

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

**Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2007

Commission File Number 0-18761

HANSEN NATURAL CORPORATION

(Exact name of Registrant as specified in its charter)

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

550 Monica Circle, Suite 201
Corona, California 92880
(Address of principal executive offices) (Zip code)

(951) 739 – 6200
(Registrant's telephone number, including area code)

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

Yes No

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.

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 Registrant had 92,266,100 shares of common stock, par value \$0.005 per share, outstanding as of October 25, 2007.

HANSEN NATURAL CORPORATION AND SUBSIDIARIES
SEPTEMBER 30, 2007

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PART I – FINANCIAL INFORMATION**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

HANSEN NATURAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2007 AND DECEMBER 31, 2006
(In Thousands, Except Share Amounts) (Unaudited)

	<u>September 30,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 59,074	\$ 35,129
Short-term investments	196,371	101,667
Accounts receivable, net	90,046	54,624
Inventories	94,025	77,013
Prepaid expenses and other current assets	5,425	771
Prepaid income taxes	9,210	-
Deferred income taxes	7,049	5,953
Total current assets	<u>461,200</u>	<u>275,157</u>
PROPERTY AND EQUIPMENT, net	8,404	5,565
DEFERRED INCOME TAXES	13,537	5,001
INTANGIBLES, net	23,922	21,202
OTHER ASSETS	1,227	1,447
	<u>\$ 508,290</u>	<u>\$ 308,372</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 81,201	\$ 34,362
Accrued liabilities	5,987	9,465
Accrued distributor terminations	5,784	7,024
Customer deposit liabilities	-	3,324
Accrued compensation	4,177	4,378
Current portion of long-term debt	670	299
Income taxes payable	-	3,991
Total current liabilities	<u>97,819</u>	<u>62,843</u>
LONG-TERM DEBT, less current portion	-	4
DEFERRED REVENUE	40,188	20,441
COMMITMENTS AND CONTINGENCIES (Note 9)		

STOCKHOLDERS' EQUITY:

Common stock - \$0.005 par value; 120,000,000 shares authorized; 95,311,190 shares issued and 92,654,128 outstanding as of September 30, 2007; 92,713,212 shares issued and 90,059,124 outstanding as of December 31, 2006

	477	464
Additional paid-in capital	89,900	48,892
Retained earnings	308,548	204,242
Common stock in treasury, at cost; 2,657,062 shares as of September 30, 2007 and 2,654,088 shares as of December 31, 2006	<u>(28,642)</u>	<u>(28,514)</u>
Total stockholders' equity	<u>370,283</u>	<u>225,084</u>
	<u>\$ 508,290</u>	<u>\$ 308,372</u>

See accompanying notes to condensed consolidated financial statements.

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**HANSEN NATURAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE- AND NINE-MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(In Thousands, Except Per Share Amounts) (Unaudited)**

	Three-Months Ended		Nine-Months Ended	
	September 30		September 30	
	2007	2006	2007	2006
NET SALES	\$ 247,211	\$ 178,647	\$ 657,826	\$ 454,430
COST OF SALES	<u>118,829</u>	<u>86,463</u>	<u>315,555</u>	<u>218,258</u>
GROSS PROFIT	128,382	92,184	342,271	236,172
OPERATING EXPENSES	<u>55,002</u>	<u>49,842</u>	<u>175,559</u>	<u>113,249</u>
OPERATING INCOME	73,380	42,342	166,712	122,923
INTEREST INCOME, net	<u>2,161</u>	<u>1,047</u>	<u>5,439</u>	<u>2,620</u>
INCOME BEFORE PROVISION FOR INCOME TAXES	75,541	43,389	172,151	125,543
PROVISION FOR INCOME TAXES	<u>29,744</u>	<u>16,932</u>	<u>67,845</u>	<u>49,795</u>
NET INCOME	<u>\$ 45,797</u>	<u>\$ 26,457</u>	<u>\$ 104,306</u>	<u>\$ 75,748</u>
NET INCOME PER COMMON SHARE:				
Basic	<u>\$ 0.50</u>	<u>\$ 0.29</u>	<u>\$ 1.15</u>	<u>\$ 0.84</u>
Diluted	<u>\$ 0.46</u>	<u>\$ 0.27</u>	<u>\$ 1.06</u>	<u>\$ 0.77</u>
WEIGHTED AVERAGE NUMBER OF SHARES OF COMMON STOCK AND COMMON STOCK EQUIVALENTS:				
Basic	<u>91,572</u>	<u>90,509</u>	<u>90,589</u>	<u>89,897</u>
Diluted	<u>98,895</u>	<u>98,839</u>	<u>98,586</u>	<u>98,778</u>

See accompanying notes to condensed consolidated financial statements.

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**HANSEN NATURAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE-MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(In Thousands) (Unaudited)**

Nine-Months Ended
September 30, September 30,

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 104,306	\$ 75,748
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and other amortization	1,530	1,156
Loss on disposal of property and equipment	25	18
Stock-based compensation	6,348	6,519
Deferred income taxes	(9,632)	(6,220)
Tax benefit from exercise of stock options	(27,332)	(17,109)
Provision for doubtful accounts	159	6
Effect on cash of changes in operating assets and liabilities:		
Accounts receivable	(35,581)	(40,171)
Inventories	(17,012)	(49,283)
Prepaid expenses and other current assets	(4,654)	(819)
Prepaid income taxes	(9,210)	638
Accounts payable	46,310	36,936
Accrued liabilities	(3,478)	10,949
Accrued distributor terminations	(1,240)	-
Customer deposit liabilities	(3,324)	6,224
Accrued compensation	(201)	(744)
Income taxes payable	23,341	28,534
Deferred revenue	19,747	12,176
Net cash provided by operating activities	<u>90,102</u>	<u>64,558</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales and maturities of held-to-maturity investments	3,528	18,407
Sales of available-for-sale investments	93,878	91,720
Purchases of held-to-maturity investments	-	(23,852)
Purchases of available-for-sale investments	(192,110)	(157,113)
Purchases of property and equipment	(2,995)	(2,444)
Proceeds from sale of property and equipment	257	127
Additions to trademarks	(2,762)	(1,147)
Decrease (increase) in other assets	104	(174)
Net cash used in investing activities	<u>(100,100)</u>	<u>(74,476)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(602)	(924)
Tax benefit from exercise of stock options	27,332	17,109
Issuance of common stock	7,213	3,712
Purchases of common stock held in treasury	-	(27,699)
Net cash provided by (used in) financing activities	<u>33,943</u>	<u>(7,802)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	23,945	(17,720)
CASH AND CASH EQUIVALENTS, beginning of period	35,129	61,654
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 59,074</u>	<u>\$ 43,934</u>
SUPPLEMENTAL INFORMATION:		
Cash paid during the year for:		
Interest	\$ 33	\$ 41
Income taxes	<u>\$ 63,436</u>	<u>\$ 26,841</u>

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**HANSEN NATURAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE-MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(In Thousands) (Unaudited) (Continued)**

SUPPLEMENTAL DISCLOSURE OF NON-CASH ITEMS

The Company entered into capital leases for the acquisition of promotional vehicles of \$969 and \$900 for the nine-months ended September 30, 2007 and 2006, respectively.

The Company purchased \$529 of property, plant and equipment which was included in accounts payable as of September 30, 2007.

See accompanying notes to condensed consolidated financial statements.

