFAS No. 123(R), related to the cancellation of a grant to a non-executive employee in 2006. The pre-tax compensation adjustment for these two grants is approximately \$1.0 million which should have been recorded within operating expenses over the period January 1, 2001 through June 30, 2006.

As a result of the issues discussed above regarding our past stock option practices, certain of our option grants that were previously characterized as Incentive Stock Options in accordance with Internal Revenue Code Section 422 ("ISO's") will be considered to be non-qualified stock options.

The unintentional accounting errors arising from the items discussed above caused non-cash compensation expense together with related employment tax expenses to be understated by a cumulative amount of \$1.3 million (\$1.0 million net of income tax) over the period January 1, 2001 through June 30, 2006. We have concluded that the impact of these errors is not material to our historical consolidated financial statements for any previously reported period. A correcting entry to record the cumulative impact of these errors was recorded during the fiscal year ended December 31, 2006. The Company also does not consider the adjustment to be material to the fiscal year ended December 31, 2006. The adjustments increased other operating expenses by \$1.3 million and reduced provision for income taxes by \$0.3 million, which resulted in a \$1.0 million reduction in net income. The adjustment also had the effect of increasing non-current deferred tax assets by \$0.05 million and reducing additional paid-in capital by \$0.2 million at December 31, 2006.

The Special Committee also found that during the time period covered by its review, internal accounting controls relating to our stock option granting process were inadequate, specifically control deficiencies related to the process of documenting the approval of stock option grants and the financial accounting in connection with certain option grants.

In the summer of 2006, our internal audit department performed an analysis of certain aspects of our process for granting stock options. During that time, management implemented improvements relating to the documentation of stock option grants. These improvements included contemporaneous documentation of the approval of stock option grants and contemporaneous preparation of stock option agreements for the grants approved. Such practices were implemented during the quarter ended September 30, 2006. Additionally, beginning the second quarter of 2006, the accounting department implemented new procedures to review and verify the accuracy of grant prices. During the fourth quarter of 2006, the Company also implemented additional procedures for the communication and recording of modifications and cancellations of stock option grants.

Effective January 1, 2007, we implemented new written procedures regarding the granting of stock options. Under these new procedures, the Compensation Committee of the Board of Directors (“Compensation Committee”) has sole and exclusive authority to grant stock option awards to all employees who are not new hires and to all new hires who are subject to Section 16 of the Exchange Act. The Compensation Committee and the Executive Committee of the Board of Directors (“Executive Committee”) each independently has the authority to grant awards to new hires who are not Section 16 employees. Awards granted by the Executive Committee are not subject to approval or ratification by the Board or the Compensation Committee. For purposes of these procedures, a new hire means: (i) an employee who is commencing employment with the Company or its subsidiaries; or (ii) an employee who is receiving a promotion to a new position with the Company or one of its subsidiaries. The grant date of any award to a new hire shall be the first day that The Nasdaq Stock Market (“Nasdaq”) is open in the calendar month following the employee’s commencement of employment or the date of the employee’s promotion (as the case may be). Other than awards to new hires, awards may only be granted at a single meeting held during the last two weeks of May and November of each year. The grant date of any award granted at a May or November meeting shall be the first day that Nasdaq is open in June following such May meeting, or December following such November meeting (as the case may be). The new procedures also require certain same day documentation. The Special Committee found that the above described procedures constitute “best practices.” The Compensation Committee will review and approve stock option awards to our named executive officers (“NEOs”) based upon a review of competitive compensation data, its assessment of individual performance, a review of each executive’s long term incentives and retention considerations.

Nasdaq Proceedings

On November 15, 2006, we received a Nasdaq Staff Determination letter from Nasdaq stating that because we had not yet filed our Form 10-Q for the quarter ended September 30, 2006, we were not in compliance with the filing requirements for continued listing under Nasdaq Marketplace Rule 4310(c)(14), and that our securities are, therefore, subject to delisting from the Nasdaq Capital Market. We made a request for a hearing before the Nasdaq Listing Qualifications Panel (the “Panel”).

On January 4, 2007, we notified Nasdaq of our inadvertent issuance of an out-of-plan stock option to purchase 12,000 shares of our common stock (pre stock splits) to an outside director on November 5, 2004, approximately four months after the period for granting options under the Company’s Stock Option Plan for Outside Directors (the “1994 Plan”) had expired, in apparent violation of Nasdaq Marketplace Rule 4350(i)(1)(A). On January 10, 2007, we received another Nasdaq Staff Determination letter stating that because we had not yet regained compliance with Nasdaq Marketplace Rule 4350(i)(1)(A), such violation served as an additional basis for delisting the Company’s securities from the Nasdaq Capital Market.

The Panel hearing was held on January 25, 2007. The Panel granted our request for continued listing of our securities on The Nasdaq Stock Market. Our continued listing is subject to certain conditions, including: (1) on or about March 26, 2007, we were required to submit to Nasdaq a copy of our final investigatory report or were required to respond to Nasdaq questions regarding the Special Committee’s investigation of option grants; (2) on or before May 1, 2007, we were required to inform the Panel that we had obtained stockholder approval for the granting of the out-of-plan option grant, or had unwound the option grant; and (3) on or before May 14, 2007, we were required to file our Form 10-Q for the quarter ended September 30, 2006.

On March 5, 2007, we received an additional Nasdaq Staff Determination letter from Nasdaq stating that because we had not yet filed our Form 10-K for the fiscal year ended December 31, 2006, we are not in compliance with the filing requirements for continued listing under Nasdaq Marketplace Rule 4310(c)(14), and that this filing delinquency serves as an additional basis for delisting us from Nasdaq.

On May 16, 2007, we received an additional Nasdaq Staff Determination letter from Nasdaq stating that because we had not yet filed our Form 10-Q for the quarter ended March 31, 2007, we are not in compliance with the filing requirements for continued listing under Nasdaq Marketplace Rule 4310(c)(14), and that this filing delinquency serves as an additional basis for delisting us from Nasdaq.

We have met conditions (1), (2) and (3) of the Panel's decision relating to our request for continued listing of our securities on the Nasdaq Capital Market. We are still required to file our Form 10-Q for the three-months ended March 31, 2007 to achieve compliance with the filing requirements for continued listing under Nasdaq Marketplace Rule 4310(c)(14). By filing this Form 10-K, the Company has complied with the Panel's deadline of June 14, 2007 for the filing of the Form 10-K for the fiscal year ended December 31, 2006. The Company anticipates filing the Form 10-Q for the three-months ended March 31, 2007 as soon as practicable and within the time period required by Nasdaq to continue to be listed on the Nasdaq Capital Market.

As a result of the late filing of the 10-Q for the quarter ended September 30, 2006, the Form 10-K for the fiscal year ended December 31, 2006, and the 10-Q for the three-months ended March 31, 2007 we will be ineligible to register our securities on Form S-3 for sale by us or resale by others for one year. The inability to use Form S-3 could adversely affect our ability to raise capital during this period. However, we are still eligible to register our securities on Form S-1. If we fail to timely file a future periodic report with the SEC and our stock were delisted, it could severely impact our ability to raise future capital and could have an adverse impact on our overall future liquidity.

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

Our Business

Overview

We develop, market, sell and distribute "alternative" beverage category natural sodas, fruit juices and juice drinks, energy drinks and energy sports drinks, fruit juice smoothies and "functional drinks," non-carbonated ready-to-drink iced teas, lemonades, juice cocktails, children's multi-vitamin juice drinks, Junior Juice® juices and non-carbonated lightly flavored energy waters under the Hansen's® brand name. We also develop, market, sell and distribute energy drinks under the following brand names; Monster Energy®, Lost® Energy™, Joker Mad Energy™, Unbound Energy® and Ace™ brand names as well as Rumba™ brand energy juice. We also market, sell and distribute Java Monster™ non-carbonated dairy based coffee drinks. We also market, sell and distribute natural sodas, premium natural sodas with supplements, organic natural sodas, seltzer waters, sports drinks and energy drinks under the Blue Sky® brand name. Our fruit juices for toddlers are marketed under the Junior Juice® brand name. We also market, sell and distribute vitamin and mineral drink mixes in powdered form under the Fizzit™ brand name.

We have two reportable segments, namely DSD, whose principal products comprise energy drinks, and Warehouse, whose principal products comprise juice based and soda beverages. The DSD segment develops, markets and sells products primarily through an exclusive distributor network, whereas the Warehouse segment develops, markets and sells products primarily direct to retailers.

Our sales and marketing strategy for all our beverages and drink mixes is to focus our efforts on developing brand awareness and trial through sampling both in stores and at events. We use our branded vehicles and other promotional vehicles at events where we sample our products to consumers. We utilize "push-pull" methods to achieve maximum shelf and display space exposure in sales outlets and maximum demand from consumers for our products, including advertising, in-store promotions and in-store placement of point-of-sale materials and racks, prize promotions, price promotions, competitions, endorsements from selected public and extreme sports figures, coupons, sampling and sponsorship of selected causes such as cancer research and SPCAs, as well as extreme sports teams such as the Pro Circuit – Kawasaki Motocross and Supercross teams, Kawasaki Factory Motocross and Supercross

teams, Alan Pflueger Desert Racing Team, Kenny Bernstein Drag Racing Team, extreme sports figures and athletes, sporting events such as the Monster Energy® Pro Pipeline surfing competition, Winter and Summer X-Games, marathons, 10k runs, bicycle races, volleyball tournaments and other health and sports related activities, including extreme sports, particularly supercross, freestyle motocross, surfing, skateboarding, wakeboarding, skiing, snowboarding, BMX, mountain biking, snowmobile racing, etc., and we also participate in product demonstrations, food tasting and other related events. Posters, print, radio and television advertising, together with price promotions and coupons, may also be used to promote our brands.

We believe that one of the keys to success in the beverage industry is differentiation, such as making Hansen's® products visually distinctive from other beverages on the shelves of retailers. We review our products and packaging on an ongoing basis and, where practical, endeavor to make them different, better and unique. The labels and graphics for many of our products are redesigned from time to time to maximize their visibility and identification, wherever they may be placed in stores, and we will continue to reevaluate the same from time to time.

During 2006, we continued to expand our existing product lines and further develop our markets. In particular, we continued to focus on developing and marketing beverages that fall within the category generally described as the "alternative" beverage category, with particular emphasis on energy type drinks.

During the second quarter of 2006, we entered into the Monster Beverages Off-Premise Distribution Coordination Agreement and the Allied Products Distribution Coordination Agreement (jointly, the "Off-Premise Agreements") with Anheuser-Busch, Inc., a Missouri corporation ("AB"). Under the Off-Premise Agreements, select Anheuser-Busch distributors (the "AB Distributors") will distribute and sell, in markets designated by HBC, HBC's Monster Energy® and Lost® Energy™ brands non-alcoholic energy drinks, Rumba™ brand energy juice and Unbound Energy® brand energy drinks, as well as additional products that may be agreed between the parties. We intend to continue building our national distributor network primarily with select AB distributors as well as with our sales force throughout 2007 to support and grow the sales of our products.

Pursuant to the Anheuser-Busch Distribution Agreements (the "AB Distribution Agreements") entered into with newly appointed AB Distributors, non-refundable payments totaling \$20.9 million were made to the Company by such newly appointed AB Distributors for the costs of terminating the Company's prior distributors through December 31, 2006. Such receipts have been accounted for as deferred revenue in the accompanying consolidated balance sheet as of December 31, 2006 and will be recognized as revenue ratably over the anticipated 20 year life of the respective AB Distribution Agreements.

As of December 31, 2006, amounts totaling \$3.3 million had been paid to the Company by certain other AB Distributors in anticipation of executing AB Distribution Agreements with the Company. Such receipts have been accounted for as customer deposit liabilities in the accompanying consolidated balance sheet as of December 31, 2006.

Through December 31, 2006, the Company incurred termination costs amounting to \$12.7 million in aggregate to certain of its prior distributors. Such termination costs have been expensed in full and are included in operating expenses for the year ended December 31, 2006. Certain amounts totaling \$7.0 million included in such termination costs were not paid to our prior distributors before our fiscal year end and are therefore included in accrued liabilities in the accompanying consolidated balance sheet as of December 31, 2006.

On April 28, 2006, HBC entered into a distribution agreement with Cadbury Bebidas, S.A. de C.V. ("Cadbury Bebidas"), for exclusive distribution by Cadbury Bebidas throughout Mexico, excluding Baja California, of our Monster Energy® and Lost® Energy™ energy products.

On February 8, 2007, HBC entered into the On-Premise Distribution Coordination Agreement (the “On-Premise Agreement”) with AB. Under the On-Premise Agreement, AB will manage and coordinate the sales, distribution and merchandising of Monster Energy® energy drinks to on-premise retailers including bars, nightclubs and restaurants in territories approved by HBC.

On March 1, 2007, HBC entered into a distribution agreement with Pepsi-QTG Canada, a division of PepsiCo Canada, ULC (“Pepsi Canada”), for the exclusive distribution by Pepsi Canada throughout Canada of our Monster Energy®, Lost® Energy™, Hansen’s® and Joker Mad Energy™ energy products.

We again achieved record gross sales in 2006. The increase in gross sales in 2006 was primarily attributable to increased sales volume of certain of our existing products as well as certain new products, particularly Monster Energy® Khaos™ energy drinks, Ace™ energy drinks and Unbound Energy® drinks. The percentage increase in gross sales was lower than the percentage increase in net sales, primarily due to a decrease in promotional and other allowances as a percentage of gross sales, which decreased from 16.0% to 13.0%. The actual amount of promotional and other allowances increased to \$90.5 million from \$66.5 million for the years ended December 31, 2006 and December 31, 2005, respectively.

A substantial portion of our gross sales are derived from our Monster Energy® brand energy drinks. Any decrease in sales of our Monster Energy® brand energy drinks could significantly adversely affect our future revenues and net income. Competitive pressure in the “energy drink” category could adversely affect our operating results. (See “Part I, Item 1A. - Risk Factors”)

During the year ended December 31, 2006, gross sales shipped outside of California represented 67.8% of our gross sales, as compared to 61.5% for the comparable period in 2005. During the year ended December 31, 2006, gross sales to distributors outside the United States amounted to \$19.3 million, as compared to \$5.6 million for the year ended December 31, 2005. Such sales were approximately 2.8% of gross sales for the year ended December 31, 2006 and approximately 1.3% of gross sales for the comparable period in 2005.

Our customers are typically retail grocery and specialty chains, wholesalers, club stores, drug chains, mass merchandisers, convenience chains, full service beverage distributors, health food distributors and food service customers. Gross sales to our various customer types for 2006 are reflected below. The allocations below reflect changes made by the Company to the categories historically reported.

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Retail Grocery, specialty chains and wholesalers	12%	19%	25%
Club stores, drug chains & mass merchandisers	14%	11%	13%
Full service distributors	69%	65%	52%
Health food distributors	2%	3%	6%
Other	3%	2%	4%

Our customers include Cadbury Schweppes Bottling Group (formally known as Dr. Pepper Bottling/7UP Bottling Group), Wal-Mart, Inc. (including Sam’s Club), Kalil Bottling Group, Trader Joe’s, John Lenore & Company, Costco, Kroger, Safeway and Albertsons. A decision by any large customer to decrease amounts purchased from the Company or to cease carrying our products could have a material negative effect on our financial condition and consolidated results of operations. Cadbury Schweppes Bottling Group, a customer of the DSD division, accounted for approximately 19%, 18% and 13% of our net sales for the years ended December 31, 2006, 2005 and 2004, respectively. Wal-Mart, Inc. (including Sam’s Club), a customer of both the DSD and Warehouse divisions, accounted for approximately 12% of the Company’s net sales for the year ended December 31, 2006.

In September 2000, HBC, through its wholly owned subsidiary Blue Sky, acquired the Blue Sky® Natural Soda business. The Blue Sky® natural soda brand is the leading natural soda in the health food trade. Blue Sky offers natural sodas, premium natural sodas with added ingredients such as Ginseng and anti-oxidant vitamins, organic sodas and seltzer waters in 12-ounce cans and a Blue Sky® Blue Energy drink in 8.3-ounce cans and in 2004 introduced a new line of Blue Sky® natural tea sodas in 12-ounce cans. In 2005, we introduced a new line of Blue Sky® lite natural sodas, a new line of Blue Sky® natural sodas made with real sugar and a new line of non-carbonated Blue Sky® isotonic sports drinks. In 2006, we introduced our Blue Sky® Blue Energy drinks in 16-ounce cans and introduced a new Blue Sky® juice based energy drink in both 8-ounce and 16-ounce cans.

In May 2001, HBC, through its wholly owned subsidiary Junior Juice, acquired the Junior Juice® beverage business. The Junior Juice® product line is comprised of a line of 100% juices packed in 4.23-ounce aseptic packages and is targeted at toddlers.

In October 2006, we acquired the Unbound Energy® trademark and assumed the production, marketing and sale of Unbound Energy® energy drinks in 16-ounce cans. We subsequently introduced a lo-carb and juice version in 16-ounce cans.

During 2004, we concluded exclusive contracts with the State of California, Department of Health Services Women, Infant and Children Supplemental Nutrition Branch, to supply 100% Apple juice and 100% blended juice in 64-ounce PET plastic bottles. The contracts commenced on July 12, 2004 and will expire in July 2008. (See “Part I, Item 1. Business – Manufacture and Distribution”).

We continue to incur expenditures in connection with the development and introduction of new products and flavors.

Value Drivers of our Business

We believe that the key value drivers of our business include the following:

- *Profitable Growth* – We believe natural, better for you brands properly supported by marketing and innovation, targeted to a broad consumer base, drive profitable growth. We continue to broaden our family of brands. In particular, we are expanding and growing our specialty beverages and energy drinks to provide more alternatives to consumers. We are focused on maintaining or increasing profit margins. We believe that tailored brand, package, price and channel strategies help achieve profitable growth. We are implementing these strategies with a view to accelerating profitable growth.
- *Cost Management* – The principal focus of cost management will continue to be on supplies and cost reduction. One key area of focus, for example, is to decrease raw material costs, co-packing fees and general and administrative costs as a percentage of net operating revenues. Another key area of focus is the reduction in inventory levels. However, due to the expansion in the number of our products, increased sales levels in 2006, and the conclusion of the agreements with AB, overall inventory levels increased. During 2006, the costs of PET plastic bottles and aluminum cans, as well as the costs of high fructose corn syrup, sucrose, certain juice concentrates, including apple, and certain packaging and freight costs also increased.
- *Efficient Capital Structure* – Our capital structure is intended to optimize our costs of capital. We believe our strong capital position, our ability to raise funds if necessary at low effective cost and overall low costs of borrowing provide a competitive advantage.

We believe that, subject to increases in the costs of certain raw materials being contained, these value drivers, when properly implemented, will result in (1) maintaining and/or improving our gross profit margin; (2) providing additional leverage over time through reduced expenses as a percentage of net operating revenues; and (3) optimizing our cost of capital. The ultimate measure of success is and will be reflected in our current and future results of operations.

Gross and net sales, gross profits, operating income, and net income and net income per share represent key measurements of the above value drivers. In 2006, gross sales totaled \$696.3 million, a 67.6% increase over 2005. Net sales totaled \$605.8 million in 2006, an increase of 73.6% over 2005. Gross profit totaled \$316.6 million in 2006, a 73.4% increase from 2005. Operating income was \$158.6 million compared to \$103.4 million for 2005. Net income was \$97.9 million as compared to \$62.8 million for 2005. Net income per diluted share was \$0.99 as compared to net income per diluted share of \$0.65 in 2005. These measurements will continue to be a key management focus in 2007 and beyond. See also "Results of Operations for the Year Ended December 31, 2006 Compared to the Year Ended December 31, 2005."

In 2006, the Company had working capital of \$212.3 million compared to \$107.3 million as of December 31, 2005. In 2006, our net cash provided by operating activities was approximately \$76.4 million as compared to \$54.6 million in 2005. Principal uses of cash flows are purchases of inventory, increases in accounts receivable and other assets, acquisition of property and equipment and trademarks. Payment of accounts payable and income taxes payable are expected to be and remain our principal recurring use of cash and working capital funds. (See also "Part II, Item 7. - Liquidity and Capital Resources").

Opportunities, Challenges and Risks

Looking forward, our management has identified certain challenges and risks that demand the attention of the beverage industry and our Company. Increase in consumer and regulatory awareness of the health problems arising from obesity and inactive lifestyles represents a challenge. We recognize that obesity is a complex and serious public health problem. Our commitment to consumers begins with our broad product line and a wide selection of diet, light and lo-carb beverages, juices and juice drinks, sports drinks and waters and energy drinks. We continuously strive to meet changing consumer needs through beverage innovation, choice and variety.

Our historical success is attributable, in part, to our introduction of different and innovative beverages. Our future success will depend, in part, upon our continued ability to develop and introduce different and innovative beverages, although there can be no assurance of our ability to do so. In order to retain and expand our market share, we must continue to develop and introduce different and innovative beverages and be competitive in the areas of quality, health, method of distribution, brand image and intellectual property protection. The beverage industry is subject to changing consumer preferences and shifts in consumer preferences may adversely affect companies that misjudge such preferences.

In addition, other key challenges and risks that could impact our company's future financial results include, but are not limited to:

- maintenance of our brand images and product quality;
- profitable expansion and growth of our family of brands in the competitive market place (See also "Part I, Item 1. - Business - Competition and Sales and Marketing");
- restrictions on imports and sources of supply; duties or tariffs; changes in government regulations;

- protection of our existing intellectual property portfolio of trademarks and the continuous pursuit of new and innovative trademarks for our expanding product lines;
- limitations on available quantities of sucralose, a non-caloric sweetener that is used in many of our beverage products, due to demand for such sweetener exceeding the supplier's production capacity, as well as limitations on available quantities of certain package containers such as the 24-ounce cap can and copacking availability;
- the imposition of additional restrictions; and
- (See also "Part I, Item 1A. - Risk Factors") for additional information about risks and uncertainties facing our Company.

We believe that the following opportunities exist for us:

- growth potential for non-alcoholic beverage categories including energy drinks, carbonated soft drinks, juices and juice drinks, sports drinks and water;
- new product introductions intended to contribute to higher gross profits;
- premium packages intended to generate strong revenue growth;
- significant package, pricing and channel opportunities to maximize profitable growth;
- proper positioning to capture industry growth; and
- broadening distribution/expansion opportunities

Results of Operations

	2006	2005	2004	Percentage Change	
				06 vs. 05	05 vs. 04
Gross sales, net of discounts & returns *	\$ 696,322	\$ 415,417	\$ 224,098	67.6%	85.4%
Less: Promotional and other allowances**	90,548	66,531	43,757	36.1%	52.0%
Net sales	605,774	348,886	180,341	73.6%	93.5%
Cost of sales	289,180	166,343	96,875	73.8%	71.7%
Gross profit	316,594	182,543	83,466	73.4%	118.7%
Gross profit margin as a percentage of net sales	52.3%	52.3%	46.3%		
Operating expenses	158,015	79,100	49,580	99.8%	59.5%
Operating income	158,579	103,443	33,886	53.3%	205.3%
Operating income as a percent of net sales	26.2%	29.6%	18.8%		
Interest income, net	3,660	1,351	52	170.9%	2,498.1%
Income before provision for income taxes	162,239	104,794	33,938	54.8%	208.8%
Provision for income taxes	64,290	42,019	13,551	53.0%	210.1%
Net income	\$ 97,949	\$ 62,775	\$ 20,387	56.0%	207.9%
Net income as a percent of net sales	16.2%	18.0%	11.3%		
Net income per common share:					
Basic	\$ 1.09	\$ 0.71	\$ 0.24	53.0%	196.9%
Diluted	\$ 0.99	\$ 0.65	\$ 0.22	52.9%	201.2%
Case sales (in thousands) (in 192-ounce case equivalents)	72,740	48,214	29,760	50.9%	62.0%

* Gross sales, although used internally by management as an indicator of operating performance, should not be considered as an alternative to net sales, which is determined in accordance with GAAP, and should not be used alone as an indicator of operating performance in place of net sales. Additionally, gross sales may not be comparable to similarly titled measures used by other companies as gross sales has been defined by our internal reporting requirements. However, gross sales is used by management to monitor operating performance including sales performance of particular products, salesperson performance, product growth or declines and our overall performance. The use of gross sales allows evaluation of sales performance before the effect of any promotional items, which can mask certain performance issues. Management believes the presentation of gross sales allows a more comprehensive presentation of our operating performance. Gross sales may not be realized in the form of cash receipts as promotional payments and allowances may be deducted from payments received from customers.

** Although the expenditures described in this line item are determined in accordance with GAAP and meet GAAP requirements, the disclosure thereof does not conform with GAAP presentation requirements. Additionally, the presentation of promotional and other allowances may not be comparable to similar items presented by other companies. The presentation of promotional and other allowances facilitates an evaluation of the impact thereof on the determination of net sales and illustrates the spending levels incurred to secure such sales. Promotional and other allowances constitute a material portion of our marketing activities.

Results of Operations for the Year Ended December 31, 2006 Compared to the Year Ended December 31, 2005

Segment Reclassification. Rumba™ brand energy juice, which was previously reported in the Warehouse segment, is now reported in the DSD segment. Similarly, Hansen's® energy drinks, which were previously reported in the DSD segment, are now reported in the Warehouse segment. For presentation purposes, these changes are assumed to have commenced January 1, 2006 and are reflected as such in the figures for the year ended December 31, 2006. The comparable figures for such products for the years ended December 31, 2005 and 2004, respectively, as previously reported, have been recast to reflect the above reclassification.

*Gross Sales.** Gross sales were \$696.3 million for the year ended December 31, 2006, an increase of approximately \$280.9 million or 67.6% higher than the \$415.4 million gross sales for the year ended December 31, 2005. The increase in gross sales for 2006 was primarily attributable to increased sales volumes of certain of our existing products, including the full year sales of Monster Energy® Khaos™ energy drinks which were introduced in August 2005. Promotional and other allowances were \$90.5 million for 2006 an increase of 24.0 million or 36.1% higher than promotional and other allowances of \$66.5 million for 2005. Promotional and other allowances as a percentage of gross sales decreased from 16.0% in 2005 to 13.0% in 2006. As a result the percentage increase in gross sales in 2006 was lower than the percentage increase in net sales.

**Gross sales – see definition above.*

Net Sales. Net sales were \$605.8 million for the year ended December 31, 2006, an increase of approximately \$256.9 million or 73.6% higher than net sales of \$348.9 million for the year ended December 31, 2005. The increase in net sales was primarily attributable to increased sales by volume of our Monster Energy® brand energy drinks, which include Monster Energy® drinks (introduced in April 2002), lo-carb Monster Energy® drinks (introduced in 2003), Monster Energy® Assault™ energy drinks (introduced in September 2004), as well as sales of Monster Energy® Khaos™ energy drinks (introduced in August 2005). To a lesser extent, the increase in net sales was attributable to increased sales by volume of teas, lemonades and juice cocktails, Lost® Energy™ drinks (introduced in January 2004), sports drinks, Rumba™ brand energy juice (introduced December 2004), Junior Juice®, Ace™ energy drinks (introduced in August 2006) and Unbound Energy® energy drinks. The increase in net sales was partially offset by decreased sales by volume primarily of Hansen's® energy drinks, smoothies in cans and Energade® energy sports drinks.

Case sales, in 192-ounce case equivalents were 72.7 million cases for the year ended December 31, 2006, an increase of 24.5 million cases or 50.9% higher than case sales of 48.2 million cases for the year ended December 31, 2005. The overall average net sales price per case increased to \$8.33 for 2006 or 15% higher than the net sales price per case of \$7.24 for 2005. The increase in the average net sales prices per case was attributable to an increase in the proportion of case sales derived from higher priced products.

Net sales for the DSD segment were \$514.3 million for year ended December 31, 2006, an increase of approximately \$251.4 million or 95.6% higher than net sales of \$262.9 million for the year ended December 31, 2005. The increase in net sales was primarily attributable to increased sales by volume of our Monster Energy® brand energy drinks, which include Monster Energy® drinks, lo-carb Monster Energy® drinks, Monster Energy® Assault™ energy drinks, as well as sales of Monster Energy® Khaos™ energy drinks. To a lesser extent, the increase in net sales was attributable to increased sales by volume of Lost® Energy™ drinks, Rumba™ brand energy juice, Ace™ energy drinks and Unbound Energy® energy drinks. The increase in net sales was partially offset by decreased sales by volume primarily of Energade® energy sports drinks.

Net sales for the Warehouse segment were \$91.5 million for the year ended December 31, 2006, an increase of approximately \$5.5 million or 6.4% higher than net sales of \$86.0 million for the year

ended December 31, 2005. The increase in net sales was primarily attributable to increased sales by volume of teas, lemonades and juice cocktails, Junior Juice® and sports drinks. The increase in net sales was partially offset by decreased sales by volume primarily of Hansen's® energy drinks and smoothies in cans.

Gross Profit. *** Gross profit was \$316.6 million for the year ended December 31, 2006, an increase of approximately \$134.1 million or 73.4% higher than the gross profit of \$182.5 million for the year ended December 31, 2005. Gross profit as a percentage of net sales was 52.3% for both 2006 and 2005. Increases in sales volumes contributed to an increase in gross profit dollars. Gross profit as a percentage of net sales was affected by an increase in the percentage of sales within the DSD segment of certain packages that have lower gross profit margins. In addition, gross profit as a percentage of net sales was also affected by a significant increase in certain freight-in costs due to the addition of new co-packers and warehouses and an increase in the cost of certain raw materials including sucrose, PET and aluminum cans and apple juice concentrate. These factors were offset by increased sales of DSD segment products which have higher gross profit margins than those in the Warehouse segment.

***Gross profit may not be comparable to that of other entities since some entities include all costs associated with their distribution process in cost of sales, whereas others exclude certain costs and instead include such costs within another line item such as operating expenses.

Operating Expenses. Total operating expenses were \$158.0 million for the year ended December 31, 2006, an increase of approximately \$78.9 million or 99.8% higher than total operating expenses of \$79.1 million for the year ended December 31, 2005. Total operating expenses as a percentage of net sales increased to 26.1% for 2006 from 22.6% for 2005. The increase in total operating expenses and total operating expenses as a percentage of net sales was primarily attributable to increased selling and distribution, and general and administrative expenses.

Selling and distribution expenses were \$95.3 million for the year ended December 31, 2006, an increase of approximately \$44.5 million or 87.8% higher than selling and distribution expenses of \$50.8 million for the year ended December 31, 2005. Selling and distribution expenses as a percentage of net sales for 2006 were 15.7%, which was higher than selling and distribution expenses as a percentage of net sales of 14.6% for 2005. The increase in selling and distribution expenses was partially attributable to increased out-bound freight and warehouse costs of \$18.9 million primarily due to increased volumes of shipments and increased freight rates and fuel prices, as well as increased expenditures of \$6.9 million for merchandise displays primarily in anticipation of the changeover to select AB distributors, \$4.3 million for sponsorships and endorsements, \$4.3 million for trade development activities with distributors and customers, \$2.7 million for commissions and royalties, and \$1.8 million for sampling programs.

General and administrative expenses were \$62.7 million for the year ended December 31, 2006, an increase of approximately \$34.4 million or 121.6% higher than general and administrative expenses of \$28.3 million for the year ended December 31, 2005. General and administrative expenses as a percentage of net sales for 2006 were 10.4%, which was higher than general and administrative expenses as a percentage of net sales of 8.1% for 2005. The increase in general and administrative expenses was primarily attributable to the costs associated with terminating existing distributors of \$12.7 million, stock compensation expense of \$8.3 million as a result of our adoption of SFAS 123R which was not expensed in the previous year (see Part II, Item 8, Note 12, "Stock-Based Compensation") including a cumulative adjustment of \$1.3 million relating to stock based compensation and related charges (see Part II, Item 8, Note 13, "Review of Historic Stock Option Granting Practices"), an increase in payroll expenses of \$5.3 million, and an increase of \$5.2 million in professional services costs, including legal and accounting fees. Included in legal and accounting fees are costs of \$3.8 million relating to the Company's special investigation of stock option grants.

Contribution Margin. Contribution margin represents net sales by segment less the cost of sales and operating expenses which can be directly attributed to segment net sales. Contribution margin for the

DSD segment was \$187.9 million for the year ended December 31, 2006, an increase of approximately \$78.9 million or 72.4% higher than contribution margin of \$109.0 million for the year ended December 31, 2005. The increase in contribution margin for the DSD segment was primarily attributable to the increase in net sales of Monster Energy® brand energy drinks. Contribution margin for the Warehouse segment was \$6.1 million for 2006, a decrease of approximately \$4.3 million or 41.0% lower than contribution margin of \$10.4 million for 2005. The decrease in the contribution margin for the Warehouse segment was primarily attributable to reduced sales of Hansen's® energy drinks and a reduction in gross margin as a result of increased costs of raw materials and production.

Operating Income. Operating income was \$158.6 million for the year ended December 31, 2006, an increase of approximately \$55.2 million or 53.4% higher than operating income of \$103.4 million for the year ended December 31, 2005. The increase in operating income was attributable to higher gross profit, which was offset by increased selling, distribution, general and administrative expenses. Operating income as a percentage of net sales decreased to 26.2% for 2006 from 29.6% for 2005. The decrease in operating income as a percentage of net sales was primarily attributable to increased general and administrative expenses as a percentage of net sales.

Interest Income, net. Net interest income was \$3.7 million for the year ended December 31, 2006, an increase of \$2.3 million from net interest income of \$1.4 million for the year ended December 31, 2005. The increase in net interest income was primarily attributable to increased interest revenue earned on the Company's invested cash balances which have increased significantly over the year.

Provision for Income Taxes. Provision for income taxes for the year ended December 31, 2006 was \$64.3 million as compared to provision for income taxes of \$42.0 million for the year ended December 31, 2005. The effective combined federal and state tax rate for was 39.6%, which was lower than the effective tax rate of 40.1% for 2005. The decrease in the effective tax rate was primarily attributable to certain interest income earned on securities that are exempt from federal income taxes and, certain federal tax credits relating to export sales, and to a lesser extent, a decrease in state taxes due to the apportionment of sales to various states outside of California which have lower state tax rates. This decrease was partially offset by stock-based compensation relating to incentive stock options for which we received no tax benefit.

Net Income. Net income was \$97.9 million for the year ended December 31, 2006, an increase of \$35.1 million or 56.0% higher than net income of \$62.8 million for the year ended December 31, 2005. The increase in net income was attributable to the increase in gross profit of approximately \$134.1 million and the increase in net interest income of approximately \$2.3 million, which was partially offset by an increase in operating expenses of approximately \$79.0 million and an increase in provision for income taxes of approximately \$22.3 million.

Results of Operations for the Year Ended December 31, 2005 Compared to the Year Ended December 31, 2004

Segment Reclassification. Rumba™ brand energy juice, which was previously reported in the Warehouse segment, is now reported in the DSD segment. Similarly, Hansen's® energy drinks, which were previously reported in the DSD segment, are now reported in the Warehouse segment. For presentation purposes, these changes are assumed to have commenced January 1, 2006 and are reflected as such in the figures for the year ended December 31, 2006. The comparable figures for such products for the years ended December 31, 2005 and 2004, respectively, as previously reported, have been restated to reflect the above reclassification.

Gross Sales. For the year ended December 31, 2005, gross sales were \$415.4 million, an increase of \$191.3 million or 85.4% higher than gross sales of \$224.1 million for the year ended December 31, 2004. The increase in gross sales was primarily attributable to increased sales of certain of our existing products and the introduction of new products as discussed below in "Net Sales." The percentage increase in gross sales was lower than the percentage increase in net sales due to a decrease in

the promotional and other allowances as a percentage of gross sales, which decreased from 19.5% for the year ended December 31, 2004 to 16.0% for the year ended December 31, 2005, although the actual amount of promotional and other allowances increased from \$43.8 million to \$66.5 million for the respective periods.

**Gross sales – see definition above*

Net Sales. For the year ended December 31, 2005, net sales were \$ 348.9 million, an increase of \$168.5 million or 93.5% higher than net sales of \$180.3 million for the year ended December 31, 2004. We again achieved record sales in 2005. The increase in gross and net sales in 2005 was primarily attributable to increased sales by volume of our Monster Energy® drinks, which were introduced in April 2002, including our lo-carb Monster Energy® drinks, which were introduced in 2003, our Monster Energy® Assault™ energy drinks, which were introduced in September 2004, sales of Monster Energy® Khaos™ energy drinks, which were introduced in August 2005, increased sales by volume of Lost® Energy™ energy drinks which were introduced in January 2004, and to a lesser extent, to sales of Joker Mad Energy™ drinks which were introduced in January 2005, as well as increased sales by volume of apple juice and juice blends, and children's multi-vitamin juice drinks and Rumba™ which was introduced in December 2004. The increase in gross and net sales was partially offset by decreased sales by volume primarily of Hansen's Natural Sodas®, Hansen's® energy drinks, Energade® and Smoothies in cans. Net sales case volumes (calculated on 192 U.S. fluid ounces of finished beverage equivalent basis) increased from 29.8 million cases for the year ended December 31, 2004 to 48.2 million cases for the year ended December 31, 2005, an increase of 18.4 million cases or 62.0%. The overall average net sales price per case also increased to \$7.24 per case for the year ended December 31, 2005 from \$6.06 for the year ended December 31, 2004, an increase of 19.5%. The increase in the average net sales prices per case was due to an increase in the proportion of case sales derived from higher priced products as described below.

Net sales for the DSD segment were \$262.9 million for the year ended December 31, 2005, an increase of approximately \$163.5 million or 164.4% higher than net sales of \$99.4 million for the year ended December 31, 2004. The increase in net sales for the DSD segment was primarily attributable to increased sales by volume of our Monster Energy® drinks, including our lo-carb Monster Energy® drinks, our Monster Energy® Assault™ energy drinks, sales of Monster Energy® Khaos™ energy drinks, increased sales by volume of Lost® Energy™ energy drinks. The increase in net sales was also attributable, to a lesser extent, to sales of Joker Mad Energy™ drinks and Rumba™ energy juice. The increase in net sales was partially offset by lower sales by volume of Energade®.

Net sales for the Warehouse segment were \$86.0 million for the year ended December 31, 2005, an increase of approximately \$5.1 million or 6.3% higher than net sales of \$80.9 million for the year ended December 31, 2004. The increase in net sales for the Warehouse segment was primarily attributable to increased sales by volume of Hansen's® apple juice and juice blends, children's multi-vitamin juice drinks. The increase in net sales was partially offset by lower sales by volume of smoothies in cans, Hansen's® energy drinks and Hansen's Natural Sodas®.

Gross Profit. Gross profit was \$182.5 million for the year ended December 31, 2005, an increase of \$99.1 million or 118.7% over the \$83.5 million gross profit for the year ended December 31, 2004. Gross profit as a percentage of net sales was 52.3% for the year ended December 31, 2005 which was higher than gross profit as a percentage of net sales of 46.3% for the year ended December 31, 2004, due primarily to higher gross profit margins achieved on the increased sales of Monster Energy® and Lost® Energy™ energy drinks. Although a greater percentage of our sales comprised products having higher gross margins than the prior year, the increase in profit margins was partially reduced by higher promotional payments and allowances to promote our products.

**** Gross Profit – see definition above*

Total Operating Expenses. Total operating expenses were \$79.1 million for the year ended December 31, 2005, an increase of \$29.5 million or 59.6% over total operating expenses of \$49.6 million for the year ended December 31, 2004. Total operating expenses as a percentage of net sales decreased to 22.6% for the year ended December 31, 2005, from 27.4% for the year ended December 31, 2004. The increase in total operating expenses was primarily attributable to increased selling, general and administrative expenses. The decrease in total operating expenses as a percentage of net sales was primarily attributable to the comparatively lower increase in selling, general and administrative expenses than the increase in net sales.

Distribution expenses, which include out-bound freight and warehousing expenses after manufacture, were \$22.1 million for the year ended December 31, 2005 and \$12.4 million for the year ended December 31, 2004 and have been included in operating expenses.

Selling. Selling expenses were \$50.8 million for the year ended December 31, 2005, an increase of \$21.5 million or 73.7% over selling expenses of \$29.2 million for the year ended December 31, 2004. Selling expenses as a percentage of net sales decreased to 14.6% for the year ended December 31, 2005 from 16.2% for the year ended December 31, 2004. The increase in selling expenses was primarily attributable to increased distribution (freight) and storage expenses which increased by \$9.7 million, increased expenditures for trade development activities and cooperative arrangements with our customers and distributors, which increased by \$4.2 million, increased expenditures for merchandise displays, point-of-sale materials, and premiums, which increased by \$3.0 million, increased expenditures for sponsorships and endorsements which increased \$1.7 million, increased expenditures for advertising which increased by \$1.3 million, and increased expenditures for samples, which increased by \$1.2 million.