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

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Reference is made to the Notes to Consolidated Financial Statements, in the Company's Annual Report on Form 10-K for the year ended December 31, 2006 ("Form 10-K"), for a summary of significant accounting policies utilized by Hansen Natural Corporation ("Hansen" or the "Company") and its wholly-owned subsidiaries, Hansen Beverage Company ("HBC") and Monster LDA Company ("MLDA"), formerly known as Hard e Beverage Company ("HEB") and previously known as Hard Energy Company and as CVI Ventures, Inc., and other disclosures, which should be read in conjunction with this Quarterly Report on Form 10-Q ("Form 10-Q"). HBC owns all of the issued and outstanding common stock of Blue Sky Natural Beverage Co. ("Blue Sky") and Hansen Junior Juice Company ("Junior Juice").

The Company's financial statements included in this Form 10-Q have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and Securities and Exchange Commission ("SEC") rules and regulations applicable to interim financial reporting. They do not include all the information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP. The information set forth in these interim condensed consolidated financial statements for the three- and nine-months ended September 30, 2007 and 2006 is unaudited and reflects all adjustments, which include only normal recurring adjustments and which in the opinion of management are necessary to make the interim condensed consolidated financial statements not misleading. Results of operations for periods covered by this report may not necessarily be indicative of results of operations for the full year.

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

Stock Split and Amendment of Articles of Incorporation – 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 condensed consolidated financial statements include the effects of the stock split 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 stock split.

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. Generally, ownership of and title to the Company's products passes to customers upon delivery of the products to customers. In certain cases, certain of the Company's distributors may also perform a separate function as a copacker on the Company's behalf. In such cases, ownership of and title to the Company's products that are copacked on the Company's behalf by those copackers who are also distributors, passes to the distributors when the Company is notified by such distributors that they have taken transfer or possession of the relevant portion of the Company's finished goods.

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

Management believes that adequate provision has been made for cash discounts, returns and spoilage based on the Company's historical experience.

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

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 and are recognized in net sales ratably over the anticipated 20-year life of the respective Anheuser-Busch Distribution Agreements (the "AB Distribution Agreements") (see Note 13).

2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("SFAS No. 157"), 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 periods

within those fiscal years. The Company is currently evaluating the effect of adopting SFAS No. 157 on its condensed 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 for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS No. 159 on its condensed consolidated financial statements.

3. 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 investments in debt securities in one of two categories: held-to-maturity or available-for-sale in accordance with 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 the held-to-maturity category are classified as available-for-sale. No securities are held for speculative or trading purposes.

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

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 of 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 any periods presented.

Amortized cost, gross unrealized holding gains and losses and fair value for available-for-sale and held-to-maturity short-term investments at September 30, 2007 and December 31, 2006 are as follows:

September 30, 2007	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value	Continuous Unrealized Loss Position Less than 12 Months
Held-to-maturity					
Municipal bonds	\$ -	\$ -	\$ -	\$ -	\$ -
	-	-	-	-	-
Available-for-sale					
Municipal bonds	196,371	-	-	196,371	-
	196,371	-	-	196,371	-
	<u>\$ 196,371</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 196,371</u>	<u>\$ -</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>

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

4. INVENTORIES

Inventories consist of the following at:

	September 30, 2007	December 31, 2006
Raw materials	\$ 24,854	\$ 20,488
Finished goods	69,171	56,525
	<u>\$ 94,025</u>	<u>\$ 77,013</u>

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at:

	September 30, 2007	December 31, 2006
Leasehold improvements	\$ 1,827	\$ 647
Furniture and office equipment	3,818	2,191
Equipment	1,937	1,941
Vehicles	5,061	3,797
	12,643	8,576
Less: accumulated depreciation and amortization	(4,239)	(3,011)
	<u>\$ 8,404</u>	<u>\$ 5,565</u>

6. INTANGIBLES

Intangibles consist of the following at:

	September 30, 2007	December 31, 2006
Amortizing trademarks	\$ 1,169	\$ 1,169
Accumulated amortization	(387)	(345)
	782	824
Non-amortizing trademarks	23,140	20,378
	<u>\$ 23,922</u>	<u>\$ 21,202</u>

All amortizing trademarks have been assigned an estimated 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). Amortization expense recorded was \$ 0.01 million for both the three-months ended September 30, 2007 and 2006, respectively and was \$0.04 million for both the nine-months ended September 30, 2007 and 2006, respectively. As of September 30, 2007, future estimated amortization expense related to amortizing trademarks through September 30, 2012 is approximately \$0.05 million per year.

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

7. SPECIAL MEETING OF STOCKHOLDERS

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.

8. EARNINGS PER SHARE

A reconciliation of the weighted average shares used in the basic and diluted earnings per common

share computations for the three- and nine-months ended September 30, 2007 and 2006 is presented below:

(In Thousands)	Three-Months Ended		Nine-Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Weighted-average shares outstanding:				
Basic	91,572	90,509	90,589	89,897
Dilutive securities	7,323	8,330	7,997	8,881
Diluted	98,895	98,839	98,586	98,778

For the three-months ended September 30, 2007 and 2006, options outstanding totaling 0.27 million and 0.04 million shares, respectively, were excluded from the calculations as their effect would have been antidilutive. For the nine-months ended September 30, 2007 and 2006, options outstanding totaling 0.18 million and 0.04 million shares, respectively, were excluded from the calculations as their effect would have been antidilutive.

9. COMMITMENTS AND CONTINGENCIES

Purchase Commitments – The Company has purchase commitments aggregating approximately \$12.4 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 and are due within the next twelve months.

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. Under the terms of the agreement, if the Company fails 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 \$7.3 million subject to compliance by Rexam with certain conditions.

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

Facilities Commitments - In October 2006, the Company entered into a lease agreement pursuant to which it 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 replaced the Company’s existing warehouse and distribution space located in Corona, California. The Company has sublet in excess of 50% of its previous office, warehouse and distribution space for the remainder of that lease term which expires in October 2010.

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. The property is located adjacent to the newly leased warehouse and distribution space in Corona, California. The Company is reviewing the feasibility of constructing a new office building on such land, which will replace the Company’s existing office space. In the interim, the Company has relocated its corporate offices in September 2007 to newly leased offices located at 550 Monica Circle, Suite 201, Corona, CA 92880.

Litigation – 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. In June 2007, the parties entered into a confidential settlement agreement resolving the parties’ disputes in the litigation. National subsequently repudiated the settlement agreement and HBC responded by filing a motion in the United States District Court for the Central District of California to enforce the terms of the confidential settlement agreement. On August 14, 2007, the United States District Court entered an Order enforcing the settlement agreement and permanently enjoining National from manufacturing, distributing, shipping, marketing, selling and offering to sell “Freek” energy drinks in containers using the original “Freek” trade dress that was subject to the District Court’s preliminary injunction. National filed a notice of appeal with the Ninth Circuit Court of Appeals of the United States. National requested the District Court to stay this Order pending its appeal to the Court of Appeals for the Ninth Circuit, which was subsequently denied by the District Court. The Ninth Circuit Court of Appeals has not yet docketed National’s appeal.

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 defendants cross-claimed seeking an order to restrain HBC from selling, or offering for sale, or promoting in Australia any drink product under the Monster Energy® or Monster® trademarks or any similar trademarks and for costs. The trial took place in February and closing oral submissions took place in June 2007. The Judge has not rendered his decision in the case to date.

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

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. On June 11, 2007, the United States District Court, Northern District of California granted the Company's motion to dismiss Chavez's complaint with prejudice. In late June, Mr. Chavez noticed an appeal in the United States Court of Appeal for the Ninth Circuit. Mr. Chavez, as the appellant, sought an extension to file his opening brief. Mr. Chavez's brief is now due on November 7, 2007 and Hansen's response is due December 7, 2007. No oral argument has been set to date.

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.

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

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, et al. 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) and, on July 24, 2007, the Company and the individual defendants' moved to dismiss the complaint. That motion has not been fully briefed or argued before the Court. By stipulation that was so ordered by the Court on July 21, 2007, the parties agreed to the terms of a stay of discovery pending the disposition of defendants' motion to dismiss the complaint.

On April 23, 2007, the Federal Derivative Action plaintiffs filed an amended consolidated complaint and, on June 11, 2007, the Company and the individual defendants' moved to dismiss the consolidated complaint. That motion has not been fully briefed or argued before the Court.

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 superseded all previously filed class action complaints and became the operative complaint to which the Company had to respond. Lead Plaintiff alleged, 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 (collectively, the "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, as amended (the "Exchange Act"), 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. Plaintiff sought an unspecified amount of damages.

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On June 25, 2007, the Defendants moved to dismiss the consolidated class action complaint. On October 16, 2007, the District Court granted the Defendants' motions to dismiss the consolidated class action complaint with prejudice and without leave to amend. The Court then entered final judgment in favor of the Defendants.

10. INCOME TAXES

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* ("FIN 48"), on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*, and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

As a result of the implementation of FIN 48, the Company made a comprehensive review of its portfolio of uncertain tax positions in accordance with recognition standards established by FIN 48. Based on its evaluation, the Company has concluded that there are no material uncertain tax positions requiring recognition in its financial statements. The Company's evaluation was performed for the tax years ended December 31, 2006, 2005, 2004 and 2003, the tax years which remain subject to examination by major tax jurisdictions as of September 30, 2007. Effective upon adoption of FIN 48, the Company adopted the method to recognize interest and penalties accrued related to unrecognized tax benefits and penalties within its provision for income taxes. The Company had no such interest and penalties accrued at September 30, 2007.

The Company is evaluating actions it may take with respect to outstanding stock options that were affected by errors during prior periods 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 the period in which the decision is made.

The Internal Revenue Service ("IRS") began its examination of the Company's U.S. federal income tax return for the period ended December 31, 2005 on August 9, 2007. The examination is expected to be completed by October 2008.

11. STOCK-BASED COMPENSATION

The Company has two stock option plans under which shares were available for grant at September 30, 2007: 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").

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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 times and in such amounts as may be 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 September 30, 2007, options to purchase 15,994,600 shares of the Company's common stock had been granted, net of cancellations, and options to purchase 6,005,400 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 Exchange Act. As of September 30, 2007, options to purchase 76,800 shares of the Company's common stock had been granted and options to purchase 723,200 shares of the Company's common stock remained available for grant under the 2005 Directors Plan.

Under the Company's stock option plans, all grants are made at prices based on 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. The Company recorded \$2.2 million and \$2.9 million of compensation expense relating to outstanding options during the three-months ended September 30, 2007 and 2006, respectively. The Company recorded \$6.3 million and \$6.5 million of compensation expense relating to outstanding options during the nine-months ended September 30, 2007 and 2006, respectively.

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 nine-months ended September 30, 2007 and 2006 using the Black-Scholes-Merton option pricing formula:

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	Nine-Months Ended September 30,	
	2007	2006
Dividend yield	0%	0%
Expected volatility	61%	58%
Risk free interest rate	4.8%	4.7%
Expected lives	6 Years	6 Years

The following table summarizes the Company's activities with respect to its stock option plans for the nine-months ended September 30, 2007 as follows:

Options	Number of	Weighted-	Weighted-	Aggregate
---------	-----------	-----------	-----------	-----------

	Shares (in Thousands)	Average Exercise Price Per Share	Average Remaining Contractual Term (in Years)	Intrinsic Value
Outstanding at January 1, 2007	12,534	\$ 5.18	6.9	\$ 357,583
Granted	230	\$ 39.37		
Exercised	(2,598)	\$ 2.83		
Cancelled or forfeited	(80)	\$ 0.67		
Outstanding at September 30, 2007	10,086	\$ 6.61	6.5	\$ 504,990
Vested and expected to vest in the future at September 30, 2007	9,928	\$ 6.55	6.5	\$ 497,684
Exercisable at September 30, 2007	4,086	\$ 2.92	5.2	\$ 219,640

The weighted-average grant-date fair value of options granted during the three-months ended September 30, 2007 and 2006 was \$26.89 per share and \$25.37 per share, respectively. The weighted-average grant-date fair value of options granted during the nine-months ended September 30, 2007 and 2006 was \$23.56 per share and \$18.20 per share, respectively.

The total intrinsic value of options exercised during the three-months ended September 30, 2007 and 2006 was \$72.9 million and \$11.7 million, respectively. The total intrinsic value of options exercised during the nine-months ended September 30, 2007 and 2006 was \$110.0 million and \$83.3 million, respectively.

Cash received from option exercises under all plans for the three-months ended September 30, 2007 and 2006 was approximately \$3.3 million and \$0.4 million, respectively. Cash received from option exercises under all plans for the nine-months ended September 30, 2007 and 2006 was approximately \$7.2 million and \$3.7 million, respectively.

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The actual tax benefit realized for tax deductions from non-qualified stock option exercises and disqualifying dispositions of incentive stock options for the three-months ended September 30, 2007 and 2006 was \$18.0 million and \$1.1 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 nine-months ended September 30, 2007 and 2006 was \$27.3 million and \$17.3 million, respectively.

At September 30, 2007, total unrecognized compensation expense related to nonvested options granted to both employees and non-employees under the Company's share-based option plans amounted to \$25.1 million. That cost is expected to be recognized over a weighted-average period of 2.3 years.

12. 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 have been allocated to "Corporate & Unallocated."

The net revenues derived from DSD and Warehouse segments and other financial information related thereto for the three-months ended September 30, 2007 and 2006 are as follows:

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	Three-Months Ended September 30, 2007			
	DSD	Warehouse	Corporate & Unallocated	Total
Net sales	\$ 221,888	\$ 25,323	\$ -	\$ 247,211
Contribution margin	82,328	1,242	-	83,570

Corporate & unallocated expenses	-	-	(10,190)	(10,190)
Operating income				73,380
Interest income, net	(16)	-	2,177	2,161
Income before provision for income taxes				75,541
Depreciation & amortization	238	8	324	570
Trademark amortization	-	11	3	14

Three-Months Ended September 30, 2006

	DSD	Warehouse	Corporate & Unallocated	Total
Net sales	\$ 152,879	\$ 25,768	\$ -	\$ 178,647
Contribution margin	49,522	1,572	-	51,094
Corporate & unallocated expenses	-	-	(8,752)	(8,752)
Operating income				42,342
Interest income, net	(13)	-	1,060	1,047
Income before provision for income taxes				43,389
Depreciation & amortization	180	8	245	433
Trademark amortization	-	11	3	14

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

Contribution margin for the DSD division included \$0.3 million attributable to the costs associated with terminating existing distributors. Corporate and unallocated expenses were \$10.2 million for the three-months ended September 30, 2007 and included \$6.7 million of payroll costs, of which \$2.2 million was attributable to stock-based compensation expense (see Note 11, "Stock-Based Compensation"), and \$1.8 million attributable to professional service expenses, including legal and accounting fees. Included in legal and accounting fees are costs of \$0.1 million (net of \$0.8 million insurance reimbursements) in connection with the Company's special investigation of stock option grants and granting practices, related litigation and other related matters. Corporate and unallocated expenses were \$8.7 million for the three-months ended September 30, 2006 and included \$5.7 million of payroll costs, of which \$2.9 million was attributable to stock based compensation expense and \$0.9 million of professional service expenses, including legal and accounting fees. Certain items, including operating assets and income taxes, are not allocated to individual segments and therefore are not presented above.

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Two customers made up approximately 15% and 13% respectively, of the Company's net sales for the three-months ended September 30, 2007. Two customers made up approximately 19% and 12% respectively, of the Company's net sales for the three-months ended September 30, 2006.