General and Administrative. General and administrative expenses were \$28.3 million for the year ended December 31, 2005, an increase of \$8.0 million or 39.4% over general and administrative expenses of \$20.3 million for the year ended December 31, 2004. General and administrative expenses as a percentage of net sales decreased to 8.1% for the year ended December 31, 2005 from 11.3% for the year ended December 31, 2004. The increase in general and administrative expenses was primarily attributable to payroll expenses which increased by \$3.6 million, distributor termination payments which increased by \$1.2 million and travel and entertainment expenses which increased by \$0.7 million.

Amortization of Trademarks. Amortization of trademarks was \$0.07 million for the year ended December 31, 2005, a decrease of \$0.003 million from amortization of trademarks of \$0.073 million for the year ended December 31, 2004. The decrease in amortization of trademarks was due to a reduction in the balance of definite life trademarks.

Contribution Margin. Contribution margin represents net sales by segment less the cost of sales and operating expenses which can be directly attributed to segment net sales. Contribution margin for the DSD segment was \$109.0 million for the year ended December 31, 2005, an increase of approximately \$73.9 million or 210.5% higher than contribution margin of \$35.1 million for the year ended December 31, 2004. The increase in contribution margin for the DSD segment was primarily attributable to the increase in net sales of Monster Energy® brand energy drinks and Lost® Energy™ energy drinks. Contribution margin for the Warehouse segment was \$10.4 million for the year ended December 31, 2005, an increase of approximately \$0.8 million or 8.3% higher than contribution margin of \$9.6 million for year ended December 31, 2004. The increase in the contribution margin for the Warehouse segment was primarily attributable to increased sales of apple juice and juice blends which was offset by the reduced contribution from lower sales of Hansen's® energy drinks.

Operating Income. Operating income was \$103.4 million for the year ended December 31, 2005, compared to \$33.9 million for the year ended December 31, 2004. The \$69.6 million increase in operating income was primarily attributable to increased gross profits, which was partially offset by increased operating expenses.

Interest Income, net. Net interest income was \$1.4 million for the year ended December 31, 2005, as compared to net interest income of \$52,000 for the year ended December 31, 2004. Net interest income consists of interest income and interest and financing expense. The increase in interest income was primarily attributable to an increase in the cash balances in interest bearing accounts during the year ended December 31, 2005. Interest income for the year ended December 31, 2005 was \$1.4 million compared to interest income of \$0.09 million for the year ended December 31, 2004. Interest and financing expense for the year ended December 31, 2005 was \$0.08 million compared to \$0.04 million for the year ended December 31, 2004. The increase in interest and financing expense was primarily attributable to an increase in capital leases entered into during 2005.

Provision for Income Taxes. Provision for income taxes for the year ended December 31, 2005 was \$42.0 million which was an increase of \$28.4 million as compared to the provision for income taxes of \$13.6 million for the year ended December 31, 2004. The increase in provision for income taxes was primarily attributable to the increase in operating income. The effective combined federal and state tax rate for 2005 was 40.1%, as compared to an effective tax rate of 39.9% for 2004.

Net Income. Net income was \$62.8 million for the year ended December 31, 2005, which was an increase of \$42.4 million as compared to net income of \$20.4 million for the year ended December 31, 2004. The increase in net income was primarily attributable to the \$99.1 million increase in gross profit and an increase of net interest income of \$1.3 million for the year ended December 31, 2005 which was partially offset by increased operating expenses of \$29.5 million and an increase in the provision for income taxes of \$28.4 million.

Liquidity and Capital Resources

Cash flows provided by operating activities – Net cash provided by operating activities was \$76.4 million for the year ended December 31, 2006, as compared to \$54.6 million in the comparable period in 2005. For 2006, cash provided by operating activities was primarily attributable to net income earned of \$97.9 million and adjustments for certain non-cash expenses consisting of \$8.3 million of share-based compensation and \$1.5 million of depreciation and other amortization. In 2006, cash provided by operations also increased due to a \$20.4 million increase in deferred revenue, a \$14.0 million increase in accrued liabilities, a \$7.7 million increase in accounts payable, a \$21.1 million increase in income taxes payable, a \$1.0 million increase in accrued compensation and a \$3.3 million increase in customer deposit liabilities. In 2006, cash provided by operating activities was reduced due to a \$45.6 million increase in inventories, a \$25.9 million increase in accounts receivable, a \$17.3 million increase in tax benefit from exercise of stock options and a \$10.9 million increase in deferred income taxes. The increase in accounts receivable was attributable to increased sales volumes as well as to increased sales to certain classes of customers who have longer payment terms. The increase in inventory is attributable to the addition of new copackers and warehouses, the introduction of new products and planned inventory levels to meet consumer demand.

Purchases of inventories, increases in accounts receivable and other assets, acquisition of property and equipment, acquisition of trademarks, payments of accounts payable and income taxes payable are expected to remain our principal recurring use of cash.

Cash flows (used in) provided by investing activities – Net cash used in investing activities was \$95.2 million for the year ended December 31, 2006, as compared to \$3.2 million provided by investing activities in the comparable period in 2005. For 2006, cash used in investing activities was primarily attributable to purchases of short-term investments, particularly available-for-sale and held-to-maturity investments. Cash provided by investing activities was primarily attributable to sales and maturities of held-to-maturity and available-for-sale investments. For both periods, cash used in investing activities included the acquisitions of fixed assets consisting of vans and promotional vehicles and other equipment to support the marketing and promotional activities of the Company, production equipment, computer and office furniture and equipment used for sales and administrative activities, as well as certain leasehold improvements. Management expects that it will continue to use a portion of its cash in excess

of its requirements for operations, for purchasing short-term investments and for other corporate purposes. Management, from time to time, considers the acquisition of capital equipment, specifically items of production equipment required to produce certain of our products, storage racks, vans and promotional vehicles, coolers and other promotional equipment as well as the introduction of new product lines and businesses compatible with the image of the Company's brands.

Cash flows (used in) provided by financing activities – Net cash used in financing activities was \$7.7 million for the year ended December 31, 2006, as compared to net cash provided by financing activities of \$0.1 million for the comparable period in 2005. For 2006, cash used in financing activities was primarily attributable to purchases of \$27.7 million of the Company's common stock and principal payments of long-term debt of \$1.2 million in relation to lease payments made on vehicle leases entered into over the past year. In 2006, cash used in financing activities was partially offset by a \$17.3 million tax benefit in connection with the exercise of certain stock options and by proceeds of \$3.9 million received from the issuance of common stock.

Debt and other obligations – HBC has a credit facility from Comerica Bank ("Comerica") consisting of a revolving line of credit which was amended in May 2007. In accordance with the amended provisions of the credit facility, HBC increased its available borrowing under the revolving line of credit from \$7.5 million collateralized to \$10.0 million non-collateralized. The revolving line of credit remains in full force and effect through June 1, 2008. Interest on borrowings under the line of credit is based on Comerica's base (prime) rate minus up to 1.5%, or varying LIBOR rates up to 180 days, plus an additional percentage of up to 1.75%, depending upon certain financial ratios maintained by HBC. The Company had no outstanding borrowings on this line of credit at December 31, 2006.

The terms of the Company's line of credit contain certain financial covenants, including certain financial ratios. The Company was in compliance with its covenants at December 31, 2006.

If any event of default shall occur for any reason, whether voluntary or involuntary, Comerica may declare all or any portion outstanding on the line of credit immediately due and payable, exercise rights and remedies available to them, including instituting legal proceedings.

Noncancelable contractual obligations include our obligations under our agreement with the Las Vegas Monorail Company and other commitments. (See also "Part II, Item 8 - Note 10, Commitments & Contingencies").

Purchase commitments include obligations made by the Company and its subsidiaries to various suppliers for raw materials used in the manufacturing and packaging of our products. These obligations vary in terms.

The following represents a summary of the Company's contractual obligations and related scheduled maturities as of December 31, 2006:

<u>Obligations</u>	<u>Payments due by period (in thousands)</u>				
	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>More than 5 years</u>
Noncancelable Contracts	\$ 26,459	\$ 13,197	\$ 13,142	\$ 120	\$ —
Capital Leases	303	299	4	—	—
Operating Leases	26,198	3,079	6,033	4,966	12,120
Purchase Commitments	25,385	21,554	3,831	—	—
	<u>\$ 78,345</u>	<u>\$ 38,129</u>	<u>\$ 23,010</u>	<u>\$ 5,086</u>	<u>\$ 12,120</u>

In addition to the above obligations, pursuant to a can supply agreement between the Company and Rexam Beverage Can Company ("Rexam"), dated as of January 1, 2006, the Company has undertaken to purchase a minimum volume of 24-ounce resealable aluminum beverage cans over the four-year period commencing from January 1, 2006 through December 31, 2009. Should the Company fail to purchase the minimum volume, the Company will be obligated to reimburse Rexam for certain capital reimbursements on a pro-rated basis. The Company's maximum liability under this agreement is \$8.6 million, subject to compliance by Rexam with a number of conditions under this agreement.

Management believes that cash available from operations, including cash resources and the revolving line of credit, will be sufficient for our working capital needs, including purchase commitments for raw materials and inventory, increases in accounts receivable, payments of tax liabilities, debt servicing, expansion and development needs, purchases of shares of our common stock, as well as any purchases of capital assets or equipment, through at least the next twelve months. Based on the Company's current plans, at this time the Company estimates that capital expenditures are likely to be less than \$10.0 million through December 2007. However, future business opportunities may cause a change in this estimate.

In October 2006, the Company entered into a lease agreement pursuant to which the Company leased 346,495 square feet of warehouse and distribution space located in Corona, California. This lease commitment provides for minimum rental payments for 120 months commencing March 2007, excluding renewal options. The monthly rental payments are \$167,586 at the commencement of the lease and increase over the lease term by 7.5% at the end of each 30 month period. The new warehouse and distribution space will replace the Company's existing warehouse and distribution space located in Corona, California. We plan to sublet our existing office, warehouse and distribution space for the remainder of the lease term, unless we are able to find a tenant acceptable to the landlord and the landlord agrees to the early termination of the lease.

In October 2006, the Company also entered into an agreement to acquire 1.8 acres of vacant land for a purchase price of \$1.4 million, located adjacent to the new leased warehouse and distribution facility located in Corona, California for the purpose of constructing a new office building thereon which will replace the Company's existing office space in Corona, California. In the interim, the Company has leased additional office space located near our existing corporate offices.

Accounting Policies and Pronouncements

Critical Accounting Policies

The Company's consolidated financial statements are prepared in accordance with GAAP. GAAP requires the Company to make estimates and assumptions that affect the reported amounts in our consolidated financial statements, including various allowances and reserves for accounts receivable and inventories, the estimated lives of long-lived assets and trademarks, as well as claims and contingencies arising out of litigation or other transactions that occur in the normal course of business. The following summarizes the most significant accounting and reporting policies and practices of the Company:

Accounts Receivable – The Company evaluates the collectibility of its trade accounts receivable based on a number of factors. In circumstances where the Company becomes aware of a specific customer's inability to meet its financial obligations to the Company, a specific reserve for bad debts is estimated and recorded, which reduces the recognized receivable to the estimated amount the Company believes will ultimately be collected. In addition to specific customer identification of potential bad debts, bad debt charges are recorded based on the Company's recent past loss history and an overall assessment of past due trade accounts receivable outstanding.

Inventories – Inventories are stated at the lower of cost to purchase and/or manufacture the inventory or the current estimated market value of the inventory. The Company regularly reviews its inventory quantities on hand and records a provision for excess and obsolete inventory based primarily on the Company’s estimated forecast of product demand, production availability and/or its ability to sell the product(s) concerned. Demand for the Company’s products can fluctuate significantly. Factors that could affect demand for the Company’s products include unanticipated changes in consumer preferences, general market conditions or other factors that may result in cancellations of advance orders or reductions in the rate of reorders placed by customers and/or continued weakening of economic conditions. Additionally, management’s estimates of future product demand may be inaccurate, which could result in an understated or overstated provision required for excess and obsolete inventory.

Long-Lived Assets – Management regularly reviews property and equipment and other long-lived assets, including certain identifiable intangibles, for possible impairment. This review occurs annually or more frequently if events or changes in circumstances indicate the carrying amount of the asset may not be recoverable. If there is indication of impairment of property and equipment or amortizable intangible assets, then management prepares an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its eventual disposition. If these cash flows are less than the carrying amount of the asset, an impairment loss is recognized to write down the asset to its estimated fair value. The fair value is estimated at the present value of the future cash flows discounted at a rate commensurate with management’s estimates of the business risks. No impairments were identified as of December 31, 2006.

Management believes that the accounting estimate related to impairment of its long lived assets, including its trademarks, is a “critical accounting estimate” because: (1) the estimate is highly susceptible to change from period to period because it requires company management to make assumptions about cash flows and discount rates; and (2) the impact that recognizing an impairment would have on the assets reported on our consolidated balance sheet, as well as net income, could be material. Management’s assumptions about cash flows and discount rates require significant judgment because actual revenues and expenses have fluctuated in the past and are expected to continue to do so.

Intangibles – Intangibles are comprised primarily of trademarks that represent the Company’s exclusive ownership of the Hansen’s® trademark in connection with the manufacture, sale and distribution of beverages, water, non-beverage products and the Monster Energy® trademark in connection with the manufacture, sale and distribution of supplements and beverages. 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® trademark, which was acquired in September 2000, and the Junior Juice® trademark, which was acquired in May 2001. During 2002, the Company adopted Statement of Financial Accounting Standard (“SFAS”) No. 142, *Goodwill and Other Intangible Assets*. Under the provisions on SFAS No. 142, the Company discontinued amortization on indefinite-lived trademarks while continuing to amortize remaining trademarks over one to 25 years.

In accordance with SFAS No. 142, we evaluate our trademarks annually for impairment or earlier if there is an indication of impairment. If there is an indication of impairment of identified intangible assets not subject to amortization, management compares the estimated fair value with the carrying amount of the asset. An impairment loss is recognized to write down the intangible asset to its fair value if it is less than the carrying amount. The fair value is calculated using the income approach. However, preparation of estimated expected future cash flows is inherently subjective and is based on management’s best estimate of assumptions concerning expected future conditions. Based on management’s impairment analysis performed for the year ended December 31, 2006, the estimated fair values of trademarks exceeded the carrying value.

In estimating future revenues, we use internal budgets. Internal budgets are developed based on recent revenue data and future marketing plans for existing product lines and planned timing of future introductions of new products and their impact on our future cash flows.

Revenue Recognition – The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectibility is reasonably assured. Management believes that adequate provision has been made for cash discounts, returns and spoilage based on the Company's historical experience. Amounts paid to the Company by newly appointed AB Distributors for the costs of terminating certain of the Company's prior distributors are accounted for as deferred revenue which will be recognized as revenue ratably over the anticipated 20 year life of the respective AB Distribution Agreements.

Net Sales – Net sales have been determined after deduction of promotional and other allowances in accordance with Emerging Issues Task Force Issue ("EITF") No. 01-09.

Cost of Sales – Cost of sales consists of the costs of raw materials utilized in the manufacture of our products, co-packing fees, repacking fees, in-bound freight charges, as well as certain internal transfer costs, warehouse expenses incurred prior to the manufacture of the Company's finished products and certain quality control costs. Raw materials account for the largest portion of the cost of sales. Raw materials include cans, bottles, other containers, ingredients and packaging materials.

Operating Expenses – Operating expenses include selling expenses such as distribution expenses to transport our products to our customers and warehousing expenses after manufacture, as well as expenses for advertising, sampling and in-store demonstration costs, costs for merchandise displays, point-of-sale materials and premium items, sponsorship expenses, other marketing expenses and design expenses. Operating expenses also include such costs as payroll costs, travel costs, professional service fees including legal fees, termination payments made to certain of the Company's prior distributors, depreciation, and other general and administrative costs.

Stock-Based Compensation – Beginning in fiscal year 2006, the Company accounts for share-based compensation arrangements in accordance with the provisions of SFAS 123R, which requires the measurement and recognition of compensation expense for all share-based payment awards to employees and directors based on estimated fair values. The Company uses the Black-Scholes-Merton option pricing formula to estimate the fair value of its stock options at the date of grant. The Black-Scholes-Merton option pricing formula was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The Company's employee stock options, however, have characteristics significantly different from those of traded options. For example, employee stock options are generally subject to vesting restrictions and are generally not transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility, the expected life of an option and the number of awards ultimately expected to vest. Changes in subjective input assumptions can materially affect the fair value estimates of an option. Furthermore, the estimated fair value of an option does not necessarily represent the value that will ultimately be realized by an employee. The Company uses historical data to estimate the expected price volatility, the expected option life and the expected forfeiture rate. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for the estimated life of the option. If actual results are not consistent with the Company's assumptions and judgments used in estimating the key assumptions, the Company may be required to increase or decrease compensation expense or income tax expense, which could be material to its results of operations.

Income Taxes – Current income tax expense is the amount of income taxes expected to be payable for the current year. A deferred income tax asset or liability is established for the expected future consequences of temporary differences in the financial reporting and tax bases of assets and liabilities. The Company considers future taxable income and ongoing, prudent and feasible tax planning strategies in assessing the value of its deferred tax assets. If the Company determines that it is more likely than not that these assets will not be realized, the Company will reduce the value of these assets to their expected realizable value, thereby decreasing net income. Evaluating the value of these assets is necessarily based on the Company’s judgment. If the Company subsequently determines that the deferred tax assets, which had been written down, would be realized in the future, the value of the deferred tax assets would be increased, thereby increasing net income in the period when that determination was made.

Newly Issued Accounting Pronouncements

Information regarding newly issued accounting pronouncements is contained in Part II, Item 8, Note 1 to the Consolidated Financial Statements for the year ended December 31, 2006.

Sales

The table set forth below discloses selected quarterly data regarding sales for the past five years. Data from any one or more quarters is not necessarily indicative of annual results or continuing trends.

Sales of beverages are expressed in unit case volume. A “unit case” means a unit of measurement equal to 192 U.S. fluid ounces of finished beverage (24 eight-ounce servings) or concentrate sold that will yield 192 U.S. fluid ounces of finished beverage. Unit case volume of the Company means number of unit cases (or unit case equivalents) of beverages directly or indirectly sold by the Company. Sales of food bars and cereals, which have been discontinued and are not material, are expressed in actual cases.

The Company’s quarterly results of operations reflect seasonal trends that are primarily the result of increased demand in the warmer months of the year. It has been our experience that beverage sales tend to be lower during the first and fourth quarters of each fiscal year. Because the primary historical market for Hansen’s products is California, which has a year-long temperate climate, the effect of seasonal fluctuations on quarterly results may have been mitigated; however, such fluctuations may be more pronounced as the distribution of Hansen’s products expands outside of California. The Company’s experience with its energy drink products, suggests that they are less seasonal than traditional beverages. As the percentage of the Company’s sales that are represented by such products continues to increase, seasonal fluctuations will be further mitigated. Quarterly fluctuations may also be affected by other factors including the introduction of new products, the opening of new markets where temperature fluctuations are more pronounced, the addition of new bottlers and distributors, changes in the mix of the sales of its finished products and changes in and/or increased advertising and promotional expenses. (See also “Part I, Item 1. - Business – Seasonality”).

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<u>Unit Case Volume / Case Sales (in Thousands)</u>					
Quarter 1	14,974	9,295	5,368	4,219	3,597
Quarter 2	19,136	12,368	7,605	5,356	4,977
Quarter 3	21,176	13,983	8,916	6,221	5,146
Quarter 4	17,454	12,568	7,871	4,625	3,885
Total	<u>72,740</u>	<u>48,214</u>	<u>29,760</u>	<u>20,421</u>	<u>17,605</u>
<u>Net Revenues (in Thousands)</u>					
Quarter 1	\$ 119,746	\$ 60,014	\$ 31,299	\$ 22,086	\$ 18,592
Quarter 2	156,037	85,441	46,064	28,409	26,265
Quarter 3	178,647	105,421	52,641	33,291	26,985
Quarter 4	151,344	98,010	50,337	26,566	20,204
Total	<u>\$ 605,774</u>	<u>\$ 348,886</u>	<u>\$ 180,341</u>	<u>\$ 110,352</u>	<u>\$ 92,046</u>
<u>Average Price per Case</u>					
Quarter 1	\$ 8.00	\$ 6.46	\$ 5.83	\$ 5.23	\$ 5.17
Quarter 2	\$ 8.15	\$ 6.91	\$ 6.06	\$ 5.30	\$ 5.28
Quarter 3	\$ 8.44	\$ 7.54	\$ 5.90	\$ 5.35	\$ 5.24
Quarter 4	\$ 8.67	\$ 7.80	\$ 6.40	\$ 5.74	\$ 5.20
Total	<u>\$ 8.33</u>	<u>\$ 7.24</u>	<u>\$ 6.06</u>	<u>\$ 5.40</u>	<u>\$ 5.23</u>

Inflation

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

Forward Looking Statements

The Private Securities Litigation Reform Act of 1995 (the "Act") provides a safe harbor for forward looking statements made by or on behalf of the Company. Certain statements made in this report 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 our 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 information, are forward looking statements within the meaning of the Act. Without limiting the foregoing, the words "believes," "thinks," "anticipates," "plans," "expects," and similar expressions are intended to identify forward-looking statements.

Management cautions that these statements are qualified by their terms and/or important factors, many of which are outside our control, involve a number of risks, uncertainties and other factors, that could cause actual results and events to differ materially from the statements made including, but not limited to, the following:

- Matters related to or arising out of the Company's stock option grants and procedures and related matters;
- The impact on the Company of late SEC filings, possible delisting from Nasdaq and shareholder litigation;
- Any other proceedings which may be brought against the Company by the SEC or other governmental agencies;
- The outcome of the shareholder derivative actions and shareholders securities litigation filed against certain of the Company's officers and directors, and the possibility of other private litigation relating to such stock option grants and related matters;
- Our ability to address any significant deficiencies or material weakness in our internal control over financial reporting;
- The Company's ability to generate sufficient cash flows to support capital expansion plans and general operating activities;
- Decreased demand for our products resulting from changes in consumer preferences;
- Changes in demand that are weather related, particularly in areas outside of California;
- Competitive products and pricing pressures and the Company's ability to gain or maintain its share of sales in the marketplace as a result of actions by competitors;
- The introduction of new products;
- An inability to achieve volume growth through product and packaging initiatives;
- The Company's ability to sustain the current level of sales of our Monster Energy® brand energy drinks;
- 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, as well as changes in any other food and drug laws, especially those that may affect the way in which the Company's products are marketed and/or labeled and/or sold, 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 Explosives and/or the Federal Trade Commission and/or certain state regulatory agencies;
- Changes in the costs 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;
- 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;
- The Company's ability to penetrate new markets;
- The marketing efforts of distributors of the Company's products, most of which distribute products that are competitive with the products of the Company;
- Unilateral decisions by distributors, convenience chains, 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;
- The terms and/or availability of the Company's credit facility and the actions of its creditors;
- The effectiveness of the Company's advertising, marketing and promotional programs;
- Changes in product category consumption;
- Unforeseen economic and political changes;
- Possible recalls of the Company's products;
- Disruption in distribution or sales and/or decline in sales due to the termination of the distribution agreements with certain of the Company's existing distributors or distribution networks and the appointment of selected AB wholesalers as distributors in their place for the territories of such terminated distributors;

- The Company's ability to make suitable arrangements for the co-packing of any of its products including, but not limited to, its energy and functional drinks in 8.3-ounce slim cans, 16-ounce cans and/or 24-ounce cans, smoothies in 11.5-ounce cans, E₂O Energy Water®, Energade®, Monster Energy®, Lost® Energy™ drinks, Joker Mad Energy™ energy drinks and Unbound Energy® energy drinks in 8.3-ounce and/or 16-ounce and/or 24-ounce cans, Rumba™ energy juice in 16-ounce cans, Java Monster™ coffee drinks in 16-ounce cans, juices in 64-ounce PET plastic bottles and aseptic packaging, sparkling orangeades and lemonades and apple cider in glass bottles and other products;
- Loss of the Company's intellectual property rights;
- Failure to retain the full-time services of senior management of the Company, and inability to immediately find suitable replacements;
- Volatility of stock prices may restrict sales or other opportunities;
- Provisions in the Company's organizational documents and/or control by insiders may prevent changes in control even if such changes would be beneficial to other stockholders;
- Exposure to significant liabilities due to litigation or legal proceedings.

The foregoing list of important factors and other risks detailed from time to time in the Company's reports filed with the Securities and Exchange Commission is not exhaustive. See "Part I, Item 1A. – Risk Factors," for a more complete discussion of these risks and uncertainties and for other risks and uncertainties. Those factors and the other risk factors described therein are not necessarily all of the important factors that could cause actual results or developments to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors also could harm our results. Consequently, our actual results could be materially different from the results described or anticipated by our forward-looking statements due to the inherent uncertainty of estimates, forecasts and projections and may be better or worse than anticipated. Given these uncertainties, you should not rely on forward-looking statements. Forward-looking statements represent our estimates and assumptions only as of the date that they were made. We expressly disclaim any duty to provide updates to forward-looking statements, and the estimates and assumptions associated with them, after the date of this report, in order to reflect changes in circumstances or expectations or the occurrence of unanticipated events except to the extent required by applicable securities laws.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

In the normal course of business, our financial position is routinely subject to a variety of 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 energy and fuel prices, commodity prices affecting the costs of juice concentrates and other raw materials (including, but not limited to, increases in the price of aluminum for cans, resin for PET plastic bottles, as well as sucrose and high fructose corn syrup, which are used in many of the Company's products), changes in interest rates on the Company's long-term debt and limited availability of certain raw materials such as sucralose. We are also subject to market risks with respect to the cost of commodities because our ability to recover increased costs through higher pricing is limited by the competitive environment in which we operate. In addition, we are subject to other risks associated with the business environment in which we operate, including the collectibility of accounts receivable.

At December 31, 2006, the Company's debt consisted of amounts owed in connection with certain fixed-rate capital leases. There have been no significant changes to the Company's exposure to market risks.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required to be furnished in response to this ITEM 8 follows the signature page hereto at pages 91 through 123.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures – We conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act and are effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting – During the fourth quarter of 2006, the Company implemented new written procedures, effective January 1, 2007, regarding the granting of stock options. Under these new procedures, the Compensation Committee of the Board of Directors (the “Compensation Committee”) has sole and exclusive authority to grant stock option awards to all employees who are not new hires and to all new hires who are subject to Section 16 of the Exchange Act. The Compensation Committee and the Executive Committee of the Board each independently has the authority to grant awards to new hires who are not Section 16 employees. Awards granted by the Executive Committee are not subject to approval or ratification by the Board or the Compensation Committee. For purposes of these procedures, a new hire means: (i) an employee who is commencing employment with the Company or its subsidiaries; or (ii) an employee who is receiving a promotion to a new position with the Company or one of its subsidiaries. The grant date of any award to a new hire shall be the first day that Nasdaq is open in the calendar month following the employee’s commencement of employment or the date of the employee’s promotion (as the case may be). Other than awards to new hires, awards may only be granted at a single meeting held during the last two weeks of May and November of each year. The grant date of any award granted at a May or November meeting shall be the first day that Nasdaq is open in June following such May meeting, or December following such November meeting (as the case may be). The new procedures also require certain same day documentation. During the fourth quarter of 2006, the Company also implemented additional procedures for the communication and recording of modifications and cancellations of stock option grants.

Management’s Report on Internal Control Over Financial Reporting – Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2006, based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our management’s evaluation under the framework in *Internal Control – Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2006.

Our independent registered public accounting firm has issued an attestation report on management’s assessment of our internal control over financial reporting. This report appears below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Hansen Natural Corporation
Corona, California

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Hansen Natural Corporation and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2006, of the Company and our report dated June 5, 2007, expressed an unqualified opinion on those financial statements and financial statement schedule and included an explanatory paragraph referring to the adoption of Statement of Financial Accounting Standards No. 123R, "Share-based Payment" in 2006.

/s/ DELOITTE & TOUCHE LLP

Costa Mesa, California
June 5, 2007

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors of the Company are elected annually by the holders of the common stock and executive officers are elected annually by the Board of Directors, to serve until the next annual meeting of stockholders or the Board of Directors, as the case may be, or until their successors are elected and qualified. It is anticipated that the next annual meeting of stockholders will be held in November 2007.

The members of our Board of Directors and our executive officers are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Rodney C. Sacks(1)	57	Chairman of the Board of Directors and Chief Executive Officer
Hilton H. Schlosberg(1)	54	Vice Chairman of the Board of Directors, Chief Financial Officer, Chief Operating Officer and Secretary
Benjamin M. Polk	56	Director
Norman C. Epstein(2), (3),(4)	66	Director
Sydney Selati(2),(3)	68	Director
Harold C. Taber, Jr. (2),(4),(5)	68	Director
Mark S. Vidergauz (3)	53	Director
Mark Hall	51	President, Monster Beverage Division of HBC
Michael B. Schott	59	Senior Vice President, National Sales, Monster Beverage Division of HBC
Kirk Blower	56	Senior Vice President, Non-Carbonated Products of HBC
Thomas J. Kelly	53	Vice President – Finance and Secretary of HBC

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- (1) Member of the Executive Committee of the Board of Directors
 - (2) Member of the Audit Committee of the Board of Directors
 - (3) Member of the Compensation Committee of the Board of Directors
 - (4) Member of the Nominating Committee of the Board of Directors
 - (5) Member of the Special Committee of the Board of Directors

Rodney C. Sacks – Chairman of the Board of Directors of the Company, Chief Executive Officer and director of the Company from November 1990 to the present. Member of the Executive Committee of the Board of Directors of the Company since October 1992. Chairman and a director of HBC from June 1992 to the present.

Hilton H. Schlosberg – Vice Chairman of the Board of Directors of the Company, President, Chief Operating Officer, Secretary, and a director of the Company from November 1990 to the present and Chief Financial Officer of the Company since July 1996. Member of the Executive Committee of the Board of Directors of the Company since October 1992. Vice Chairman, Secretary and a director of HBC from July 1992 to the present.

Benjamin M. Polk – Director of the Company from November 1990 to the present. Assistant Secretary of HBC since October 1992 and a director of HBC since July 1992. Partner with Schulte Roth & Zabel LLP(1) since May 2004 and previously a partner with Winston & Strawn LLP where Mr. Polk practiced law with that firm and its predecessors, from August 1976 to May 2004.

Norman C. Epstein – Director of the Company and member of the Compensation Committee of the Board of Directors of the Company since June 1992 and member of the Nominating Committee of the Board of Directors of the Company since September 2004. Member and Chairman of the Audit Committee of the Board of Directors of the Company since September 1997. Director of HBC since July 1992. Director of Integrated Asset Management Limited, a company listed on the London Stock Exchange since June 1998. Managing Director of Cheval Property Finance PLC, a mortgage finance company based in London, England. Partner with Moore Stephens, an international accounting firm, from 1974 to December 1996 (senior partner beginning 1989 and the managing partner of Moore Stephens, New York from 1993 until 1995).

Sydney Selati – Director of the Company and member of the Audit Committee of the Board of Directors since September 2004 and member of the Compensation Committee of the Board of Directors since March 2007. Mr. Selati was a director of Barbeques Galore Ltd. From 1997 to 2005 and was Chairman of the Board of Directors of Barbeques Galore USA from 1988 to 2005. Mr. Selati was president of Sussex Group Limited from 1984 to 1988.

Harold C. Taber, Jr. – Director of the Company since July 1992. Member of the Audit Committee of the Board of Directors since April 2000 and member of the Nominating Committee of the Board of Directors of the Company since September 2004. President and Chief Executive Officer of HBC from July 1992 to June 1997. Consultant for The Joseph Company from October 1997 to March 1999 and for Costa Macaroni Manufacturing Company from July 2000 to January 2002. Director of Mentoring at Biola University from July 2002 to present.

Mark S. Vidergauz – Director of the Company and member of the Compensation Committee of the Board of Directors of the Company since June 1998. Member of the Audit Committee of the Board of Directors from April 2000 through May 2004. Managing Director and Chief Executive Officer of Sage Group LLC from April 2000 to present. Managing director at the Los Angeles office of ING Barings LLC, a diversified financial service institution headquartered in the Netherlands from April 1995 to April 2000.

Mark Hall – President, Monster Beverage Division, joined HBC in 1997. Prior to joining HBC, Mr. Hall spent three years with Arizona Beverages as Vice President of Sales where he was responsible for sales and distribution of Arizona products through a national network of beer distributors and soft drink bottlers.

Michael B. Schott - Vice President, National Sales, Monster Beverage Division, joined HBC in 2002. Prior to joining HBC, Mr. Schott held a number of management positions in the beverage industry including president of Snapple Beverage Co., SOBE Beverage Co. and Everfresh Beverages, respectively. Mr. Schott has over 30 years of experience in sales and marketing, primarily with beverage companies in key executive and operational roles. Mr. Schott is currently on medical leave.

Kirk Blower – Senior Vice President, Juice and Non-Carbonated Products, of HBC since 1992. Mr. Blower has over 30 years of experience in sales and marketing, primarily with the Coca-Cola organization.

Thomas J. Kelly – Vice President – Finance and Secretary of HBC since 1992. Prior to joining HBC, Mr. Kelly served as controller for California Copackers Corporation. Mr. Kelly is a Certified Public Accountant and has worked in the beverage business for over 20 years.

(1)Mr. Polk and his law firm, Schulte Roth & Zabel LLP, serve as counsel to the Company.

Audit Committee and Audit Committee Financial Expert

We have a separately designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (“the “Exchange Act”). The members of our Audit Committee are Messrs. Epstein (Chairman), Taber and Selati. Our Board of Directors has determined that Mr. Epstein is (1) an “audit committee financial expert,” as that term is defined in Item 401(h) of Regulation S-K of the Exchange Act, and (2) independent as defined by the listing standards of NASDAQ and Section 10A(m)(3) of the Exchange Act.

Code of Ethics

We have adopted a Code of Ethics that applies to all our directors, officers (including its principal executive officer, principal financial officer and controllers) and employees. The Code of Ethics and any amendment to the Code of Ethics, as well as any waivers that are required to be disclosed by the rules of the SEC or NASDAQ may be obtained at no cost to you by writing or telephoning us at the following address or telephone number:

Hansen Beverage Company
1010 Railroad Street
Corona, CA 92882
(951) 739-6200
(800) HANSENS
(800) 426-7367

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company’s directors and executive officers, and persons who own more than ten percent of a registered class of the Company’s equity securities, to file by specific dates with the SEC initial reports of ownership and reports of changes in ownership of equity securities of the Company. Executive officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms that they file. The Company is required to report in this annual report on Form 10-K any failure of its directors and executive officers and greater than ten percent stockholders to file by the relevant due date any of these reports during the most recent fiscal year or prior fiscal years.

To the Company’s knowledge, based solely on review of copies of such reports furnished to the Company during the year ended December 31, 2006, all Section 16(a) filing requirements applicable to the Company’s executive officers, directors and greater than ten percent stockholders were complied with, except that Form 4’s with respect to an option exercise to purchase the Company’s stock required to be filed by Mike Schott and Mark Vidergauz and a sale of shares of the Company’s common stock required to be filed by Mark Vidergauz, and Norman Epstein were inadvertently filed late. The respective transactions were subsequently filed on Form 4’s.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Committee Interlocks and Insider Participation in Compensation Decisions

The Company’s Compensation Committee was comprised of Mr. Epstein and Mr. Vidergauz and since March 16, 2007 is comprised of Mr. Epstein, Mr. Vidergauz and Mr. Selati. No interlocking relationships exist between any member of our Board of Directors or Compensation Committee and any member of the board of directors or compensation committee of any other company, nor has any such interlocking relationship existed in the past. No member of our Compensation Committee is or was formerly an officer or an employee of Hansen’s.

Compensation Committee Report

We have reviewed and discussed with management certain Compensation Discussion and Analysis provisions to be included in this Form 10-K. Based on the reviews and discussions referred to below, we recommend to the Board that the Compensation and Analysis referred to above be included in the Company's Form 10-K.

Compensation Committee

Norman C. Epstein, Chairman
Mark S. Vidergauz
Sydney Selati

COMPENSATION DISCUSSION AND ANALYSIS

Compensation Philosophy

Our executive compensation program for Named Executive Officers listed in the summary compensation table on the following pages, whom we refer to as our NEOs, is designed to attract, as needed, individuals with the skills necessary for us to achieve our business plan, to motivate our executive talent, to reward those individuals fairly over time and to retain those individuals who continue to perform at or above the levels that are deemed essential to ensure our success. The program is also designed to reinforce a sense of ownership, urgency and overall entrepreneurial spirit and to link rewards to measurable corporate and individual performance. In applying these principles we seek to integrate compensation programs with our short and long term strategic plans and to align the interests of the NEOs with the long term interests of stockholders through award opportunities that can result in ownership of stock.

Compensation Program Components

The compensation programs for our NEOs are generally administered by or under direction of the Compensation Committee (in the case of Rodney Sacks, the Chairman and Chief Executive Officer, and Hilton Schlosberg, the President and Chief Financial Officer), and the Executive Committee (in the case of the other NEOs) and are reviewed on an annual basis to ensure that remuneration levels and benefits are competitive and reasonable and continue to achieve the goals set out in our compensation philosophy. On January 1, 2007, we implemented a new policy regarding the issuance of stock options, which is discussed below.

Neither we nor our Compensation Committee have retained a compensation consultant to review policies and procedures with respect to executive compensation or to advise the Company on compensation matters. While we do not set compensation at set percentage levels relative to the market, we do seek to provide salary, incentive compensation opportunities and employee benefits that are competitive within the industry and within the labor markets in which we participate.

Our NEO compensation currently has three primary components: base compensation or salary, discretionary annual bonus, and stock option awards granted pursuant to our Hansen Natural Corporation 2001 Stock Option Plan, which we refer to as the 2001 Stock Option Plan, which is described below under "Long Term Incentive Programs."

Each of the primary components of NEO compensation is discussed below:

Base Salary

Base salaries for our NEOs are established based on the scope of their respective responsibilities, taking into account competitive market compensation paid by other companies for individuals in similar positions. Generally, in line with our compensation philosophy, we believe that NEO base salaries

should be targeted near the median of the range for individuals in like positions with similar responsibilities in comparable companies. We fix NEO base compensation at levels which we believe enable us to hire and retain individuals in a competitive environment and to reward satisfactory performance at an acceptable level based upon contributions to our overall business goals. Base salaries are generally reviewed annually, but may be adjusted from time to time to realign salaries with market levels, taking into account such individual's responsibilities, performance and experience. In reviewing base salaries, we consider several factors, including cost of living increases, levels of responsibility, experience, a comparison to base salaries paid for comparable positions by our competitors and companies in our geography, as well as our own base salaries for other executives and individual performance and results achieved. The annual review usually occurs in the first quarter of each calendar year and has been completed for fiscal 2006. We may also utilize input from executive search firms when making crucial hiring decisions.

Discretionary Annual Bonus

We provide incentive compensation to our NEOs in the form of annual cash bonuses based on individual and company-wide financial and operational performance and/or results, consistent with our emphasis on pay-for-performance incentive compensation programs. These parameters vary depending on the individual executive, but relate generally to strategic factors such as sales, distribution levels, introduction of new products, operating performance, contribution margins and profitability. We do not have a formula for determination of annual cash bonuses with respect to our NEOs. We generally utilize cash bonuses to reward performance achievements for the time horizon of one year or less.

In some cases, the annual bonus amounts are determined as a percentage of base salary. The actual amount of the annual bonus is determined and paid in the first quarter following a review of each NEO's individual performance and contribution to our strategic goals during the prior year.

The Compensation Committee determines the annual bonuses for Rodney Sacks and Hilton Schlosberg and the Executive Committee (comprised of the Chairman and Chief Executive Officer and President and Chief Financial Officer) determines the annual bonuses for the other NEOs. Annual bonuses typically include discretionary bonus amounts that are awarded based on individual circumstances deemed appropriate and fair by the relevant committee. The annual bonuses for fiscal 2006 have been determined.

Long Term Incentive Program

We believe that long term performance is achieved through an ownership culture that encourages superior performance by our NEOs through the use of stock option awards. Our stock option plans have been established to provide our NEOs with incentives to further align their interests with the interests of the stockholders. Grants under stock option plans vest over a number of years, generally up to 5 years.

Our 2001 Stock Option Plan authorizes us to grant options to purchase shares of common stock to our employees. The Compensation Committee is the administrator of the Stock Option Plan and is authorized to grant stock options to employees thereunder. The Executive Committee is also authorized to grant options thereunder. Stock option grants are made to key employees when they are hired and from time to time thereafter, as well as on occasion following a significant change in their job responsibilities. Prior to 2007, stock option grants were generally made to existing NEOs at periodic intervals at the discretion of the Compensation Committee or the Executive Committee. None of our NEOs were awarded any stock option grants during 2006.