The net revenues derived from DSD and Warehouse segments and other financial information related thereto for the nine-months ended September 30, 2007 and 2006 are as follows:

	Nine-Months Ended September 30, 2007			
	DSD	Warehouse	Corporate & Unallocated	Total
Net sales	\$ 585,610	\$ 72,216	\$ -	\$ 657,826
Contribution margin	204,645	2,929	-	207,574
Corporate & unallocated expenses	-	-	(40,862)	(40,862)
Operating income				166,712
Interest income, net	(33)	-	5,472	5,439
Income before provision for income taxes				172,151
Depreciation & amortization	644	24	820	1,488
Trademark amortization	-	33	9	42

Nine-Months Ended September 30, 2006

	DSD	Warehouse	Corporate & Unallocated	Total
Net sales	\$ 383,745	\$ 70,685	\$ -	\$ 454,430
Contribution margin	140,456	5,069	-	145,525
Corporate & unallocated expenses	-	-	(22,602)	(22,602)
Operating income				122,923
Interest income, net	(37)	(3)	2,660	2,620
Income before provision for income taxes				125,543
Depreciation & amortization	434	25	655	1,114
Trademark amortization	-	33	9	42

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

Contribution margin for the DSD division included \$15.0 million attributable to the costs associated with terminating existing distributors. Corporate and unallocated expenses were \$40.8 million for the nine-months ended September 30, 2007 and included \$18.5 million of payroll costs, of which \$6.3 million was attributable to stock-based compensation expense (see Note 11, "Stock-Based Compensation"), and \$15.8 million attributable to professional service expenses, including legal and accounting fees. Included in legal and accounting fees are costs of \$11.0 million (net of \$0.8 million insurance reimbursements) in connection with the Company's special investigation of stock option grants and granting practices, related litigation and other related matters. Corporate and unallocated expenses were \$22.6 million for the nine-months ended September 30, 2006 and included \$14.7 million of payroll costs, of which \$6.5 million was attributable to stock based

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compensation expense and \$3.0 million of professional service expenses, including legal and accounting fees. Certain items, including operating assets and income taxes, are not allocated to individual segments and therefore are not presented above.

Two customers made up approximately 16% and 13% respectively, of the Company's net sales for the nine-months ended September 30, 2007. Two customers made up approximately 19% and 11% respectively, of the Company's net sales for the nine-months ended September 30, 2006.

The Company's net sales by product line for the three- and nine-months ended September 30, 2007 and 2006, respectively, were as follows:

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2007	2006	2007	2006
Energy drinks Non-carbonated (primarily juice based beverages)	\$ 222,649	\$ 154,006	\$ 588,599	\$ 387,530
Carbonated (primarily soda beverages)	16,578	17,479	46,856	45,938
	7,984	7,162	22,371	20,962
	<u>\$ 247,211</u>	<u>\$ 178,647</u>	<u>\$ 657,826</u>	<u>\$ 454,430</u>

13. DISTRIBUTION COORDINATION AGREEMENT

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 amounts totaling \$1.3 million and \$12.3 million were recorded by the Company related to such newly appointed AB Distributors for the costs of terminating the Company's prior distributors in the three-months ended September 30, 2007 and 2006, respectively. Non-refundable amounts totaling \$21.1 million and \$12.3 million were recorded by the Company related to such newly appointed AB Distributors for the costs of terminating the Company's prior distributors in the nine-months ended September 30, 2007 and 2006, respectively. Such amounts have been accounted for as deferred revenue in the accompanying condensed consolidated balance sheet as of September 30, 2007 and December 31, 2006, and will be recognized as revenue ratably over the anticipated 20 year life of the respective AB Distribution Agreements. Revenue recognized was \$0.5 million and \$0.2 million for the three-months ended September 30, 2007 and 2006, respectively. Revenue recognized was \$1.4 million and \$0.2 million for the nine-months ended September 30, 2007 and 2006, respectively. Related distributor receivables of \$8.2 million and \$4.5 million are included in accounts receivable net, in the accompanying condensed consolidated balance sheets as of September 30, 2007 and December 31, 2006, respectively.

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As of December 31, 2006, amounts totaling \$3.3 million were received by the Company from 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. As of September 30, 2007, there were no amounts received by the Company from certain other AB Distributors in anticipation of executing AB Distribution Agreements with the Company.

The Company incurred termination costs amounting to \$0.3 million and \$9.5 million in aggregate during the three-months ended September 30, 2007 and 2006, respectively, to certain of its prior distributors. The Company incurred termination costs amounting to \$15.0 million and \$9.8 million in aggregate during the nine-months ended September 30, 2007 and 2006, respectively, to certain of its prior distributors. Such termination costs have been expensed in full and are included in operating expenses for the three- and nine-months ended September 30, 2007 and 2006. Accrued distributor terminations in the accompanying condensed consolidated balance sheets as of September 30, 2007 and December 31, 2006 were \$5.8 million and \$7.0 million, respectively.

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.

14. RELATED PARTY TRANSACTIONS

A director of the Company is a partner in a law firm that serves as counsel to the Company. Expenses incurred in connection with services rendered to the Company during the three-months ended September 30, 2007 and 2006 were \$1.2 million and \$0.1 million, respectively. Expenses incurred in connection with services rendered to the Company during the nine-months ended September 30, 2007 and 2006 were \$4.8 million and \$0.5 million, 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 three-months ended September 30, 2007 and 2006 were \$0.09 million and \$0.3 million, respectively. Expenses incurred with such company in connection with promotional materials purchased during the nine-months ended September 30, 2007 and 2006 were \$0.5 million and \$0.7 million, respectively.

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

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, 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 the Java Monster™ line of non-carbonated dairy based coffee drinks, 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, Direct Store Delivery (“DSD”), whose principal products comprise energy drinks, and Warehouse (“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.

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, motocross, freestyle, surfing, skateboarding, wakeboarding, skiing, snowboarding, BMX, mountain biking, snowmobile racing, etc., and we also participate in musical concerts, 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 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 increase the sales of our products.

Pursuant to the AB Distribution Agreements entered into with newly appointed AB Distributors, non-refundable amounts totaling \$1.3 million and \$12.3 million were recorded by us related to such newly appointed AB Distributors for the costs of terminating our prior distributors in the three-months ended September 30, 2007 and 2006, respectively. Non-refundable amounts totaling \$21.1 million and \$12.3 million were recorded by us related to such newly appointed AB Distributors for the costs of terminating our prior distributors in the nine-months ended September 30, 2007 and 2006, respectively. Such amounts have been accounted for as deferred revenue in the accompanying condensed consolidated balance sheet as of September 30, 2007 and December 31, 2006, and will be recognized as revenue ratably over the anticipated 20 year life of the respective AB Distribution Agreements. Revenue recognized was \$0.5 million and \$0.2 million for the three-months ended September 30, 2007 and 2006, respectively. Revenue recognized was \$1.4 million and \$0.2 million for the nine-months ended September 30, 2007 and 2006, respectively. Related distributor receivables of \$8.2 million and \$4.5 million are included in accounts receivable net, in the accompanying condensed consolidated balance sheets as of September 30, 2007 and December 31, 2006, respectively.

As of December 31, 2006, amounts totaling \$3.3 million were received by the Company from 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. As of September 30, 2007, there were no amounts received by the Company from certain other AB Distributors in anticipation of executing AB Distribution Agreements with the Company.

We incurred termination costs amounting to \$0.3 million and \$9.5 million in aggregate during the three-months ended September 30, 2007 and 2006, respectively, to certain of our prior distributors. We incurred termination costs amounting to \$15.0 million and \$9.8 million in aggregate during the nine-months ended September 30, 2007 and 2006, respectively, to certain of our prior distributors. Such termination costs have been expensed in full and are included in operating expenses for the three- and nine-months ended September 30, 2007 and 2006. Accrued distributor terminations in the accompanying condensed consolidated balance sheets as of September 30, 2007 and December 31, 2006 were \$5.8 million and \$7.0 million, respectively.

As discussed under Review of Historic Stock Option Granting Practices in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, included in our Form 10-K for the fiscal year ended December 31, 2006, and Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, included in our Form 10-Q for the quarter ended March 31, 2007, a special committee of our Board of Directors concluded its review of our stock option grants and granting practices. In connection with this review, related litigation and other related matters, we incurred professional service fees of \$0.1 million (net of \$0.8 million insurance reimbursements) and \$11.0 million (net of \$0.8 million insurance reimbursements) for the three- and nine-months ended September 30, 2007, respectively.

The following table summarizes the selected items discussed above for the three- and nine-months ended September 30, 2007 and 2006:

	Three-Months Ended		Nine-Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
	(In Thousands)	(In Thousands)	(In Thousands)	(In Thousands)
Deferred Revenue:				
Receipts from newly appointed Anheuser-Busch distributors	\$ 1,290	\$ 12,326	\$ 21,136	\$ 12,326
Operating Expenses:				
Termination payments to prior distributors	\$ 322	\$ 9,492	\$ 15,023	\$ 9,754
Professional fees associated with the review of stock option grants and granting practices, related litigation and other related matters	\$ 95 ¹	\$ -	\$ 11,000 ¹	\$ -

¹net of \$0.8 million insurance reimbursements

During the third quarter of 2007, 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.

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 achieved increased gross sales in the third quarter of 2007 as compared with the third quarter of 2006. The increase in gross sales for the three-months ended September 30, 2007 was primarily attributable to increased sales volumes of certain of our existing products, particularly our Monster Energy® brand energy drinks and to sales by volume of our Java Monster™ line of non-carbonated dairy based coffee drinks (introduced in April 2007). 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 12.7% to 11.0%. The actual amount of promotional and other allowances increased to \$30.6 million from \$26.0 million for the three-months ended September 30, 2007 and 2006, 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.*

During the three-months ended September 30, 2007, gross sales shipped outside of California represented 71.2% of our gross sales, as compared to 68.0% for the comparable period in 2006. During the nine-months ended September 30, 2007, gross sales shipped outside of California represented 71.2% of our gross sales, as compared to 67.6% for the comparable period in 2006. During the three-months ended September 30, 2007, gross sales to distributors outside the United States amounted to \$10.8 million, as compared to \$5.0 million for the three-months ended September 30, 2006. Such sales were approximately 3.9% of gross sales for the three-months ended September 30, 2007 and approximately 2.4% of gross sales for the comparable period in 2006. During the nine-months ended September 30, 2007, gross sales to distributors outside the United States amounted to \$29.9 million, as compared to \$13.6 million for the nine-months ended September 30, 2006. Such sales were approximately 4.0% of gross sales for the nine-months ended September 30, 2007 and approximately 2.6% of gross sales for the comparable period in 2006.*

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 2007 and 2006 are reflected below. The allocations below reflect changes made by us to the categories historically reported.*

	Three-Months Ended		Nine-Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Retail grocery, specialty chains and wholesalers	8%	10%	9%	12%
Club stores, drug chains and mass merchandisers	16%	14%	15%	13%
Full service distributors	72%	70%	72%	70%
Health food distributors	2%	2%	2%	2%
Other	2%	4%	2%	3%

* 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.

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 us 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 16% and 19% of our net sales for the nine-months ended September 30, 2007 and 2006, respectively. Wal-Mart, Inc. (including Sam's Club), a customer of both the DSD and Warehouse divisions, accounted for approximately 13% and 11% of our net sales for the nine-months ended September 30, 2007 and 2006, respectively.

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 antioxidant 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 packaged 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 lo-carb and juice versions of this brand in 16-ounce cans.

During 2004, we concluded exclusive contracts with the California Department of Health Services, Women, Infants 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.

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

As a result of the late filing of our 10-Q for the quarter ended September 30, 2006, our Form 10-K for the fiscal year ended December 31, 2006, and our 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 until we have been current in our reporting obligations for a period of approximately one year. We expect to be eligible to register our securities on Form S-3 after July 1, 2008. 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 Securities and Exchange Commission ("SEC") and our stock was to be delisted, it could severely impact our ability to raise future capital and could have an adverse impact on our overall future liquidity.

Results of Operations

The following table sets forth key statistics for the three- and nine-months ended September 30, 2007 and 2006, respectively.

	Three-Months Ended September 30,		Percentage Change 07 vs. 06	Nine-Months Ended September 30,		Percentage Change 07 vs. 06
	2007	2006		2007	2006	
Gross sales, net of discounts & returns*	\$ 277,845	\$ 204,627	35.8%	\$ 748,496	\$ 524,577	42.7%
Less: Promotional and other allowances**	30,634	25,980	17.9%	90,670	70,147	29.3%
Net sales	247,211	178,647	38.4%	657,826	454,430	44.8%
Cost of sales	118,829	86,463	37.4%	315,555	218,258	44.6%
Gross profit***	128,382	92,184	39.3%	342,271	236,172	44.9%
Gross profit margin as a percentage of net sales	51.9%	51.6%		52.0%	52.0%	
Operating expenses as a percentage of net sales	22.2%	27.9%		26.7%	24.9%	
Operating income as a percentage of net sales	29.7%	23.7%		25.3%	27.0%	
Operating income	73,380	42,342	73.3%	166,712	122,923	35.6%
Interest income, net	2,161	1,047	106.4%	5,439	2,620	107.6%
Income before provision for income taxes	75,541	43,389	74.1%	172,151	125,543	37.1%
Provision for income taxes	29,744	16,932	75.7%	67,845	49,795	36.2%
Effective tax rate	39.4%	39.0%		39.4%	39.7%	
Net income	\$ 45,797	\$ 26,457	73.1%	\$ 104,306	\$ 75,748	37.7%
Net income as a percentage of net sales	18.5%	14.8%		15.9%	16.7%	
Net income per common share:						
Basic	\$ 0.50	\$ 0.29		\$ 1.15	\$ 0.84	
Diluted	\$ 0.46	\$ 0.27		\$ 1.06	\$ 0.77	
Case sales (in thousands) (in 192-ounce case equivalents)	26,450	21,176	24.9%	72,796	55,286	31.7%

*Gross sales – see definition above.

** 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 Three-Months Ended September 30, 2007 Compared to the Three-Months Ended September 30, 2006

Gross Sales.* For the three-months ended September 30, 2007, gross sales were \$277.8 million, an increase of approximately \$73.2 million or 35.8% higher than gross sales of \$204.6 million for the three-months ended September 30, 2006. The increase in gross 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 August 2003), Monster Energy® Assault™ energy drinks (introduced in September 2004) and Monster Energy® Khaos™ energy drinks (introduced in August 2005), as well as sales of certain new products such as the Java Monster™ line of non-carbonated dairy based coffee drinks (introduced in April 2007) and Monster M-80™ energy drinks (introduced in March 2007). To a lesser extent, the increase in gross sales was attributable to increased sales by volume of apple juice and juice blends. The increase in gross sales was partially offset by decreased sales by volume of Lost Energy® drinks (introduced in January 2004), iced teas, Joker Mad Energy™ drinks (introduced in January 2005) and Ace™ energy drinks (introduced in August 2006). Changes in pricing did not have a material impact on the increase in gross sales for the three-months ended

September 30, 2007. Promotional and other allowances were \$30.6 million for the three-months ended September 30, 2007, an increase of \$4.7 million or 17.9% higher than promotional and other allowances of \$26.0 million for the three-months ended September 30, 2006. Promotional and other allowances as a percentage of gross sales decreased to 11.0% from 12.7% for the three-months ended September 30, 2007 and 2006, respectively. As a result, the percentage increase in gross sales for the three-months ended September 30, 2007 was lower than the percentage increase in net sales.