Effective January 1, 2007, we implemented a new policy regarding the issuance of stock options. Under the new procedures, the Compensation Committee has sole and exclusive authority to grant stock option awards to all employees who are not new hires and to all new hires who are subject to Section 16 of the Exchange Act. The Compensation Committee and the Executive Committee of the Board each independently has the authority to grant awards to new hires who are not Section 16 employees. Awards

granted by the Executive Committee are not subject to approval or ratification by the Board or the Compensation Committee. For purposes of these procedures, a new hire means: (i) an employee who is commencing employment with the Company or its subsidiaries; or (ii) an employee who is receiving a promotion to a new position with the Company or one of its subsidiaries. The grant date of any award to a new hire shall be the first day that Nasdaq is open in the calendar month following the employee's commencement of employment or the date of the employee's promotion (as the case may be). Other than awards to new hires, awards may only be granted at a single meeting held during the last two weeks of May and November of each year. The grant date of any award granted at a May or November meeting shall be the first day that Nasdaq is open in June following such May meeting, or December following such November meeting (as the case may be). The new procedures also require certain same day documentation.

The Compensation Committee will review and approve stock option awards to our NEOs based upon a review of competitive compensation data, its assessment of individual performance, a review of each executive's long term incentives and retention considerations.

Other Compensation

Certain NEOs who are parties to employment agreements will continue to be subject to such agreements in their current form until such time as the Compensation Committee determines in its discretion that revisions to such employment agreements are advisable. Current employment agreements have not been changed during their respective terms. In addition, we intend to continue to maintain our current benefits and perquisites for our NEOs, which include automobile and benefit premiums, among other perquisites. However, the Compensation Committee in its discretion may revise, amend or add to such NEOs benefits and prerequisites if it deems it advisable. We believe these benefits and prerequisites are currently in line with those provided by comparable companies for similarly situated executives.

General

We view the above components of compensation as related but distinct. We do not believe that significant compensation derived from one component of compensation should negate or reduce compensation from other components. We determine the appropriate level for each compensation component based in part, but not exclusively, on competitive benchmarks consistent with our recruiting and retention goals, our view of internal equity and consistency and other considerations we deem relevant such as rewarding performance. We believe that stock option awards should be granted for future performance and are an important compensation related motivator to attract and retain executives and that salary and bonus levels are secondary considerations to our NEOs. Except as described herein, neither our Compensation Committee nor our Executive Committee have adopted any formal or informal policies or guidelines for allocating compensation between short term and long term and current compensation between cash and non-cash compensation. However, our Compensation Committee and Executive Committee's respective philosophy is to make a greater percentage of our NEOs compensation performance rewarded through equity rather than cash if we perform well over time. Each element of compensation is determined differently for each individual NEO based on specific facts and circumstances applicable at the time and to that specific NEO.

Our Compensation Committee and Executive Committee's current intent is to perform at least annually a strategic review of our NEOs compensation to determine whether they have provided adequate incentives and motivation to our NEOs and whether they adequately compensate our NEOs relative to comparable officers in other companies with which we compete for executives. These companies may or may not be public companies or even consumer product, food or beverage companies. For compensation decisions, including decisions regarding the grant of equity compensation relating to NEOs other than our Chairman and Chief Executive Officer and President and Chief Financial Officer, the Compensation Committee specifically considers recommendations from the Executive Committee.

Employee Benefit Plans

Our employees, including our NEOs, are entitled to various employee benefits which include medical and dental care plans, car allowances, other allowances, group life, disability, 401(k) plan as well as paid time off.

401(k) Plan

Our employees, including our NEOs, may participate in our 401(k) Plan, a defined contribution plan, which qualifies under Section 401(k) of the Internal Revenue Code. Participating employees may contribute up to 15% of their pretax salary up to statutory limits. We contribute 25% of the employee contribution, up to 8% of each employee's earnings, which vest 20% each year for five years after the first anniversary date.

SUMMARY COMPENSATION TABLE

On August 8, 2005, our common stock was split on a two-for-one basis through a 100% stock dividend. On July 7, 2006 our common stock was split on a four-for-one basis through a 300% stock dividend. All share information has been presented to reflect the stock splits.

The following table summarizes the total compensation of our NEOs in 2006. During the year ended December 31, 2006, our NEOs were Rodney C. Sacks, Hilton H. Schlosberg, Mark J. Hall, Michael Schott and Thomas J. Kelly.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)(1)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)(A)	Total (\$)
Rodney C. Sacks Chairman, CEO and Director	2006	275,000	125,000	—	2,135,420	—	—	41,602	2,577,022
Hilton H. Schlosberg Vice-Chairman, CFO, COO, President, Secretary and Director	2006	275,000	125,000	—	2,135,420	—	—	31,217	2,566,637
Mark J. Hall President Monster Beverage Division	2006	250,000	200,000	—	1,063,339	—	—	20,288	1,533,627
Michael Schott Senior Vice President National Sales Monster Beverage Division	2006	195,000	30,000	—	308,822	—	—	93,171	626,993
Thomas J. Kelly Vice President Finance	2006	160,000	40,000	—	51,010	—	—	21,437	272,447

- (1) The amounts represent the current year unaudited compensation expense for all share-based payment awards based on estimated fair values, computed in accordance with Financial Accounting Standards Board Statement No. 123 (revised 2004), Share-Based Payment ("SFAS No. 123R"), excluding any impact of assumed forfeiture rates. We record compensation expense for employee stock options based on the estimated fair value of the options on the date of grant using the Black-Scholes-Merton option pricing formula with the following assumptions: 0% dividend yield; 58.0% expected volatility; 4.7% risk free interest rate; 6 years expected lives and 0% forfeiture rate.

(A) ALL OTHER COMPENSATION

<u>Name</u>	<u>Automobile (\$)</u>	<u>401 K Match (\$)</u>	<u>Benefit Premiums (\$)</u>	<u>Perquisites (\$)</u>	<u>Housing Allowance (\$)</u>	<u>Total</u>
Rodney C. Sacks	25,771	4,710	9,429	1,692	—	41,602
Hilton H. Schlosberg	15,261	4,710	9,854	1,392	—	31,217
Mark J. Hall	10,566	4,077	5,645	—	—	20,288
Michael Schott	9,932	4,373	9,077	9,800	59,989	93,171
Thomas J. Kelly	8,103	3,480	9,854	—	—	21,437

Discussion of Summary Compensation Table:

Agreements with named Executive Officers:

Rodney C. Sacks. We entered into an employment agreement dated as of June 1, 2003 with Rodney C. Sacks pursuant to which Mr. Sacks renders services as our Chairman and Chief Executive Officer. Under his employment agreement, Mr. Sacks' annual base salary was \$230,000 for the seven month period ending December 31, 2003, increased to \$245,000 per annum for the 12 month period ending December 31, 2004 and increases by a minimum of five percent (5%) for each subsequent 12 month period during the employment period. Mr. Sacks is eligible to receive an annual bonus in an amount determined at the discretion of our Board as well as certain fringe benefits. The employment period commenced on June 1, 2003 and ends on December 31, 2008. Since commencement of the employment period, we have granted Mr. Sacks an option, subject to time based vesting, to purchase 1,200,000 shares of common stock (post-split) pursuant to a stock option agreement dated May 28, 2003, an option to purchase 1,200,000 shares of common stock (post-split) pursuant to a stock option agreement dated March 23, 2005 and an option to purchase 600,000 shares of common stock (post-split) pursuant to a stock option agreement dated November 11, 2005. Under his employment agreement, Mr. Sacks is subject to a confidentiality covenant and a six-month post-termination non-competition covenant. The severance provisions in Mr. Sacks' employment agreement are discussed in the "Potential Payments Upon Termination or Change in Control" section below.

Hilton H. Schlosberg. We entered into an employment agreement dated as of June 1, 2003 with Hilton Schlosberg pursuant to which Mr. Schlosberg renders services as our President and Chief Financial Officer. Under his employment agreement, Mr. Schlosberg's annual base salary was \$230,000 for the seven month period ending December 31, 2003, increased to \$245,000 per annum for the 12 month period ending December 31, 2004 and increases by a minimum of five percent (5%) for each subsequent 12 month period during the employment period. Mr. Schlosberg is eligible to receive an annual bonus in an amount determined at the discretion of our Board as well as certain fringe benefits. The employment period commenced on June 1, 2003 and ends on December 31, 2008. Since commencement of the employment period, we have granted Mr. Schlosberg an option, subject to time based vesting, to purchase 1,200,000 shares of common stock (post-split) pursuant to a stock option agreement dated as May 28, 2003, an option to purchase 1,200,000 shares of common stock (post-split) pursuant to a stock option agreement dated March 23, 2005 and an option to purchase 600,000 shares of common stock (post-split) pursuant to a stock option agreement dated November 11, 2005. Under his employment agreement, Mr. Schlosberg is subject to a confidentiality covenant and a six-month post-termination non-competition covenant. The severance provisions in Mr. Schlosberg's employment agreement are discussed in the "Potential Payments Upon Termination or Change in Control" section below.

Mark J. Hall. On January 21, 1997 Mr. Hall executed our written offer of employment. The written offer of employment specifies that Mr. Hall's employment with us is "at will" and thus may be terminated at any time for any or no reason. Mr. Hall's base compensation was \$250,000 as of December 31, 2006 and he is currently eligible to receive a bonus of up to 51% of his base compensation, subject to review by our Executive Committee. Since January 1, 1999, we have granted Mr. Hall an option, subject to time based vesting, to purchase 160,000 shares of common stock (post-split) pursuant to a stock option agreement dated July 12, 2002, an option to purchase 480,000 shares of common stock (post-split) pursuant to a stock option agreement dated January 15, 2004, an option to purchase 800,000 shares of common stock (post-split) pursuant to a stock option agreement dated March 23, 2005, an option to purchase 100,000 shares of common stock (post-split) pursuant to a stock option agreement dated September 28, 2005 and an option to purchase 100,000 shares of common stock (post-split) pursuant to a stock option agreement dated November 11, 2005.

Michael Schott. On August 5, 2002 Mr. Schott executed our written offer of employment. The written offer of employment specifies that Mr. Schott's employment with us is "at will" and thus may be terminated at any time for any or no reason. Mr. Schott's base compensation was \$195,000 as of December 31, 2006 and he is currently eligible to receive a bonus of up to 40% of his base compensation, subject to review by our Executive Committee. Since commencement of employment, we have granted Mr. Schott an option, subject to time based vesting, to purchase 576,000 shares of common stock (post-split) pursuant to a stock option agreement dated August 9, 2002, an option to purchase 256,000 shares of common stock (post-split) pursuant to a stock option agreement dated January 15, 2004, an option to purchase 200,000 shares of common stock (post-split) pursuant to a stock option agreement dated March 23, 2005 and an option to purchase 48,000 shares of common stock (post-split) pursuant to a stock option agreement dated November 11, 2005.

Thomas J. Kelly. Mr. Kelly's employment is "at will" and thus may be terminated at any time for any or no reason. Mr. Kelly's base compensation was \$160,000 as of December 31, 2006 and he is currently eligible to receive a bonus, subject to review by our Executive Committee. Since January 1, 1999, we have granted Mr. Kelly an option, subject to time based vesting, to purchase 80,000 shares of common stock (post-split) pursuant to a stock option agreement dated February 2, 1999, an option to purchase 80,000 shares of common stock (post-split) pursuant to a stock option agreement dated July 12, 2002, an option to purchase 200,000 shares of common stock (post-split) pursuant to a stock option agreement dated January 15, 2004 and an option to purchase 8,000 shares of common stock (post-split) pursuant to a stock option agreement dated November 11, 2005.

GRANTS OF PLAN-BASED AWARDS

No plan-based awards were granted to our NEOs during the year ended December 31, 2006.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table summarizes the outstanding equity awards held by our NEOs at December 31, 2006.

Name	Grant Date	Option Awards				Stock Awards				
		Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Unearned Options (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price (\$)	Option Exercise Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
Rodney C. Sacks	2/2/1999	580,000	—	—	0.53125	2/2/2009	—	—	—	—
	7/12/2002	544,088	—	—	0.44625	7/12/2012	—	—	—	—
	5/28/2003	575,912	480,000(1)	—	0.53125	5/28/2013	—	—	—	—
	3/23/2005	240,000	960,000(2)	—	6.58750	3/23/2015	—	—	—	—
	11/11/2005	120,000	480,000(3)	—	16.87000	11/11/2015	—	—	—	—
Hilton H. Schlosberg	2/2/1999	580,000	—	—	0.53125	2/2/2009	—	—	—	—
	7/12/2002	544,088	—	—	0.44625	7/12/2012	—	—	—	—
	5/28/2003	575,912	480,000(1)	—	0.53125	5/28/2013	—	—	—	—
	3/23/2005	240,000	960,000(2)	—	6.58750	3/23/2015	—	—	—	—
	11/11/2005	120,000	480,000(3)	—	16.87000	11/11/2015	—	—	—	—
Mark J. Hall	7/12/2002	32,000	32,000(4)	—	0.44625	7/12/2012	—	—	—	—
	1/15/2004	—	288,000(5)	—	1.01875	1/15/2014	—	—	—	—
	3/23/2005	—	640,000(6)	—	6.58750	3/23/2015	—	—	—	—
	9/28/2005	20,000	80,000(7)	—	10.94750	9/28/2015	—	—	—	—
	11/11/2005	20,000	80,000(8)	—	16.87000	11/11/2015	—	—	—	—
Michael Schott	8/9/2002	—	192,000(9)	—	0.48125	8/9/2012	—	—	—	—
	1/15/2004	—	128,000(10)	—	1.01875	1/15/2014	—	—	—	—
	3/23/2005	—	160,000(11)	—	6.58750	3/23/2015	—	—	—	—
	11/11/2005	9,600	38,400(12)	—	16.87000	11/11/2015	—	—	—	—
Thomas J. Kelly	7/12/2002	—	16,000(13)	—	0.44625	7/12/2012	—	—	—	—
	1/15/2004	—	120,000(14)	—	1.01875	1/15/2014	—	—	—	—
	11/11/2005	1,600	6,400(15)	—	16.87000	11/11/2015	—	—	—	—

- (1) Vest as follows: 240,000 on January 1, 2007; 240,000 on January 1, 2008
- (2) Vest as follows: 240,000 on March 23, 2007; 240,000 on March 23, 2008; 240,000 on March 23, 2009; 240,000 on March 23, 2010
- (3) Vest as follows: 120,000 on November 11, 2007; 120,000 on November 11, 2008; 120,000 on November 11, 2009; 120,000 on November 11, 2010
- (4) Vest as follows: 32,000 on July 12, 2007
- (5) Vest as follows: 96,000 on January 15, 2007; 96,000 on January 15, 2008; 96,000 on January 15, 2009
- (6) Vest as follows: 160,000 on March 23, 2007; 160,000 on March 23, 2008; 160,000 on March 23, 2009; 160,000 on March 23, 2010
- (7) Vest as follows: 20,000 on September 28, 2007; 20,000 on September 28, 2008; 20,000 on September 28, 2009; 20,000 on September 28, 2010
- (8) Vest as follows: 20,000 on November 11, 2007; 20,000 on November 11, 2008; 20,000 on November 11, 2009; 20,000 on November 11, 2010
- (9) Vest as follows: 96,000 on August 9, 2007; 96,000 on August 9, 2008
- (10) Vest as follows: 64,000 on January 15, 2007; 64,000 on January 15, 2008
- (11) Vest as follows: 40,000 on March 23, 2007; 40,000 on March 23, 2008; 40,000 on March 23, 2009; 40,000 on March 23, 2010
- (12) Vest as follows: 9,600 on November 11, 2007; 9,600 on November 11, 2008; 9,600 on November 11, 2009; 9,600 on November 11, 2010
- (13) Vest as follows: 16,000 on July 12, 2007
- (14) Vest as follows: 40,000 on January 15, 2007; 40,000 on January 15, 2008; 40,000 on January 15, 2009
- (15) Vest as follows: 1,600 on November 11, 2007; 1,600 on November 11, 2008; 1,600 on November 11, 2009; 1,600 on November 11, 2010

OPTION EXERCISES AND STOCK VESTED

The following table summarizes exercise of stock options by our NEOs during the Company's fiscal year ended December 31, 2006.

<u>Name</u>	<u>Option Awards</u>		<u>Stock Awards</u>	
	<u>Number of Shares Acquired on Exercise (#)</u>	<u>Value Realized on Exercise (\$)</u>	<u>Number of Shares Acquired on Vesting (#)</u>	<u>Value Realized on Vesting (\$)</u>
Rodney C. Sacks	460,000	\$ 20,579,000	—	—
Hilton H. Schlosberg	460,000	20,579,000	—	—
Mark J. Hall	256,000	9,293,360	—	—
Michael Schott	200,000	6,484,438	—	—
Thomas J. Kelly	56,000	1,776,100	—	—

PENSION BENEFITS

We do not maintain or make contributions to a defined benefit plan for any employees.

NON QUALIFIED DEFERRED COMPENSATION

None of our NEOs participated or have account balances in non-qualified defined contribution plans or other deferred compensation plans maintained by us. The Compensation Committee, which is comprised solely of "outside directors" as defined for the purposes of Section 162(m) of the Internal Revenue Code, may elect to provide our officers or other employees with non-qualified defined contribution or deferred compensation benefits should they deem such benefits appropriate.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

We have entered into certain agreements and maintain certain plans that may require us to make certain payments and/or provide certain benefits to the NEOs in the event of a termination of employment or a change of control. The following tables and narrative disclosure summarize the potential payments to each NEO assuming that one of the events listed in the tables below occurs. The tables assume that the event occurred on December 31, 2006, the last day of our fiscal year.

Key Employment Agreement and Stock Option Agreement Definitions

For purposes of the employment agreements with Mr. Sacks and Mr. Schlosberg described in this section, cause, (under which we may terminate their employment), is defined as (i) an act or acts of dishonesty or gross misconduct on the executive's part which result or are intended to result in material damage to our business or reputation or (ii) repeated material violations by the executive of his obligations relating to his position and duties which violations are demonstrably willful and deliberate on the executives part and which result in material damage to our business or reputation and as to which material violations our Board has notified the executive in writing.

For purposes of the employment agreements with Mr. Sacks and Mr. Schlosberg described in this section, constructive termination, (under which they may terminate their employment), is defined as (i) without the written consent of the executive, (A) the assignment to the executive of any duties inconsistent in any substantial respect with the executive's position, authority or responsibilities as contemplated by the position and duties described in his employment agreement, or (B) any other substantial adverse change in such position, including titles, authority or responsibilities; (ii) any failure by us to comply with any of the provisions of his employment agreement, other than an insubstantial or

inadvertent failure remedied by us promptly after receipt of notice thereof given by the executive; (iii) our requiring the executive without his consent to be based at any office location outside of Orange County, California except for travel reasonably required in the performance of the executive's responsibilities; or (iv) any failure by us to obtain the assumption and agreement to perform the employment agreement by a successor as contemplated by Section 13(b) of the employment agreement, provided that the successor has had actual written notice of the existence of the respective employment agreement and its terms and an opportunity to assume our responsibilities under the employment agreement during a period of 10 business days after receipt of such notice.

For purposes of the employment agreements with Mr. Sacks and Mr. Schlosberg described in this section, disability is defined as disability which would entitle the executive to receive full long-term disability benefits under our long-term disability plan, or if no such plan shall then be in effect, any physical or mental disability or incapacity which renders the executive incapable of performing the services required of him in accordance with his obligations under Section 5 of the employment agreement for a period of more than 120 days in the aggregate during any 12-month period during the Employment Period.

For purposes of the stock option agreements with Mr. Sacks and Mr. Schlosberg described in this section, change in control is defined as (i) the acquisition of "Beneficial Ownership" by any person (as defined in rule 13(d)-3 under the Exchange Act), corporation or other entity other than us or a wholly owned subsidiary of 20% or more of our outstanding stock, (ii) the sale or disposition of substantially all of our assets, or (iii) our merger with another corporation in which our Common Stock is no longer outstanding after such merger.

For purposes of the stock option agreements with Mr. Sacks and Mr. Schlosberg described in this section, cause, (under which we may terminate their employment), is defined as the individual's act of fraud or dishonesty, knowing and material failure to comply with applicable laws or regulations or drug or alcohol abuse; and good reason, (under which they may terminate their employment), is defined as a reduction in the individual's compensation or benefits, the individual's removal from his current position or the assignment to the individual of duties or responsibilities that are inconsistent with the dignity, importance or scope of his position with us.

For purposes of all the stock option agreements described in this section, total disability is defined as the complete and permanent inability of the executive to perform all his duties of employment with us.

For purposes of the employment offer letters with Mr. Hall and Mr. Schott described in this section, cause, (under which we may terminate their employment), shall mean an act of dishonesty, or reasons which justify their summary dismissal.

For purposes of Mr. Schott's employment offer letter, a material change by us of the employee's functions, duties and responsibility, which materially reduces his position with us or a requirement by us that he relocate to California without providing reasonable reimbursement to him for moving expenses or a material reduction in the basic salary payable by us to him, will constitute constructive termination entitling him to the benefits of termination of his employment without cause.

For purposes of the stock option agreements with Mr. Hall and Mr. Schott, (exclusive of Mr. Schott's August 9, 2002 agreement) described in this section, change in control is generally defined as (i) the acquisition of "Beneficial Ownership" by any person (as defined in Rule 13(d)-3 under the Exchange Act), corporation or other entity other than us or a wholly owned subsidiary of ours of 50% or more of our outstanding stock, (ii) the sale or disposition of substantially all of our assets, or (iii) our merger with another corporation in which our Common Stock is no longer outstanding after such merger.

For purposes of the stock option agreement with Mr. Schott dated August 9, 2002 described within, change in control is generally defined as (i) the acquisition of "Beneficial Ownership" by any person (as defined in rule 13(d)-3 under the Exchange Act), corporation or other entity other than us or a wholly owned subsidiary of ours of 30% or more of our outstanding stock, (ii) the sale or disposition of substantially all of our assets, or (iii) our merger with another corporation in which our Common Stock is no longer outstanding after such merger.

For purposes of the stock option agreements with Mr. Hall, Mr. Schott and Mr. Kelly described in this section, cause, (under which we may terminate their employment), is defined as the individual's act of fraud or dishonesty, knowing and material failure to comply with applicable laws or regulations or satisfactorily perform his duties of employment, insubordination or drug or alcohol abuse.

Rodney C. Sacks

<u>Payments and Benefits</u>	<u>Circumstances of Termination</u>				<u>Change in control (\$)</u>
	<u>Death (\$)</u> (a)	<u>Disability (\$)</u> (a)	<u>Cause and Voluntary Termination (\$)</u> (b)	<u>Termination by Corporation other than for Cause or Disability and Termination by the Executive for Constructive Termination (\$)</u> (c)	
Base Salary	275,000	275,000	—	509,348	—
Vacation	21,154	21,154	21,154	21,154	—
Benefit Plans	8,652	15,094	—	30,188	—
Automobile	25,771	25,771	—	51,542	—
Perquisites and other personal benefits	—	—	—	—	—
Acceleraton of stock option awards	—	—	—	7,323,570	7,323,570
Total	<u>330,577</u>	<u>337,019</u>	<u>21,154</u>	<u>7,935,802</u>	<u>7,323,570</u>

- (a) Under his employment agreement, upon termination due to death or disability, Mr. Sacks, or his legal representative, is entitled to continuation of base salary, employee plan benefits for himself and his family and automobile benefits for a period of one year from the date of termination and payment for accrued vacation.
- (b) Under his employment agreement, upon termination by us for cause or voluntary termination by Mr. Sacks, Mr. Sacks is entitled to payment for only accrued vacation.
- (c) Under his employment agreement, upon termination by us without cause and termination by Mr. Sacks for constructive termination i.e. for good cause, or if we elect not to renew the employment agreement, Mr. Sacks is entitled to the present value of his base salary for the period through December 31, 2008, or through the date which is twelve months from the date of termination, whichever period is longer, at the rate in effect on the date of termination, discounted at the interest rate payable on one year Treasury Bills in effect on the day that is 30 business days prior to the date of termination. In addition, Mr. Sacks is entitled to continuation of all benefit plans and automobile benefits for the period from the date of termination to December 31, 2008, or through the date which is twelve months from the date of termination, whichever period is longer. Also, in the case of termination without cause, Mr. Sacks is entitled to two weeks base salary in lieu of notice at the rate in effect on the date of termination. In addition, under Mr. Sacks' stock option agreements, if Mr. Sacks' employment is terminated by us without cause or by Mr. Sacks for good reason, all stock option awards shall immediately become exercisable in their entirety.
- (d) Under Mr. Sacks' stock option agreements, upon a change in control, all stock option awards shall immediately become exercisable in their entirety and the options may, with the consent of Mr. Sacks, be purchased by the Company for cash at a price equal to the fair market value less the purchase price payable by Mr. Sacks to exercise the options for one (1) share of our Common Stock multiplied by the number of shares of Common Stock which Mr. Sacks has the option to purchase.

Hilton H. Schlosberg

<u>Payments and Benefits</u>	<u>Circumstances of Termination</u>				
	<u>Death (\$)</u> (a)	<u>Disability (\$)</u> (a)	<u>Cause and Voluntary Termination (\$)</u> (b)	<u>Termination by Corporation other than for Cause or Disability and Termination by the Executive for Constructive Termination (\$)</u> (c)	<u>Change in control (\$)</u> (d)
Base Salary	275,000	275,000	—	509,348	
Vacation	21,154	21,154	21,154	21,154	
Benefit Plans	9,077	15,561	—	31,122	
Automobile	15,261	15,261	—	30,522	
Perquisites and other personal benefits	—	—	—	—	
Acceleraton of stock option awards	—	—	—	7,323,570	7,323,570
Total	<u>320,492</u>	<u>326,976</u>	<u>21,154</u>	<u>7,915,716</u>	<u>7,323,570</u>

- (a) Under his employment agreement, upon termination due to death or disability, Mr. Schlosberg, or his legal representative, is entitled to continuation of base salary, employee plan benefits for himself and his family and automobile benefits for a period of one year from the date of termination and payment for accrued vacation.
- (b) Under his employment agreement, upon termination by us for cause or voluntary termination by Mr. Schlosberg, Mr. Schlosberg is entitled to payment for only accrued vacation.
- (c) Under his employment agreement, upon termination by us without cause and termination by Mr. Schlosberg for constructive termination i.e. for good cause, or if we elect not to renew the employment agreement, Mr. Schlosberg is entitled to the present value of his base salary for the period through December 31, 2008, or through the date which is twelve months from the date of termination, whichever period is longer, at the rate in effect on the date of termination, discounted at the interest rate payable on one year Treasury Bills in effect on the day that is 30 business days prior to the date of termination. In addition, Mr. Schlosberg is entitled to continuation of all benefit plans and automobile benefits for the period from the date of termination to December 31, 2008, or through the date which is twelve months from the date of termination, whichever period is longer. Also, in the case of termination without cause, Mr. Schlosberg is entitled to two weeks base salary in lieu of notice at the rate in effect on the date of termination. In addition, under Mr. Schlosberg's stock option agreements, if Mr. Schlosberg's employment is terminated by us without cause or by Mr. Schlosberg for good reason, all stock option awards shall immediately become exercisable in their entirety.
- (d) Under Mr. Schlosberg's stock option agreements, upon a change in control, all stock option awards shall immediately become exercisable in their entirety and the options may with the consent of Mr. Schlosberg, be purchased by us for cash at a price equal to the fair market value less the purchase price payable by Mr. Schlosberg to exercise the options for one (1) share of our Common Stock multiplied by the number of shares of Common Stock which Mr. Schlosberg has the option to purchase.

Mark J. Hall

<u>Circumstances of Termination</u>					
<u>Payments and Benefits</u>	<u>Death (\$)</u> (a)	<u>Disability (\$)</u> (a)	<u>Cause and Voluntary Termination (\$)</u> (b)	<u>Termination by Corporation other than for Cause or Disability (\$)</u> (c)	<u>Change in control (\$)</u> (d)
Base Salary	—	—	—	41,667	—
Vacation	19,231	19,231	19,231	19,231	—
Benefit Plans	—	—	—	1,651	—
Automobile	—	—	—	—	—
Perquisites and other personal benefits	—	—	—	—	—
Acceleraton of stock option awards	—	—	—	—	3,512,051
Total	<u>19,231</u>	<u>19,231</u>	<u>19,231</u>	<u>62,549</u>	<u>3,512,051</u>

- (a) Under our general employment practices, upon termination due to death or disability, Mr. Hall, or his legal representative, is entitled to payment for accrued vacation.
- (b) Under Mr. Hall's employment offer letter dated January 21, 1997 and our general employment practices, upon termination by us for cause or voluntary termination by Mr. Hall, Mr. Hall is entitled to payment for accrued vacation.
- (c) Under Mr. Hall's employment offer letter dated January 21, 1997, upon termination by us without cause, Mr. Hall is entitled to two months severance pay and the continuation of medical and dental benefit coverage for both himself and his family for a period of two months. In addition, under our general employment practices, Mr. Hall is entitled to payment for accrued vacation.
- (d) Under Mr. Hall's stock option agreements (exclusive of the stock option agreement dated July 12, 2002), upon a change in control, all stock option awards shall immediately become exercisable in their entirety and the options may, with the consent of Mr. Hall, be purchased by us for cash at a price equal to the fair market value less the purchase price payable by Mr. Hall to exercise the options for one (1) share of our Common Stock multiplied by the number of shares of Common Stock which Mr. Hall has the option to purchase. Under Mr. Hall's stock option agreement dated July 12, 2002, our Board may, at any time, in its sole discretion, provide that upon the occurrence of a change in control (as determined by the Board), all or a specified portion of any outstanding options not theretofore exercisable shall immediately become exercisable and that any option not exercised prior to such change in control shall be canceled.

Michael B. Schott

<u>Payments and Benefits</u>	<u>Circumstances of Termination</u>					
	<u>Death (\$)</u> (a)	<u>Disability (\$)</u> (a)	<u>Cause and Voluntary Termination (\$)</u> (b)	<u>Termination by Corporation other than for Cause or Disability (\$)</u> (c)	<u>Change in control - Termination without cause (\$)</u> (d)	<u>Change in control (\$)</u> (d)
Base Salary	—	—	—	32,500	48,750	32,500
Vacation	15,000	15,000	15,000	15,000	15,000	—
Benefit Plans	—	—	—	—	—	—
Automobile	—	—	—	—	—	—
Perquisites and other personal benefits	—	—	—	—	—	—
Acceleraton of stock option awards:						
Option agreements dated November 11, 2005, March 23, 2005 and January 15, 2004	—	—	—	—	958,053	479,026
Option agreement dated August 9, 2002	—	—	—	—	—	—
Total	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	<u>47,500</u>	<u>1,021,803</u>	<u>511,526</u>

- (a) Under our general employment practices, upon termination due to death or disability, Mr. Schott, or his legal representative is entitled to payment for accrued vacation.
- (b) Under our general employment practices, upon termination by us for cause or voluntary termination by Mr. Schott, Mr. Schott is entitled to payment for accrued vacation.
- (c) Under Mr. Schott's employment offer letter dated July 31, 2002, upon termination by us without cause, Mr. Schott is entitled to two months severance pay. In addition, under our general employment practices, Mr. Schott is entitled to payment for accrued vacation.
- (d) Under Mr. Schott's stock option agreements dated November 11, 2005 and March 23, 2005, upon a change in control, 50% of any portion of the option not yet exercisable, shall immediately become exercisable. In addition, if after the occurrence of a change in control Mr. Schott's employment is terminated without cause, any portion of the outstanding options not theretofore exercisable shall immediately become exercisable. Following the acceleration of vesting, the options may, with the consent of Mr. Schott, be purchased by us for cash at a price equal to the fair market value less the purchase price payable by Mr. Schott to exercise the options for one (1) share of our Common Stock multiplied by the number of shares of Common Stock which Mr. Schott has the option to purchase. Under Mr. Schott's stock option agreement dated January 15, 2004, upon a change in control, 50% of any portion of the option not yet exercisable, shall immediately become exercisable and our Board may, at any time, in its sole discretion, provide that all or a specified portion of any outstanding options not theretofore exercisable shall immediately become exercisable and that any option not exercised prior to such change in control shall be cancelled. In addition, if after the occurrence of a change in control Mr. Schott's employment is terminated without cause, any portion of the outstanding options not theretofore exercisable, shall immediately become exercisable. Following the acceleration of vesting, the options may, with the consent of Mr. Schott, be purchased by us for cash at a price equal to the fair market value less the purchase price payable by Mr. Schott to exercise the options for one (1) share of our Common Stock multiplied by the number of shares of Common Stock which Mr. Schott has the option to purchase. Under Mr. Schott's stock option agreement dated August 9, 2002, upon a change in control, our Board may, at any time, in its sole discretion, provide that upon the occurrence of a change in control (as determined by our Board), all or a specified portion of any outstanding options not theretofore exercisable shall immediately become exercisable and that any option not exercised prior to such change in control shall be cancelled. Under Mr. Schott's employment offer letter dated July 31, 2002, if a change in control occurs and the new controlling shareholders do not continue Mr. Schott's employment by us for at least six (6) months thereafter, Mr. Schott will be entitled to receive an additional one (1) months' severance pay in the amount of \$16,250. If Mr. Schott voluntarily terminates his employment within six (6) months following a change in control, he will be entitled to receive two (2) months severance pay in the amount of \$32,500.

Thomas J. Kelly

<u>Payments and Benefits</u>	<u>Circumstances of Termination</u>				
	<u>Death (\$)</u> (a)	<u>Disability (\$)</u> (a)	<u>Cause and Voluntary Termination (\$)</u> (b)	<u>Termination by Corporation other than for Cause or Disability (\$)</u> (c)	<u>Change in control (\$)</u> (d)
Base Salary	—	—	—	—	—
Vacation	11,230	11,230	11,230	11,230	—
Benefit Plans	—	—	—	—	—
Automobile	—	—	—	—	—
Perquisites and other personal benefits	—	—	—	—	—
Acceleraton of stock option awards	—	—	—	—	—
Total	<u>11,230</u>	<u>11,230</u>	<u>11,230</u>	<u>11,230</u>	<u>—</u>

- (a) Under our general employment practices, upon termination due to death or disability, Mr. Kelly or his legal representative, is entitled to payment for accrued vacation.
- (b) Under our general employment practices, upon termination by us for cause or voluntary termination by Mr. Kelly, Mr. Kelly is entitled to payment for accrued vacation.
- (c) Under our general employment practices, upon termination by us without cause, Mr. Kelly is entitled to payment for accrued vacation.
- (d) Under Mr. Kelly's stock option agreements our Board may, at any time, in its sole discretion, provide that upon the occurrence of a change in control (as determined by the Board), all or a specified portion of any outstanding options not theretofore exercisable shall immediately become exercisable and that any option not exercised prior to such change in control shall be canceled. Under the Amendment to Conditions of Employment of Mr. Kelly dated December 7, 1999, if, following a change in control, Mr. Kelly's employment with us is terminated by us other than for cause or in the event that Mr. Kelly resigns under circumstances which constitute constructive dismissal by us of Mr. Kelly, then Mr. Kelly shall be entitled to receive severance pay from us as follows: If termination occurs within the first six (6) months after the change in control occurs, Mr. Kelly shall be entitled to six (6) months severance pay in the amount of \$80,000; if termination occurs between six (6) and twelve (12) months after the change in control occurs, Mr. Kelly shall be entitled to five (5) months severance pay in the amount of \$66,667; if termination occurs between twelve (12) and eighteen (18) months after the change in control occurs, Mr. Kelly shall be entitled to four (4) months severance pay in the amount of \$53,333 and if the termination occurs between eighteen and twenty-four (24) months after the change in control occurs, Mr. Kelly shall be entitled to three (3) months severance pay in the amount of \$40,000.

DIRECTOR COMPENSATION

The following table sets forth a summary of the compensation we paid to our outside directors during the fiscal year ended December 31, 2006.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$) (1)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation (\$)	Total (\$)
Benjamin M. Polk	20,000	—	60,555	—	—	—	80,555
Norman C. Epstein	28,000	—	60,555	—	—	—	88,555
Sydney Selati	23,000	—	60,687	—	—	—	83,687
Harold C. Taber	23,000	—	60,555	—	—	—	83,555
Mark S. Vidergauz	20,500	—	60,555	—	—	—	81,055

- (1) The outside directors held the following numbers of outstanding stock options as of December 31, 2006; Benjamin M. Polk, 9,600; Norman C. Epstein, 19,200; Sydney Selati, 64,000; Harold C. Taber, 19,200; and Mark S. Vidergauz, 9,600.

During the year ended December 31, 2006 no options awards were granted to our outside directors.

In 2006, outside directors were entitled to an annual fee of \$15,000 plus \$1,500 for each meeting of the Board attended. Outside directors were also entitled to \$500 for each Board meeting attended by telephone. Outside directors were entitled to \$1,000 for each Audit Committee meeting attended in person and \$500 for each Audit Committee meeting attended by telephone. The Audit Committee chairman earns an additional annual fee of \$5,000. Outside directors were entitled to \$500 for each Compensation Committee meeting attended in person and \$250 for each Compensation Committee meeting attended by telephone. Outside directors were entitled to \$500 for each Nominating Committee meeting attended in person and \$250 for each Nominating Committee meeting attended by telephone. Outside directors were entitled to \$500 for each Special Committee meeting attended in person and \$250 for each Special Committee meeting attended by telephone.

Employee Stock Option Plans

The Company has a stock option plan (the "Plan") that provided for the grant of options to purchase up to 24,000,000 shares of the common stock of the Company to certain key employees of the Company and its subsidiaries. Options granted under the Plan may either be incentive stock options qualified under Section 422 of the Internal Revenue Code of 1986, as amended, or non-qualified options. Such options are exercisable at fair market value on the date of grant for a period of up to ten years. Under the Plan, shares subject to options may be purchased for cash, or for shares of common stock valued at fair market value on the date of purchase. Under the Plan, no additional options may be granted after July 1, 2001.

During 2001, the Company adopted the Hansen Natural Corporation 2001 Stock Option Plan ("2001 Option Plan"). The 2001 Option Plan provides for the grant of options to purchase up to 22,000,000 shares of the common stock of the Company to certain key employees of the Company and its subsidiaries. Options granted under the 2001 Stock Option Plan may be incentive stock options under Section 422 of the Internal Revenue Code, as amended (the "Code"), nonqualified stock options, or stock appreciation rights.

The Plan and the 2001 Option Plan are administered by the Compensation Committee of the Board of Directors of the Company, comprised of directors who satisfy the "non-employee" director requirements of Rule 16b-3 under the Securities Exchange Act of 1934 and the "outside director" provision of Section 162(m) of the Code. Grants under the Plan and the 2001 Option Plan are made pursuant to individual agreements between the Company and each grantee that specifies the terms of the grant, including the exercise price, exercise period, vesting and other terms thereof.

Outside Directors Stock Option Plans

The Company had an option plan for its outside directors (the “Directors Plan”) that provided for the grant of options to purchase up to an aggregate of 800,000 shares of common stock of the Company to directors of the Company who are not and have not been employed by or acted as consultants to the Company and its subsidiaries or affiliates and who are not and have not been nominated to the Board of Directors of the Company pursuant to a contractual arrangement. Under the Directors Plan, no additional options could be granted after November 30, 2004.

During 2005, the Company adopted the 2005 Hansen Natural Corporation Stock Option Plan for Non-Employee Directors (“2005 Directors Plan”) that provides for the grant of options to purchase up to an aggregate of 800,000 shares of common stock of the Company to non-employee directors of the Company. On the date of the annual meeting of stockholders at which an eligible director is initially elected, each eligible director is entitled to receive a one-time grant of an option to purchase 24,000 shares of the Company’s common stock exercisable at the closing price for a share of common stock on the date of grant. Additionally, on the fifth anniversary of the election of eligible directors elected or appointed to the Board, and each fifth anniversary thereafter, each eligible director shall receive an additional grant of an option to purchase 19,200 shares of the Company’s common stock. Options become exercisable in four equal installments, with the grant immediately vested with respect to 25% of the grant and the remaining installments vesting on the three successive anniversaries of the date of grant; provided that all options held by an eligible director become fully and immediately exercisable upon a change in control of the Company. Options granted under the 2005 Directors Plan that are not exercised generally expire ten years after the date of grant. Option grants may be made under the 2005 Directors Plan for ten years from the effective date of the Directors Plan. The Directors Plan is a “formula plan” so that a non-employee director’s participation in the Directors Plan does not affect his status as a “disinterested person” (as defined in Rule 16b-3 under the Securities Exchange Act of 1934). Four eligible directors were initially granted options to purchase 19,200 shares of the Company’s common stock pursuant to the 2005 Directors Plan, (see “Part III, Item 12 – Security Ownership of Certain Beneficial Owners and Related Stockholder Matters”).

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The disclosure set forth in ITEM 5 of this report is incorporated herein.