**Gross sales – see definition above.*

Net Sales. For the three-months ended September 30, 2007, net sales were \$247.2 million, an increase of approximately \$68.6 million or 38.4% higher than net sales of \$178.6 million for the three-months ended September 30, 2006. 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 and Monster Energy® Khaos™ energy drinks, as well as sales of certain new products such as the Java Monster™ line of non-carbonated dairy based coffee drinks and Monster M-80™ energy drinks. To a lesser extent, the increase in net sales was attributable to increased sales by volume of apple juice and juice blends. The increase in net sales was partially offset by decreased sales by volume of iced teas, Lost Energy® drinks, Joker Mad Energy™ drinks and Ace™ energy drinks. Changes in pricing did not have a material impact on the increase in net sales for the three-months ended September 30, 2007.

Case sales, in 192-ounce case equivalents, were 26.5 million cases for the three-months ended September 30, 2007, an increase of 5.3 million cases or 24.9% higher than case sales of 21.2 million cases for the three-months ended September 30, 2006. The overall average net sales price per case increased to \$9.35 for the three-months ended September 30, 2007 or 10.9% higher than the average net sales price per case of \$8.44 for the three-months ended September 30, 2006. 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.

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Net sales for the DSD segment were \$221.9 million for the three-months ended September 30, 2007, an increase of approximately \$69.0 million or 45.1% higher than net sales of \$152.9 million for the three-months ended September 30, 2006. 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 Monster Energy® Khaos™ energy drinks, as well as sales of certain new products such as the Java Monster™ line of non-carbonated dairy based coffee drinks and Monster M-80™ energy drinks. The increase in net sales was partially offset by decreased sales by volume of Lost Energy® drinks, Joker Mad Energy™ drinks and Ace™ energy drinks. Changes in pricing within the DSD segment did not have a material impact on the increase in net sales for the three-months ended September 30, 2007.

Net sales for the Warehouse segment were \$25.3 million for the three-months ended September 30, 2007, a decrease of approximately \$0.4 million or 1.7% lower than net sales of \$25.8 million for the three-months ended September 30, 2006. The decrease in net sales was primarily attributable to decreased sales by volume of iced teas. The decrease in net sales was partially offset by increased sales by volume primarily of apple juice and juice blends, sodas and aseptic juices. Changes in pricing within the Warehouse segment did not have a material impact on the decrease in net sales for the three-months ended September 30, 2007.

*Gross Profit.**** Gross profit was \$128.4 million for the three-months ended September 30, 2007, an increase of approximately \$36.2 million or 39.3% higher than the gross profit of \$92.2 million for the three-months ended September 30, 2006. Gross profit as a percentage of net sales increased slightly to 51.9% for the three-months ended September 30, 2007 from 51.6% for the three-months ended September 30, 2006. Increases in sales volumes contributed to the increase in gross profit. The increase in gross profit as a percentage of net sales was primarily due to increased sales of DSD segment products which have higher gross profit margins than those in the Warehouse segment. The increase in gross profit as a percentage of net sales was partially offset by an increase in the percentage of sales within the DSD segment of certain packages that have lower gross profit margins. The increase in gross profit as a percentage of net sales was also partially offset by an 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 certain sweeteners, certain containers and packaging materials and certain juice concentrates.

****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 \$55.0 million for the three-months ended September 30, 2007, an increase of approximately \$5.2 million or 10.4% higher than total operating expenses of \$49.8 million for the three-months ended September 30, 2006. Total operating expenses as a percentage of net sales decreased to 22.2% for the three-months ended September 30, 2007 from 27.9% for the three-months ended September 30, 2006. The increase in operating expenses was partially attributable to increased out-bound freight and warehouse costs of \$1.5 million primarily due to increased volume of shipments, increased expenditures of \$3.7 million for sponsorships and endorsements, increased expenditures of \$2.2 million for commissions and royalties, increased expenditures of \$1.5 million for sampling programs, increased payroll expenses of \$1.8 million and increased expenditures of \$1.2 million for professional services costs, including

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legal and accounting fees. Included in legal and accounting fees for the three-months ended September 30, 2007 are costs of \$0.1 million (net of \$0.8 million insurance reimbursements) in connection with our special investigation of stock option grants and granting practices, related litigation and other related matters. The increase in operating expenses was partially offset by the decrease in expenditures of \$9.2 million relating to the costs associated with terminating existing distributors. No legal and accounting fees relating to our special investigation of stock option grants and granting practices were incurred in the three-months ended September 30, 2006. The decrease in operating expenses as a percentage of net sales was primarily attributable to decreased expenditures of \$9.2 million relating to the costs associated with terminating existing distributors. Total operating expenses, exclusive of expenditures of \$0.3 million and \$9.5 for the three-months ended September 30, 2007 and 2006, respectively, attributable to the costs associated with terminating existing distributors and exclusive of expenditures of \$0.1 million (net of \$0.8 million insurance reimbursements) for the three-months ended September 30, 2007 in connection with our special investigation of stock option grants and granting practices, related litigation and other related matters, as a percentage of net sales were 22.1% for the three-months ended September 30, 2007 as compared to 22.6% for the three-months ended September 30, 2006.

Contribution Margin. Contribution margin for the DSD segment was \$82.3 million for the three-months ended September 30, 2007, an increase of approximately \$32.8 million or 66.2% higher than contribution margin of \$49.5 million for the three-months ended September 30, 2006. The increase in contribution margin for the DSD segment was primarily attributable to the increase in net sales of Monster Energy® brand energy drinks as well as sales of certain new products such as the Java Monster™ line of non-carbonated dairy based coffee drinks and Monster M-80™ energy drinks. Contribution margin for the Warehouse segment was \$1.2 million for 2007, a decrease of approximately \$0.3 million or 21.0% lower than contribution margin of \$1.6 million for 2006. The decrease in the contribution margin for the Warehouse segment was primarily attributable to a reduction in net sales as well as a reduction in gross margin as a result of increased costs of certain raw materials and production.

Operating Income. Operating income was \$73.4 million for the three-months ended September 30, 2007, an increase of approximately \$31.0 million or 73.3% higher than operating income of \$42.3 million for the three-months ended September 30, 2006. Operating income as a percentage of net sales increased to 29.7% for the three-months ended September 30, 2007 from 23.7% for the three-months ended September 30, 2006. The increase in operating income was primarily due to an increase in gross profit of \$36.2 million. The increase in operating income as a percentage of net sales was primarily attributable to decreased operating expenses as a percentage of net sales, which in turn was primarily due to a decrease in expenditures of \$9.2 million relating to the costs associated with terminating existing distributors. Operating income, exclusive of expenditures of \$0.3 million and \$9.5 for the three-months ended September 30, 2007 and 2006, respectively, attributable to the costs associated with terminating existing distributors and exclusive of expenditures of \$0.1 million (net of \$0.8 million insurance reimbursements) for the three-months ended September 30, 2007 in connection with our special investigation of stock option grants and granting practices, related litigation and other related matters, as a percentage of net sales was 29.9% for the three-months ended September 30, 2007 as compared to 29.0% for the three-months ended September 30, 2006.

Interest Income, net. Net interest income was \$2.2 million for the three-months ended September 30, 2007, an increase of \$1.1 million from net interest income of \$1.0 million for the three-months ended September 30, 2006. The increase in net interest income was primarily attributable to increased interest revenue earned on our invested cash balances which have increased significantly over the prior three-month period.

Provision for Income Taxes. Provision for income taxes for the three-months ended September 30, 2007 was \$29.7 million, as compared to provision for income taxes of \$16.9 million for the three-months ended September 30, 2006. The effective combined federal and state tax rate for the three-months ended September 30, 2007 was 39.4%, which was higher than the effective tax rate of 39.0% for the three-months ended September 30, 2006. The increase in the effective tax rate was primarily attributable to stock-based compensation relating to incentive stock options. This increase was partially offset by certain interest income earned on securities that is exempt from federal income taxes, a decrease in state taxes due to the apportionment of income to various states which have lower state tax rates and the tax benefit recognized from certain dispositions of stocks related to incentive stock options.

Net Income. Net income was \$45.8 million for the three-months ended September 30, 2007, an increase of \$19.3 million or 73.1% higher than net income of \$26.5 million for the three-months ended September 30, 2006. The increase in net income was primarily attributable to an increase in gross profit of \$36.2 million and, to a lesser extent, an increase in net interest income of approximately \$1.1 million. This was partially offset by an increase in provision for income taxes of \$12.8 million and an increase in operating expenses of \$5.2 million.

Results of Operations for the Nine-Months Ended September 30, 2007 Compared to the Nine-Months Ended September 30, 2006

*Gross Sales.** For the nine-months ended September 30, 2007 gross sales were \$748.5 million, an increase of approximately \$223.9 million or 42.7% higher than gross sales of \$524.6 million for the nine-months ended September 30, 2006. The increase in gross 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 and Monster Energy® Khaos™ energy drinks, as well as sales

of certain new products such as the Java Monster™ line of non-carbonated dairy based coffee drinks and Monster M-80™ energy drinks. To a lesser extent, the increase in gross sales was attributable to increased sales by volume of Unbound Energy® energy drinks (introduced in October 2006), apple juice and juice blends, Rumba™ brand energy juice (introduced in December 2004), aseptic juices and Junior Juice® aseptic juices. The increase in gross sales was partially offset by decreased sales by volume of Lost Energy® drinks, iced teas, Joker Mad Energy™ drinks and Hansen's® fruit juice smoothies. Changes in pricing did not have a material impact on the increase in gross sales for the nine-months ended September 30, 2007. Promotional and other allowances were \$90.7 million for the nine-months ended September 30, 2007, an increase of \$20.5 million or 29.3% higher than promotional and other allowances of \$70.1 million for the nine-months ended September 30, 2006. Promotional and other allowances as a percentage of gross sales decreased to 12.1% from 13.4% for the nine-months ended September 30, 2007 and 2006, respectively. As a result, the percentage increase in gross sales for the nine-months ended September 30, 2007 was lower than the percentage increase in net sales.

**Gross sales – see definition above.*

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Net Sales. For the nine-months ended September 30, 2007, net sales were \$657.8 million, an increase of approximately \$203.4 million or 44.8% higher than net sales of \$454.4 million for the nine-months ended September 30, 2006. 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 and Monster Energy® Khaos™ energy drinks, as well as sales of certain new products such as the Java Monster™ line of non-carbonated dairy based coffee drinks and Monster M-80™ energy drinks. To a lesser extent, the increase in net sales was attributable to increased sales by volume of Unbound Energy® energy drinks, aseptic juices, apple juice and juice blends, Rumba™ brand energy juice, Junior Juice® aseptic juices and sodas. The increase in net sales was partially offset by decreased sales by volume of Lost Energy® drinks, iced teas, and Joker Mad Energy™ drinks. Changes in pricing did not have a material impact on the increase in net sales for the nine-months ended September 30, 2007.

Case sales, in 192-ounce case equivalents, were 72.8 million cases for the nine-months ended September 30, 2007, an increase of 17.5 million cases or 31.7% higher than case sales of 55.3 million cases for the nine-months ended September 30, 2006. The overall average net sales price per case increased to \$9.04 for the nine-months ended September 30, 2007 or 10.0% higher than the average net sales price per case of \$8.22 for the nine-months ended September 30, 2006. 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 \$585.6 million for the nine-months ended September 30, 2007, an increase of approximately \$201.9 million or 52.6% higher than net sales of \$383.7 million for the nine-months ended September 30, 2006. 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 and Monster Energy® Khaos™ energy drinks, as well as sales of certain new products such as the Java Monster™ line of non-carbonated dairy based coffee drinks and Monster M-80™ energy drinks and increased sales by volume of Unbound Energy® energy drinks and Rumba™ brand energy juice. The increase in net sales was partially offset by decreased sales by volume of Lost Energy® drinks and Joker Mad Energy™ drinks. Changes in pricing within the DSD segment did not have a material impact on the increase in net sales for the nine-months ended September 30, 2007.

Net sales for the Warehouse segment were \$72.2 million for the nine-months ended September 30, 2007, an increase of approximately \$1.5 million or 2.2% higher than net sales of \$70.7 million for the nine-months ended September 30, 2006. The increase in net sales was primarily attributable to increased sales by volume of aseptic juices, apple juice and juice blends, Junior Juice® aseptic juices and sodas. The increase in net sales was partially offset by decreased sales by volume primarily of iced teas. Changes in pricing within the Warehouse segment did not have a material impact on the increase in net sales for the nine-months ended September 30, 2007.

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*Gross Profit.****Gross profit was \$342.3 million for the nine-months ended September 30, 2007, an increase of approximately \$106.1 million or 44.9% higher than the gross profit of \$236.2 million for the nine-months ended September 30, 2006. Gross profit as a percentage of net sales was 52.0% for 2007 and 2006. Increases in sales volumes contributed to the increase in gross profit. Although gross profit as a percentage of net sales was comparable for both periods, during the nine-months ended September 30, 2007 the Company experienced an increase in the percentage of sales within the DSD segment of certain packages that have lower gross profit margins, increased sales of DSD segment products which have higher gross profit margins than those in the Warehouse segment and an 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 certain sweeteners, certain containers and packaging materials and certain juice concentrates.

***Gross profit – see definition above.

Operating Expenses. Total operating expenses were \$175.6 million for the nine-months ended September 30, 2007, an increase of approximately \$62.3 million or 55.0% higher than total operating expenses of \$113.2 million for the nine-months ended September 30, 2006. Total operating expenses as a percentage of net sales increased to 26.7% for the nine-months ended September 30, 2007 from 24.9% for the nine-months ended September 30, 2006. The increase in operating expenses was partially attributable to increased out-bound freight and warehouse costs of \$6.0 million primarily due to increased volume of shipments, increased expenditures of \$11.9 million for sponsorships and endorsements, increased expenditures of \$7.2 million for commissions and royalties, increased expenditures of \$3.5 million for sampling programs, increased payroll expenses of \$5.9 million, increased expenditures of \$12.6 million for professional services costs, including legal and accounting fees and increased expenditures of \$5.3 million relating to the costs associated with terminating existing distributors. Included in legal and accounting fees are costs of \$11.0 million (net of \$0.8 million insurance reimbursements) in connection with our special investigation of stock option grants and granting practices, related litigation and other related matters. Total operating expenses, exclusive of expenditures of \$15.0 million and \$9.8 million for the nine-months ended September 30, 2007 and 2006, respectively, attributable to the costs associated with terminating existing distributors and exclusive of expenditures of \$11.0 million (net of \$0.8 million insurance reimbursements) for the nine-months ended September 30, 2007 in connection with our special investigation of stock option grants and granting practices, related litigation and other related matters, as a percentage of net sales, were 22.7% for the nine-months ended September 30, 2007 as compared to 22.8% for the nine-months ended September 30, 2006.