The following table sets forth, as of the most recent practical date, May 16, 2007, the beneficial ownership of the Company's Common Stock of (a) those persons known to the Company to be the beneficial owners of more than 5% of the Company's Common Stock; (b) each of the Company's directors and nominees for director; and (c) the Company's executive officers and all of the Company's current directors and executive officers as a group:

Name and Address of Beneficial Owner*	Amount and Nature of Beneficial Ownership	Percent of Class
Brandon Limited Partnership No. 1 (1)	1,306,920	1.4%
Brandon Limited Partnership No. 2(2)	8,013,336	8.3%
Hilrod Holdings, L.P.	4,880,000	5.1%
HRS Holdings, L.P.	1,000,000	1.0%
Hilrod Holdings II, L.P.	457,552	0.5%
Fidelity Low Priced Stock Fund(3)	7,082,256	7.3%
Barclay's Global Investors, NA(4)	16,026,703	16.6%
Rodney C. Sacks	18,509,032(5)	19.2%
Hilton H. Schlosberg	18,197,808(6)	18.8%
Mark Hall	422,400(7)	**%
Michael Schott	247,365(8)	**%
Kirk Blower	101,600(9)	**%
Sydney Selati	64,000(10)	**%
Thomas Kelly	77,600(11)	**%
Norman Epstein	18,400(12)	**%
Harold Taber	18,400(13)	**%
Benjamin Polk	—	**%
Mark Vidergauz	—	**%

Officers and Directors as a group (11 members: 22,465,949 shares or 23.26% in aggregate). Effective December 31, 2006, certain stock option agreements entered into from 2002 through 2005 described below were amended to provide, among other things, that (i) the exercise price of the option is the fair market value of the underlying stock on the grant date (the "Grant Date"); (ii) following completion of a special committee investigation, the Company will make a determination as to whether the Grant Date requires adjustment; (iii) if the Grant Date requires adjustment, the exercise price of the option shall be the fair market value of the underlying stock on the Grant Date as adjusted; and (iv) if the Grant Date does not require adjustment, the exercise price shall be the exercise price stated in the respective stock option agreement.

* Except as noted otherwise, the address for each of the named stockholders is 1010 Railroad Street, Corona, California 92882.

** Less than 1%

(1) The mailing address of Brandon Limited Partnership No. 1 ("Brandon No. 1") is 56 Conduit Street, London W1S2YZ England. The general partners of Brandon No. 1 are Rodney C. Sacks and Hilton H. Schlosberg.

(2) The mailing address of Brandon Limited Partnership No. 2 ("Brandon No. 2") is 56 Conduit Street, London W1S2YZ England. The general partners of Brandon No. 2 are Rodney C. Sacks and Hilton H. Schlosberg.

(3) The mailing address of this reporting person is 82 Devonshire Street, Boston, Massachusetts 02109.

(4) The mailing address of this reporting person is 45 Fremont Street, San Francisco, California 94105.

(5) Includes 311,224 shares of Common Stock owned by Mr. Sacks; 457,552 shares beneficially held by Hilrod Holdings II, L.P. because Mr. Sacks is one of Hilrod Holdings II's general partners; 1,306,920 shares beneficially held by Brandon No. 1 because Mr. Sacks is one of Brandon No. 1's general partners; 8,013,336 shares beneficially held by Brandon No. 2 because Mr. Sacks is one of Brandon No. 2's general partners; 1,000,000 shares beneficially held by HRS Holdings, LP because Mr. Sacks is one of HRS Holdings' general partners and 4,880,000 shares beneficially held by Hilrod Holdings L.P. because Mr. Sacks is one of Hilrod Holdings' general partners. Also includes options presently exercisable to purchase 580,000 shares of Common Stock, out of options to purchase a total of 800,000 shares, exercisable at \$0.53 per share, granted pursuant to a Stock Option Agreement dated February 2, 1999 between the Company and Mr. Sacks; options presently exercisable to purchase 544,088 shares of Common Stock, out of options to purchase a total of 1,200,000 shares, exercisable at \$0.45 per share, granted pursuant to a Stock Option Agreement dated July 12, 2002 between the Company and Mr. Sacks; options presently exercisable to purchase 815,912 shares of Common Stock, out of options to purchase a total of 1,200,000 shares, exercisable at \$0.53 per share, granted pursuant to a Stock Option Agreement dated May 28, 2003 between the Company and Mr. Sacks; options presently exercisable to purchase 480,000 shares of Common Stock, out of options to purchase a total of 1,200,000 shares, exercisable at \$6.59 per share, granted pursuant to a Stock Option Agreement dated March 23, 2005 between the Company and Mr. Sacks; and options presently exercisable to purchase 120,000 shares of Common Stock, out of options to purchase a total of 600,000 shares, exercisable at \$16.87 per share, granted pursuant to a Stock Option Agreement dated November 11, 2005 between the Company and Mr. Sacks.

Mr. Sacks disclaims beneficial ownership of all shares deemed beneficially owned by him hereunder except (i) 311,224 shares of Common Stock; (ii) 2,540,000 shares presently exercisable under the Stock Option Agreements; (iii) 48,800 shares beneficially held by Hilrod Holdings L.P. because Mr. Sacks is one of Hilrod Holdings' general partners; (iv) 10,000 shares beneficially held by HRS Holdings, L.P. because Mr. Sacks is one of HRS Holdings' general partners and (v) 228,776 shares beneficially held by Hilrod Holdings II, L.P. because Mr. Sacks is one of Hilrod Holdings II's general and limited partners.

(6) Includes 457,552 shares of Common Stock beneficially held by Hilrod Holdings II, L.P. because Mr. Schlosberg is one of Hilrod Holdings II's general partners; 1,306,920 shares beneficially held by Brandon No. 1 because Mr. Schlosberg is one of Brandon No. 1's general partners; 8,013,336 shares beneficially held by Brandon No. 2 because Mr. Schlosberg is one of Brandon No. 2's general partners; 1,000,000 shares beneficially held by HRS Holdings, LP because Mr. Schlosberg is one of HRS Holdings' general partners and 4,880,000 shares beneficially held by Hilrod Holdings L.P. because Mr. Schlosberg is one of Hilrod Holdings' general partners. Also includes options presently exercisable to purchase 580,000 shares of Common Stock, out of options to purchase a total of 800,000 shares, exercisable at \$0.53 per share, granted pursuant to a Stock Option Agreement dated February 2, 1999 between the Company and Mr. Schlosberg; options presently exercisable to purchase 544,088 shares of Common Stock, out of options to purchase a total of 1,200,000 shares, exercisable at \$0.45 per share, granted pursuant to a Stock Option Agreement dated July 12, 2002 between the Company and Mr. Schlosberg; options presently exercisable to purchase 815,912 shares of Common Stock, out of options to purchase a total of 1,200,000 shares, exercisable at \$0.53 per share, granted pursuant to a Stock Option Agreement dated May 28, 2003 between the Company and Mr. Schlosberg; options presently exercisable to purchase 480,000 shares of Common Stock, out of options to purchase a total of 1,200,000 shares, exercisable at \$6.59 per share, granted pursuant to a Stock Option Agreement dated March 23, 2005 between the Company and Mr. Schlosberg; and options presently exercisable to purchase 120,000 shares of Common Stock, out of options to purchase a total of 600,000 shares, exercisable at \$16.87 per share, granted pursuant to a Stock Option Agreement dated November 11, 2005 between the Company and Mr. Schlosberg.

Mr. Schlosberg disclaims beneficial ownership of all shares deemed beneficially owned by him hereunder except (i) 2,540,000 shares presently exercisable under the Stock Option Agreements; (ii) 48,800 shares beneficially held by Hilrod Holdings L.P. because Mr. Schlosberg is one of Hilrod Holdings' general partners; (iii) 10,000 shares beneficially held by HRS Holdings, L.P. because Mr. Schlosberg is one of HRS Holdings' general partners and (iv) 228,776 shares beneficially held by Hilrod Holdings II, L.P. because Mr. Schlosberg is one of Hilrod Holdings II's general and limited partners.

(7) Includes 4,000 shares of Common Stock owned by Mr. Hall; options presently exercisable to purchase 64,000 shares of Common Stock, out of options to purchase a total of 160,000 shares, exercisable at \$0.45 per share, granted pursuant to a Stock Option Agreement dated July 12, 2002 between the Company and Mr. Hall; options presently exercisable to purchase 32,000 shares of Common Stock, out of options to purchase a total of 80,000 shares, exercisable at \$0.45 per share, granted pursuant to a Stock Option Agreement dated July 12, 2002 between the Company and Mrs. Christine Hall; options presently exercisable to purchase 96,000 shares of Common Stock, out of options to purchase a total of 480,000 shares, exercisable at \$1.02 per share, granted pursuant to a Stock Option Agreement dated January 15, 2004 between the Company and Mr. Hall; options presently exercisable to purchase 24,000 shares of Common Stock, out of options to purchase a total of 120,000 shares, exercisable at \$1.02

per share, granted pursuant to a Stock Option Agreement dated January 15, 2004 between the Company and Mrs. Christine Hall; options presently exercisable to purchase 20,000 shares of Common Stock, out of options to purchase a total of 100,000 shares, exercisable at \$10.95 per share, granted pursuant to a Stock Option Agreement dated September 28, 2005 between the Company and Mr. Hall; options presently exercisable to purchase 160,000 shares of Common Stock, out of options to purchase a total of 800,000 shares, exercisable at \$6.59 per share, granted pursuant to a Stock Option Agreement dated March 23, 2005 between the Company and Mr. Hall; options presently exercisable to purchase 20,000 shares of Common Stock, out of options to purchase a total of 100,000 shares, exercisable at \$16.87 per share, granted pursuant to a Stock Option Agreement dated November 11, 2005 between the Company and Mr. Hall and options presently exercisable to purchase 2,400 shares of Common Stock, out of options to purchase a total of 12,000 shares, exercisable at \$12.43 per share, granted pursuant to a Stock Option Agreement dated November 1, 2005 between the Company and Mrs. Christine Hall.

(8) Includes 133,765 shares of Common Stock owned by Mr. Schott; options presently exercisable to purchase 64,000 shares of Common Stock, out of options to purchase a total of 256,000 shares, exercisable at \$1.02 per share, granted pursuant to a Stock Option Agreement dated January 15, 2004 between the Company and Mr. Schott; options presently exercisable to purchase 40,000 shares of Common Stock, out of options to purchase a total of 200,000 shares, exercisable at \$6.59 per share, granted pursuant to a Stock Option Agreement dated March 23, 2005 between the Company and Mr. Schott and options presently exercisable to purchase 9,600 shares of Common Stock, out of options to purchase a total of 48,000 shares, exercisable at \$16.87 per share, granted pursuant to a Stock Option Agreement dated November 11, 2005 between the Company and Mr. Schott.

(9) Includes 60,000 shares of Common Stock owned by Mr. Blower; options presently exercisable to purchase 20,000 shares of Common Stock, out of options to purchase a total of 100,000 shares, exercisable at \$1.02 per share, granted pursuant to a Stock Option Agreement dated January 15, 2004 between the Company and Mr. Blower; options presently exercisable to purchase 20,000 shares of Common Stock, out of options to purchase a total of 100,000 shares, exercisable at \$0.45 per share, granted pursuant to a Stock Option Agreement dated July 12, 2002 between the Company and Mr. Blower and options presently exercisable to purchase 1,600 shares of Common Stock, out of options to purchase a total of 8,000 shares, exercisable at \$12.43 per share, granted pursuant to a Stock Option Agreement dated November 1, 2005 between the Company and Mr. Blower.

(10) Includes 32,000 shares of Common Stock owned by Mr. Selati and options presently exercisable to purchase 32,000 shares of Common Stock, out of options to purchase a total of 96,000 shares, exercisable at \$3.23 per share, granted pursuant to a Stock Option Agreement dated November 5, 2004 between the Company and Mr. Selati.

(11) Includes 20,000 shares of Common Stock owned by Mr. Kelly; options presently exercisable to purchase 40,000 shares of Common Stock, out of options to purchase a total of 200,000 shares, exercisable at \$1.02 per share, granted pursuant to a Stock Option Agreement dated January 15, 2004 between the Company and Mr. Kelly; options presently exercisable to purchase 16,000 shares of Common Stock, out of options to purchase a total of 80,000 shares, exercisable at \$0.45 per share, granted pursuant to a Stock Option Agreement dated July 12, 2002 between the Company and Mr. Kelly and options presently exercisable to purchase 1,600 shares of Common Stock, out of options to purchase a total of 8,000 shares, exercisable at \$16.87 per share, granted pursuant to a Stock Option Agreement dated November 11, 2005 between the Company and Mr. Kelly.

(12) Includes 4,000 shares beneficially held by Shoreland Investments because Mr. Epstein is one of Shoreland Investment's general partners and options presently exercisable to purchase 14,400 shares of Common Stock, out of options to purchase a total of 19,200 shares, exercisable at \$16.87 per share, granted pursuant to a Stock Option Agreement dated November 11, 2005 between the Company and Mr. Epstein.

(13) Includes 4,000 shares of Common Stock owned by Mr. Taber and options presently exercisable to purchase 14,400 shares of Common Stock, out of options to purchase a total of 19,200 shares, exercisable at \$16.87 per share, granted pursuant to a Stock Option Agreement dated November 11, 2005 between the Company and Mr. Taber.

There are no arrangements known to the Company, the operation of which may at a subsequent date result in a change of control of the Company.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The Board has determined that Messrs. Epstein, Taber, Selati and Vidergauz are independent directors under applicable Nasdaq Marketplace Rules and SEC Rules. In addition, the Board has also determined that all directors who serve on the Audit, Compensation and Nominating Committees are independent under applicable Nasdaq Marketplace Rules and SEC rules.

Each director and nominee for election as director delivers to the company annually a questionnaire that includes, among other things, a request for information relating to any transactions in which both the director or nominee, or their family members, and the company participates, and in which the director or nominee, or such family member, has a material interest.

The Audit Committee, among its other duties and responsibilities, reviews and monitors all related party transactions. The Audit Committee will assess, among factors it deems appropriate, whether the transaction is on terms no more favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances and the extent of the related party's interest in the transaction. The Audit Committee is responsible for reviewing all related party transactions on a continuing basis and potential conflict of interest situations where appropriate. No director shall participate in any discussion or approval of a transaction for which he is a related party, except that this director shall provide all material information concerning the transaction to the Audit Committee.

Benjamin M. Polk is a partner in Schulte Roth & Zabel LLP, a law firm that we have retained since May 2004, and was previously a partner with Winston & Strawn LLP, a law firm (together with its predecessors) that had been retained by the company since 1992. In 2006, we expended \$1.5 million in fees related to services provided by that law firm.

Mark Vidergauz is the Managing Director and Chief Executive Officer of the Sage Group LLC, a professional services firm utilized by us during 2006 and 2005. In 2006 and 2005, we expended \$8,300 and \$16,300 in fees related to services provided by that professional services firm.

Rodney C. Sacks is currently acting as the sole Trustee of a trust formed pursuant to an Agreement of Trust dated July 27, 1992 for the purpose of holding the Hansen's ® trademark. We and HBC have agreed to indemnify Mr. Sacks and hold him harmless from any claims, loss or liability arising out of his acting as Trustee.

During 2006, we purchased promotional items from IFM Group, Inc. ("IFM"). Rodney C. Sacks, together with members of his family, own approximately 27% of the issued shares in IFM. Hilton H. Schlosberg, together with members of his family, own approximately 58% of the issued shares in IFM. Purchases from IFM of promotional items in 2006, 2005 and 2004 were \$1.0 million, \$0.7 million and \$0.6 million, respectively. We continue to purchase promotional items from IFM Group, Inc. in 2007.

The preceding descriptions of agreements are qualified in their entirety by reference to such agreements, which have been filed as exhibits to the Company's reports, as applicable.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Accounting Fees

Aggregate fees billed and unbilled to the Company for service provided for the years ended December 31, 2006, and 2005 by the Company's independent registered public accounting firm, Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively "Deloitte & Touche"):

	<u>Year ended December 31,</u>	
	<u>2006</u>	<u>2005</u>
Audit Fees	\$ 1,250,274	\$ 559,572
Audit Related Fees(1)	13,884	93,830
Tax Fees(2)	1,500	10,383
Total Fees(3)	<u>\$ 1,265,658</u>	<u>\$ 663,785</u>

(1) Audit related fees consisted of fees for consultations regarding reporting matters under regulations of the Securities and Exchange Commission.

(2) Tax fees consisted of fees for tax consultation services including advisory services for state tax analysis and tax audit assistance.

(3) For years ended December 31, 2006 and 2005, all of the services performed by Deloitte & Touche have been pre-approved by the Audit Committee.

The Audit Committee has considered whether Deloitte & Touche's provision of the non-audit services covered above is compatible with maintaining Deloitte & Touche's independence and has determined that it is.

Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

The Audit Committee's policy is to pre-approve all audit and non-audit services provided by the Company's independent auditors. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year, and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The Audit Committee has delegated pre-approval authority to its Chairman when necessary due to timing considerations. Any services approved by the Chairman must be reported to the full Audit Committee at its next scheduled meeting. The independent auditors and management are required to periodically report to the full Audit Committee regarding the extent of services provided by the independent auditors in accordance with the pre-approval policies, and the fees for the services performed to date.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as a part of this Form 10-K:

[Report of Independent Registered Public Accounting Firm](#)

Financial Statements:

[Consolidated Balance Sheets as of December 31, 2006 and 2005](#)

[Consolidated Statements of Income for the years ended December 31, 2006, 2005 and 2004](#)

[Consolidated Statements of Stockholders' Equity for the years ended December 31, 2006, 2005 and 2004](#)

[Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004](#)

[Notes to Consolidated Financial Statements](#)

Financial Statement Schedule:

[Valuation and Qualifying Accounts for the years ended December 31, 2006, 2005 and 2004](#)

Exhibits:

The Exhibits listed in the Index of Exhibits, which appears immediately following the signature page and is incorporated herein by reference, as filed as part of this Form 10-K.

SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) 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

/s/ RODNEY C. SACKS Rodney C. Sacks Date: June 5, 2007
Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ RODNEY C. SACKS</u> Rodney C. Sacks	Chairman of the Board of Directors and Chief Executive Officer (principal executive officer)	June 5, 2007
<u>/s/ HILTON H. SCHLOSBERG</u> Hilton H. Schlosberg	Vice Chairman of the Board of Directors, President, Chief Operating Officer, Chief Financial Officer and Secretary (principal financial officer, controller and principal accounting officer)	June 5, 2007
<u>/s/ NORMAN C. EPSTEIN</u> Norman C. Epstein	Director	June 5, 2007
<u>/s/ BENJAMIN M. POLK</u> Benjamin M. Polk	Director	June 5, 2007
<u>/s/ SYDNEY SELATI</u> Sydney Selati	Director	June 5, 2007
<u>/s/ HAROLD C. TABER, JR.</u> Harold C. Taber, Jr.	Director	June 5, 2007
<u>/s/ MARK S. VIDERGAUZ</u> Mark S. Vidergauz	Director	June 5, 2007

INDEX TO EXHIBITS

The following designated exhibits, as indicated below, are either filed or furnished, as applicable herewith or have heretofore been filed or furnished with the Securities and Exchange Commission under the Securities Act of 1933 or the Securities Exchange Act of 1934 as indicated by footnote.

- 2.1 Asset purchase agreement among Blue Sky Natural Beverage Co., a Delaware corporation, as Purchaser and Blue Sky Natural Beverage Co., a New Mexico corporation, as seller and Robert Black (incorporated by reference to Exhibit 2.1 to our Form 8-K dated October 4, 2000).
- 3.2 Amended and Restated By-Laws of Hansen Natural Corporation (incorporated by reference to Exhibit 3.2 to our Form 8-K dated March 8, 2006).
- 10.1 Amended and Restated Monster Beverages Off-Premise Distribution Coordination Agreement between Hansen Beverage Company and Anheuser-Busch, Incorporated (incorporated by reference to Exhibit 10.01 to our Form 8-K dated August 11, 2006).
- 10.2 On-Premise Distribution Coordination Agreement between Hansen Beverage Company and Anheuser-Busch, Incorporated (incorporated by reference to Exhibit 10.1 to our Form 8-K dated February 12, 2007).
- 10.3+ Form of Amendment to Stock Option Agreement (relating to the amendment of certain stock option agreements between Hansen Natural Corporation and its executive officers and directors) (incorporated by reference to Exhibit 10.1 to our Form 8-K dated January 8, 2007).
- 10.4 Form of Indemnification Agreement (to be provided by Hansen Natural Corporation to its directors) (incorporated by reference to Exhibit 10.1 to our Form 8-K dated November 11, 2005).
- 10.5 Seventh Modification to Revolving Credit Loan & Security Agreement and First Amendment to Addendum to Revolving Credit Loan & Security Agreement by and between Hansen Beverage Company, a Delaware corporation, and Comerica Bank-California, a California banking corporation (incorporated by reference to Exhibit 10.1 to our Form 8-K dated October 4, 2000).
- 10.6 Amended and Restated Allied Products Distribution Coordination Agreement between Hansen Beverage Company and Anheuser-Busch, Incorporated (incorporated by reference to Exhibit 10.2 to our Form 8-K dated August 11, 2006).
- 10.7 Asset Purchase Agreement among Hansen Junior Juice Company, as purchaser, Pasco Juices, Inc., as seller, and Hansen Beverage Company (incorporated by reference to Exhibit 10.2 to our Form 10-K dated March 29, 2002).
- 10.8 Packaging Agreement between Hansen Beverage Company and U.S. Continental Marketing, Inc. (incorporated by reference to Exhibit 10.4 to our form 10-K dated March 31, 2003).
- 10.9 Proposal for Additional Storage from U.S. Continental (incorporated by reference to Exhibit 10.8 to our form 10-K dated March 31, 2003).
[Please verify why this proposal is material. Any final contract?]
- 10.10 Advertising Display Agreement between Hansen Beverage Company and Las Vegas Monorail Company (incorporated by reference to Exhibit 10.9 to our form 10-K dated March 31, 2003).
- 10.11+ Stock Option Agreement between Hansen Natural Corporation and Kirk S. Blower (incorporated by reference to Exhibit 10.13 to our form 10-K dated March 31, 2003).
- 10.12+ Stock Option Agreement between Hansen Natural Corporation and Rodney C. Sacks (incorporated by reference to Exhibit 10.14 to our form 10-K dated March 31, 2003).

- 10.13+ Stock Option Agreement between Hansen Natural Corporation and Hilton H. Schlosberg (incorporated by reference to Exhibit 10.15 to our form 10-K dated March 31, 2003).
- 10.14+ Stock Option Agreement between Hansen Natural Corporation and Mark J. Hall (incorporated by reference to Exhibit 10.16 to our form 10-K dated March 31, 2003).
- 10.15+ Stock Option Agreement between Hansen Natural Corporation and Kirk S. Blower (incorporated by reference to Exhibit 10.17 to our form 10-K dated March 31, 2003).
- 10.16+ Employment Agreement between Hansen Natural Corporation and Rodney C. Sacks (incorporated by reference to Exhibit 10.18 to our form 8-K dated September 17, 2003).
- 10.17+ Employment Agreement between Hansen Natural Corporation and Hilton H. Schlosberg (incorporated by reference to Exhibit 10.19 to our form 8-K dated September 17, 2003).
- 10.18+ Stock Option Agreement between Hansen Natural Corporation and Rodney C. Sacks (made as of May 28, 2003) (incorporated by reference to Exhibit 10.21 to our form 10-K dated March 30, 2004).
- 10.19+ Stock Option Agreement between Hansen Natural Corporation and Hilton H. Schlosberg (made as of May 28, 2003) (incorporated by reference to Exhibit 10.22 to our form 10-K dated March 30, 2004).
- 10.20+ Stock Option Agreement between Hansen Natural Corporation and Mark J. Hall (made as of January 15, 2004) (incorporated by reference to Exhibit 10.23 to our form 10-K dated March 16, 2005).
- 10.21+ Stock Option Agreement between Hansen Natural Corporation and Michael B. Schott (made as of January 15, 2004) (incorporated by reference to Exhibit 10.24 to our form 10-K dated March 16, 2005).
- 10.22+ Stock Option Agreement between Hansen Natural Corporation and Kirk Blower (made as of January 15, 2004) (incorporated by reference to Exhibit 10.25 to our form 10-K dated March 16, 2005).
- 10.23+ Stock Option Agreement between Hansen Natural Corporation and Thomas J. Kelly (made as of January 15, 2004) (incorporated by reference to Exhibit 10.26 to our form 10-K dated March 16, 2005).
- 10.24 Contract Packaging Agreement between Hansen Beverage Company and Southwest Canning & Packaging, Inc. (incorporated by reference to Exhibit 10.27 to our form 10-K dated March 16, 2005).
- 10.25 Contract Manufacturing and Packaging Agreement between Hansen Beverage Company and Nor-Cal Beverage Co., Inc. (incorporated by reference to Exhibit 10.28 to our form 10-K dated March 16, 2005).
- 10.26 Product Manufacture and Supply Agreement between Hansen Beverage Company and Seven-Up/RC Bottling Company of Southern California, Inc. (incorporated by reference to Exhibit 10.29 to our form 10-K dated March 16, 2005).
- 10.27 Contract Packer Agreement between Hansen Beverage Company and Southeast Atlantic Beverage Corporation (incorporated by reference to Exhibit 10.30 to our form 10-K dated March 16, 2005).
- 10.28 Beverage Production and Packaging Agreement between Hansen Beverage Company and City Brewing Company, LLC d/b/a Midwest Beverage Packers (incorporated by reference to Exhibit 10.31 to our form 10-K dated March 16, 2005).
- 10.29 Manufacturing Contract between Hansen Beverage Company and Pri-Pak, Inc. (incorporated by reference to Exhibit 10.32 to our form 10-K dated March 16, 2005).
- 10.30 Amended and Restated Loan and Security Agreement between Hansen Beverage Company and Comerica Bank (incorporated by reference to Exhibit 10.33 to our form 10-K dated March 16, 2005).
- 10.31 First Modification to the Amended and Restated Loan and Security Agreement between Hansen Beverage Company and Comerica Bank (incorporated by reference to Exhibit 10.34 to our form 10-K dated March 15, 2006).
- 10.32+ Stock Option Agreement between Hansen Natural Corporation and Sydney Selati (made as of November 5, 2004) (incorporated by reference to Exhibit 10.35 to our form 10-K dated March 15, 2006).

- 10.33+ Stock Option Agreement between Hansen Natural Corporation and Rodney C. Sacks (made as of March 23, 2005) (incorporated by reference to Exhibit 10.36 to our form 10-K dated March 15, 2006).
- 10.34+ Stock Option Agreement between Hansen Natural Corporation and Hilton H. Schlosberg (made as of March 23, 2005) (incorporated by reference to Exhibit 10.37 to our form 10-K dated March 15, 2006).
- 10.35+ Stock Option Agreement between Hansen Natural Corporation and Mark J. Hall (made as of March 23, 2005) (incorporated by reference to Exhibit 10.38 to our form 10-K dated March 15, 2006).
- 10.36+ Stock Option Agreement between Hansen Natural Corporation and Michael B. Schott (made as of March 23, 2005) (incorporated by reference to Exhibit 10.39 to our form 10-K dated March 15, 2006).
- 10.37+ Stock Option Agreement between Hansen Natural Corporation and Mark J. Hall (made as of September 28, 2005) (incorporated by reference to Exhibit 10.40 to our form 10-K dated March 15, 2006).
- 10.38+ Stock Option Agreement between Hansen Natural Corporation and Kirk Blower (made as of November 1, 2005) (incorporated by reference to Exhibit 10.41 to our form 10-K dated March 15, 2006).
- 10.39+ Stock Option Agreement between Hansen Natural Corporation and Harold Taber (made as of November 11, 2005) (incorporated by reference to Exhibit 10.42 to our form 10-K dated March 15, 2006).
- 10.40+ Stock Option Agreement between Hansen Natural Corporation and Norman Epstein (made as of November 11, 2005) (incorporated by reference to Exhibit 10.43 to our form 10-K dated March 15, 2006).
- 10.41+ Stock Option Agreement between Hansen Natural Corporation and Mark Vidergauz (made as of November 11, 2005) (incorporated by reference to Exhibit 10.44 to our form 10-K dated March 15, 2006).
- 10.42+ Stock Option Agreement between Hansen Natural Corporation and Benjamin Polk (made as of November 11, 2005) (incorporated by reference to Exhibit 10.45 to our form 10-K dated March 15, 2006).
- 10.43+ Stock Option Agreement between Hansen Natural Corporation and Hilton H. Schlosberg (made as of November 11, 2005) (incorporated by reference to Exhibit 10.46 to our form 10-K dated March 15, 2006).
- 10.44+ Stock Option Agreement between Hansen Natural Corporation and Rodney C. Sacks (made as of November 11, 2005) (incorporated by reference to Exhibit 10.47 to our form 10-K dated March 15, 2006).
- 10.45+ Stock Option Agreement between Hansen Natural Corporation and Mark J. Hall (made as of November 11, 2005) (incorporated by reference to Exhibit 10.48 to our form 10-K dated March 15, 2006).
- 10.46+ Stock Option Agreement between Hansen Natural Corporation and Michael B. Schott (made as of November 11, 2005) (incorporated by reference to Exhibit 10.49 to our form 10-K dated March 15, 2006).
- 10.47+ Stock Option Agreement between Hansen Natural Corporation and Thomas J. Kelly (made as of November 11, 2005) (incorporated by reference to Exhibit 10.50 to our form 10-K dated March 15, 2006).
- 10.48 Packaging Agreement between Hansen Beverage Company and U.S. Continental Packaging, Inc. (incorporated by reference to Exhibit 10(WW) to our form 10-Q dated November 12, 1997).
- 10.49 Revolving Credit Loan & Security Agreement between Hansen Beverage Company and Comerica Bank (incorporated by reference to Exhibit 10(XX) to our form 10-Q dated November 12, 1997).
- 10.50+ Severance and Consulting Agreement by and among Hansen Beverage Company, Hansen Natural Corporation, and Harold C. Taber, Jr. (incorporated by reference to Exhibit 10(Y Y) to our form 10-Q dated November 12, 1997).

- 10.51+ Stock Option Agreement between Hansen Natural Corporation and Harold C. Taber, Jr. (made as of June 20, 1997) (incorporated by reference to Exhibit 10(ZZ) to our form 10-Q dated November 12, 1997).
- 10.52 Variable Rate Installment Note between Hansen Beverage Company and Comerica Bank. (incorporated by reference to Exhibit 10(AAA) to our form 10-Q dated November 12, 1997).
- 10.53+ Stock Option Agreement between Hansen Natural Corporation and Rodney C. Sacks (made as of January 30, 1998) (incorporated by reference to Exhibit 10(BBB) to our form 10-Q dated May 13, 1998).
- 10.54+ Stock Option Agreement between Hansen Natural Corporation and Hilton H. Schlosberg (made as of January 30, 1998) (incorporated by reference to Exhibit 10(CCC) to our form 10-Q dated May 13, 1998).
- 10.55 Modification to Revolving Credit Loan & Security Agreement between Hansen Beverage Company and Comerica Bank (incorporated by reference to Exhibit 10(EEE) to our form 10-K dated March 31, 1999).
- 10.56+ Stock Option Agreement between Hansen Natural Corporation and Rodney C. Sacks (dated as of February 2, 1999) (incorporated by reference to Exhibit 10(HHH) to our form 10-K dated March 31, 1999).
- 10.57+ Stock Option Agreement between Hansen Natural Corporation and Hilton H. Schlosberg (dated as of February 2, 1999) (incorporated by reference to Exhibit 10(III) to our form 10-K dated March 31, 1999).
- 10.58+ Stock Repurchase Agreement between Hansen Natural Corporation and Rodney C. Sacks (dated as of August 3, 1998) (incorporated by reference to Exhibit 10(JJJ) to our form 10-Q dated August 16, 1999).
- 10.59+ Stock Repurchase Agreement between Hansen Natural Corporation and Hilton H. Schlosberg (dated as of August 3, 1998) (incorporated by reference to Exhibit 10(KKK) to our form 10-Q dated August 16, 1999).
- 10.60 Fourth Amendment to Revolving Credit Loan and Security Agreement between Hansen Beverage Company and Comerica Bank (incorporated by reference to Exhibit 10(UUU) to our form 10-K dated March 30, 2000).
- 10.61 Amended and Restated Variable Rate Installment Note between Hansen Beverage Company and Comerica Bank (incorporated by reference to Exhibit 10(XXX) to our form 10-Q dated May 15, 2000).
- 10.62 Sixth Modification to Revolving Credit Loan & Security Agreement between Hansen Beverage Company and Comerica Bank (incorporated by reference to Exhibit 10(YYY) to our form 10-Q dated August 9, 2000).
- 10.63 Assignment and Agreement dated September 22, 1999 between Hansen Beverage Company and The Fresh Juice Company of California, Inc. (incorporated by reference to Exhibit 10 to our form 10-Q dated November 15, 1999).
- 10.64+ Settlement Agreement dated as of September 1999 between Hansen Beverage Company and Rodney C. Sacks as sole Trustee of the Hansen's Trust and Hansen Beverage Company, The Fresh Juice Company of California, Inc. (incorporated by reference to Exhibit 10 to our form 10-Q dated November 15, 1999).
- 10.65+ Settlement Agreement September 3, 1999 by and between The Fresh Juice Company of California, Inc., The Fresh Smoothie Company, LLC, Barry Lublin, Hansen's Juice Creations, LLC, Harvey Laderman and Hansen Beverage Company and Rodney C. Sacks, as Trustee of The Hansen's Trust (incorporated by reference to Exhibit 10 to our form 10-Q dated November 15, 1999).
- 10.66 Trademark Assignment September 24, 1999 by and between The Fresh Juice Company of California, Inc. (Assignor) and Rodney C. Sacks as sole Trustee of The Hansen's Trust (Assignee) (incorporated by reference to Exhibit 10(nnn) to our form 10-Q dated November 15, 1999).

10.67*	Single Tenant Industrial Lease, made and entered into as of October 13, 2006 by and between Watson Land Company, a California Corporation, and Hansen Beverage Company, a Delaware Corporation.
10.68+	Hansen Natural Corporation 2001 Stock Option Plan (incorporated by reference to Exhibit B to our Proxy Statement dated April 14, 2006).
10.69+	2005 Hansen Natural Corporation Stock Option Plan For Non-Employee Directors (incorporated by reference to Exhibit 4.1 to our Form S-8 dated January 31, 2006).
21	Subsidiaries – filed previously as an exhibit to Form 10-Q for the quarter ended June, 30, 2005
23*	Independent Auditors' Consent
31.1*	Certification by CEO pursuant to Rule 13A-14(a) or 15D-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification by CFO pursuant to Rule 13A-14(a) or 15D-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification by CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification by CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed herewith.

+ Management contract or compensatory plans or arrangements.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

HANSEN NATURAL CORPORATION AND SUBSIDIARIES

[Report of Independent Registered Public Accounting Firm](#)

[Consolidated Balance Sheets as of December 31, 2006 and 2005](#)

[Consolidated Statements of Income for the years ended December 31, 2006, 2005 and 2004](#)

[Consolidated Statements of Stockholders' Equity for the years ended December 31, 2006, 2005 and 2004](#)

[Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004](#)

[Notes to Consolidated Financial Statements](#)

[Financial Statement Schedule – Valuation and Qualifying Accounts for the years ended December 31, 2006, 2005 and 2004](#)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Hansen Natural Corporation
Corona, California

We have audited the accompanying consolidated balance sheets of Hansen Natural Corporation and subsidiaries (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in Item 15(a). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2006 and 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Notes 1 and 12 to the consolidated financial statements, the Company changed its method of accounting for stock-based compensation during the year ended December 31, 2006 as a result of adopting Statement of Financial Accounting Standards No. 123R, "Share-based Payment" in 2006.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 5, 2007, expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP
Costa Mesa, California
June 5, 2007

HANSEN NATURAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2006 AND 2005 (In Thousands, Except Share Amounts)

	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 35,129	\$ 61,654
Short-term investments	101,667	11,861
Accounts receivable, net	54,624	28,752
Inventories	77,013	31,400
Prepaid expenses and other current assets	771	477
Prepaid income taxes	—	638
Deferred income taxes	5,953	5,505
Total current assets	<u>275,157</u>	<u>140,287</u>
PROPERTY AND EQUIPMENT, net	5,565	3,743
DEFERRED INCOME TAXES	5,001	—
INTANGIBLES, net	21,202	19,103
OTHER ASSETS	1,447	757
	<u>\$ 308,372</u>	<u>\$ 163,890</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 34,362	\$ 26,614
Accrued liabilities	16,489	2,482
Customer deposit liabilities	3,324	—
Accrued compensation	4,378	3,346
Current portion of long-term debt	299	515
Income taxes payable	3,991	—
Total current liabilities	<u>62,843</u>	<u>32,957</u>
LONG-TERM DEBT, less current portion	4	10
DEFERRED INCOME TAXES	—	5,414
DEFERRED REVENUE	20,441	—
COMMITMENTS AND CONTINGENCIES (Note 10)		
STOCKHOLDERS' EQUITY:		
Common stock - \$0.005 par value; 120,000,000 shares authorized; 92,713,212 shares issued and 90,059,124 outstanding and 90,428,512 shares issued and 88,774,424 outstanding as of December 31, 2006 and 2005, respectively	464	452
Additional paid-in capital	48,892	19,579
Retained earnings	204,242	106,293
Common stock in treasury, at cost; 2,654,088 and 1,654,088 shares as of December 31, 2006 and 2005, respectively	(28,514)	(815)
Total stockholders' equity	<u>225,084</u>	<u>125,509</u>
	<u>\$ 308,372</u>	<u>\$ 163,890</u>

See accompanying notes to consolidated financial statements.

HANSEN NATURAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004
 (In Thousands, Except Per Share Amounts)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
NET SALES	\$ 605,774	\$ 348,886	\$ 180,341
COST OF SALES	<u>289,180</u>	<u>166,343</u>	<u>96,875</u>
GROSS PROFIT	316,594	182,543	83,466
OPERATING EXPENSES	<u>158,015</u>	<u>79,100</u>	<u>49,580</u>
OPERATING INCOME	158,579	103,443	33,886
INTEREST INCOME, net	<u>3,660</u>	<u>1,351</u>	<u>52</u>
INCOME BEFORE PROVISION FOR INCOME TAXES	162,239	104,794	33,938
PROVISION FOR INCOME TAXES	<u>64,290</u>	<u>42,019</u>	<u>13,551</u>
NET INCOME	<u>\$ 97,949</u>	<u>\$ 62,775</u>	<u>\$ 20,387</u>
NET INCOME PER COMMON SHARE:			
Basic	<u>\$ 1.09</u>	<u>\$ 0.71</u>	<u>\$ 0.24</u>
Diluted	<u>\$ 0.99</u>	<u>\$ 0.65</u>	<u>\$ 0.22</u>
WEIGHTED AVERAGE NUMBER OF SHARES OF COMMON STOCK AND COMMON STOCK EQUIVALENTS:			
Basic	<u>89,936</u>	<u>88,224</u>	<u>85,335</u>
Diluted	<u>98,586</u>	<u>97,089</u>	<u>94,480</u>

See accompanying notes to consolidated financial statements.

HANSEN NATURAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004
(In Thousands, Except Share Amounts)

	Common stock		Additional paid-in capital	Retained earnings	Treasury stock		Total stockholders' equity
	Shares	Amount			Shares	Amount	
Balance, January 1, 2004	84,998,912	\$ 425	\$ 12,310	\$ 23,131	(1,654,088)	\$ (815)	\$ 35,051
Exercise of stock options	3,960,000	20	1,699				1,719
Tax benefit from the exercise of stock options			1,415				1,415
Net income				20,387			20,387
Balance, December 31, 2004	88,958,912	445	15,424	43,518	(1,654,088)	(815)	58,572
Exercise of stock options	1,469,600	7	1,161				1,168
Tax benefit from the exercise of stock options			2,994				2,994
Net income				62,775			62,775
Balance, December 31, 2005	90,428,512	452	19,579	106,293	(1,654,088)	(815)	125,509
Stock-based compensation			8,346				8,346
Exercise of stock options	2,284,700	12	3,871				3,883
Excess tax benefits from share based payment arrangements			17,096				17,096
Repurchase of common stock					(1,000,000)	(27,699)	(27,699)
Net income				97,949			97,949
Balance, December 31, 2006	92,713,212	\$ 464	\$ 48,892	\$ 204,242	(2,654,088)	\$ (28,514)	\$ 225,084

See accompanying notes to consolidated financial statements.

HANSEN NATURAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004
(In Thousands)

	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 97,949	\$ 62,775	\$ 20,387
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of trademark	56	70	73
Depreciation and other amortization	1,538	1,009	770
Impairment of operating equipment	—	—	588
Loss on disposal of property and equipment	174	180	120
Stock-based compensation	8,346	—	—
Deferred income taxes	(10,863)	(946)	(173)
Tax benefit from exercise of stock options	(17,284)	—	—
Provision for doubtful accounts	73	87	(116)
Effect on cash of changes in operating assets and liabilities:			
Accounts receivable	(25,945)	(16,188)	(7,161)
Inventories	(45,613)	(8,994)	(4,762)
Prepaid expenses and other current assets	(294)	162	(157)
Prepaid income taxes	638	(638)	—
Accounts payable	7,748	12,071	8,021
Accrued liabilities	14,007	899	398
Customer deposit liabilities	3,324	—	—
Accrued compensation	1,032	1,515	948
Deferred revenue	20,441	—	—
Income taxes payable	21,087	2,647	1,114
Net cash provided by operating activities	<u>76,414</u>	<u>54,649</u>	<u>20,050</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Sales and maturities of held-to-maturity investments	26,489	4,482	—
Purchases of held-to-maturity investments	(24,857)	(9,643)	—
Sales of available-for-sale investments	132,719	23,600	6,300
Purchases of available-for-sale investments	(224,157)	(13,000)	(23,600)
Purchases of property and equipment	(2,746)	(1,520)	(1,260)
Proceeds from sale of property and equipment	354	179	25
Additions to trademarks	(2,155)	(821)	(131)
Increase in other assets	(878)	(61)	(105)
Net cash (used in) provided by investing activities	<u>(95,231)</u>	<u>3,216</u>	<u>(18,771)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments on long-term debt	(1,176)	(1,055)	(422)
Tax benefit from exercise of stock options	17,284	—	—
Issuance of common stock	3,883	1,168	1,720
Purchases of common stock held in treasury	(27,699)	—	—
Net cash (used in) provided by financing activities	<u>(7,708)</u>	<u>113</u>	<u>1,298</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(26,525)</u>	<u>57,978</u>	<u>2,577</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>61,654</u>	<u>3,676</u>	<u>1,099</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 35,129</u>	<u>\$ 61,654</u>	<u>\$ 3,676</u>
SUPPLEMENTAL INFORMATION:			
Cash paid during the year for:			
Interest	<u>\$ 52</u>	<u>\$ 65</u>	<u>\$ 35</u>
Income taxes	<u>\$ 53,614</u>	<u>\$ 40,955</u>	<u>\$ 12,538</u>

See accompanying notes to consolidated financial statements.

SUPPLEMENTAL DISCLOSURE OF NON-CASH ITEMS:

During 2006 and 2005, the Company entered into capital leases of \$1.0 million and \$0.9 million, respectively, for the acquisition of promotional vehicles.

See accompanying notes to consolidated financial statements.

HANSEN NATURAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular Dollars in Thousands, Except Per Share Amounts)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Hansen Natural Corporation (the “Company” or “Hansen”) was incorporated in Delaware on April 25, 1990. The Company is a holding company and has no operating business except through its direct wholly-owned subsidiaries, Hansen Beverage Company (“HBC”) which was incorporated in Delaware on June 8, 1992 and Monster LDA Company (“MLDA”) formally known as Hard e Beverage Company, and previously known as Hard Energy Company and CVI Ventures, Inc., which was incorporated in Delaware on April 30, 1990. HBC conducts the vast majority of the Company’s operating business and generates substantially all of the Company’s operating revenues. References herein to “Hansen” or the “Company” when used to describe the operating business of the Company are references to the business of HBC unless otherwise indicated, and references herein to MLDA when used to describe the operating business of MLDA, are to the business of MLDA unless otherwise indicated.

In addition, HBC, through its wholly-owned subsidiaries, Blue Sky Natural Beverage Co. (“Blue Sky”) and Hansen Junior Juice Company (“Junior Juice”) owns and operates the natural soda business under the Blue Sky® trademark and the Junior Juice beverage business under the Junior Juice® trademarks, respectively.

Nature of Operations – The Company develops, markets, sells and distributes “alternative” beverage category natural sodas, fruit juices, energy drinks and energy sports drinks, fruit juice smoothies and “functional drinks,” non-carbonated ready-to-drink iced teas, lemonades, juice cocktails, children’s multi-vitamin juice drinks, Junior Juice® juices and non-carbonated lightly flavored energy waters under the Hansen’s® brand name. The Company also develops, markets, sells and distributes energy drinks under the following brand names; Monster Energy®, Lost® Energy™, Joker Mad Energy™, Unbound Energy® and Ace™ brand names as well as Rumba™ brand energy juice. The Company also develops, markets, sells and distributes Java Monster™ non-carbonated dairy based coffee drinks. The Company also markets, sells and distributes natural sodas, premium natural sodas with supplements, organic natural sodas, seltzer waters, sports drinks and energy drinks under the Blue Sky® brand name. The Company’s fruit juices for toddlers are marketed under the Junior Juice® brand name. The Company also markets, sells and distributes vitamin and mineral drink mixes in powdered form under the Fizzit™ brand name.

Basis of Presentation – The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Principles of Consolidation – The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, HBC, MLDA, Blue Sky and Junior Juice since their respective dates of incorporation. All intercompany balances and transactions have been eliminated in consolidation.

Stock Split and Amendment of Articles of Incorporation – On August 8, 2005, the Board of Directors approved a two-for-one stock split of the Company’s common stock which was effected in the form of a 100% stock dividend. On June 1, 2006 the Company, after stockholder approval, increased the number of authorized shares of common stock to 120,000,000. On June 7, 2006, the Board of Directors approved a four-for-one stock split of the Company’s common stock which was effected in the form of a 300% stock dividend. The accompanying consolidated financial statements include the effects of the stock splits and the resulting increase in the number of authorized shares of common stock. All share and per-share amounts have been recast to reflect the individual stock splits.

Cash and Cash Equivalents – The Company invests available cash in various investments from time to time including, but not limited to, investments of the following nature: auction rate securities, corporate bank debt, commercial paper, certificates of deposit, U.S. treasury bills, notes and bonds, money market funds and tax exempt securities, including municipal notes. Those investments that have original maturities of three months or less are included in cash and cash equivalents. Throughout the year, the Company has had amounts on deposit at financial institutions that exceed the federally insured limits. The Company has not experienced any loss as a result of these deposits and does not expect to incur any losses in the future.

Short-Term Investments — Those investments that have original maturities greater than three months but less than twelve months are included in short-term investments. The Company classifies debt securities in one of two categories: held-to-maturity or available-for-sale in accordance with Statement of Financial Accounting Standard (“SFAS”) No. 115, “Accounting for Certain Investments in Debt and Equity Securities” (“SFAS No. 115”). Held-to-maturity securities are those securities that the Company has the positive intent and ability to hold until maturity. All other securities not included in held-to-maturity category are classified as available-for-sale. No securities are held for speculative or trading purposes. For all short-term investments, unrealized losses that are considered “other than temporary” are recognized immediately in earnings. Realized and unrealized gains and losses were not material in the fiscal years ended December 31, 2006, 2005 and 2004.

Accounts Receivable – The Company evaluates the collectibility of its trade accounts receivable based on a number of factors. In circumstances where the Company becomes aware of a specific customer’s inability to meet its financial obligations to the Company, a specific reserve for bad debts is estimated and recorded, which reduces the recognized receivable to the estimated amount the Company believes will ultimately be collected. In addition to specific customer identification of potential bad debts, bad debt charges are recorded based on the Company’s recent past loss history and an overall assessment of past due trade accounts receivable outstanding.

Inventories – Inventories are valued at the lower of first-in, first-out (FIFO) cost or market value (net realizable value).

Property and Equipment – Property and equipment are stated at cost. Depreciation of furniture, office equipment, equipment and vehicles is based on their estimated useful lives (three to ten years) and is calculated using the straight-line method. Amortization of leasehold improvements is based on the lesser of their estimated useful lives or the terms of the related leases and is calculated using the straight-line method.

Intangibles – Intangibles are comprised of trademarks representing the Company’s exclusive ownership of the Hansen’s® trademark in connection with the manufacture, sale and distribution of beverages, water, non-beverage products and the Monster Energy® trademark in connection with the manufacture, sale and distribution of supplements and beverages. The Company also owns a number of other trademarks in the United States as well as in a number of countries around the world. In addition, the Company owns the Blue Sky® trademark, which was acquired in September 2000, and the Junior Juice® trademark, which was acquired in May 2001. In accordance with SFAS No. 142 “Goodwill and Other Intangible Assets,” intangible assets with indefinite lives are not amortized but instead are measured for impairment at least annually, or when events indicate that an impairment exists. The Company calculates impairment as the excess of the carrying value of its indefinite-lived assets over their estimated fair value. If the carrying value exceeds the estimate of fair value a write-down is recorded. The Company amortizes its trademarks with finite useful lives over the trademarks’ useful lives of 1 to 25 years.

Long-Lived Assets – Management regularly reviews property and equipment and other long-lived assets, including certain intangibles, for possible impairment. This review occurs annually, or more frequently if events or changes in circumstances indicate the carrying amount of the asset may not be recoverable. If there is indication of impairment, management then prepares an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its eventual disposition. If these cash flows are less than the carrying amount of the asset, an impairment loss is recognized to write down the asset to its estimated fair value. The fair value is estimated using the present value of the future cash flows discounted at a rate commensurate with management’s estimates of the business risks. Preparation of estimated expected future cash flows is inherently subjective and is based on management’s best estimate of assumptions concerning expected future conditions. For the year ended December 31, 2004, the Company recognized impairment on operating equipment in cost of sales of \$0.6 million. For 2006 and 2005, there were no impairment losses recorded.

Revenue Recognition – The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectibility is reasonably assured. Management believes that adequate provision has been made for cash discounts, returns and spoilage based on the Company’s historical experience. Amounts paid to the Company by newly appointed Anheuser-Busch Distributors (the “AB Distributors”) for the costs of terminating certain of the Company’s prior distributors are accounted for as deferred revenue, which will be recognized as revenue ratably over the anticipated 20 year life of the respective Anheuser-Busch Distribution Agreements (the “AB Distribution Agreements”) (see Note 17).

Net Sales – Net sales have been determined after deduction of promotional and other allowances in accordance with Emerging Issues Task Force Issue (“EITF”) No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor’s Products)*.

Cost of Sales – Cost of sales consists of the costs of raw materials utilized in the manufacture of products, co-packing fees, repacking fees, in-bound freight charges, as well as certain internal transfer costs, warehouse expenses incurred prior to the manufacture of the Company’s finished products and certain quality control costs. Raw materials account for the largest portion of the cost of sales. Raw materials include cans, bottles, other containers, ingredients and packaging materials.

Operating Expenses – Operating expenses include selling expenses such as distribution expenses to transport products to customers and warehousing expenses after manufacture, as well as expenses for advertising, sampling and in-store demonstration costs, costs for merchandise displays, point-of-sale materials and premium items, sponsorship expenses, other marketing expenses and design expenses. Operating expenses also include such costs as payroll costs, travel costs, professional service fees including legal fees, termination payments made to certain of the Company’s prior distributors, depreciation and other general and administrative costs.

Freight Costs and Reimbursement of Freight Costs – For the years ended December 31, 2006, 2005 and 2004, freight-out costs amounted to \$36.2 million, \$19.1 million and \$10.7 million, respectively, and have been recorded in operating expenses in the accompanying consolidated statements of income.

Advertising Expenses – The Company accounts for advertising production costs by expensing such production costs the first time the related advertising takes place. Advertising expenses, including but not limited to production costs, amounted to \$35.7 million, \$18.0 and \$10.8 million for the years ended December 31, 2006, 2005 and 2004, respectively. Advertising expenses are included in operating expenses in the accompanying consolidated statements of income.

Income Taxes – The Company accounts for income taxes under the provisions of SFAS No. 109, *Accounting for Income Taxes*. This statement requires the recognition of deferred tax assets and liabilities for the future consequences of events that have been recognized in the Company’s financial statements or tax returns. Measurement of the deferred items is based on enacted tax laws. In the event the future consequences of differences between financial reporting bases and tax bases of the Company’s assets and liabilities result in a deferred tax asset, SFAS No. 109 requires an evaluation of the probability of being able to realize the future benefits indicated by such asset. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

Stock-Based Compensation – Prior to January 1, 2006, the Company accounted for its stock-based compensation plans in accordance with Accounting Principles Board (“APB”) Opinion No. 25, *Accounting for Stock Issued to Employees* (“APB No. 25”), and related interpretations, the disclosure-only provisions of SFAS No. 123, *Accounting for Stock-Based Compensation Related to Options Issued to Employees*, and SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment of FASB Statement No. 123*. Under APB No. 25, the Company recognized stock-based compensation associated with stock options and awards under the intrinsic value method, whereby stock-based compensation was determined as the difference, if any, between the fair value of the related common stock on the measurement date and the price an employee had to pay to exercise the award.

Effective January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), *Share-Based Payment* (“SFAS No. 123R”) using the modified-perspective-transition method and therefore has not restated prior period results (See Note 12, “Stock-Based Compensation”). This Statement replaces SFAS No. 123, *Accounting for Stock-Based Compensation* and supersedes APB No. 25. SFAS No. 123R requires the fair value of all stock option awards issued to employees to be recorded as an expense over the related vesting period. The Statement also requires the recognition of compensation expense for the fair value of any unvested stock option awards outstanding at the date of adoption. The Company recognizes these compensation costs net of a forfeiture rate on a straight-line basis over the requisite service period of the reward, which is generally the vesting term of five years. The Company estimated the forfeiture rate for fiscal 2006 based on historical experience with forfeitures during the preceding three fiscal years.

Net Income Per Common Share – In accordance with SFAS No. 128, *Earnings per Share*, net income per common share, on a basic and diluted basis, is presented for all periods. Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during each period. Diluted net income per share is computed by dividing net income by the weighted average number of common and dilutive common equivalent shares outstanding. The calculation of common equivalent shares assumes the exercise of dilutive stock options, net of assumed treasury share repurchases at average market prices, as applicable.

Concentration of Risk – Certain of the Company’s products utilize components (raw materials and/or co-packing services) from a limited number of sources. A disruption in the supply of such components could significantly affect the Company’s revenues from those products, as alternative sources of such components may not be available at commercially reasonable rates or within a reasonably short time period. The Company continues to take steps on an ongoing basis to secure the availability of alternative sources for such components and minimize the risk of any disruption in production.

Two customers accounted for approximately 19% and 12% of the Company's net sales for the year ended December 31, 2006, respectively. One customer accounted for approximately 18% and 13% of the Company's net sales for the years ended December 31, 2005 and 2004, respectively. A decision by either customer, or any other large customer, to decrease the amount purchased from the Company or to cease carrying the Company's products could have a material adverse effect on the Company's financial condition and consolidated results of operations.

Credit Risk – The Company sells its products nationally, primarily to retailers and beverage distributors. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. The Company maintains reserves for estimated credit losses, and historically, such losses have been within management's expectations.

Fair Value of Financial Instruments – At December 31, 2006 and 2005, the carrying values of cash, short term investments, accounts receivable and accounts payable approximate fair value because of the short maturity of these financial instruments. Long-term debt bears interest at a rate comparable to the prime rate; therefore, management believes the carrying amount for the outstanding borrowings at December 31, 2006 and 2005, respectively, approximates fair value.

Use of Estimates – The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts 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 period. Actual results could differ from those estimates.

Newly Issued Accounting Pronouncements – On January 1, 2006, the Company adopted SFAS No. 151, *Inventory Costs*. SFAS No. 151 amends Accounting Research Bulletin No. 43, Chapter 4, *Inventory Pricing*, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. SFAS No. 151 requires that those items be recognized as current-period charges and requires that allocation of fixed production overhead to the cost of conversion be based on the normal capacity of the production facilities. The adoption of this statement had no impact on the financial condition and results of operations of the Company.

On January 1, 2006, the Company adopted SFAS No. 153, *Exchanges of Nonmonetary Assets— An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions*. SFAS No. 153 amends Accounting Principles Board ("APB") Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The adoption of this statement had no impact on the financial condition or results of operations of the Company.

On January 1, 2006, the Company adopted SFAS No. 154, *Accounting Changes and Error Corrections*, which establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. The statement provides guidance for determining whether retrospective application of a change in accounting principle is impracticable. The statement also addresses the reporting of a correction of error by restating previously issued financial statements. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this statement had no impact on the financial condition or results of operations of the Company.

In July 2006, the Financial Accounting Standards Board (“FASB”) issued Interpretation No. (“FIN”) 48, *Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109 Accounting for Income Taxes*. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold an uncertain tax position is required to meet before tax benefits associated with such uncertain tax positions are recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. In addition, FIN 48 excludes income taxes from the scope of SFAS No. 5, *Accounting for Contingencies*. FIN 48 also requires that amounts recognized in the balance sheet related to uncertain tax positions be classified as a current or noncurrent liability and upon adoption of FIN 48, will reclassify to noncurrent liabilities those uncertain tax positions for which a cash tax payment is not expected within the next twelve months. FIN 48 is effective for fiscal years beginning after December 15, 2006 and interim periods within those fiscal years. Differences between the amounts recognized in the consolidated balance sheets prior to the adoption of FIN 48 and the amounts reported after the adoption are accounted for as a cumulative-effect adjustment to the beginning balance of retained earnings. The Company adopted FIN 48 as of January 1, 2007. The impact of the Company’s reassessment of its tax positions in accordance with FIN 48 did not have a material effect on the results of operations, financial condition or liquidity.

In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007 and interim period within those fiscal years. The Company is currently evaluating the effect of adopting SFAS No. 157 on its consolidated financial statements.

During the fourth quarter of 2006, the Company adopted SEC Staff Accounting Bulletin No. 108, “Considering the Effects of Prior Year Misstatement when Quantifying Misstatements in Current Year Financial Statements” (“SAB No. 108”). SAB No. 108 requires the use of both the rollover and iron curtain approaches in accumulating and quantifying the amounts of misstatements in a company’s financial statements. The rollover approach quantifies a misstatement based upon the amount of the error originating in the current year income statement. The iron curtain approach quantifies a misstatement based on the effects of correcting the misstatement existing in the balance sheet at the end of a reporting period. The Company’s adoption of SAB No. 108 did not have a material impact on the Company’s consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* (SFAS No. 159), which permits entities to choose to measure many financial instruments and certain other items at fair value. The provisions of SFAS No. 159 are effective as of the beginning of our 2008 fiscal year. The Company is currently evaluating the impact of adopting SFAS No. 159 on its consolidated financial statements.

2. SHORT-TERM INVESTMENTS

The Company considers all short-term, highly liquid investments having original maturities of three months or less to be cash equivalents. All investments with original maturities greater than three months but less than twelve months are considered to be short-term investments.

The Company classifies debt securities in one of two categories: held-to-maturity or available-for-sale in accordance with SFAS No. 115. Held-to-maturity securities are those securities that the Company has the positive intent and ability to hold until maturity. All other securities not included in held-to-maturity category are classified as available-for-sale. No securities are held for speculative or trading purposes.

Held-to-maturity securities are recorded at amortized cost which approximates fair market value. A decline in the market value of any held-to-maturity security below cost that is deemed other than temporary, results in a reduction in its carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. Premiums and discounts are amortized or accreted over the life of the related held-to-maturity security as an adjustment to yield using the effective-interest method. The Company evaluates whether the decline in fair value of its investments is other than temporary at each quarter-end. This evaluation consists of a review by management, and includes market pricing information and maturity dates for the securities held, market and economic trends in the industry and information on the investee company's financial condition. Realized and unrealized gains and losses were not material in the years ended December 31, 2006, 2005 and 2004.

Amortized cost, gross unrealized holding gains and losses and fair value for available-for-sale and held-to-maturity short-term investments at December 31, 2006 and 2005 are as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Holding Gains</u>	<u>Gross Unrealized Holding Losses</u>	<u>Fair Value</u>	<u>Continuous Unrealized Loss Position less than 12 Months</u>
December 31, 2006					
Held-to-maturity					
Municipal bonds	\$ 3,528	\$ 10	\$ —	\$ 3,538	\$ —
	3,528	10	—	3,538	—
Available-for-sale					
Municipal bonds	94,128	3	4	94,127	4
Corporate bonds	4,011	—	4	4,007	4
	98,139	3	8	98,134	8
	<u>\$ 101,667</u>	<u>\$ 13</u>	<u>\$ 8</u>	<u>\$ 101,672</u>	<u>\$ 8</u>

	<u>Amortized Cost</u>	<u>Gross Unrealized Holding Gains</u>	<u>Gross Unrealized Holding Losses</u>	<u>Fair Value</u>	<u>Continuous Unrealized Loss Position less than 12 Months</u>
December 31, 2005					
Held-to-maturity					
Debt securities of government sponsored entities	\$ 2,952	\$ —	\$ —	\$ 2,952	\$ —
Corporate bonds	2,209	—	1	2,208	1
	5,161	—	1	5,160	1
Available-for-sale					
Municipal bonds	6,700	—	—	6,700	—
	6,700	—	—	6,700	—
	<u>\$ 11,861</u>	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ 11,860</u>	<u>\$ 1</u>

3. INVENTORIES

Inventories consist of the following at December 31:

	<u>2006</u>	<u>2005</u>
Raw materials	\$ 20,488	\$ 10,228
Finished goods	56,525	21,172
	<u>\$ 77,013</u>	<u>\$ 31,400</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2006</u>	<u>2005</u>
Leasehold improvements	\$ 647	\$ 579
Furniture and office equipment	2,191	1,700
Equipment	1,941	1,163
Vehicles	3,797	2,403
	<u>8,576</u>	<u>5,845</u>
Less: accumulated depreciation and amortization	(3,011)	(2,102)
	<u>\$ 5,565</u>	<u>\$ 3,743</u>

5. INTANGIBLES

The following provides additional information concerning the Company's intangibles as of December 31:

	<u>2006</u>	<u>2005</u>
Amortizing trademarks	\$ 1,169	\$ 1,169
Accumulated amortization	(345)	(289)
	824	880
Non-amortizing trademarks	20,378	18,223
	<u>\$ 21,202</u>	<u>\$ 19,103</u>

All amortizing trademarks have been assigned an estimated finite useful life and such trademarks are amortized on a straight-line basis over the number of years that approximate their respective useful lives ranging from one to 25 years (weighted-average life of 19 years). Total amortization expense recorded was \$0.06 million, \$0.07 million and \$0.07 million for the years ended December 31, 2006, 2005 and 2004, respectively. As of December 31, 2006, future estimated amortization expense related to amortizing trademarks through the year ended December 31, 2011 is approximately \$0.06 million per year.

6. LONG-TERM DEBT

HBC has a credit facility from Comerica Bank ("Comerica") consisting of a revolving line of credit which was amended in May 2007. In accordance with the amended provisions of the credit facility, HBC increased its available borrowing under the revolving line of credit from \$7.5 million collateralized to \$10.0 million non-collateralized. The revolving line of credit expires on June 1, 2008. Interest on borrowings under the line of credit is based on Comerica's base (prime) rate minus up to 1.5%, or varying LIBOR rates up to 180 days, plus an additional percentage of up to 1.75%, depending upon certain financial ratios maintained by HBC. The Company had no outstanding borrowings on this line of credit at December 31, 2006 and 2005.

The terms of the Company's line of credit contain certain financial covenants, including certain financial ratios. The Company was in compliance with these covenants at December 31, 2006.

If any event of default shall occur for any reason, whether voluntary or involuntary, Comerica may declare all or any portion outstanding on the line of credit immediately due and payable, exercise rights and remedies available to them, including instituting legal proceedings.

Long-term debt consists of the following at December 31:

	<u>2006</u>	<u>2005</u>
Note payable to Pasco Juices, Inc., collateralized by the Junior Juice trademark, payable in quarterly installments of varying amounts through May 2006, net of unamortized discount (based on imputed interest rate of 4.5%) of \$.003 million at December 31, 2005.	\$ —	\$ 110
Capital leases, collateralized by vehicles and warehouse equipment, payable over 26 to 60 months in monthly installments at various effective interest rates ranging from 4.3% to 9.9%, with final payments ending from 2007 to 2008.	303	415
	<u>303</u>	<u>525</u>
Less: current portion of long-term debt	(299)	(515)
	<u>\$ 4</u>	<u>\$ 10</u>

Long-term debt is payable as follows:

<u>Years ending December 31:</u>	
2007	\$ 299
2008	4
	<u>\$ 303</u>

At December 31, 2006 and 2005, the assets acquired under capital leases had a net book value of \$1.6 million and \$1.0 million, net of accumulated depreciation of \$0.7 million and \$0.3 million, respectively.

Interest expense, including amounts for capital lease obligations, amounted to \$0.05 million, \$0.06 million and \$0.04 million for the years ended December 31, 2006, 2005 and 2004, respectively.

7. TREASURY STOCK PURCHASE

During the year ended December 31, 2006 the Company purchased 1.0 million shares of common stock at an average purchase price of \$27.70 per share which the Company holds in treasury.

8. SPECIAL MEETING OF STOCKHOLDERS

On June 1, 2006, the Company held a special meeting of stockholders for the following purposes: (1) to approve an amendment to the Company's Certificate of Incorporation to increase the number of authorized shares of common stock, par value \$0.005 per share, from 30,000,000 (pre-split) to 120,000,000 (post-split); and (2) to approve an amendment to the Company's 2001 Stock Option Plan to increase the number of shares of common stock reserved for issuance thereunder by 1,500,000 pre-split; 6,000,000 post-split (see Note 1). The stockholders approved the increase in the number of authorized shares and the amendment to the Company's 2001 Stock Option Plan.

On April 20, 2007, the Company held a special meeting of stockholders to approve an amendment to Section 4(a) of the Company's Stock Option Plan for Outside Directors (the "1994 Plan"), which extended the time period during which grants may be made under the 1994 plan through November 30, 2004. The stockholders approved the amendment to the 1994 Plan.

9. EARNINGS PER SHARE

A reconciliation of the weighted average shares used in the basic and diluted earnings per common share computations for the three years ended December 31, 2006, 2005 and 2004 is presented below:

<u>(In Thousands)</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Weighted-average shares outstanding:			
Basic	89,936	88,224	85,335
Dilutive securities	8,650	8,865	9,145
Diluted	<u>98,586</u>	<u>97,089</u>	<u>94,480</u>

For the years ended December 31, 2006, 2005 and 2004, options outstanding totaling 32,000, 2,028,800 and 138,000 shares respectively, were excluded from the calculations as their effect would have been antidilutive.

10. COMMITMENTS AND CONTINGENCIES

Operating Leases – The Company leases its main warehouse facility and corporate offices under a 10 year lease expiring in 2010. In addition, the Company maintains certain equipment and other noncancelable operating leases which expire through 2010. The facility lease has scheduled rent increases which are accounted for on a straight-line basis. Rent expense under such leases amounted to \$1.3 million, \$1.1 million, and \$0.9 million for the years ended December 31, 2006, 2005 and 2004, respectively. The Company also leased additional warehouse space with such lease expiring in March 2008 with an option to renew through 2010. This facility was subsequently sublet on April 1, 2007.

In October 2006, the Company entered into a lease agreement pursuant to which the Company leased 346,495 square feet of warehouse and distribution space located in Corona, California. This lease commitment provides for minimum rental payments for 120 months commencing March 2007, excluding renewal options. The monthly rental payments are \$167,586 at the commencement of the lease and increase over the lease term by 7.5% at the end of each 30 month period. The new warehouse and distribution space will replace the Company's existing warehouse and distribution space located in Corona, California. The Company plans to sublet its existing office, warehouse and distribution space for the remainder of the lease term, unless the Company is able to find a tenant acceptable to the landlord and the landlord agrees to the early termination of the lease.

In October 2006, the Company also entered into an agreement to acquire 1.8 acres of vacant land for a purchase price of \$1.4 million, located adjacent to the new leased warehouse and distribution facility located in Corona, California for the purpose of constructing a new office building thereon which will replace the Company's existing office space in Corona, California. The Company anticipates the close of escrow for the purchase of such land within the next few months. In the interim, the Company has leased additional office space located near the existing corporate offices.

Future minimum rental payments at December 31, 2006 under the operating leases referred to above are as follows:

<u>Year ending December 31:</u>	
2007	\$ 3,079
2008	3,040
2009	2,993
2010	2,826
2011 and thereafter	14,260
	<u>\$ 26,198</u>

Purchase Commitments – The Company has purchase commitments aggregating approximately \$25.4 million, which represent commitments made by the Company and its subsidiaries to various suppliers of raw materials for the manufacturing and packaging of its products. These obligations vary in terms.

In addition to the above obligations, pursuant to a can supply agreement between the Company and Rexam Beverage Can Company (“Rexam”) dated as of January 1, 2006, as amended, the Company has undertaken to purchase a minimum volume of 24-ounce resealable aluminum beverage cans over the four year period commencing from January 1, 2006 through December 31, 2009. Should the Company fail to purchase the minimum volume, the Company will be obligated to reimburse Rexam for certain capital reimbursements on a pro-rated basis. The Company’s maximum liability under this agreement is \$8.6 million subject to compliance by Rexam with a number of conditions under this agreement.

The Company purchases various raw material items, including, but not limited to, flavors, ingredients and containers, from a limited number of resources. An interruption in supply from any of such resources could result in the Company’s inability to produce certain products for limited or possibly extended periods of time. The aggregate value of purchases from suppliers of such limited resources described above for the year ended December 31, 2006 was \$120.5 million.

Advertising Commitment – In March 2003, HBC entered into an advertising display agreement (“Monorail Agreement”) with the Las Vegas Monorail Company (“LVMC”) whereby HBC was granted the right, in consideration of the payment by HBC to LVMC of the sum of \$1.0 million per year, payable quarterly installments, to advertise and promote its products on a designated four car monorail vehicle as well as the right to sell certain of its products on all monorail stations for payment of additional consideration. The initial term of the Monorail Agreement commenced on January 1, 2005 and has been renewed annually thereafter. The Company renewed the Monorail Agreement for 2007 but at a lower annual rate.

Licensing Agreements – The Company produces, sells and distributes Lost® Energy™ drinks under an exclusive license with Lost International LLC. The license agreement requires certain royalty payments to be made related to the sale of Lost® brand products. Royalty expense under this agreement for the years ended December 31, 2006, 2005 and 2004 was \$0.7 million, \$0.6 million, and \$0.4 million, respectively.

Litigation – In June 2006, HBC filed a lawsuit against Rockstar, Inc., Rockstar Beverage Corporation and Rockstar Brewing Company, Inc., all Nevada corporations (collectively “Rockstar”) for false designation of origin, trademark infringement, unfair competition, deceptive trade practices and unfair competition, seeking an injunction and damages based on Rockstar’s unauthorized use of HBC’s valuable and distinctive Monster Energy® trade dress in connection with its alcoholic energy beverage known as “Rockstar 21.” HBC alleges that the overall appearance of Rockstar’s “Rockstar 21” beverage container is confusingly similar to the appearance of HBC’s Monster Energy® beverages. Further, HBC alleges that Rockstar is infringing on other trademarks owned and used by HBC. Rockstar has denied HBC’s allegations and filed counterclaims against HBC based on allegations that HBC has removed and destroyed Rockstar point-of-sale advertisements from retail stores. Hansen believes Rockstar’s counterclaims are without merit and intends to diligently defend against those counterclaims. In September 2006, the court dismissed HBC’s claims on summary judgment and Rockstar’s counterclaims were withdrawn without prejudice. Hansen has appealed the court’s decision which is currently pending before the United States Court of Appeals for the Ninth Circuit.

In August 2006, HBC filed a lawsuit against National Beverage Company, Shasta Beverages, Inc., Newbevco Inc. and Freek’N Beverage Corp. (collectively “National”) seeking an injunction and damages for trademark infringement, trademark dilution, unfair competition and deceptive trade practices based on National’s unauthorized use of HBC’s valuable and distinctive Monster Energy® trade dress in connection with a line of energy drinks it launched under the “Freek” brand name. On October 5, 2006 the United States District Court for the Central District of California issued a preliminary injunction enjoining National from manufacturing, distributing, shipping, marketing, selling or offering to sell Freek energy drinks in containers that are the same or similar to the current containers or any containers confusingly similar to HBC’s current Monster Energy® trade dress. National has appealed the decision of the United States District Court for the Central District of California to grant the preliminary injunction and this appeal is currently pending before the United States Court of Appeals for the Ninth Circuit. National has filed a counter claim against HBC for injunctive relief preventing HBC and its agents from continuing to destroy “Freek” point of sale materials, disparaging “Freek” products and intentionally interfering with National’s economic and business relationships. Based on the allegations contained in the National counter claims, the Company believes the National claims are without merit. The trial in the above complaint for HBC’s claims for a permanent injunction, damages and costs, and with respect to National’s counter claims, is scheduled to begin on August 7, 2007. The ultimate outcome of this matter cannot be predicted with certainty.

In August 2006, HBC filed an action in the Federal Courts of Australia, Victoria District Registry against Bickfords Australia (Pty) Limited and Meak (Pty) Ltd. (collectively “Bickfords”), in which HBC is seeking an injunction restraining Bickfords from selling or offering for sale or promoting for sale in Australia any energy drink or beverage under the Monster Energy or Monster marks or any similar marks and for damages and costs. The hearing took place in February 2007 and was adjourned for argument to be presented to the court in June 2007.

In September 2006, Christopher Chavez purporting to act on behalf of himself and a class of consumers yet to be defined filed an action in the United States District Court, Northern District of California, against the Company and its subsidiaries for unfair business practices, false advertising, violation of California Consumers Legal Remedies Act, fraud, deceit and/or misrepresentation alleging that the company misleadingly labels its Blue Sky beverages as originating in and/or being canned under the authority of a company located in Santa Fe, New Mexico. The Company has been advised by counsel that it has valid defenses to Chavez’s class action lawsuit and intends to vigorously defend the action.

The Company is subject to litigation from time to time in the normal course of business. Although it is not possible to predict the outcome of such litigation, based on the facts known to the Company and after consultation with counsel, management believes that such litigation in the aggregate will likely not have a material adverse effect on the Company's financial position or results of operations.

Derivative Litigation - From November 2006 through January 2007, purported derivative lawsuits relating to the Company's past stock option grants were filed by parties identifying themselves as shareholders of Hansen. These lawsuits name as defendants certain of Hansen's current and former employees, officers and directors, and name Hansen as a nominal defendant. Three of these cases, Chandler v. Sacks, et al. (No. RIC460186), Plotkin v. Sacks, et al. (No. RIC460485), and Alama v. Sacks, et al. (No. RIC463968), were filed in the Superior Court of California, County of Riverside (the "State Derivative Actions"). Two additional shareholder derivative lawsuits, Linan v. Sacks, et al. (No. ED CV 06-01393) and Cribbs v. Blower et al. (No. ED CV 07-00037), were filed in the United States District Court for the Central District of California. On March 26, 2007, the Cribbs and Linan actions were consolidated for all purposes before the District Court, which appointed lead and local counsel and restyled the action as In re Hansen Natural Corporation Derivative Litigation (No. ED CV 07-37 JFW (PLAx)) (the "Federal Derivative Action").

Plaintiffs in both the State Derivative Actions and the Federal Derivative Action, who purport to bring suit on behalf of the Company, have made no demand on the Board of Directors and allege that such demand is excused. The complaints in the derivative actions allege, among other things, that by improperly dating certain Hansen stock option grants, defendants breached their fiduciary duties, wasted corporate assets, unjustly enriched themselves and violated federal and California statutes. Plaintiffs seek, among other things, unspecified damages to be paid to Hansen, corporate governance reforms, an accounting, rescission, restitution and the creation of a constructive trust.

On April 4, 2007, the plaintiff in the Chandler action applied for a temporary restraining order and a preliminary injunction, seeking, inter alia, to restrain an April 20, 2007 shareholders meeting, to impose restrictions on the defendants' ability to issue or exercise stock options or to transfer the proceeds of stock option grants, and to compel discovery. On April 6, 2007, the Superior Court of California denied plaintiff's application for a temporary restraining order in its entirety. On April 24, 2007, the plaintiff in the Chandler action filed a motion for a preliminary injunction again seeking, inter alia, to impose restrictions on the defendants' ability to issue or exercise stock options or to transfer the proceeds of stock option grants, and to compel discovery. On April 24, 2007, defendants filed a motion to consolidate the State Derivative Actions as well as a motion seeking to stay the State Derivative Actions. By stipulation that was so ordered by the Court on May 25, 2007, the parties agreed to resolve the April 24, 2007 motions as follows: (i) the Chandler and Plotkin actions are now consolidated; (ii) the consolidated State Derivative Actions are stayed for all purposes until February 29, 2008; and (iii) the motion for a preliminary injunction has been withdrawn and may not be refiled while the stay is pending.

On April 16, 2007, the Alama v. Sacks lawsuit filed in California Superior Court was voluntarily dismissed. On May 23, 2007, Alama filed a substantially similar complaint in the Chancery Court of Delaware, New Castle County (No. 2978).

On April 11, 2007, plaintiffs in the Federal Derivative Action filed an application for a temporary restraining order and preliminary injunction seeking to prevent an April 20, 2007, shareholders meeting and alleged violation of federal laws relating to proxy statements. On April 16, 2007, the District Court denied plaintiffs' application for a temporary restraining order and sua sponte ordered plaintiffs to show cause why sanctions should not be issued against plaintiffs' law firm for the filing of a frivolous motion. On May 30, 2007, the District Court, while noting that it still found that plaintiffs' application for a temporary restraining order "bordered on the frivolous," declined to impose sanctions against plaintiffs' law firm. On April 23, 2007, the Federal Derivative Action plaintiffs filed an amended consolidated complaint. The Company must answer or otherwise respond to the complaint by June 11, 2007.

Based on the allegations contained in the complaints, the Company believes that Plaintiffs' claims are without merit, and the Company intends to vigorously defend against the lawsuits. However, the ultimate outcome of these matters cannot be predicted with certainty.

Securities Litigation - From November 2006 through December 2006, several plaintiffs filed shareholder class actions in the United States District Court for the Central District of California against Hansen and certain of its employees, officers and directors, entitled Hutton v. Hansen Natural Corp., et al. (No. 06-07599), Kingery v. Hansen Natural Corp., et al. (No. 06-07771), Williams v. Hansen Natural Corp., et al. (No. 06-01369), Ziolkowski v. Hansen Natural Corp., et al. (No. ED 06-01403), Walker v. Hansen Natural Corp., et al. (No. 06-08229) (the "Class Actions"). On February 27, 2007, the Class Actions were consolidated by the District Court and styled as In re Hansen Natural Corporation Securities Litigation (CV06-07599 JFW (PLAx)). The Court appointed Jason E. Peltier as lead plaintiff ("Lead Plaintiff") and approved lead counsel. Lead Plaintiff filed a consolidated class action complaint on April 30, 2007. The consolidated class action complaint supersedes all previously filed class action complaints and is the operative complaint to which the Company must respond. The Company must answer or otherwise respond to the complaint by June 25, 2007. Lead Plaintiff alleges, on behalf of all persons who purchased Hansen common stock during the period beginning November 12, 2001 through November 9, 2006 (the "Class Period"), that Hansen and the individual defendants made misleading statements and omissions of material fact which artificially inflated the market price of Hansen common stock throughout the Class Period. Plaintiffs further allege that defendants violated Sections 10(b) and 20(a) of the Securities and Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by misrepresenting or failing to disclose that defendants incorrectly dated stock option grants, that the Company's internal controls were inadequate, and that, as a result, defendants engaged in improper accounting practices. Plaintiffs seek an unspecified amount of damages.

Based on the allegations contained in the amended consolidated complaint, the Company believes that Plaintiffs' claims are without merit, and the Company intends to vigorously defend against the lawsuit. However, the ultimate outcome of this matter cannot be predicted with certainty.

Guarantees - The Company from time to time enters into certain types of contracts that contingently require the Company to indemnify parties against third party claims. These contracts primarily relate to: (i) certain agreements with the Company's officers, directors and employees under which the Company may be required to indemnify such persons for liabilities arising out of their employment relationship, (ii) certain distribution or purchase agreements under which the Company may have to indemnify the Company's customers from any claim, liability or loss arising out of any actual or alleged injury or damages suffered in connection with the consumption or purchase of the Company's products, and (iii) certain real estate leases, under which the Company may be required to indemnify property owners for liabilities and other claims arising from the Company's use of the applicable premises. The terms of such obligations vary and typically, a maximum obligation is not explicitly stated. Generally, the Company believes that its insurance coverage is adequate to cover any liabilities or claims arising out of such instances. Consequently, the Company does not believe the potential exposure related to these guarantees is material to the Company's consolidated financial statements.

The Company has determined that no liability is probable or likely related to these guarantees and indemnities as of December 31, 2006 and 2005.

11. INCOME TAXES

Components of the provision for income taxes are as follows:

	Year Ended December 31,		
	2006	2005	2004
Current:			
Federal	\$ 61,291	\$ 35,274	\$ 11,305
State	13,862	7,691	2,419
	<u>75,153</u>	<u>42,965</u>	<u>13,724</u>
Deferred:			
Federal	(9,147)	(1,080)	(219)
State	(1,716)	134	46
	<u>(10,863)</u>	<u>(946)</u>	<u>(173)</u>
	<u>\$ 64,290</u>	<u>\$ 42,019</u>	<u>\$ 13,551</u>

The differences in the total provision for income taxes that would result from applying the 35% federal statutory rate to income before provision for income taxes and the reported provision for income taxes are as follows:

	Year Ended December 31,		
	2006	2005	2004
U.S. Federal tax expense at statutory rates	\$ 56,784	\$ 36,678	\$ 11,878
State income taxes, net of federal tax benefit	7,895	5,086	1,603
Permanent differences	(553)	148	74
Other	164	107	(4)
	<u>\$ 64,290</u>	<u>\$ 42,019</u>	<u>\$ 13,551</u>

Major components of the Company's deferred tax assets (liabilities) at December 31 are as follows:

	2006	2005
Reserve for sales returns	\$ 211	\$ 266
Reserve for doubtful accounts	113	82
Reserve for obsolescence	483	358
Reserve for marketing development fund	1,208	1,727
Capitalization of inventory costs	445	184
State franchise tax	3,311	2,734
Accrued compensation	182	154
Total deferred tax asset - current	<u>\$ 5,953</u>	<u>\$ 5,505</u>
Amortization of trademarks	\$ (5,051)	\$ (4,430)
Depreciation	(775)	(891)
Deferred revenue	8,662	—
Stock based compensation	2,301	—
Amortization of graphic design	(136)	(93)
Total deferred tax asset (liability) - non-current	<u>5,001</u>	<u>(5,414)</u>
Net deferred tax asset	<u>\$ 10,954</u>	<u>\$ 91</u>

12. STOCK-BASED COMPENSATION

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123R, which requires the measurement and recognition of compensation expense for all share-based payment awards to employees and directors based on estimated fair values. SFAS No. 123R supersedes the Company's previous accounting methodology using the intrinsic value method under APB 25.

The Company adopted SFAS No. 123R using the modified prospective transition method. Under this transition method, compensation expense recognized during the year ended December 31, 2006 included: (a) compensation expense for all share-based awards granted prior to, but not yet vested as of December 31, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 for pro forma disclosure purposes and (b) compensation expense for all share-based awards granted subsequent to December 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R. In accordance with the modified prospective transition method, the Company's consolidated financial statements for prior periods have not been restated to reflect the impact of SFAS No. 123R.

On November 10, 2005, the FASB issued FASB Staff Position No. FAS 123R-3, *Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards*. The Company has elected to adopt the alternative transition method provided in this FASB Staff Position for calculating the tax effects of share-based compensation pursuant to SFAS 123R. The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in capital pool ("APIC Pool") related to the tax effects of employee share-based compensation, and to determine the subsequent impact on the APIC Pool and consolidated statements of cash flows of the tax effects of employee and director share-based awards that were outstanding upon the adoption of SFAS 123R.

The Company has two stock option plans under which shares were available for grant at December 31, 2006: the 2001 Hansen Natural Corporation Stock Option Plan (the “2001 Option Plan”) and the 2005 Hansen Natural Corporation Stock Option Plan for Non-Employee Directors (the “2005 Directors Plan”).

The 2001 Option Plan permits the granting of options to purchase up to 22,000,000 shares of the common stock of the Company to certain key employees of the Company and its subsidiaries. Options granted under the 2001 Option Plan may be incentive stock options under Section 422 of the Internal Revenue Code, as amended, non-qualified stock options or stock appreciation rights. Stock options are exercisable at such time and in such amounts as determined by the Compensation Committee of the Board of Directors of the Company up to a ten-year period after their date of grant. As of December 31, 2006, options to purchase 15,820,750 shares of the Company’s common stock had been granted, net of cancellations, and options to purchase 6,179,250 shares of the Company’s common stock remain available for grant under the 2001 Option Plan.

The 2005 Directors Plan permits the granting of options to purchase up to an aggregate of 800,000 shares of common stock of the Company to non-employee directors of the Company. On the date of the annual meeting of stockholders at which an eligible director is initially elected, each eligible director is entitled to receive a one-time grant of an option to purchase 24,000 shares of the Company’s common stock exercisable at the closing price for a share of common stock on the date of grant. Additionally, on the fifth anniversary of the election of eligible directors elected or appointed to the Board of Directors, and each fifth anniversary thereafter, each eligible director shall receive an additional grant of an option to purchase 19,200 shares of the Company’s common stock. Options become exercisable in four equal installments, with the grant immediately vested with respect to 25% of the grant and the remaining installments vesting on the three successive anniversaries of the date of grant; provided that all options held by an eligible director become fully and immediately exercisable upon a change in control of the Company. Options granted under the 2005 Directors Plan that are not exercised generally expire ten years after the date of grant. Option grants may be made under the 2005 Directors Plan for ten years from the effective date of the 2005 Directors Plan. The 2005 Directors Plan is a “formula plan” so that a non-employee director’s participation in the 2005 Directors Plan does not affect his status as a “disinterested person” (as defined in Rule 16b-3 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). As of December 31, 2006, options to purchase 76,800 shares of the Company’s common stock had been granted under the 2005 Directors Plan and options to purchase 723,200 shares of the Company’s common stock remained available for grant.

Under the Company’s stock option plans, grants are required to be made at the fair market value of the stock on the date of grant. Outstanding options generally vest over periods ranging from two to five years from the grant date and generally expire up to ten years after the grant date. As discussed more fully in Note 13, the Company changed measurement dates for a limited number of grants issued in prior periods which resulted in the per share exercise price of the stock options subject to those grants being below the per share common stock price on the adjusted measurement dates for accounting and financial reporting purposes. In addition, the Company identified a limited number of grants which, due to mistakes, had minor pricing errors. For the year ended December 31, 2006, the Company recorded \$8.3 million of compensation expense (including \$0.1 million for the matters discussed above and \$1.0 million as a result of errors in the application of APB No. 25 and SFAS No. 123R with respect to a grant modification and a grant cancellation, all discussed more fully in Note 13). No compensation expense was recorded related to outstanding options during the years ended December 31, 2005 and 2004.

The Company records compensation expense for employee stock options based on the estimated fair value of the options on the date of grant using the Black-Scholes-Merton option pricing formula with the assumptions included in the table below. The Company uses historical data to determine the exercise behavior, volatility and forfeiture rate of the options. The following weighted-average assumptions were used to estimate the fair value of options granted during the years ended December 31, 2006, 2005 and 2004:

	2006	2005	2004
Dividend yield	0.0%	0.0%	0.0%
Expected volatility	57.7%	62.0%	46.0%
Risk free interest rate	4.7%	4.4%	4.0%
Expected lives	6 Years	7 Years	8 Years

The following table summarized the Company's activities with respect to its stock option plans as follows:

Options	Number of Shares (In Thousands)	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Balance at January 1, 2004	11,758	\$ 0.48		
Granted	2,968	\$ 1.42		
Exercised	(3,960)	\$ 0.43		
Cancelled	(379)	\$ 0.76		
Balance at December 31, 2004	10,387	\$ 0.76	6.9	\$ 39,342
Granted	6,185	\$ 9.57		
Exercised	(1,470)	\$ 0.79		
Cancelled	(252)	\$ 2.27		
Balance at December 31, 2005	14,850	\$ 4.40	7.5	\$ 227,255
Granted	129	\$ 30.41		
Exercised	(2,285)	\$ 1.70		
Cancelled	(160)	\$ 3.15		
Outstanding at December 31, 2006	12,534	\$ 5.18	6.9	\$ 357,583
Vested and expected to vest in the future at December 31, 2006	12,123	\$ 5.09	6.9	\$ 346,879
Exercisable at December 31, 2006	4,550	\$ 2.57	5.4	\$ 141,536

The following table summarizes information about stock options outstanding and exercisable at December 31, 2006:

Range of Exercise Prices (\$)	Options Outstanding			Options Exercisable	
	Number Outstanding (In Thousands)	Weighted Average Remaining Contractual Term (Years)	Weighted Average Exercise Price (\$)	Number Exercisable (In Thousands)	Weighted Average Exercise Price (\$)
\$0.38 - \$0.38	24	0.3	\$ 0.38	24	\$ 0.38
\$0.45 - \$0.45	1,348	5.5	\$ 0.45	1,176	\$ 0.45
\$0.48 - \$0.52	296	5.4	\$ 0.49	48	\$ 0.51
\$0.53 - \$0.53	3,272	4.9	\$ 0.53	2,312	\$ 0.53
\$0.62 - \$1.29	1,260	6.8	\$ 1.02	24	\$ 1.03
\$1.80 - \$5.11	760	7.5	\$ 3.33	64	\$ 3.33
\$6.59 - \$6.59	3,200	8.2	\$ 6.59	480	\$ 6.59
\$6.66 - \$12.43	792	8.7	\$ 11.27	123	\$ 11.78
\$16.87 - \$16.87	1,413	8.9	\$ 16.87	291	\$ 16.87
\$20.03 - \$44.77	169	9.3	\$ 27.95	8	\$ 20.03
	<u>12,534</u>	6.9	\$ 5.18	<u>4,550</u>	\$ 2.57

The weighted-average grant-date fair value of options granted during the years ended December 31, 2006, 2005 and 2004 was \$17.87 per share, \$5.48 per share and \$0.90 per share, respectively. The total intrinsic value of options exercised during the years ended December 31, 2006, 2005 and 2004 was \$84.0 million, \$20.5 million and \$8.6 million, respectively.

Cash received from option exercises under all plans for the years ended December 31, 2006, 2005 and 2004 was approximately \$3.9 million, \$1.2 million and \$1.7 million, respectively. The actual tax benefit realized for tax deductions from non-qualified stock option exercises and disqualifying dispositions of incentive stock options for the years ended December 31, 2006, 2005 and 2004 was \$17.3 million, \$3.0 million and \$1.4 million, respectively.

The following table summarizes activity with respect to the Company's nonvested shares granted to both employees and non-employees under the Company's share-based payment plans.

Nonvested Shares	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2006	11,432	\$ 3.14
Granted	129	\$ 17.87
Vested	(3,417)	\$ 2.17
Cancelled and forfeited	(160)	\$ 1.77
Nonvested at December 31, 2006	<u>7,984</u>	\$ 3.81

At December 31, 2006, there was \$24.9 million of total unrecognized compensation expense related to nonvested shares granted to both employees and non-employees under the Company's share-based payment plans. That cost is expected to be recognized over a weighted-average period of 2.8 years.

Employee Share-Based Compensation Expense

The table below shows the amounts recognized in the financial statements for the twelve-months ended December 31, 2006 for share-based compensation related to employees. Employee share-based compensation expense of \$8.3 million is comprised of \$1.5 million that relates to incentive stock options and \$5.7 million that relates to non-qualified stock options and a \$1.1 million cumulative charge to record non-cash compensation expense (see Note 13). The portion of share-based compensation expense that relates to incentive stock options has not been considered in the tax benefit computation below.

	<u>2006</u>
Operating expenses	\$ 8,346
Total employee share-based compensation expense included in income, before income tax	8,346
Less: Amount of income tax benefit recognized in earnings	<u>(2,546)</u>
Amount charged against net income	<u>\$ 5,800</u>
Impact on net income per common share:	
Basic	\$ 0.06
Diluted	\$ 0.06

There were no amounts relating to employee share-based compensation capitalized in inventory during the year ended December 31, 2006.

Pro Forma Employee Share-Based Compensation Expense

Prior to January 1, 2006, the Company accounted for share-based employee and non-employee director compensation arrangements in accordance with the provisions and related interpretations of APB No. 25. Had compensation expense for share-based awards been determined consistent with SFAS No. 123, net income and earnings per share would have been adjusted to the following pro forma amounts:

	<u>2005</u>	<u>2004</u>
Net income, as reported	\$ 62,775	\$ 20,387
Less: Total share-based employee compensation expense, determined under fair value based methods for all awards, net of related tax effects	<u>(2,683)</u>	<u>(356)</u>
Pro forma net income	<u>\$ 60,092</u>	<u>\$ 20,031</u>
Earnings per common share:		
Basic - as reported	\$ 0.71	\$ 0.24
Basic - pro forma	\$ 0.68	\$ 0.23
Diluted - as reported	\$ 0.65	\$ 0.22
Diluted - pro forma	\$ 0.62	\$ 0.21

13. REVIEW OF HISTORIC STOCK OPTION GRANTING PRACTICES

On October 26, 2006, the Company received a letter from the Staff of the Pacific Regional Office of the SEC requesting that the Company voluntarily produce certain documents and information relating to the filing of SEC Forms 4 and the Company's stock option granting practices from January 1, 1996 to the present. The SEC subsequently agreed, in the absence of any further requests, to limit the voluntary production of certain documents and information from January 1, 2001 to the present. The Company has cooperated with the SEC and believes it has completed its production of the documents and information requested in the October 26, 2006 letter.

In November 2006, the Company appointed a special committee of the Board of Directors (the "Special Committee") to undertake an independent investigation relating to its stock option grants and its stock option granting practices. The Special Committee retained independent counsel and accounting advisors to assist in conducting the investigation. The Special Committee reviewed all stock option grants from January 1, 2001 through November 13, 2006. In the course of its investigation, the Special Committee reviewed documents and emails and extensively interviewed numerous officers and directors, as well as certain other personnel. The Special Committee has completed its independent investigation.

Based on the Special Committee's review of all stock option grants and the Company's evaluation of applicable accounting rules, management concluded that the terms with respect to 10 new hire grants and two merit grants had not been determined with finality as at the grant date, resulting in a decision to change the measurement dates for such grants. Additionally, seven grants were identified where the stock option agreements mistakenly reflected the exercise price at either the closing price of the Company's common stock on the date prior to the grant date or the opening price of the Company's common stock on the grant date instead of the closing price on the grant date, resulting in minor pricing errors. The pre-tax compensation expense resulting from the above-described accounting errors is approximately \$0.1 million, which should have been recorded within operating expenses over the period from January 1, 2001 through the second quarter ended June 30, 2006.

Additionally, the Company identified one grant where there was an error in the application of APB No. 25 related to a grant modification given to a non-executive employee in fiscal 2001 and a separate error in the application of SFAS No. 123R, related to the cancellation of a grant to a non-executive employee in 2006. The pre-tax compensation adjustment for these two grants is approximately \$1.0 million, which should have been recorded within operating expenses over the period January 1, 2001 through June 30, 2006.

The unintentional accounting errors arising from the items discussed above caused non-cash compensation expense together with related employment tax expenses to be understated by a cumulative amount of \$1.3 million (\$1.0 million net of income tax) over the period January 1, 2001 through June 30, 2006. The Company has concluded that the impact of these errors is not material to its historical consolidated financial statements for any previously reported period. A correcting entry to record the cumulative impact of these errors was recorded during the fiscal year ended December 31, 2006. The Company also does not consider the adjustment to be material to the fiscal year ended December 31, 2006. The adjustment increased other operating expenses by \$1.3 million and reduced provision for income taxes by \$0.3 million, which resulted in a \$1.0 million reduction in net income. The correcting adjustment also had the effect of increasing non-current deferred tax assets by \$0.05 million and reducing additional paid-in capital by \$0.2 million at December 31, 2006.

The Company is evaluating actions it may take with respect to outstanding options that were affected by the errors above in relation to Section 409A of the Internal Revenue Code and any decision to reimburse or compensate employees for the potential inadvertent taxation will be recorded as an expense in such future period.

14. EMPLOYEE BENEFIT PLAN

Employees of the Company may participate in the Hansen Natural Corporation 401(k) Plan, a defined contribution plan, which qualifies under Section 401(k) of the Internal Revenue Code. Participating employees may contribute up to 15% of their pretax salary up to statutory limits. The Company contributes 25% of the employee contribution, up to 8% of each employee's earnings, which vest 20% each year for five years after the first anniversary date. Matching contributions were \$0.2 million, \$0.2 million and \$0.1 million for the years ended December 31, 2006, 2005 and 2004, respectively.

15. RELATED-PARTY TRANSACTIONS

A director of the Company is a partner in a law firm that serves as counsel to the Company and was a partner in another law firm that previously served as counsel to the Company. Expenses incurred in connection with services rendered by such firms to the Company during the years ended December 31, 2006, 2005 and 2004 were \$1.5 million, \$0.3 million and \$0.2 million, respectively.

A director of the Company is a managing director and Chief Executive Officer of a company that provided investment banking services to the Company. Expenses incurred in connection with services rendered by the Sage Group, LLC to the Company during the year ended December 31, 2006 and 2005 were \$8,300 and \$16,300, respectively.

Two directors and officers of the Company and their families are principal owners of a company that provides promotional materials to the Company. Expenses incurred with such company in connection with promotional materials purchased during the years ended December 31, 2006, 2005 and 2004 were \$1.0 million, \$0.7 million and \$0.6 million, respectively.

16. SEGMENT INFORMATION

The Company has two reportable segments, namely Direct Store Delivery ("DSD"), whose principal products comprise energy drinks, and Warehouse, whose principal products comprise juice based and soda beverages. The DSD segment develops, markets and sells products primarily through an exclusive distributor network, whereas the Warehouse segment develops, markets and sells products primarily direct to retailers. Corporate and unallocated amounts that do not relate to DSD or Warehouse segments specifically have been allocated to "Corporate & Unallocated." Rumba™ brand energy juice, which was previously reported in the Warehouse segment, is now reported in the DSD segment. Hansen's® energy drinks, which were previously reported in the DSD segment, are now reported in the Warehouse segment. For presentation purposes, the changes are assumed to have commenced January 1, 2006 and are reflected as such in the amounts for the year ended December 31, 2006. The comparable amounts for the years ended December 31, 2005 and 2004, respectively, as previously reported, have been recast to reflect the above reclassification.

The net revenues derived from DSD and Warehouse segments and other financial information related thereto for the year ended December 31, 2006, 2005 and 2004 are as follows:

	Year Ended December 31, 2006			
	DSD	Warehouse	Corporate & Unallocated	Total
Net sales	\$ 514,312	\$ 91,462	\$ —	\$ 605,774
Contribution margin	187,851	6,110	—	193,961
Corporate & unallocated expenses	—	—	(35,382)	(35,382)
Operating income				158,579
Interest income, net	(48)	(3)	3,711	3,660
Income before provision for income taxes				162,239
Depreciation & amortization	615	31	892	1,538
Trademark amortization	—	44	12	56

	Year Ended December 31, 2005			
	DSD	Warehouse	Corporate & Unallocated	Total
Net sales	\$ 262,930	\$ 85,956	\$ —	\$ 348,886
Contribution margin	108,959	10,359	—	119,318
Corporate & unallocated expenses	—	—	(15,875)	(15,875)
Operating income				103,443
Interest income, net	(34)	(11)	1,396	1,351
Income before provision for income taxes				104,794
Depreciation & amortization	404	30	575	1,009
Trademark amortization	—	44	26	70

	Year Ended December 31, 2004			
	DSD	Warehouse	Corporate & Unallocated	Total
Net sales	\$ 99,445	\$ 80,896	\$ —	\$ 180,341
Contribution margin	35,064	9,622	—	44,686
Corporate & unallocated expenses	—	—	(10,800)	(10,800)
Operating income				33,886
Interest income, net	(23)	(16)	91	52
Income before provision for income taxes				33,938
Depreciation & amortization	196	198	376	770
Trademark amortization	—	44	29	73

The reclassification of Rumba™ brand energy juice, which was previously reported in the Warehouse division, to the DSD division and the reclassification of Hansen's® energy drinks, which were previously reported in the DSD division, to the Warehouse division, resulted in an increase in net sales of the Warehouse division and a decrease in net sales of the DSD division of \$7.1 million and \$13.6 million for the years ended December 31, 2005 and 2004, respectively, from amounts previously reported. The reclassifications also resulted in an increase in contribution margin of the Warehouse division and a decrease in contribution margin of the DSD division of \$4.0 million and \$6.1 million for the years ended December 31, 2005 and 2004, respectively, from amounts previously reported.

Revenue is derived from sales to external customers. Operating expenses that pertain to each segment are allocated to the appropriate segment.

Corporate and unallocated expenses were \$35.4 million for year ended December 31, 2006 and included \$20.0 million of payroll costs, of which \$8.3 million was attributable to stock-based compensation expense (see Note 12, "Stock-Based Compensation"), and \$5.3 million attributable to professional service expenses, including accounting and legal costs. Corporate and unallocated expenses were \$15.9 million for year ended December 31, 2005 and included \$8.3 million of payroll costs and \$2.5 million of professional service expenses, including accounting and legal costs. Corporate and unallocated expenses were \$10.8 million for year ended December 31, 2004 and included \$5.6 million of payroll costs and \$2.3 million of professional service expenses, including accounting and legal costs. Certain items, including operating assets and income taxes, are not allocated to individual segments and therefore are not presented above.

The Company's net sales by product line for years ended December 31, 2006, 2005 and 2004, respectively, were as follows:

<u>Product Line</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Energy drinks	\$ 518,998	\$ 271,845	\$ 113,050
Non-carbonated (primarily juice based beverages)	60,151	50,542	38,872
Carbonated (primarily soda beverages)	26,625	26,499	28,419
	<u>\$ 605,774</u>	<u>\$ 348,886</u>	<u>\$ 180,341</u>

17. DISTRIBUTION AGREEMENTS

On May 8, 2006, HBC entered into the Monster Beverages Off-Premise Distribution Coordination Agreement and the Allied Products Distribution Coordination Agreement (jointly, the "Off-Premise Agreements") with Anheuser-Busch, Inc., a Missouri corporation ("AB"). Under the Off-Premise Agreements, select AB Distributors will distribute and sell, in markets designated by HBC, HBC's Monster Energy® and Lost® Energy™ brands non-alcoholic energy drinks, Rumba™ brand energy juice and Unbound Energy® brand energy drinks, as well as additional products that may be agreed between the parties.

Pursuant to the AB Distribution Agreements entered into with newly appointed AB Distributors, non-refundable payments totaling \$20.9 million were made to the Company by such newly appointed AB Distributors for the costs of terminating the Company's prior distributors through December 31, 2006. Such receipts have been accounted for as deferred revenue in the accompanying consolidated balance sheet as of December 31, 2006 and will be recognized as revenue ratably over the anticipated 20 year life of the respective AB Distribution Agreements.

As of December 31, 2006, amounts totaling \$3.3 million were paid to the Company by certain other AB Distributors in anticipation of executing AB Distribution Agreements with the Company. Such receipts have been accounted for as customer deposit liabilities in the accompanying consolidated balance sheet as of December 31, 2006.

Through December 31, 2006, the Company incurred termination costs amounting to \$12.7 million in aggregate to certain of its prior distributors. Such termination costs have been expensed in full and are included in operating expenses for year ended December 31, 2006. Certain amounts totaling \$7.0 million included in such termination costs were not paid to our prior distributors before the end of our fiscal year and are therefore included in accrued liabilities in the accompanying consolidated balance sheet as of December 31, 2006.

On February 8, 2007, HBC entered into an On-Premise Distribution Coordination Agreement (the "On-Premise Agreement") with AB. Under the On-Premise Agreement, AB will manage and coordinate the sales, distribution and merchandising of Monster Energy® energy drinks to on-premise retailers including bars, nightclubs and restaurants in territories approved by HBC.

18. QUARTERLY FINANCIAL DATA (Unaudited)

Quarter ended:	Net Sales	Gross Profit	Net Income	Net Income per Common Share (post split)	
				Basic	Diluted
March 31, 2006	\$ 119,746	\$ 62,998	\$ 21,091	\$ 0.23	\$ 0.21
June 30, 2006	156,037	80,990	28,200	0.31	0.28
September 30, 2006	178,647	92,184	26,457	0.29	0.27
December 31, 2006	151,344	80,422	22,201	0.26	0.23
	<u>\$ 605,774</u>	<u>\$ 316,594</u>	<u>\$ 97,949</u>	<u>\$ 1.09</u>	<u>\$ 0.99</u>
Quarter ended:					
March 31, 2005	\$ 60,014	\$ 30,329	\$ 8,845	\$ 0.10	\$ 0.09
June 30, 2005	85,441	44,927	15,246	0.17	0.16
September 30, 2005	105,421	55,344	20,245	0.23	0.21
December 31, 2005	98,010	51,943	18,439	0.21	0.19
	<u>\$ 348,886</u>	<u>\$ 182,543</u>	<u>\$ 62,775</u>	<u>0.71</u>	<u>\$ 0.65</u>

Certain of the figures reported above may differ from previously reported figures for individual quarters due to rounding.

HANSEN NATURAL CORPORATION AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004 (Dollars in Thousands)

<u>Description</u>	<u>Balance at beginning of period</u>	<u>Charged to cost and expenses</u>	<u>Deductions</u>	<u>Balance at end of period</u>
Allowance for doubtful accounts, sales returns and cash discounts:				
2006	\$ 968	4,671	(4,737)	\$ 902
2005	\$ 1,252	2,417	(2,701)	\$ 968
2004	\$ 875	3,585	(3,208)	\$ 1,252
Inventory reserves:				
2006	\$ 841	569	(270)	\$ 1,140
2005	\$ 956	74	(189)	\$ 841
2004	\$ 1,236	185	(465)	\$ 956

L E A S E

LANDLORD: Watson Land Company,
a California corporation

TENANT: Hansen Beverage Company,
a Delaware corporation

DATED: October 13, 2006

THE SUBMISSION OF THIS DOCUMENT FOR EXAMINATION AND NEGOTIATION DOES NOT CONSTITUTE AN OFFER TO LEASE, OR A RESERVATION OF, OR OPTION FOR, THE PREMISES; THIS DOCUMENT BECOMES EFFECTIVE AND BINDING ONLY UPON EXECUTION AND DELIVERY HEREOF BY LANDLORD. NO ACT OR OMISSION OF ANY EMPLOYEE OR AGENT OF LANDLORD OR OF LANDLORD'S BROKER SHALL ALTER, CHANGE OR MODIFY ANY OF THE PROVISIONS HEREOF.

SINGLE TENANT INDUSTRIAL LEASE

THIS SINGLE TENANT INDUSTRIAL LEASE ("Lease") is made and entered into as of October 13, 2006 by and between Watson Land Company, a California corporation ("Landlord") and Hansen Beverage Company, a Delaware corporation ("Tenant").

Landlord and Tenant mutually covenant and agree that Landlord, in consideration of the rent payable by Tenant and the covenants and agreements to be kept, observed and performed by Tenant, hereby rents and leases to Tenant, and Tenant hereby takes and hires from Landlord, the "Premises" (as defined herein), pursuant to the provisions of this Lease, subject to (i) all applicable zoning, municipal, county, state and federal laws; (ii) covenants, conditions, restrictions, reservations, easements, rights and rights-of-way of record; and (iii) Performance Standards of Watson Land Company attached hereto as Exhibit A and incorporated herein by reference. In the event of any conflict between the provisions of this Lease and the provisions of the Performance Standards, the provisions of this Lease shall govern.

ARTICLE I Basic Lease Provisions

1.1 **Description of Premises:** "Premises", as used herein, shall mean and refer to the building generally described as Watson Land Company Building Number 480, located at 1990 Pomona Road, Corona, California, 92880, consisting of approximately 346,495 square feet, together with the exclusive right to use the Tenant Yard Area depicted in the attached Exhibit B as provided herein. Tenant acknowledges its understanding and awareness that, as of the date of this Lease, the parcel of land on which the Building is located does not correspond to the boundaries shown on the site plan attached hereto as Exhibit B. Landlord intends to process a parcel map which will adjust the lot lines of the property to separate the northern approximate 1.8 acres of the property into a separate legal parcel which shall not be included as a part of the Premises or the Tenant Yard Area. Tenant agrees to cooperate with Landlord, at no cost or expense to Tenant, in the processing of such parcel map. Upon recordation of the parcel map, Landlord and Tenant shall execute an amendment to this Lease to reflect the separation of the 1.6 acre parcel from the original parcel.

1.2 **Street Address of the Building:** 1990 Pomona Road, Corona, California.

1.3 **Approximate Building Square Footage:** 346,495 square feet, consisting of approximately 320,839 square feet within a concrete tilt up building and approximately 25,656 square feet within a metal building.

1.4 **Lease Term:** One Hundred Twenty (120) months beginning on March 1, 2007 (the "Commencement Date") and ending on February 28, 2017 (the "Termination Date").

1.5 **Extension Option:** See Paragraphs 1 and 2 of the attached Lease Rider Number 1.

1.6 **Initial Minimum Rent:** One Hundred Sixty Seven Thousand Five Hundred Eighty Six and 00/100ths Dollars (\$167,586.00). The Initial Minimum Rent consists of Minimum Net, Net, Net Rent (\$143,091.00) and initial Monthly Gross Charges (Base Amount taxes, insurance, and landscape maintenance) totaling \$24,495.00 per month.

1.7 **Periodic Rent Adjustments:** See Paragraph 3 of the attached Lease Rider Number 1.

- 1.8 **Annual Tax Base Amount:** One Hundred Sixty Five Thousand Seven Hundred Forty Four and 00/100ths Dollars (\$165,744.00).
- 1.9 **Annual Insurance Base Amount:** One Hundred Two Thousand and 00/100ths Dollars (\$102,000.00).
- 1.10 **Initial Security Deposit:** One Hundred Sixty Three Thousand Nine Hundred Forty Two and 00/100ths Dollars (\$163,942.00).
- 1.11 **Brokers:** Cushman & Wakefield of California, Inc. (Jeffrey Chiante and Richard Ellison, Brokers).
- 1.12 **Initial Improvement Work:** See Paragraph 4 of the attached Lease Rider Number 1.
- 1.13 **Exhibits and Riders:** The following Exhibits and Riders are attached to this Lease and made a part hereof:
- Exhibit A - Performance Standards of Watson Land Company
- Exhibit B - Outline of Building and Tenant Yard Area
- Exhibit C - Intentionally Omitted
- Exhibit D - Hazardous Material Certificate
- Exhibit E - Form of Estoppel Certificate
- Exhibit F - Initial Improvement Work
- Lease Rider Number 1
- 1.14 **Mailing Addresses:**
- Landlord: Watson Land Company
22010 Wilmington Avenue, Suite 400
Carson, California 90745
- Tenant: Hansen Beverage Company
1010 Railroad Street
Corona, CA 92882 until March 1, 2007 then,
1990 Pomona Road
Corona, CA 90040
Attn: Rodney Sacks

ARTICLE II
Condition of Premises

2.1 Tenant acknowledges that prior to the execution of this Lease, Tenant has been furnished full access to, and has inspected the Premises. Except as otherwise specifically provided in this Article II, Tenant accepts the Premises in its present condition, state of repair and operating order and in present "AS IS" condition. Tenant further acknowledges that neither Landlord nor any real estate agent or broker representing Landlord or Tenant has made any representation or warranty as to the present or future suitability of the Premises for the conduct of Tenant's business. Tenant specifically acknowledges that Landlord makes no representation or warranty with respect to any laws, codes, ordinances, rules or regulations affecting the Premises including, without limitation, laws, codes ordinances, rules or regulations relating to fire or life safety, or access by disabled persons (collectively "Codes") affecting the Premises or Tenant's proposed use of the Premises, and Tenant shall be responsible for determining the suitability and conformity of the Premises with respect to such Codes, and Tenant shall be responsible for making any necessary modifications to the Premises in order to comply with such Codes. In the event that, as of the Commencement Date, the Building is in violation of the requirements of Title III of the Americans with Disabilities Act ("ADA") applicable to the Building with respect to the use of the Building for general warehouse, manufacturing and related office purposes (but not for any use constituting a "public accommodation" under the ADA), for any

reason other than as a result of Tenant's acts, specific use of the Premises, or improvements or alterations made by or for Tenant, all as approved in advance by Landlord, Landlord shall, at its sole cost and expense, cause the same to be rectified at no cost to Tenant to the extent required by applicable law.

2.2 Landlord hereby grants to Tenant for the benefit of Tenant and its employees, suppliers, shippers, contractors, customers and invitees, during the "Lease Term" (as defined herein), the exclusive right to use the Tenant Yard Area, subject to any rights, powers, and privileges reserved by Landlord under the terms hereof or under the terms of the Performance Standards governing the use of the Tenant Yard Area. The right herein granted to use the Tenant Yard Area shall be deemed to include the right to store any property, temporarily or permanently, in the Tenant Yard Area.

ARTICLE III
Term of Lease

3.1 The term of this Lease (the "Lease Term") shall be the period set forth in Item 1.4 of the Basic Lease Provisions. Subject to the terms and conditions of this Lease, the Lease Term shall commence on the Commencement Date and shall terminate on the Termination Date, which dates are specified in Item 1.4 of the Basic Lease Provisions.

3.2 Following the full execution and delivery of this Lease and vacation of the Premises by the current tenant (estimated to be January 1, 2007) and continuing until the Commencement Date (the "Early Occupancy Period"), Tenant and its agents, employees, contractors, vendors, licensees, invitees and representatives shall be permitted to enter the Premises for the purposes of installing Tenant's furniture, fixtures, utilities, telecommunication systems, equipment, security systems and operating Tenant's business. Tenant shall not be obligated to pay Minimum Rent or any items designated as additional rent under the Lease during the Early Occupancy Period, but any use or occupancy of the Premises by Tenant during the Early Occupancy Period shall otherwise be subject to, and in accordance with, the terms and conditions of this Lease. Tenant shall be responsible for paying any utility charges for utility services furnished to the Premises during the Early Occupancy Period. Landlord shall have no responsibility for any damage, theft, destruction or injury to Tenant or any of Tenant's property as a result of Tenant's presence or activities on, or use of, the Premises during the Early Occupancy Period. Except to the extent caused by Landlord's negligence or willful misconduct, Landlord makes no representations as to whether Tenant's occupancy of the Premises during the Early Occupancy Period will be in compliance with applicable building, safety or fire codes, and Tenant shall be responsible for, and assumes the risk of any non-compliance. Tenant shall indemnify and hold Landlord harmless from and against any loss, cost, liability, claim or action arising out of or relating to Tenant's use or occupancy of the Premises during the Early Occupancy Period, except to the extent caused by Landlord's negligence or willful misconduct.

ARTICLE IV
Rent

4.1 Tenant agrees to pay to Landlord at the office of Landlord or at such other place as may be designated by Landlord from time to time, without any prior demand therefor and without any deduction or setoff whatsoever, as minimum monthly rent ("Minimum Rent"), the sum specified as the Initial Minimum Rent in Item 1.6 of the Basic Lease Provisions. Minimum Rent shall be payable in advance on the first day of each calendar month of the Lease Term. If the Lease Term shall commence upon a day other than the first day of a calendar month, then Tenant shall pay, upon the Commencement Date, a pro rata portion of the Minimum Rent for the first fractional calendar month. Minimum Rent payable by Tenant under this Lease is subject to adjustment in accordance with the provisions of Paragraphs 2 and 3 of the attached Lease Rider Number 1. Unless specifically designated otherwise in this Lease, all fees,

charges, costs, expenses or other payments to be paid by Tenant to Landlord pursuant to this Lease shall be deemed to be additional rent.

ARTICLE V
Taxes and Assessments

5.1 Tenant covenants and agrees to pay to Landlord, as additional rent hereunder, the amount by which all real estate taxes and assessments, and installments thereof which may be taxed, charged, levied, assessed or imposed during any fiscal tax year occurring during the Lease Term (and any extensions or renewals thereof) upon the Premises and the parcel or parcels of land (or portions thereof) on which the Premises are situated (the "Tax Parcels"), exceed the Annual Tax Base Amount specified in Item 1.8 of the Basic Lease Provisions, but excluding any increases which are a result of a sale by Landlord of its interest in the Premises or a transfer of stock or other ownership interest in Watson Land Company that would constitute a "change in ownership" under the applicable provisions of the California Revenue and Taxation Code (as specifically provided in Paragraph 5.5, below) during the first seven (7) years of the initial ten (10) year Lease Term. In the partial fiscal tax year in which the Lease Term shall commence, and in the partial fiscal tax year in which the Lease Term shall terminate, such taxes and assessments and the Annual Tax Base Amount shall be prorated on a daily basis (using a 365-day year), and Tenant's payment obligations shall be computed accordingly. If any assessments or taxes are levied or assessed against the Tax Parcels which are payable or may be paid in monthly or more frequent installments, Tenant shall be required to pay only such installments as shall become due and payable during the Lease Term; provided however, if an assessment or tax is imposed upon the Tax Parcels because of the acts or upon the request of Tenant, then Tenant shall pay the total amount thereof in equal annual installments during the Lease Term, on a date established by Landlord.

5.2 Tenant shall pay the amount of any taxes and assessments which it is obligated to pay hereunder directly to Landlord within fourteen (14) days after receipt of Landlord's invoice therefor, Landlord agrees, in turn, to promptly pay such taxes and assessments to the appropriate taxing authority. If any lender whose loan is secured in whole or in part by a lien upon the Premises (or any portion thereof) ("Landlord's Lender") requires Landlord to impound real estate taxes and/or assessments on a periodic basis, then Tenant agrees, upon receipt of written notice from Landlord, to pay to Landlord on a periodic basis the sum required to satisfy the tax impound requirement of Landlord's Lender. Landlord shall impound the tax payments received from Tenant in accordance with the requirements of Landlord's Lender.

5.3 Tenant shall pay prior to delinquency all taxes assessed against and levied upon trade fixtures, furnishings, equipment and all other personal property of Tenant located on the Premises or elsewhere. Whenever possible, Tenant shall cause said trade fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Landlord. If any of Tenant's personal property shall be assessed with Landlord's real property, Tenant shall pay to Landlord the taxes attributable to Tenant within fourteen (14) days after receipt of a written statement from Landlord setting forth the taxes applicable to Tenant's property.

5.4 As used herein, the term "real estate taxes" shall include any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license fee, commercial rental tax, rental excise tax, improvement bond or bonds, levy or tax (other than income taxes) imposed on the Tax Parcels by any authority having the direct or indirect power to tax, including any city, state or the federal government, or any school, agricultural, sanitary, fire, street, drainage, water or other improvement district thereof, as against any legal or equitable interest of Landlord in the Premises or in the Tax Parcels, as against Landlord's right to rent or other income therefrom, and as against Landlord's business of leasing the Premises. The term "real estate taxes" shall, subject to the provisions of Paragraph 5.5, below, also include any tax, fee, levy, assessment or charge (i) in substitution of, partially or totally, any tax, fee, levy, assessment or charge hereinabove included within the definition of "real property tax";

or (ii) the nature of which was hereinbefore included within the definition of “real property tax”; or (iii) which is imposed as a result of a sale or transfer, either partial or total, of Landlord’s interest in the Premises or which is added to a tax or charge previously included within the definition of real property tax by reason of such sale or transfer; or (iv) which is imposed by reasons of this transaction, any modifications or changes hereto, or any transfers hereof.

5.5 In the event of a sale by Landlord of its interest in the Premises or a transfer of stock or other ownership interest in Watson Land Company that would constitute a “change in ownership” under the applicable provisions of the California Revenue and Taxation Code during the first seven (7) years of the initial ten (10) year Lease Term, Tenant shall have no obligation to pay any increase in real estate taxes which result from such sale. Nothing contained in this Paragraph 5.5 shall limit Tenant’s obligation to pay any other increases in real estate taxes, including, without limitation, inflation factor adjustments as provided in Section 51 of the California Revenue and Taxation Code and changes in the manner or method of computing or imposing taxes pursuant to applicable law.

ARTICLE VI
Utility Charges

6.1 Tenant shall contract for, in Tenant’s name, and shall pay or cause to be paid, all charges for gas, electricity, heat, air-conditioning, water, power, telephone, sewer, trash collection and waste removal and/or disposal, security or guard service, alarm systems, or other service, and any taxes, levies or excises thereon, used, rendered or supplied to Tenant in connection with the Premises; and for all connection and closing charges, and any tax or excise thereon; and for any governmental service or service subject to governmental regulation, however described, furnished to the Premises during the Lease Term and during any other period in which Tenant uses or occupies the Premises. Landlord shall not be liable to Tenant for any loss, injury, damage, disruption of business or any other harm resulting from any interruption of utility services to the Premises, unless such interruption results solely from the gross negligence or willful misconduct of Landlord.

ARTICLE VII
Hold Harmless

7.1 Tenant covenants and agrees that Landlord shall not during the Lease Term or to any extent whatsoever be liable, responsible, or in any way be accountable for any loss, injury, death or damage to persons or property which at any time may be suffered or sustained by Tenant or by any person whomsoever who may at any time be using, occupying or visiting the Premises, or be in, on, or about the same, whether such loss, injury, death or damage shall be caused by or in any way result from or arise out of any act, omission or negligence of Tenant or of any occupant, subtenant, visitor or user of any portion of the Premises or from fire, steam, electricity, water, rain, act of God, or from breakage or leakage or any defect in any pipes, sprinklers, or plumbing, electrical or heating and air conditioning systems or fixtures, or from any other cause. Tenant hereby releases Landlord and agrees to indemnify, defend, hold and save Landlord free and harmless of, from, and against any and all claims, losses, costs, liabilities, expenses or damages whatsoever arising out of or related to any use or occupancy of the Premises by Tenant or any of Tenant’s agents, employees, invitees or contractors (collectively “Losses”), including attorneys’ fees and costs on account of any such Losses, except for any Losses resulting solely from the gross negligence or willful misconduct of Landlord.

ARTICLE VIII
Insurance

8.1 Landlord shall, throughout the Lease Term, keep the Buildings and Landlord's improvements which may from time to time be upon or a part of the Premises (but not Tenant's personal property, fixtures or equipment) insured against all risks (as the term "all risk" is used in the insurance industry), and against earthquake and flood risks, in such form and with such policy limits as Landlord may determine from time to time, so as to provide adequate protection of Landlord's ownership interests in the Premises at a reasonable cost. Notwithstanding the foregoing, Landlord shall not be required to maintain any insurance which becomes unavailable, or which becomes commercially unreasonable for landlords to carry, in the Southern California insurance marketplace. In the event of any insured loss, Tenant shall be liable to Landlord for any deductible amount claimed by the insurance carrier. Landlord shall also obtain and maintain "rental value insurance" covering one year's rent (Minimum Rent, real estate taxes, insurance premiums and landscape maintenance charges) payable under this Lease. Tenant covenants and agrees to pay to Landlord, as additional rent hereunder, the amount by which the annual premiums and related fees for the insurance specified in this Paragraph 8.1 exceed the Annual Insurance Base Amount specified in item 1.9 of the Basic Lease Provisions. Such amount shall be paid by Tenant to Landlord within fourteen (14) days after receipt by Tenant of Landlord's statement of the cost thereof. In the insurance policy year in which the Lease Term shall commence and in the insurance policy year in which it shall terminate, such insurance premiums and the Annual Insurance Base Amount shall be prorated on a daily basis (using a 365-day year), and Tenant's payment obligations shall be computed accordingly. If Landlord's Lender requires the impounding of insurance premiums on a periodic basis, Tenant shall pay the amount by which the annual premiums and related fees exceed the Annual Insurance Base Amount to Landlord on a periodic basis as required by Landlord's Lender. Such insurance shall have attached thereto such form of lender's loss payable endorsement as Landlord's Lender may require.

8.2 Landlord and Tenant agree that if the Building or any improvements at any time forming a part of the Premises shall be damaged or destroyed by risks insured against under Paragraph 8.1, or if any of Tenant's machinery, fixtures, furniture, merchandise or other property, real or personal, are damaged or destroyed from any cause covered by a property policy obtained by Tenant, then and to the extent allowable and without invalidating such insurance, and whether or not such damage or destruction was caused by the negligence of the other party, neither party shall have any liability to the other nor to any insurer of the other for or in respect of such damage or destruction. If obtainable, each party shall require all policies of fire or other insurance carried by such party during the Lease Term upon the Premises or contents of the Building to include a provision whereby the insurer designated therein shall waive its right of subrogation against the other party.

8.3 During the entire Lease Term, Tenant, at Tenant's sole cost and expense, shall procure and maintain in full force and effect personal injury and property damage liability insurance with a combined single limit of not less than Five Million Dollars (\$5,000,000). Such insurance may be evidenced by a Primary Policy or a combination of a Primary Policy and an Umbrella or Excess Liability Policy. Tenant's liability insurance shall be primary and any liability insurance maintained by Landlord shall not be contributory. Landlord shall be named as an additional insured under the General Liability policy, and a policy endorsement so naming Landlord shall be furnished to Landlord. All such insurance shall insure the performance by Tenant of the indemnity provisions of Article VII of this Lease. The limits of said policies shall not limit the liability of Tenant under this Lease. In the event that either party hereto shall at any time deem the limits of such liability insurance then carried to be insufficient, the parties shall endeavor to agree upon the proper and reasonable limits for such insurance then to be carried. If the parties shall be unable to agree thereon, the proper and reasonable limits for such insurance then to be carried shall be determined by an impartial third person knowledgeable of insurance risk matters selected by the parties, or should they be unable to agree upon a selection by an impartial third person such third person shall be chosen by the Presiding Judge of the Superior Court of Los Angeles County upon

application by either party made after five (5) days written notice to the other party of the time and place of application. The decision of such impartial third person as to such limits then to be carried shall be binding upon the parties. Such insurance shall be carried with the limits as agreed upon or determined pursuant to this Paragraph until such limits shall again be changed pursuant to the provisions of this Paragraph. The expenses of such determination shall be borne equally between Landlord and Tenant.

8.4 All of the insurance provided by Tenant under this Article VIII and all renewals thereof shall be issued by such good, responsible and standard companies rated at least A:Class XII in the current edition of Best's Insurance Guide, and authorized to do business in California. The policy or policies of insurance provided for in Paragraph 8.1 hereof shall be payable to Landlord, or jointly to Landlord and Landlord's Lender, and Tenant agrees to endorse any check to the order of Landlord which might be made payable jointly to Landlord and Tenant by the insurance company. Tenant agrees to immediately comply with any request of the insurance carrier providing insurance described in Paragraph 8.1 if the failure to comply therewith will cause cancellation of such insurance. All policies provided by Tenant shall expressly provide that the policy shall not be canceled or altered without thirty (30) days' prior written notice to Landlord. Neither Landlord nor Tenant shall do or permit to be done anything which will invalidate the insurance policies provided for in this Article VIII. Upon the issuance or renewal of the liability insurance policy described in this Article VIII, or upon commencement of the Lease Term if such policy is then in force or effect, Tenant shall have its insurance carrier furnish Landlord with a Certificate of said insurance. If requested in writing by Landlord, Tenant shall reproduce and forward to Landlord a true copy of any insurance policy described in this Lease and obtained by Tenant. Tenant shall obtain such fire insurance and other insurance on Tenant's machinery, fixtures, furniture and other property, real or personal, as Tenant deems appropriate, and with which Landlord shall not otherwise be concerned.

ARTICLE IX
Repairs and Maintenance

9.1 Landlord shall maintain and repair the foundation and exterior walls of the Premises at its own cost and expense, provided, however, that if any maintenance or repair work for the foundation and exterior walls of the Premises is required as a result of any negligence or willful misconduct of Tenant or any of Tenant's agents, employees, shippers, customers, invitees or contractors, such work shall be at Tenant's sole cost and expense. Tenant shall maintain and repair the exterior paint and roof of the Premises. Landlord shall repair and replace the entire roof of the Building and shall provide Tenant with the benefit of at least a ten (10) year warranty for the new roof. To the extent that roof repairs are covered by the roof warranty, Tenant shall receive the benefit of such warranty. Further, Tenant shall maintain and repair the asphalt paving and the concrete paving of the Tenant Yard Area. Tenant shall keep all other portions and components of the Premises (including, without limitation, all plumbing, HVAC systems, electrical and lighting systems, ceilings, plate glass and skylights) in working order, good condition and repair during the Lease Term and any Extended Term. Without limiting the generality of the foregoing, Tenant shall perform all maintenance detailed in Paragraph K (mechanical service controls) of the Performance Standards of Watson Land Company attached hereto as Exhibit A. Tenant shall promptly replace any portion of the Premises or system or equipment in the Premises which cannot be repaired to its condition as of the Commencement Date hereof, regardless of whether the benefit of such replacement extends beyond the Lease Term or any Extended Term. Tenant shall maintain the Premises in an orderly and operative condition, ordinary wear and tear excepted (but provided that all components of the building shall at all times be kept in working order). Landlord shall maintain the exterior landscaping for the Premises in accordance with Landlord's then-prevailing landscape maintenance standards, and the amount by which the cost of such landscape maintenance work exceeds the Annual Landscape Base Amount of Twenty Six Thousand One Hundred Ninety Six and 00/100ths Dollars (\$26,196.00) shall be paid by Tenant to Landlord as additional rent. Such payments shall be made by Tenant within

ten (10) days following Tenant's receipt of an invoice from Landlord. Tenant waives the provisions of any law permitting Tenant to make repairs at Landlord's expense.

9.2 All of Tenant's obligations to maintain and repair the Premises shall be accomplished at Tenant's sole expense. If Tenant fails to maintain and repair the Premises, Landlord may, at its election, notify Tenant of Tenant's obligation to undertake such repair and maintenance work. If Tenant fails to commence such work within fourteen (14) days of receipt of such notice Landlord may enter the Premises and perform any such work on behalf of Tenant. In the event of an emergency Landlord may enter the Premises and perform such repair and maintenance on behalf of Tenant. In any such case, Tenant shall reimburse Landlord for all reasonable costs so incurred immediately upon demand, together with interest thereon at the "Lease Interest Rate" (as defined in Paragraph 26.25, below). Landlord's right to perform maintenance and repair work pursuant to this Paragraph 9.2 shall not be deemed to create any obligation on the part of Landlord to do so, and shall not in any way limit Landlord's remedies under this Lease. Any design or construction work undertaken by or at the direction of Tenant which affects the Premises or any improvements constituting a part of the Premises (including, without limitation, any repair work, maintenance work, tenant improvement work or restoration work) shall be performed by duly qualified and properly licensed and insured design professionals or contractors (as the case may be) reasonably satisfactory to Landlord. Tenant shall submit the names of any such design professionals and contractors to Landlord prior to the commencement of any construction work on the Premises. If Landlord, acting reasonably and in good faith, disapproves of any design professional or contractor selected by Tenant, Tenant shall select a new design professional or contractor reasonably satisfactory to Landlord.

9.3 Upon the expiration or sooner termination of this Lease, Tenant shall surrender the Premises to Landlord, broom clean and in the same condition as received, except for ordinary wear and tear which Tenant is not otherwise obligated to remedy under any provision of this Lease. Any damage to, or deterioration of, the Premises shall be deemed not to be ordinary wear and tear if the same could have been prevented by good maintenance practices. In addition, Landlord may require Tenant to remove any alterations, additions or improvements to the Premises (whether or not made with Landlord's consent) prior to the termination of the Lease and to restore the Premises to its prior condition, or Landlord may perform such removals and restorations itself, all at Tenant's expense. All alterations, additions and improvements which Landlord has not required Tenant to remove or which Tenant has not elected to remove, as provided herein, shall become Landlord's property and shall be surrendered to Landlord upon the expiration or sooner termination of the Lease, except that Tenant may remove any of Tenant's machinery or equipment which can be removed without damage to the Premises. If, whether in violation of this Lease or pursuant to Landlord's permission (which may be granted or withheld in Landlord's sole and absolute discretion), Tenant installs any "Underground Storage Tanks" (as defined herein) on the Premises, Tenant shall, at its sole cost and expense, remove any such Underground Storage Tanks immediately upon the request of Landlord, the expiration or sooner termination of this Lease, or the order of any governmental authority, whichever occurs first. Notwithstanding any provisions of this Lease to the contrary, such Underground Storage Tanks shall at all times be and remain the property of Tenant. As used herein, the term "Underground Storage Tank" means any one or combination of tanks, including all pipes, sumps, valves and other equipment connected thereto, which are used for the storage of petroleum products, hydrocarbon substances or fractions thereof, or other Hazardous Materials, and which are located wholly or partially beneath the surface of the ground. Tenant shall repair, at Tenant's expense, any damage to the Premises caused by the removal of any such machinery or equipment.

9.4 Tenant shall not, without the prior written approval of Landlord, make any additions, alterations, changes or improvements to the Premises, or any portion thereof. Any request for approval of additions, alterations, changes or improvements shall be presented to Landlord in writing, accompanied by detailed drawings and specifications. No addition, alteration, change or improvement shall be made which will weaken the structural strength, lessen the value of, interfere with, or make inoperable any portion of the Premises or the "building service equipment", or

change the architectural appearance of the Premises. All approved additions, alterations, changes and improvements shall be made in workmanlike manner, in full compliance with all laws and ordinances applicable thereto. Except for any Underground Storage Tanks, which shall, at all times be and remain the property of Tenant, all such additions, alterations, changes and improvements shall become a part of the Premises, and become the property of Landlord when installed; and, unless Landlord shall require removal thereof as required pursuant to Paragraph 16.2, all such improvements, including all building service equipment improvements (but specifically excluding any Underground Storage Tanks), shall remain in and be surrendered as a part of the Premises upon the expiration or sooner termination of this Lease. Tenant shall furnish Landlord with a set of "as built" drawings which accurately set forth the nature and extent of improvements made by Tenant to the Premises. Tenant and any assignee or sublessee of Tenant shall obtain Landlord's prior written consent before any signs are installed on the Premises. Such signs shall remain the property of Tenant or any assignee or sublessee who installs the same and they shall be removed from the Premises at the expiration or sooner termination of the Lease Term. Any damage arising out of or resulting from the installation, placement or removal of such signs shall be repaired by Tenant at Tenant's sole cost and expense. The term "building service equipment" shall include, without limitation, equipment and property ordinarily necessary or convenient for the operation and utilization of a building, such as heaters, air conditioners, solar panels, power panels, transformers, light fixtures, sprinklers, suspended ceilings, plumbing fixtures, walls, cabinets, doors, floor coverings, fixtures, fencing, emission or pollution control facilities, security and alarm systems, dock levelers, and utility services such as gas, electricity, water, steam, telephone, sewer and other similar services used in connection with the foregoing items. Building service equipment shall also include any related power installations, plumbing installations, pollution control installations, sprinkler installations, energy conservation installations, and security installations, including wiring, conduits, ducts, lines, pipes and meters for the transportation, distribution, measuring and/or disposal thereof. Building service equipment shall also include installations affixed to the Building which serve machinery and equipment, including, without limitation, crane ways, dust collectors, paint booths, buss ducting, power panels and related power installations.

9.5 Tenant shall have the right, without Landlord's prior approval, to install within the Building Tenant's equipment, trade fixtures, furniture and furnishings (hereinafter collectively called "Tenant's Equipment"). Under no circumstances, however, shall Underground Storage Tanks be installed on the Premises. However, Tenant shall notify Landlord in writing and Tenant shall obtain Landlord's prior written approval before the installation of heavy equipment, or heavy trade fixtures in the Building, and prior to placing any load on the roof or attaching any load to the walls or the underside of the roof of the Building. Tenant shall not install any of Tenant's Equipment in such manner to weaken the structural strength of the Buildings, interfere with, or make inoperable any portion of the Premises or the building service equipment. If Tenant makes any addition, alteration, change, or improvement to the Premises described in Paragraph 9.4 without Landlord's consent, or if Tenant installs any of Tenant's Equipment in violation of this Paragraph 9.5, then Tenant shall, upon receipt of written notice from Landlord, promptly remove, replace, or otherwise correct such installations in such manner as Landlord shall reasonably require and direct, and Tenant shall reimburse Landlord, on demand and as additional rent, for all architect's, engineer's and legal fees incurred by Landlord in connection with such installations. If Tenant or any person with whom Tenant is engaged in business causes any damage to the Premises, structural or otherwise, Tenant assumes all risk of such damage and Tenant shall, upon demand, promptly repair all such damage to the reasonable satisfaction of Landlord. Tenant shall promptly repair any damage to the Premises arising from the installation, use, and removal of Tenant's Equipment; and Tenant shall restore the Premises to a clean and orderly condition and appearance, state of repair, ordinary wear and tear excepted, and operating order with all remaining improvements thereon in a good, safe, fully operable condition and in full compliance with all Codes, ordinary wear and tear excepted. If Tenant fails to perform any act or obligation required of Tenant under this Paragraph 9.5, Landlord shall have the right, but not the obligation, after fourteen (14) days' written notice to Tenant specifying the action required by Tenant, to enter upon the Premises and perform such act or obligation. In

that event, Tenant agrees to pay Landlord, as additional rent within fourteen (14) days of receipt of Landlord's invoice, for all costs incurred by Landlord in performing Tenant's act or obligation.

9.6 Landlord shall not be obligated to maintain or to make any repairs, replacements, or renewals of any kind, nature or description whatsoever to the Premises, except as specifically provided in Paragraphs 9.1, 12.1, 13.3 and Exhibit A of this Lease.

9.7 Tenant shall comply with and abide by all federal, state, county, municipal and other governmental statutes, ordinances, laws, and regulations affecting the Premises, the improvements thereon, the business to be conducted therein and thereon by Tenant, or any activity or condition on or in the Premises. Without limiting the generality of the foregoing, Tenant shall comply with all environmental laws and laws relating to "Hazardous Materials" (as defined herein) affecting the Premises, the improvements therein, the business conducted thereon by Tenant, or any activity or condition on or in the Premises. Tenant shall not install, place, construct or maintain any Underground Storage Tanks on the Premises. Any and all Hazardous Materials and their containers which are brought upon the Premises by, at the direction of, or with the consent or approval of Tenant shall, at all times, remain the property of Tenant. Tenant warrants that Tenant's business and all activities to be performed by Tenant in, on or about the Premises shall comply with such statutes, ordinances, laws and regulations; and Tenant agrees to change any such activity or install necessary equipment, safety devices, pollution control systems, or other installations at any time during the Lease Term to so comply therewith. If, during the Lease Term, Landlord or Tenant is required to convert or replace the HVAC system serving the Premises in order to comply with federal, state or local statutes, laws, ordinances, rules or regulations concerning the use of chlorofluorocarbons (including, without limitation, Freon), Landlord shall, to the extent necessary to comply with such laws, pay the costs of any such conversion or replacement, including, without limitation, the purchase and installation of new equipment, and the alteration of existing HVAC equipment in the Premises to accommodate any new equipment.

9.8 Tenant shall not cause or permit any "Hazardous Material" (as hereinafter defined) to be brought upon, kept, used, stored, discharged or released (collectively "used") in or about the Premises during the Lease Term, without the prior written consent of Landlord, in its sole and absolute discretion. If Tenant breaches the obligations stated in the preceding sentence, or if any Hazardous Material used on the Premises during the Lease Term results in contamination of the Premises or any adjacent property, then Tenant shall indemnify, defend and hold Landlord harmless from any and all claims, judgments, damages, penalties, fines, costs, liabilities or losses (including, without limitation, diminution in value of the Premises and/or adjacent property, damages for the loss or restriction on use of rentable or usable space or of any amenity of the Premises and/or adjacent property, damages arising from any adverse impact on marketing of the Premises and/or adjacent property, and sums paid in settlement of claims, attorneys' fees, consultant fees and expert fees) which arise during or after the Lease Term or any Extended Term as a result of Hazardous Material so used. This indemnification of Landlord by Tenant includes, without limitation, costs incurred in connection with any investigation of site conditions or any cleanup, remedial, removal or restoration work required by any federal, state or local governmental agency or political subdivision because of Hazardous Material present in the soil or ground water on or under the Premises and/or adjacent property. Without limiting the foregoing, if any Hazardous Material is used on the Premises during the Lease Term and results in any contamination of the Premises and/or adjacent property, Tenant shall promptly take all actions at its sole expense as are necessary to return the Premises and/or adjacent property to the condition existing prior to the use of any such Hazardous Material on the Premises and/or adjacent property; provided that Landlord's approval of such actions shall first be obtained, which approval shall not be unreasonably withheld so long as such actions would not potentially have any material adverse long-term or short-term effect on the Premises or adjacent property. As used herein, the term "Hazardous Material" means any petroleum products or other hydrocarbon substances (and fractions thereof) and any hazardous or toxic substance,

material or waste which is or becomes regulated by any local governmental authority, the State of California or the United States Government. Upon expiration or earlier termination of this Lease, Tenant shall duly execute and deliver to Landlord a certificate (the "Hazardous Material Certificate") in the form of Exhibit D attached hereto, and, if requested by Landlord, Tenant shall cause a properly licensed and qualified environmental consultant reasonably acceptable to Landlord to conduct an environmental audit of the Premises, and to deliver a copy of the completed environmental audit to Landlord. The scope and detail of such environmental audit shall be reasonably determined by Landlord based on all relevant facts and circumstances then existing. If any environmental audit recommends or suggests that additional testing be conducted, Landlord may require that such additional testing be conducted, at Tenant's expense. In the event Tenant shall fail to so deliver the Hazardous Material Certificate or to conduct such an environmental audit, such failure shall, without further notice or the passage of time constitute a default under the Lease and, without in any way limiting or impairing Landlord's remedies against Tenant, shall entitle Landlord to retain the entire security deposit held by Landlord to be applied toward payment of the cost of assessing the presence of Hazardous Material on the Premises and/or adjacent property, and toward payment of all loss, cost, liability, damage and expense of Landlord arising as a result of any such contamination and toward such other costs and expenses of Landlord as Landlord may designate in its sole discretion. If, at any time during the Lease Term or upon the termination or earlier expiration of the Lease, Landlord reasonably believes that the Premises or any adjacent property has been contaminated as a result of Hazardous Materials which were used on or about the Premises during the Lease Term, Landlord may require Tenant, at Tenant's sole cost and expense, to conduct an environmental audit (in accordance with the above described criteria) to evaluate the presence of any Hazardous Materials on the Premises and to cleanup, remediate, and otherwise mitigate the effects of the presence of any such Hazardous Materials on the Premises, or Landlord may, if it so elects, undertake such an environmental audit and any such cleanup, remediation or mitigation work on behalf of Tenant, at Tenant's sole cost and expense. In any event, any such environmental audit and any cleanup, remediation or mitigation work shall be performed by qualified environmental professionals acceptable to Landlord. Nothing contained herein shall be deemed or construed to limit the liability of Tenant to Landlord hereunder for the breach of any covenant of Tenant under this Paragraph 9.8.

9.9 On or before the fifteenth (15th) day of each calendar year during the Lease Term (the "Disclosure Dates"), Tenant shall disclose to Landlord in writing the common and chemical names and the quantities of all Hazardous Materials which were stored, used or disposed of on the Premises during the preceding calendar year. Tenant shall immediately notify Landlord of Tenant's receipt of any notice, citation or other communication received by Tenant relating to the presence, storage, use or release of any Hazardous Materials in, on or about the Premises.

9.10 Landlord shall have the right, but not the duty, to inspect the Premises at any time during regular business hours to determine whether Tenant is complying with the requirements of this Lease. If Tenant is not in compliance with the requirements of the provisions of this Lease relating to Hazardous Materials, Landlord shall have the right, but not the obligation, to immediately enter upon the Premises to remedy any condition caused by Tenant's failure to comply with the requirements of this Lease. Landlord shall use reasonable efforts to minimize interference with Tenant's business as a result of any such entry by Landlord but shall not be liable for any interference caused thereby.

9.11 Any failure of Tenant to comply with the provisions of Paragraphs 9.7, 9.8 and 9.9 of this Lease shall be a material default under this Lease, enabling Landlord to exercise any of the remedies set forth in this Lease.

9.12 Tenant acknowledges its understanding and awareness that the Building was constructed prior to 1979, and that some asbestos-containing materials may have been used in the construction of the Building. Tenant acknowledges its receipt of an "Asbestos Disclosure Letter" from Landlord, a copy of which is incorporated herein by reference. Tenant acknowledges its awareness that the release

of asbestos fibers can present a serious health risk, and Tenant agrees that it shall not undertake any activities on the Premises which might disturb or release asbestos-containing materials without implementing appropriate safety procedures.

ARTICLE X
Inspection of Premises by Landlord

10.1 Tenant agrees that Landlord and the authorized representatives of Landlord shall have the right to enter the Premises at all reasonable times during usual business hours, but with reasonable prior notice, or at any time in the case of an emergency with prior notice to Tenant (or a good faith attempt at giving prior notice, given then existing facts and circumstances) for the purpose of (a) inspecting same; and (b) making such repairs or reconstruction to the Premises required by or permitted to be made by Landlord, and (c) performing any work therein that may be necessary by reason of Tenant's default under the provisions of this Lease. Nothing herein shall imply any duty of Landlord to do any work which, under the provisions of this Lease, Tenant is required to perform and the performance thereof by Landlord shall not constitute a waiver of Tenant's default in failing to perform the same. Landlord may, during the progress of any work on the Premises, keep and store upon the Tenant Yard Area, all necessary materials, tools and equipment. Landlord shall not in any event be liable for any inconvenience, annoyance, disturbance, loss of business, or other damage sustained by Tenant while making such repairs or the performance of any such work on the Premises, or on account of bringing materials, supplies and equipment into or through the Premises during the course thereof. In the event Landlord makes any repairs or maintenance which Tenant has failed to do or perform, the cost thereof shall constitute additional rent and shall be paid to Landlord within fourteen (14) days of receipt of Landlord's invoice.

10.2 Landlord is hereby given the right during usual business hours with reasonable prior notice to Tenant to enter the Premises and to exhibit the same for purposes of sale or mortgage, and during the last six (6) months of the Lease Term to exhibit the same to any prospective tenant with reasonable prior notice to Tenant.

ARTICLE XI
Mechanics' Liens

11.1 Tenant covenants and agrees to keep ail of the Building, the Premises and any parcel of land on which the Premises is situated free and clear of and from any and all mechanics', materialmen's and other liens for work or labor done, services performed, materials, appliances, transportation or power contributed, used or furnished or to be used in or about the Premises for or in connection with any operations of Tenant, any alterations, improvements, repairs or additions, which Tenant may make or permit or cause to be made, or any work or construction by, for or permitted by Tenant on or about the Premises; and at all times Tenant shall promptly and fully pay and discharge any and all claims upon which any such lien may or could be based; and Tenant shall save and hold Landlord and all of the Premises free and harmless of and from any and all such liens and claims of liens and suits or other proceedings pertaining thereto. Tenant, or any subtenant, assignee or other occupant of the Premises covenants and agrees to give Landlord written notice not less than ten (10) days in advance of the commencement of any construction, alteration, addition, improvements or repair to the Premises in order that Landlord may post an appropriate notice of Landlord's non-responsibility.

11.2 No mechanics' or materialmen's liens or mortgages, deeds of trust, or other liens of any character whatsoever created or suffered by Tenant shall in any way or to any extent affect the interest or rights of Landlord in the Premises or any parcel of land on which any portion of the Premises is located, or attach to or affect Landlord's title to or rights in the Premises or any parcel of land on which any portion of the Premises is located.

11.3 Tenant shall have the right to contest any mechanic's lien or other lien claim filed against the Premises provided that Tenant gives Landlord written notice of such contest, Tenant diligently prosecutes such contest, at all times effectually stays or prevents any official or judicial sale of the Premises or any parcel of land on which any portion of the Premises is located under execution or otherwise, and pays or otherwise satisfies any final judgment adjudging or enforcing such contested lien and thereafter procures record satisfaction or release thereof. If requested in writing by Landlord, Tenant shall furnish to Landlord a surety bond issued by a surety company acceptable to Landlord in an amount not less than one and one-half times the amount of any such mechanic's lien or other lien claim filed against the Premises.

ARTICLE XII
Damage or Destruction of Premises

12.1 In the event the buildings or other structures on the Premises are damaged or destroyed, then so long as the cost of repairing such damage or destruction is fully covered by insurance policies carried by the Landlord (except for deductible amounts, which shall be paid by Tenant subject to the limitation on the deductible amounts as provided in Paragraph 8.1), Landlord shall repair and restore such improvements then owned by Landlord (but not any of Tenant's trade fixtures, furnishings or equipment) to their condition existing prior to said damage or destruction, and this Lease shall continue in full force and effect. Any damage or destruction of the type described above is referred to herein as an "Insured Loss." The proceeds of insurance maintained pursuant to Paragraph 8.1 shall be used to pay the cost and expense of repairing and rebuilding the Premises.

12.2 In the event the Building is damaged or destroyed, and the cost of repairing such damage or destruction is not fully covered by insurance policies carried by Landlord (an "Uninsured Loss"), then so long as the portion of the cost of repairing such damage or destruction which is not covered by the insurance policies carried by Landlord does not exceed Two Hundred Fifty Thousand Dollars (\$250,000) (the "Cap Amount") (excluding deductible amounts), then Landlord shall promptly make payment of its share thereof and repair such damage or destruction to the Building. Landlord shall repair and restore the improvements then owned by Landlord (but not any of Tenant's trade fixtures, furnishings or equipment) to their condition existing prior to said damage or destruction, and this Lease shall continue in full force and effect. In the event of an Uninsured Loss in which the portion of the cost of repairing such damage or destruction which is not covered by insurance policies carried by Landlord exceeds the Cap Amount, Landlord and Tenant shall each have the right to terminate this Lease upon thirty (30) days written notice to the other. However, if a party has elected to terminate this Lease pursuant to this Paragraph 12.2, the other party may prevent termination of the Lease pursuant to this Paragraph 12.2 by paying the entire amount by which the cost of repairing such Uninsured Loss exceeds the Cap Amount.

12.3 The Minimum Rent payable by Tenant pursuant to the provisions of Paragraph 4.1, together with Tenant's payment obligations for real estate taxes, insurance premiums and landscaping expenses, shall abate in the proportion that the part of the Premises rendered unusable to Tenant bears to the whole thereof, from the date of the damage or destruction through the time required by Landlord to repair and rebuild the Premises. Except for abatement of such Minimum Rent and payment obligations for real estate taxes, insurance premiums and landscaping expenses, if any, Tenant shall have no claim against Landlord by reason of any damage, destruction, repair or rebuilding of the Premises.

12.4 Upon the occurrence of any damage or destruction to the Premises, Landlord shall, within twenty (20) days following the date of occurrence of such damage or destruction, provide to Tenant a written notice of Landlord's reasonable and good faith estimate of the time required to complete the repair and restoration ("Landlord's Time Estimate"). If Landlord reasonably estimates that such repair and restoration will take more than one hundred eighty (180) days to complete (measured from the date of issuance of necessary building permits for the repair and

restoration work) either Landlord or Tenant may elect to terminate this Lease (effective as of the date of such damage or destruction) upon written notice to the other, which notice shall be given, if at all, within thirty (30) days following the date of Tenant's receipt of Landlord's Time Estimate. Landlord agrees that it shall use diligent efforts to obtain the necessary building permits at the earliest possible date. Once such notice has been delivered and the thirty (30) day response period has expired, neither party shall have the right to terminate this Lease as a result of the occurrence of such damage or destruction, regardless of the actual time necessary to complete such repair and restoration work, but Landlord agrees that it shall use its reasonable efforts to complete the restoration work in a timely manner.

12.5 If the Premises are materially damaged or destroyed during the last year of the Lease Term, either Landlord or Tenant may at such party's option, cancel and terminate this Lease as of the date of occurrence of such damage by giving written notice to the other party of the electing party's election to do so within thirty (30) days after the date of occurrence of such damage (the "Damage Notice"). However, if Tenant possesses an option to extend the Lease Term and the time within which Tenant may exercise such option has not expired, and if Tenant validly exercises such option within twenty (20) days after Tenant's receipt of the Damage Notice, then Landlord's election to terminate this Lease pursuant to this Paragraph 12.4 shall be void and of no effect. In such event, the repair and restoration of the Premises shall be governed by the other applicable provisions of this Article XII. For the purposes of this Paragraph 12.4, the Premises shall be deemed to have been "materially damaged" if, in Landlord's reasonable judgment, the cost to repair such damage is greater than the then-applicable "Damage Threshold Amount". For the purposes of this Paragraph 12.5, the Damage Threshold Amount shall mean Five Hundred Thousand Dollars if the damage occurs with twelve (12) months remaining in the Lease Term, and the Damage Threshold Amount shall decrease by Fifty Thousand Dollars each month thereafter (i.e., Four Hundred Fifty Thousand Dollars [\$450,000] if the damage occurs with eleven (11) months remaining in the Lease Term; Four Hundred Thousand Dollars if the damage occurs with ten (10) months remaining in the Lease Term, and so on). All other applicable provisions of this Article XII shall apply to any damage occurring during the last year of the Lease Term.

12.6 Tenant waives the provisions of any statutes which relate to termination of leases when the Premises are destroyed; and Tenant agrees that such event shall be governed by the terms of this Lease and not by any such statute.

ARTICLE XIII
Condemnation

13.1 If title to all or any portion of the Premises shall be taken by any public or quasi-public use or authority under any statute or by right of eminent domain, or by private purchase in lieu thereof, then the rights of the parties to share in the condemnation award or purchase price thereby resulting shall be governed by the provisions of this Article XIII.

13.2 Should all or such portion of the Premises be taken in such a manner as to materially interfere with Tenant's use and occupancy thereof, then this Lease shall terminate as of the date that possession of said Premises or part thereof shall be taken. Landlord shall be entitled to (a) any amount paid for the taking of Landlord's fee interest in the Premises, (b) any severance damages included in the award, (c) any amount paid for the taking of the Premises except that paid for any improvements made to the Premises by Tenant which remain the property of Tenant, and (d) any amount which represents the present worth of rent payments to be made in the future under the provisions of this Lease; and none of Landlord's interests in the above shall be subject to any diminution or apportionment whatsoever. Tenant shall be entitled to compensation paid under condemnation for the taking of any improvements made to the Premises by Tenant which remain the property of Tenant and for moving expenses and business interruption to the extent such claims are allowed and awarded by the condemning authority.

13.3 In the event of a partial taking of the Premises which does not materially interfere with Tenant's continued use and occupancy of the Premises and there remains sufficient area of the Premises for the continued use of Tenant, then this Lease shall terminate only as to the part so taken, as of the date that possession of such part of the Premises is taken, and the Minimum Rent herein provided for shall be reduced in proportion as the square footage of Building floor area taken bears to the total Building floor area existing before such taking. In the event of a partial taking, Landlord agrees to replace or repair the Building to substantially equivalent condition as existed when the Lease Term commenced, and without regard to improvements made by Tenant, by reinstalling plumbing, electrical, wiring, walls and paving, if necessary, so that the Building shall be completely operable and an integral whole, but at a cost to Landlord not to exceed the condemnation award received by Landlord. In the event of such partial taking, Landlord shall be entitled to receive all amounts described in the second sentence of Paragraph 13.2; and none of Landlord's interest in the above shall be subject to any diminution or apportionment whatsoever. Tenant shall be entitled to compensation paid under condemnation for the taking of any improvements made to the Premises by Tenant which remain the property of Tenant.

13.4 Landlord and Tenant agree to execute all documents and assignments necessary to carry out this Article XIII in the event of condemnation or purchase in lieu thereof.

ARTICLE XIV
Use Of Premises - Assignments

14.1 Tenant shall have the right to use the Premises for warehousing, repacking, and general office purposes in compliance with all applicable laws and regulations, including, without limitation, environmental laws and laws relating to Hazardous Materials; and Tenant agrees such use shall comply with all applicable laws and regulations in effect when this Lease Term commences and as may be amended or newly enacted during the Lease Term. Tenant shall not use the Premises for the retail sale of property or for any other use not specifically permitted pursuant to this Paragraph 14.1. Tenant shall not conduct nor permit to be conducted any auction or auction sale at the Premises. Tenant's use of the Premises is subject to limitations imposed by the Watson Land Company Performance Standards and the limitations contained in this Lease. Tenant covenants and agrees that it shall not permit any of its employees, agents, contractors, vendors or shippers to park, stage or store trucks, automobiles, trailers or other vehicles on any of the public streets in the general vicinity of the Premises or the industrial or business park in which the Premises are located. Any violation of this restriction shall constitute a default under this Lease.

14.2 Tenant shall not assign, sublet or otherwise transfer this Lease, or Tenant's interest in and to the Premises, nor enter into any license or concession agreements with respect thereto, without first procuring the written consent of Landlord, which may not be unreasonably withheld or delayed. Any such attempted or purported assignment, subletting, transfer or license or concession agreement (collectively "Transfer") without Landlord's prior written consent shall be void and of no force and effect, and shall not confer any interest or estate in the purported transferee (the "Transferee") and shall, at Landlord's option, constitute an incurable default under this Lease. Tenant shall have no right to mortgage, hypothecate or otherwise encumber its leasehold estate in the Premises or its rights under this Lease, and Landlord and Tenant specifically agree that any such mortgage, hypothecation or encumbrance by Tenant is strictly and absolutely prohibited. If Tenant is a corporation, unincorporated association, trust or partnership, the sale, assignment, transfer or hypothecation of any stock or other ownership interest of such entity which from time to time in the aggregate exceeds fifty percent (50%) shall be deemed an assignment subject to the provisions of this Article XIV, but a public offering of Tenant's stock, or the sale of Tenant's stock on a recognized stock exchange shall not be deemed a "Transfer" requiring Landlord's consent. Landlord agrees that, in the event of a proposed Transfer to an "Affiliate" (as defined herein), Landlord will not withhold its consent to such Transfer so long as (i) such Affiliate's use of the Premises is in conformance with Paragraph 14.1; (ii) such

Affiliate's use of the Premises will not result in any material increase in the potential risk to Landlord arising out of or relating to Hazardous Materials; and (iii) such Transfer will not cause any portion of the amounts received by Landlord pursuant to this Lease or any sublease to fail to qualify as "rents from real property" within the meaning of Section 856(d) of the Internal Revenue Code, or which could cause any other income received by Landlord to fail to qualify as income described in Section 856(c)(2) of the Internal Revenue Code. As used herein, the term "Affiliate" shall mean any corporation for which fifty percent (50%) or more of the voting stock (i) is owned by Tenant; or (ii) is owned, directly or indirectly, by a corporation owning more than fifty percent of the voting stock of Tenant. Any transfer of stock or other ownership interest of Tenant which is made with the purpose or which has the practical effect of circumventing the Transfer restrictions imposed under this Article XIV shall be deemed to be a Transfer requiring Landlord's consent. The consent of Landlord required hereunder shall not be unreasonably withheld; however, a condition precedent to any consent to a Transfer shall be Tenant's agreement to pay to Landlord as rent any costs and expenses incurred by Landlord for review and consultation by Landlord's legal counsel, securing credit reports, administrative overhead and the like. Notwithstanding the foregoing, Landlord and Tenant agree that, in determining whether to reasonably consent to a proposed transfer, (i) it shall not be unreasonable for Landlord to withhold its consent to any Transfer if a proposed Transferee's anticipated or proposed use of the Premises involves the generation, storage, use, treatment or disposal of any Hazardous Material; and (ii) that Landlord may consider, among other things, any or all of the following factors:

14.2.1 The reputation of the Transferee (including any principals, partners or shareholders of such assignee, subtenant to Transferee), including, without limitation, the Transferee's reputation for dishonesty, criminal conduct or unethical business practices;

14.2.2 The financial capacity of the proposed Transferee to perform its obligations under this Lease;

14.2.3 Whether the business experience and quality of business operations of the proposed Transferee is comparable to that of Tenant;

14.2.4 The credit history of the proposed Transferee;

14.2.5 The intended use of the Premises by the proposed Transferee, and Landlord's assessment of the impact of such use upon the Premises and neighboring properties;

14.2.6 Whether the proposed Transferee's use of the Premises will involve the generation, storage, use, treatment or disposal of any Hazardous Materials, or will in any way increase any potential risk or liability to Landlord arising out of or relating to Hazardous Materials.

14.3 Notwithstanding any permitted Transfer, Tenant shall at all times remain directly, primarily and fully responsible and liable for the payment of rent and for compliance with all obligations under the terms, provisions and covenants of this Lease. All Transfer agreements shall expressly provide that, in the event of a default by Tenant under this Lease, the Transferee covenants and agrees with Landlord, contemporaneously with receipt of written notice from Landlord that Tenant is in default of this Lease, and for so long as such default continues, but not for a period of time in excess of the term of the Transfer, to accept Landlord as Landlord of Transferee, to attom to Landlord as Landlord, to thereafter perform all duties and responsibilities under the Transfer agreement directly to Landlord for Landlord's sole benefit, and to cure any default of Tenant under this Lease. Upon the occurrence of any default by Tenant, if the Premises or any part thereof are then sublet, Landlord, in addition to any other remedies herein provided or provided by law, may at its option collect directly from such subtenant all rents becoming due to Tenant under such sublease and apply such rent against any sums due to Landlord from Tenant hereunder, and no such collection shall be construed to constitute a novation or release of Tenant from the

further performance of Tenant's obligations under this Lease. Any sale, assignment, transfer or hypothecation of Tenant's interest under this Lease, and any proposed subletting or occupancy of the Premises not in compliance with this Article XIV shall be void and shall, at the option of Landlord exercisable by notice to Tenant, terminate this Lease.

14.4 Should Tenant desire to make a Transfer of the Premises, Tenant shall give not less than ninety (90) days' prior written notice thereof to Landlord setting forth the name of the proposed Transferee, the term, use, rental rate and other relevant particulars of the proposed Transfer, including, without limitation, evidence satisfactory to Landlord that the proposed Transferee will not use, store or dispose of any Hazardous Materials in or on the Premises, and that the proposed Transferee will immediately occupy and thereafter use the Premises for the entire term of the Lease or the sublease (as the case may be). Such notice shall be accompanied, in the case of a sublease, by a copy of the proposed sublease, and in the case of any Transfer, any documents or financial information Landlord may require in order to make a determination as to the suitability of the Transferee.

14.5 Landlord shall have the right to condition its consent to any subletting or assignment upon payment by Tenant to Landlord of fifty percent (50%) of all "Transfer Consideration" (as defined herein) received or to be received, directly or indirectly, by Tenant on account of such subletting or assignment. For the mutual benefit of Landlord and Tenant, Tenant shall secure Transfer Consideration from any such assignee, sublessee or transferee which is generally equivalent to then-current market rent, but in no event shall Tenant's monetary obligations to Landlord, as set forth in this Lease, be reduced. Such Transfer Consideration shall be paid to Landlord at the same time or times as the same is paid to or used by Tenant. "Transfer Consideration" shall mean (i) in the case of a sublease, any consideration paid or given, directly or indirectly, by the sublessee to Tenant pursuant to the sublease for the use of the Premises, or any portion thereof, over and above the rent, however denominated, in this Lease, payable by Tenant to Landlord for the use of the Premises (or portion thereof), prorating as appropriate the amount payable by Tenant to Landlord under this Lease if less than all of the Premises is sublet, and (ii) in the case of an assignment, the gross amount of any consideration paid or given, directly or indirectly, by the assignee to Tenant in exchange for entering into the assignment. Notwithstanding anything contained in this Lease to the contrary, Tenant shall not (i) sublet or assign the Premises or this Lease on any basis such that the rent or other amounts to be paid by the sublessee or assignee thereunder would be based, in the whole or in part, on the income or profits derived by the business activities of the sublessee or assignee; (ii) furnish or render any services to the sublessee or assignee or operate the Premises so subleased or assigned; (iii) sublet or assign the Premises or this Lease to any person that Tenant or Landlord owns, directly or indirectly (by applying the constructive ownership rules set forth in Section 856(d)(5) of the Internal Revenue Code [the "Code"]), provided, however, that the restriction contained in this item (iii) shall not apply to an assignment of this Lease to an Affiliate of Tenant if no Transfer Consideration arises and if Landlord does not own, directly or indirectly (as described above), an interest in such assignee; or (iv) sublet or assign the Premises or this Lease in any other manner which could cause any portion of the amounts received by Landlord pursuant to this Lease or any sublease to fail to qualify as "rents from real property" within the meaning of Section 856(d) of the Code, or which could cause any other income received by Landlord to fail to qualify as income described in Section 856(c)(2) of the Code.

14.6 In addition to Landlord's right of approval pursuant to Paragraph 14.2, above, and Landlord's right to share in Transfer Consideration pursuant to Paragraph 14.5, above, Landlord shall have the option, in the event of any proposed Transfer, to cancel this Lease as to the affected portion of the Premises as of the effective date of the Transfer set forth in Tenant's notice. The option shall be exercised, if at all, by Landlord giving Tenant written notice thereof within sixty (60) days following Landlord's receipt of Tenant's written request. Upon any such cancellation, Tenant shall pay to Landlord all amounts, as estimated by Landlord, payable by Tenant to such termination date with respect to that portion of any obligations, costs or charges

which are the responsibility of Tenant under this Lease and allocable to the affected portion of the Premises. Further, upon any such cancellation Landlord and Tenant shall have no further obligations or liabilities to each other with respect to the affected portion of the Premises, except with respect to obligations or liabilities which have accrued as of such cancellation date (in the same manner as if such cancellation date were the date originally fixed for the expiration of the Lease Term, or Extended Term, as the case may be). Without limitation, Landlord may lease the affected portion of the Premises to the prospective Transferee, without liability to the Tenant. Landlord's failure to exercise said cancellation right as herein provided shall not be construed as Landlord's consent to the proposed Transfer.

14.7 This Lease shall not be assignable by operation of law, except that if Tenant is a natural person, this Lease shall be binding upon and inure to the benefit of the estate of Tenant.

14.8 If this Lease is assigned to any person or entity pursuant to the provisions of the "Revised Bankruptcy Act" (Title 11 of the United States Code; 11 U.S.C. §101 et seq.), any and all monies or other consideration payable or otherwise to be delivered in connection with such assignment shall be paid or delivered to Landlord, shall be and remain the exclusive property of Landlord, and shall not constitute property of Tenant or of the estate of Tenant within the meaning of the Revised Bankruptcy Act. Any and all monies or other considerations constituting Landlord's property under this Article XIV not paid or delivered to Landlord shall be held in trust for the benefit of Landlord and shall be promptly paid or delivered to Landlord. Any person or entity to which this Lease is assigned pursuant to the provisions of the Revised Bankruptcy Act shall be deemed without further act or deed to have assumed all of the obligations arising under this Lease on and after the date of such assignment.

14.9 Landlord shall have the right to sell, transfer, delegate or assign any of its rights or obligations under this Lease.

ARTICLE XV
Event of Default

15.1 Tenant shall be in default under this Lease if:

15.1.1 Tenant shall fail to make any payment of Minimum Rent, any additional rent payable hereunder, or any other monetary obligation required of Tenant under this Lease (including, without limitation, restoration of any security deposit as required under this Lease) and such failure shall continue for seven (7) days after Tenant's receipt of written notice (which notice shall be in lieu of, and not in addition to any notice required pursuant to California Code of Civil Procedure Sections 1161 or 1161(a), as amended); from Landlord that said rent or monetary obligation is due and payable as provided in this Lease; or

15.1.2 Tenant shall neglect or fail to perform or observe any of the covenants herein contained on Tenant's part to be performed or observed, and Tenant shall fail to remedy the same within thirty (30) days after Landlord shall have given to Tenant written notice specifying such neglect or failure (provided, however, that if the performance or observance of any such covenant reasonably requires more than thirty (30) days to perform, Tenant shall not be in default under this Lease as a result of its failure to perform or observe any such covenant within such thirty (30) day period, so long as Tenant has commenced the actions necessary to perform or observe such covenant within such thirty (30) day period, and is diligently pursuing such cure to completion); or

15.1.3 Tenant shall abandon the Premises and such abandonment shall continue for a period of fourteen (14) consecutive days during which Minimum Rent for the Premises has remained unpaid; or

15.1.4 Tenant repeatedly fails to comply with the restrictions contained in Paragraph 14.1 of this Lease prohibiting on-street parking.

15.2 In the event of any uncured default by Tenant, and without any further notice or demand, Landlord shall have the right at Landlord's election, then or at any time thereafter, to:

15.2.1 Terminate this Lease, which shall terminate Tenant's right to the use, occupancy and possession of the Premises, and Tenant shall immediately surrender possession of the Premises to Landlord; or

15.2.2 Re-enter and take possession of the Premises or any part thereof as provided by law, in which event this Lease shall terminate effective when Landlord takes possession; or

15.2.3 Continue this Lease in effect and enforce any or all rights and remedies of Landlord under this Lease, including the right to recover Minimum Rent, additional rent and charges equivalent to rent (sometimes collectively referred to herein as "rent") as they become due under this Lease, for so long as Landlord does not terminate Tenant's right to possession of the Premises; or

15.2.4 Seek any legal or equitable relief permitted by law.

15.3 If Landlord terminates this Lease as provided in subparagraphs 15.2.1 or 15.2.2 hereof, Landlord shall have the right to recover from Tenant:

15.3.1 The worth, at the time of the award, of the unpaid rent that had been earned at the time of termination of this Lease; and

15.3.2 The worth, at the time of the award, of the amount by which the unpaid rent that would have been earned after the date of termination of this Lease until the time of award exceeds the amount of the loss of rent that Tenant proves could have been reasonably avoided; and

15.3.3 The worth, at the time of the award, of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of the loss of rent that Tenant proves could have been reasonably avoided; and

15.3.4 Any other amount necessary to compensate Landlord for all detriment proximately caused by Tenant's breach or which in the ordinary course of things would be likely to result therefrom; such as, the cost of recovering possession of the Premises, expenses of reletting including attorney's fees and any real estate commissions paid or payable, necessary repair, restoration, renovation, or alteration of the Premises, and care and safekeeping of the Premises.

"The worth, at the time of the award," as used in subparagraphs 15.3.1 and 15.3.2 of this paragraph, is to be computed by allowing interest at the Lease Interest Rate in effect when each installment of rent referred to in said subparagraphs became payable. "The worth, at the time of the award," as referred to in subparagraph 15.3.3 of this paragraph, is to be computed by discounting the amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of the award, plus one percent (1%).

15.4 If Tenant shall breach this Lease and abandon the Premises, this Lease shall continue in full force and effect for so long as Landlord does not terminate Tenant's right to possession of the Premises, and Landlord may enforce all of its rights and remedies under this Lease, including but not limited to the right to recover rent and charges equivalent to rent as they become due under this Lease. For the purposes of this Paragraph 15.4 and Paragraph 15.2, the following acts by Landlord shall not constitute a termination of Tenant's right to possession of the Premises: (i) maintenance or preservation of the Premises, (ii) efforts to relet the Premises, or (iii) the

appointment of a receiver upon initiative of Landlord to protect Landlord's interest under the Lease.

15.5 In the event Landlord re-enters and takes possession of the Premises following an uncured breach of this Lease, Landlord may at Landlord's option require Tenant to remove from the Premises any of Tenant's property located therein. If Tenant fails to do so, Landlord shall not be responsible for the care or safekeeping thereof and may remove any of the same from the Premises and place the same in storage in a public warehouse at the cost, expense and risk of Tenant with authority to the warehouseman to sell the same in the event that Tenant shall fail to pay the costs of transportation and storage, all in accordance with the rules and regulations applicable to the operation of a public warehouseman's business. Landlord may, at Landlord's election, dispose of said property pursuant to the provisions of Sections 1980 through 1991 of the California Civil Code. In any and all such cases of re-entry, Landlord may make any repairs in, to or upon the Premises which may be necessary, desirable or convenient, and Tenant hereby waives any and all claims for damages which may be caused or occasioned by such reentry or any of the aforesaid acts of Landlord or by reason of any loss or destruction or damage to any property in or about the Premises or any part thereof.

15.6 Tenant further covenants and agrees that if Landlord fails or neglects for any reason to take advantage of any of the terms hereof provided for the termination of this Lease or for the termination or forfeiture of the estate hereby leased, or if Landlord, having the right to declare this Lease terminated or the estate hereby leased terminated or forfeited, shall fail so to do, any such failure or neglect of Landlord shall not be or be deemed or be construed to be a waiver of any provisions for the termination of this Lease continuing to exist or for the termination or forfeiture of the estate hereby leased subsequently arising, or as a waiver of any of the covenants, terms or conditions of this Lease or of the prompt performance thereof by Tenant. None of the covenants, terms or conditions of this Lease can be waived by conduct of the parties or by estoppel; any claim or waiver must be in writing and signed by both parties.

ARTICLE XVI
Surrender of Premises

16.1 Upon any termination of this Lease, whether by lapse of time, cancellation pursuant to an election provided for herein, forfeiture, or otherwise, Tenant shall immediately surrender possession of the Premises and all buildings and improvements on the same (excepting those improvements which Landlord shall have required Tenant to remove therefrom pursuant to Paragraph 9.3 hereof) to Landlord in a clean and orderly condition and appearance, state of repair and operating order, and with all such improvements thereon in a good, safe, operable condition, and in full compliance with all Federal, State and local laws, rules, regulations and ordinances (including, without limitation, any laws, rules, regulations and ordinances relating to Hazardous Materials) and each provision of this Lease, including without limitation the provisions of Article IX hereof. If possession is not immediately surrendered, Landlord may, with process of law, enter the Premises and repossess the same and expel Tenant or any subtenant or occupant therefrom. Landlord shall hold the Premises after any such re-entry free of any right, privilege or estate of Tenant and without any duty or obligation to Tenant in respect of any subsequent reletting or disposition of the Premises. If Tenant's business operations on the Premises or uses of the Premises involve any generation, storage, use, treatment or disposal of any Hazardous Material, Tenant shall be responsible for removing any such Hazardous Materials from the Premises and for decontaminating the Premises and any neighboring properties affected by such Hazardous Materials.

16.2 Upon the termination of this Lease, Tenant, if not in default hereunder at the time, shall have the right to remove, and if directed so to do by Landlord shall remove, from the Premises, all of Tenant's machinery, equipment (excluding building service equipment), trade fixtures, signs, furniture, furnishings,

supplies and inventory then installed or in place in, on or about the Premises. Except as hereinafter expressly set forth, such removal shall be completed prior to the expiration or earlier termination of this Lease; provided, however, if Tenant is in default of this Lease at such time, then Tenant may not remove the foregoing items of property from the Premises; and Landlord shall have a lien thereon as security against loss or damage resulting from Tenant's default. Tenant shall make all repairs to the Premises required because of such removal and Tenant shall restore the Premises to their condition as existed when the Lease Term commenced ordinary wear and tear excepted. If this Lease shall terminate at any time other than the time herein fixed as the expiration of the Lease Term, and occurring not due to a default by Tenant, then Tenant, if not in default hereunder at the time, shall have a reasonable time thereafter to effect the removal of the foregoing items, not to exceed thirty (30) days. Tenant shall pay Minimum Rent and items designated in this Lease as additional rent to Landlord on a per diem basis during the time such removal is taking place.

16.3 If any of Tenant's machinery, equipment, trade fixtures, signs, furniture, furnishings, supplies and inventory remain on the Premises after the end of the term hereof or time allowed to remove the same, such property shall be deemed abandoned by Tenant and it shall become the property of Landlord without any claim therein of Tenant should Landlord so elect.

16.4 Upon termination of this Lease, Tenant shall surrender the Premises in a "broom-clean" condition, with all refuse and debris removed therefrom, and with all electrical, plumbing, heating and air conditioning installations in a good, safe and fully operable condition, and prior to such termination, Tenant shall fill or repair any holes or openings made by Tenant in the walls, roof or floor of the building, remove any protuberance, and perform any maintenance or repairs required of Tenant by this Lease. Nothing contained in this Paragraph 16.4 shall be deemed to limit Tenant's repair and maintenance obligations pursuant to Article IX of this Lease. If directed so to do by Landlord, Tenant shall also remove any improvements, additions or alterations made to the Premises by Tenant and thereafter restore the Premises to their original condition, even though such improvements by the terms of this Lease become a part of the Premises and the property of Landlord.

ARTICLE XVII
Delays - Extensions of Time

17.1 The time within which Landlord or Tenant is obligated herein to construct, repair or rebuild any building, improvement or other structure shall be extended and the performance excused when the delay is occasioned by the other party (such as failure to promptly give required approvals, or installation of machinery and equipment during construction which interferes with or delays the contractor); or by strikes, threats of strikes or lockouts; blackouts, war, threats of war, bombing, insurrection, riot or invasion; acts of God, calamities, civil commotions, violent action of the elements or fire; action, inaction or delayed action of any governmental agency; regulations or laws of any national, state or local governmental authority; unavailability of materials at reasonable prices, delays in delivery of materials by suppliers or weather conditions which impair or delay construction; or other matters or things, whether similar or dissimilar to the foregoing, beyond the reasonable control of the obligated party. Delayed action by a governmental agency shall be deemed to occur if a grading and foundation only permit is not issued within twenty-one (21) days after drawings and specifications for such permit are filed for plan check with the appropriate governmental agency, or if a building permit is not issued within forty-five (45) days after drawings, specifications, and engineering calculations for such permit are filed for plan check with such governmental agency.

ARTICLE XVIII
Attorneys' Fees

18.1 In the event that either Landlord or Tenant brings any action or proceeding against the other for possession of the Premises or for the recovery of any sum due hereunder, or because of the breach of any covenant, condition or provision hereof, or for any other relief against the other, declaratory or otherwise, including appeals therefrom, and whether being an action based upon a tort or contract, then the prevailing party to this Lease in any such proceeding shall be paid reasonable attorneys' fees and costs of such action or proceeding which shall be enforceable whether or not such action or proceeding, is prosecuted to final judgment, and including an allowance for attorneys' fees for appeals and rehearings. In addition to the foregoing award of attorneys' fees to the prevailing party, the prevailing party in any such lawsuit shall be entitled to its attorneys' fees incurred in any post-judgment proceedings to collect or enforce the judgment. This provision is separate and several and shall survive the merger of this Lease into any judgment on this Lease. Should Landlord be made a party to any suit or proceeding brought by a third party, arising by reason of Tenant's use or occupancy of the Premises and not being a dispute essentially between Landlord and Tenant, then Tenant shall defend Tenant and Landlord therein, at Tenant's sole cost and expense, and shall hold Landlord free and harmless from any claim, loss, liability, duty or obligation therein, including any attorneys' fees of Landlord. As used here, the term "attorneys' fees" means the full costs of legal services performed in connection with the matters involved, calculated on the basis of usual fees charged by an attorney performing those services.

ARTICLE XIX
Statement of Lease

19.1 Tenant shall, at any time and from time to time during the Lease Term (or any Extended Term), upon not less than ten (10) days' prior written notice from Landlord, execute, acknowledge and deliver to Landlord a written certificate substantially in the form attached hereto as Exhibit E, certifying: (i) that this Lease represents the entire agreement between Landlord and Tenant, and is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect); (ii) the dates to which Minimum Rent and other charges or additional rent have been paid in advance, if any; (iii) the Commencement Date and Termination Date of the Lease Term; (iv) whether Tenant has assigned, subleased or otherwise transferred the Premises, this Lease or any interest of Tenant therein; (v) the then-current amount of Minimum Rent and any Security Deposit paid by Tenant to Landlord under this Lease; (vi) the date upon which, and the amount or method by which, Minimum Rent, additional rent or other charges payable under this Lease will next be adjusted or increased (if at all); (vii) that there are no options to extend the term of this Lease, or if any such options exist, describing any such options and stating the terms and conditions upon which any such options may be exercised; (viii) that there are no rights of first refusal to purchase the Premises or lease additional space contiguous to the Premises, or if any such rights of first refusal exist, stating the terms and conditions upon which the same may be exercised; (ix) that to the best knowledge of Tenant there are not any uncured defaults on the part of Landlord under this Lease, and that Tenant has no right of offset, counterclaim or deduction against Minimum Rent or other payment obligations of Tenant under this Lease, or specifying such defaults if any are claimed together with the amount of any offset, counterclaim or deduction alleged by Tenant; and (x) that Landlord has fully performed each and all of its construction, repair and maintenance obligations (if any), as required under this Lease, except as may be specifically set forth in said statement (if applicable), and that Tenant, subject to any such stated exception(s), accepts the Premises in their present condition.

19.2 In addition to the certificate required pursuant to Paragraph 19.1, above, Landlord shall have the right to require Tenant to execute a statement or certificate in a form requested by an existing or potential purchaser, lender or other

party which may acquire the Premises or hold a security interest in the Premises (or the real property or Building of which the Premises are a part), or any other certificate or form as may be reasonably requested by Landlord.

19.3 Any such certificate or statement referred to in this Article XIX may be relied upon by any such existing or potential purchaser, lender, other secured party, and Tenant's failure or refusal to execute and deliver such statement within such time shall, at the option of Landlord, constitute a material default under this Lease, and in the former event, shall be conclusive and binding upon Tenant that: (a) this Lease is in full force and effect, without modification, except as may be represented by Landlord; (b) there are no uncured defaults in Landlord's performance and that Tenant has no right of offset, counterclaim or deduction against Minimum Rent or other payment obligations under this Lease; and (c) no more than one (1) months' Minimum Rent or other payment obligations under this Lease has been paid in advance.

19.4 If Landlord desires to finance, refinance, or sell all or any portion of the real property of which the Building or the Premises are a part, Tenant hereby agrees to deliver to any lender or purchaser designated by Landlord such financial statements and other documents and instruments of Tenant as may be reasonably required by any such lender or purchaser. Such statements shall include the last three (3) years' financial statements of Tenant. All such financial statements and other information shall be received by Landlord and any such lender or purchaser in confidence (except for disclosures to auditors and regulatory authorities, and except for other disclosures required by law), and shall be used only for the purposes herein set forth.

19.5 Tenant acknowledges and agrees that Tenant's obligation to provide such certificates or statements constitutes a material inducement to Landlord to execute this Lease, and Tenant shall provide Landlord with such certificates and statements within ten (10) days following Tenant's receipt of Landlord's written request therefor.

ARTICLE XX
Rights Reserved by Landlord

20.1 Landlord expressly reserves all rights in and with respect to the land hereby leased not inconsistent with Tenant's use of the Premises as provided in this Lease, including (without in any way limiting the generality of the foregoing) all rights to the subsurface of the land more than five (5) feet below ground level, except where building improvements extend more than five (5) feet below ground level; and all rights to the airspace more than fifty (50) feet above the roof of any building; and the rights to enter upon the Premises for itself or to give easements to others for the purpose of installing, using, maintaining, renewing and replacing such overhead or underground water, oil, gas, sewer drainage, and other pipe lines, and telephone, electric, power, television and other lines, cables and conduits as Landlord may deem desirable in connection with the development or use of any other property in the neighborhood of the Premises, whether owned by Landlord or not, all of which pipelines, lines and conduits shall be buried to a sufficient depth or raised to a sufficient height so as not to interfere with the use or stability of the Premises.

ARTICLE XXI
Covenant of Quiet Enjoyment

21.1 Landlord does hereby covenant, promise and agree to and with Tenant that Tenant, for so long as it is not in default hereof and is in compliance with all of the terms and conditions of this Lease, shall and may at all times peaceable and quietly have, hold, use, occupy and possess the Premises throughout the term of this Lease, subject to all of the terms and conditions of this Lease, without any molestation or eviction by Landlord or any persons claiming by or through Landlord.

ARTICLE XXII
Recordation

22.1 Neither this Lease nor a short form of memorandum of this Lease shall be recorded in the office of any county recorder without Landlord's express written consent. In the event of any such recordation, Tenant shall be solely responsible for any documentary transfer taxes or other taxes relating to or arising out of any such recordation.

ARTICLE XXIII
Subordination

23.1 This Lease and Tenant's rights hereunder are and will remain subject and subordinate to any ground lease, mortgage, deed of trust or any other hypothecation for security now or hereafter placed upon the real property of which the Premises are a part (the "Property"), and to all increases, renewals, modifications, consolidations, replacements, and extensions thereof (collectively referred to as the "Mortgage"). If the holder of a Mortgage becomes the owner of the Property by reason of foreclosure or acceptance of a deed in lieu of foreclosure, at such holder's election Tenant will be bound to such holder or its successor-in-interest under all terms and conditions of this Lease, and Tenant will be deemed to have attomed to and recognized such holder or successor as Landlord's successor-in-interest for the remainder of the Lease Term or any extension thereof. The foregoing is self-operative and no further instrument of subordination and/or attornment will be necessary unless required by Landlord or the holder of a Mortgage, in which case Tenant will, within fourteen (14) days after written request, execute and deliver without charge any documents reasonably required by Landlord or such holder in order to confirm the subordination and attornment set forth above. No indemnification obligation of Landlord under this Lease shall be assumed by or binding upon any such Mortgage holder. Should the holder of a Mortgage request that this Lease and Tenant's rights hereunder be made superior, rather than subordinate, to the Mortgage, then Tenant will, within fourteen (14) days after written request, execute and deliver without charge such agreement as may be reasonably required by such holder in order to effectuate and evidence such superiority of the Lease to the Mortgage. If Landlord has made an assignment of rents and leases to the Mortgage holder, Tenant agrees to be comply with any provisions of such assignment requiring the payment of rents to the Mortgage holder.

23.2 If Tenant fails to execute and deliver any documents as and when required above, such failure will constitute a default under this Lease, entitling Landlord to the same rights and remedies as if such default were with respect to non-payment of Minimum Rent. With respect to each Mortgage that may encumber the Property at or after the commencement of the Lease Term, Landlord agrees that promptly following its receipt of written request by Tenant, Landlord will request the holder of the Mortgage to grant Tenant a "non-disturbance agreement," in the usual form used by such holder. The term "non-disturbance agreement" as used herein means, in general, an agreement that as long as Tenant is not in default under this Lease, this Lease will not be terminated if such holder acquires title to the Property by reason of foreclosure proceedings or acceptance of a deed in lieu of foreclosure, provided that Tenant attoms to such holder in accordance with such holder's requirements. Except for making such written request, Landlord will be under no duty or obligation hereunder, nor will the failure or refusal of such holder to grant a non-disturbance agreement render Landlord liable to Tenant, or affect this Lease in any manner.

ARTICLE XXIV
Security Deposit

24.1 As security for the faithful performance of the terms, covenants, conditions and provisions of this Lease, as well as to indemnify Landlord from any damages, costs, expenses, real estate brokerage commissions or attorneys' fees which

Landlord may incur or suffer by reason of any default by Tenant, Tenant hereby agrees to deposit with Landlord, upon execution of this Lease, the sum set forth in Item 1.10 of the Basic Lease Provisions. If the Minimum Rent shall, from time to time, increase during the term of this Lease, Tenant shall thereupon deposit with Landlord additional security deposit so that the amount of security deposit held by Landlord shall at all times bear the same proportion to current Minimum Rent as the original security deposit bears to the original Minimum Rent set forth in Item 1.6 of the Basic Lease Provisions. Landlord shall not be required to keep said deposit separate from its general accounts. No interest shall be paid by Landlord to Tenant on said deposit, and no trust relationship is created between Landlord and Tenant with respect to the security deposit.

24.2 In the event Tenant shall be in default hereof at any time prior to the end of the term hereof, then Landlord may apply all or any portion of the security deposit in payment of Landlord's costs, expenses, damages, real estate broker's commissions, and attorneys' fees in enforcing the terms, covenants, conditions and provisions hereof. Nothing herein contained shall be construed to mean that the recovery of damages by Landlord against Tenant shall be limited to the sum of the security deposit. In the event any portion or all of the security deposit is applied by Landlord in accordance with the foregoing, then Tenant shall immediately deposit with Landlord additional sums so that the security deposit in the hands of Landlord shall be at all times not less than the sum of the deposit herein provided for.

24.3 Should the Lease Term and the occupancy of the Premises by Tenant fail to commence through no fault of Tenant, then Landlord shall return the security deposit and any prepaid rent then possessed by Landlord to Tenant within thirty (30) days after such event occurs. If this Lease should terminate for any reason other than the default of Tenant, Landlord shall return the security deposit to Tenant promptly after Landlord's inspection of the Premises and confirmation that the Premises are surrendered in the condition as required under the terms of this Lease.

ARTICLE XXV
Holding Over

25.1 If Tenant remains in possession of all or any portion of the Premises after the expiration of the Lease Term or any extension or renewal hereof, such holding over shall not operate to extend or renew this Lease but shall be construed as a tenancy from month-to-month which may be terminated by Landlord upon three (3) days' prior written notice if Tenant is then in default of this Lease, or by either party upon at least thirty (30) days' prior written notice directed to the end of a calendar month. Such month-to-month tenancy by Tenant shall be subject to all the terms and provisions of this Lease, except that the Minimum Rent payable during the period of holding over shall be one hundred twenty five percent (125%) of the average monthly Minimum Rent payable by Tenant during the last twelve (12) months of the Lease Term or any extension or renewal thereof. Any options, rights, or privileges granted to Tenant, if any, to extend the Lease Term, to acquire the Premises, or re-lease the same, shall not be applicable during said period of holding over.

ARTICLE XXVI
General

26.1 Remedies Cumulative. The specific remedies to which Landlord may resort under the terms of this Lease are cumulative and are not intended to be exclusive of any other remedies or means of redress to which Landlord may be lawfully entitled in case of any breach or threatened breach by Tenant of any provision of this Lease.

26.2 Successors and Assigns. The covenants and agreements herein contained shall bind and inure to the benefit of Landlord, its successors and assigns, and Tenant, its successors and assigns, subject to the provisions of this Lease.

26.3 Payments and Interest. Except as otherwise specifically provided in this Lease, each covenant, agreement or stipulation by a party hereto shall be performed at such party's own cost and expense, and without cost or expense to the other party. Any monetary obligations due from Tenant to Landlord which are not paid when due shall bear interest from the due date until paid to Landlord at the Lease Interest Rate. Such interest shall be paid at the time of payment of the principal obligation as a condition of remedy of such principal obligation. Any check tendered by Tenant which is dishonored by the drawee bank shall not constitute payment of any obligation under this Lease. If any check tendered by Tenant is dishonored by the drawee bank, then the checks for all payment obligations of Tenant under this Lease for the next twelve months shall be in the form of cashiers' checks drawn on a major bank with offices located throughout the state of California.

26.4 Late Charge. Tenant acknowledges that late payment of Minimum Rent and items designated in this Lease as additional rent will cause Landlord to incur costs and suffer damages not contemplated by this Lease, the exact amount of which will be impracticable to ascertain. Such costs and damages include, but are not limited to, late charges which may be imposed on Landlord by the terms of any trust deed covering the Premises; additional administrative duties of Landlord's personnel in determining delinquent rents and attempts to collect such rents by reasonable means other than litigation; additional accounting and budgetary duties of Landlord's personnel; possible adverse effects on Landlord's credit rating resulting from impairment of Landlord's cash flow; and attorneys' fees resulting from consultations with counsel. Accordingly, if any installment of Minimum Rent or items designated as additional rent are not received by Landlord within ten (10) days after the same are due, Tenant shall pay Landlord, as additional rent, a late charge equal to three percent (3%) of such overdue amount. Landlord and Tenant agree that such late charge represents a fair, equitable, and reasonable estimate of the costs and damages Landlord will incur because of Tenant's late payment.

26.5 Late Payments and Impounds. Intentionally deleted.

26.6 Notices. Any notice or demand required or permitted by law or by any of the provisions of this Lease shall be in writing. All notices or demands by either party shall be deemed to have been properly given upon delivery when served personally; two (2) business days after being deposited with the U.S. Postal Service when sent by registered or certified mail, postage prepaid; or by noon on the business day following the day of deposit with an overnight express carrier when sent by overnight express service, such as Federal Express. Notices from Landlord to Tenant shall be given to Tenant at the address as stated in Paragraph 1.14 of the Basic Lease Provisions. Notices or demands to Landlord shall be given to Landlord at 22010 Wilmington Avenue, Suite 400, Carson, California 90745. Either party hereto may change the place to which notices are to be given by advising the other party in writing.

26.7 Captions. The headings or captions of Articles in this Lease are for convenience and reference only, and they in no way define, limit or describe the scope or intent of this Lease or the provisions of such Articles.

26.8 Pronouns and Singular/Plural. Feminine or neuter pronouns shall be substituted for those masculine form or vice versa, and the plural shall be substituted for the singular number of vice versa, in the place or places herein where the context may require such substitution or substitutions.

26.9 Time of Essence. Time is hereby declared to be of the essence of this Lease and of each and every covenant, term, condition or provision hereof.

26.10 Reasonable Consent. Unless otherwise provided in this Lease, whenever the consent or approval of Landlord or Tenant is required by the provisions of this Lease, such consent or approval shall not be unreasonably withheld or delayed.

26.11 Fair Meaning. The language in all parts of this Lease shall be in all cases construed as a whole according to its fair meaning, and not strictly for nor against either Landlord or Tenant.

26.12 Entire Agreement. This Lease contains all of the agreements of the parties hereto with respect to any matter covered or mentioned in this Lease, and no prior agreement or understanding pertaining to any such matter shall be effective for any purpose. No provision of this Lease may be amended or added to except by an agreement in writing signed by the parties hereto or their respective successors in interest.

26.13 No Accord and Satisfaction. No payment by Tenant or receipt by Landlord of a lesser amount than that stipulated herein for Minimum Rent, additional rent or any other charge shall be deemed to be other than on account of the earliest stipulated Minimum Rent, additional rent or other charge then due, nor shall any endorsement or statement on a check or letter accompanying any check or payment be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to rights to recover the balance of such Minimum Rent, additional rent, or other charges or pursue any other remedy in this Lease, at law or in equity.

26.14 Choice of Law. This Lease shall be governed by and construed pursuant to the laws of the State of California.

26.15 Non-Discrimination. Tenant herein covenants by and for itself, its heirs, executors, administrators and assigns, and all persons claiming under or through it; and this Lease is made and accepted upon and subject to the following conditions: That there shall be no discrimination against or segregation of any person or group of persons, on account of race, color, creed, national origin, or ancestry in the leasing, subleasing, transferring, use, occupancy, tenure or enjoyment of the Premises, nor shall the Tenant itself, or any person claiming under or through it, establish or permit any such practice or practices of discrimination or segregation with reference to the selection, location, number, use or occupancy of tenant's, lessees, sublessees or vendees on the Premises.

26.16 Counterparts. This Lease may be executed in several counterparts, each of which shall constitute an original.

26.17 Corporate Resolution. If Tenant is a corporation, Tenant shall deliver to Landlord, contemporaneously with delivery of this Lease executed by Tenant, a certified copy of a resolution of Tenant's Board of Directors authorizing the execution of this Lease and naming the representatives authorized to execute this Lease on behalf of Tenant.

26.18 Reimbursements to Landlord. If Tenant, or any third party on behalf of Tenant or with whom Tenant is engaged or contemplates engaging in business, requests that Landlord review or approve any drawings, specifications or engineering calculations respecting any improvements Tenant intends to install in the Premises or execute any agreement or written instrument; and if Landlord refers such matter to any architect, engineer, surveyor or other professional or administrative personnel of Landlord or to legal counsel for review and advice to Landlord, then Tenant agrees to reimburse Landlord as additional rent for all professional fees and costs incurred by Landlord at the actual cost thereof for persons not in the direct employ of Landlord, and at the rate of Seventy-Five Dollars (\$75.00) per hour for all time spent by professional and administrative persons in the direct employ of Landlord. If Tenant requests that Landlord consent to an assumption and/or assignment of this Lease or a subletting of the Premises to a third party for which Landlord's written consent is required, Tenant agrees to reimburse Landlord, as additional rent, for all time spent by Landlord's administrative and professional personnel, in reviewing the proposed form of all legal documents submitted by Tenant and preparing necessary additional legal documents, in evaluating the investigating the credit worthiness of the proposed assignee or subtenant, in inspecting the Premises to determine if the same is in the condition and state of repair as required by this Lease, in reviewing drawings and

specifications for any additional improvements to be made to the Premises, and for any other action required in the reasonable judgment of Landlord. Landlord shall be reimbursed at the rate of Seventy-Five Dollars (\$75.00) per hour for the time spent by its administrative and professional personnel, (or in the amount of One Thousand Dollars (\$1,000.00), whichever is greater), and at the actual cost of professional fees and costs incurred by Landlord for persons not in the direct employ of Landlord, for each such request made by Tenant. The hourly fee payable to Landlord's administrative and professional personnel under this Paragraph shall be increased by two percent (2%) on each anniversary date of the commencement of the term of this Lease.

26.19 No Guard Service. Tenant hereby acknowledges that the rent payable to Landlord hereunder does not include the cost of guard service or other security measures, and that Landlord shall have no obligation whatsoever to provide any such service or measures. Tenant assumes all responsibility for the protection of Tenant, its agents and invitees from acts of third parties.

26.20 Brokers. Tenant represents and warrants to Landlord that Tenant has had no dealings with any real estate broker, finder or other person with respect to this Lease in any manner, excepting only the brokers specifically named in Item 1.11 of the Basic Lease Provisions. Tenant hereby indemnifies and holds Landlord harmless from any liability or claim that may be asserted against Landlord by any broker, finder or person with whom Tenant has purportedly dealt whose name is not inserted in Item 1.11 of the Basic Lease Provisions.

26.21 Brokerage Commission. Tenant acknowledges its understanding that Landlord has paid a real estate brokerage commission for securing Tenant's tenancy at the Premises for the term of this Lease. If Tenant defaults under this Lease and discontinues paying the rent specified herein, Tenant shall, within thirty (30) days of such event, reimburse Landlord for the unamortized portion of such brokerage commission pursuant to the following formula:

$$\frac{\text{Total amount of brokerage commission}}{\text{Number of months of lease term}} \times \text{Number of months of unexpired lease term}$$

26.22 Limitation of Liability. Tenant hereby agrees that, in the event of any actual or alleged failure, breach or default hereunder by Landlord, Tenant's sole and exclusive remedy shall be against and shall be satisfied from the Landlord's equity interest in the Premises. Tenant agrees that the obligations of Landlord under this Lease do not constitute personal obligations of the individual directors, officers or shareholders of Landlord, and Tenant shall not seek recourse against the individual directors, officers or shareholders of Landlord or any of their personal assets for satisfaction of any liability with respect to this Lease.

26.23 Parking. Tenant shall instruct and require that Tenant's employees, agents, visitors and business invitees park motor vehicles within the Tenant Yard Area; and such employees, agents, visitors and invitees shall not park on the streets. If there is insufficient parking area included in the Tenant yard Area for parking of such motor vehicles, Tenant shall use its best efforts to obtain off-street parking privileges on other properties in the vicinity of the Premises.

26.24 Lease Reviewed. Landlord and Tenant have carefully read and reviewed this Lease and each term and provision contained herein, and each of them has referred this Lease to its own legal counsel for review and advice as to the legal consequences of this Lease. Landlord and Tenant acknowledge their informed and voluntary consent thereto. Landlord and Tenant further agree that, at the time this Lease is executed, the terms of this Lease are commercially reasonable and effectuate the intent and purpose of Landlord and Tenant with respect to the Premises.

26.25 Financial Statements. As a material inducement to Landlord's execution of this Lease, Tenant hereby represents and warrants that Tenant has furnished to Landlord true, complete, current and unqualified audited financial statements of Tenant and any guarantor of Tenant for the last three (3) years prepared in accordance with generally accepted accounting principles in a manner consistently applied in each case. Throughout the Lease Term, Tenant shall, within ten (10) days following Landlord's request, provide Landlord with Tenant's then-current financial statements. Landlord shall maintain such financial statements in confidence, except for disclosure to prospective purchasers of the Premises and prospective lenders whose loans would be secured in whole or in part by this Lease or the Premises. Throughout the Lease Term, Tenant will furnish to Landlord prompt notice of (i) any material obligation or material adverse development with respect to the business, financial condition or results of operations of Tenant; and (ii) any default under this Lease or any event, the occurrence or nonoccurrence of which constitutes, or which with the giving of notice or the passage of time or both would constitute, a default under Lease.

26.26 Lease Interest Rate. As used in this Lease, the "Lease Interest Rate" shall be a rate equal to two percent (2%) per year in excess of the "Reference Rate" most recently announced by Bank of America, Los Angeles from time to time, provided however that if Bank of America ceases to announce such Reference Rate, then such rate shall be a rate comparable to such Reference Rate; and provided further, however, that in no event shall the Lease Interest Rate exceed the highest lawful rate of interest permissible by law.

IN WITNESS WHEREOF, the parties hereto have executed this Lease as of the day and year first above written.

"LANDLORD"

Watson Land Company,
a California corporation

/s/ Bruce A. Choate
Signature

President/CEO
Title

Bruce A. Choate
Printed Name

10-18-06
Date

/s/ Kirk R. Johnson
Signature

Executive Vice President
Title

Kirk R. Johnson
Printed Name

10-18-06
Date

"TENANT"

Hansen Beverage Company,
a Delaware corporation

/s/ Rodney C. Sacks
Signature

Chairman
Title

Rodney C. Sacks
Printed Name

10-15-06
Date

Signature

Title

Printed Name

Date

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 33-92526, No. 333-41333, No. 333-89123, No. 333-112482, and No. 333-131467 on Form S-8 of our reports dated June 5, 2007, relating to the consolidated financial statements and financial statement schedule of Hansen Natural Corporation and subsidiaries (which report on the consolidated financial statements and financial statement schedule expresses an unqualified opinion and includes an explanatory paragraph referring to the adoption of Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" in 2006) and management's report on the effectiveness of internal control over financial reporting, appearing in this Annual Report on Form 10-K of Hansen Natural Corporation for the year ended December 31, 2006.

/s/ DELOITTE & TOUCHE LLP

Costa Mesa, California
June 5, 2007

CERTIFICATION PURSUANT TO RULE 13A-14(a) OR 15D-14(a) OF THE SECURITIES
EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Rodney Sacks, certify that:

1. I have reviewed this annual report on Form 10-K of Hansen Natural Corporation;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 5, 2007

/s/ Rodney C. Sacks

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

CERTIFICATION PURSUANT TO RULE 13A-14(a) OR 15D-14(a) OF THE SECURITIES
EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Hilton Schlosberg, certify that:

1. I have reviewed this annual report on Form 10-K of Hansen Natural Corporation;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 5, 2007

/s/ Hilton H. Schlosberg

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

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 annual report of Hansen Natural Corporation (the "Company") on Form 10-K for the year ended December 31, 2006 as filed with the Securities and Exchange Commission (the "Report"), the undersigned, Rodney C. Sacks, Chairman of the Board of Directors and Chief Executive Officer of the Company, certifies, 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: June 5, 2007

/s/ Rodney C. Sacks

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

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-K for the year ended December 31, 2006 as filed with the Securities and Exchange Commission (the "Report"), the undersigned, Hilton H. Schlosberg, Vice Chairman of the Board of Directors, President, Chief Operating Officer, Chief Financial Officer and Secretary of the Company, certifies, 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: June 5, 2007

/s/ Hilton H. Schlosberg

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