Contribution Margin. Contribution margin for the DSD segment was \$204.6 million for the nine-months ended September 30, 2007, an increase of approximately \$64.2 million or 45.7% higher than contribution margin of \$140.5 million for the nine-months ended September 30, 2006. The increase in contribution margin for the DSD segment was primarily attributable to the increase in net sales of Monster Energy® brand energy drinks as well as sales of certain new products such as Java Monster™ line of non-carbonated dairy based coffee drinks and Monster M-80™ energy drinks. Contribution margin for the Warehouse segment was \$2.9 million for the nine-months ended September 30, 2007, a decrease of approximately \$2.1 million or 42.2% lower than contribution margin of \$5.1 million for nine-months ended September 30, 2006. The decrease in the contribution margin for the Warehouse segment was primarily attributable to a reduction in gross margin as a result of increased costs of raw materials and production.

Operating income was \$166.7 million for the nine-months ended September 30, 2007, an increase of approximately \$43.8 million or 35.6% higher than operating income of \$122.9 million for the nine-months ended September 30, 2006. Operating income as a percentage of net sales decreased to 25.3% for the nine-months ended September 30, 2007 from 27.0% for the nine-months ended September 30, 2006. The increase in operating income was primarily due to an increase in gross profit of \$106.1 million. The decrease in operating income as a percentage of net sales was primarily attributable to increased operating expenses as a percentage of net sales. Operating income, exclusive of expenditures of \$15.0 million and \$9.8 million for the nine-months ended September 30, 2007 and 2006, respectively, attributable to the costs associated with terminating existing distributors and exclusive of expenditures of \$11.0 million (net of \$0.8 million insurance reimbursements) for the nine-months ended September 30, 2007 in connection with our special investigation of stock option grants and granting practices, related litigation and other related matters, as a percentage of net sales, was 29.3% for the nine-months ended September 30, 2007 as compared to 29.2% for the nine-months ended September 30, 2006.

Interest Income, net. Net interest income was \$5.4 million for the nine-months ended September 30, 2007, an increase of \$2.8 million from net interest income of \$2.6 million for the nine-months ended September 30, 2006. The increase in net interest income was primarily attributable to increased interest revenue earned on our invested cash balances which have increased significantly over the prior nine-month period.

Provision for Income Taxes. Provision for income taxes for the nine-months ended September 30, 2007 was \$67.8 million, as compared to provision for income taxes of \$49.8 million for the nine-months ended September 30, 2006. The effective combined federal and state tax rate for the nine-months ended September 30, 2007 was 39.4%, which was lower than the effective tax rate of 39.7% for the nine-months ended September 30, 2006. The decrease in the effective tax rate was primarily attributable to certain interest income earned on securities that is exempt from federal income taxes, a decrease in state taxes due to the apportionment of revenue to various states which have lower state tax rates and the tax benefit recognized from certain dispositions stock related to incentive stock options. This decrease was partially offset by stock-based compensation relating to incentive stock options.

Net Income. Net income was \$104.3 million for the nine-months ended September 30, 2007, an increase of \$28.6 million or 37.7% higher than net income of \$75.7 million for the nine-months ended September 30, 2006. The increase in net income was primarily attributable to an increase in gross profit of \$106.1 million and, to a lesser extent, an increase in net interest income of approximately \$2.8 million. This was partially offset by an increase in operating expenses of \$62.3 million and an increase in provision for income taxes of \$18.1 million.

Liquidity and Capital Resources

Cash flows provided by operating activities –Net cash provided by operating activities was \$90.1 million for the nine-months ended September 30, 2007, as compared to \$64.6 million in the comparable period in 2006. For the nine-months ended September 30, 2007, cash provided by operating activities was primarily attributable to net income earned of \$104.3 million and adjustments for certain non-cash expenses consisting of \$6.3 million of share-based compensation and \$1.5 million of depreciation and other amortization. For the nine-months ended September 30, 2007, cash provided by operating activities also increased due to a \$46.3 million increase in accounts payable, a \$23.3 million increase in income taxes payable and a \$19.7 million increase in deferred revenue. For the nine-months ended September 30, 2007, cash provided by operating activities was reduced due to a \$35.6 million increase in accounts receivable, a \$17.0 million increase in inventories, a \$9.2 million increase in prepaid income taxes, a \$4.7 million increase in prepaid expenses and other assets, a \$3.5 million decrease in accrued liabilities, a \$3.3 million decrease in customer deposit liabilities and a \$1.2 million decrease in accrued distributor terminations. 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.

Cash flows used in investing activities – Net cash used in investing activities was \$100.1 million for the nine-months ended September 30, 2007, as compared to \$74.5 in the comparable period in 2006. For the nine-months ended September 30, 2007, cash used in investing activities was primarily attributable to purchases of short-term investments, particularly available-for-sale investments, and to a lesser extent by additions to trademarks. 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 our marketing and promotional activities, production equipment, computer and office furniture and equipment used for sales and administrative activities, coolers, 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, to purchase 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 our brands.

Cash flows provided by financing activities – Net cash provided by financing activities was \$33.9 million for the nine-months ended September 30, 2007, as compared to net cash used in financing activities of \$7.8 million for the comparable period in 2006. For the nine-months ended September 30, 2007, cash provided by financing activities was primarily attributable to a \$27.3 million tax benefit in connection with the exercise of certain stock options and proceeds of \$7.2 million received from the issuance of common stock in connection with the exercise of certain stock options.

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.

Debt and other obligations – HBC has entered into a credit facility with 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 borrowings under the revolving line of credit to \$10.0 million non-collateralized debt. The revolving line of credit is effective 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. We had no outstanding borrowings on this line of credit at September 30, 2007. Letters of credit issued on behalf of the Company totaling \$0.3 million under this credit facility were outstanding as of September 30, 2007.

The terms of our line of credit contain certain financial covenants, including certain financial ratios. We were in compliance with our covenants at September 30, 2007.

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Under the terms of our credit facility, if any event of default occurs for any reason, Comerica may declare all or any portion outstanding on the line of credit immediately due and payable and exercise rights and remedies available to them, including instituting legal proceedings.

Commitments – Purchase obligations represent commitments made by us and our subsidiaries to various suppliers for raw materials used in the manufacturing and packaging of our products.

The following represents a summary of our contractual obligations and related scheduled maturities as of September 30, 2007:

Obligations	Total	Payments Due by Period			
		Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Contractual					
Obligations	\$ 22,856	\$ 13,206	\$ 7,385	\$ 2,265	\$ -
Capital Leases	670	670	-	-	-
Operating Leases	23,383	3,438	8,301	4,499	7,145
Purchase					
Commitments	12,437	12,437	-	-	-
	<u>\$ 59,346</u>	<u>\$ 29,751</u>	<u>\$ 15,686</u>	<u>\$ 6,764</u>	<u>\$ 7,145</u>

In addition to the above obligations, pursuant to a can supply agreement entered into with Rexam Beverage Can Company, dated as of January 1, 2006, as amended, we have 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. Under the terms of the agreement, if we fail to purchase the minimum volume, we will be obligated to reimburse Rexam for certain capital reimbursements on a pro-rata basis. Our maximum liability under this agreement is \$7.3 million, subject to compliance by Rexam with certain conditions.

We believe 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 our current plans, at this time we estimate that capital expenditures are likely to be less than \$10.0 million through September 2008. However, future business opportunities may cause a change in this estimate.

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 replaced our existing warehouse and distribution space located in Corona, California. We have sublet in excess of 50% of our previous office, warehouse and distribution space for the remainder of that lease term which expires in October 2010.

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. The property is located adjacent to the newly leased warehouse and distribution space in Corona, California. We are reviewing the feasibility of constructing a new office building on such land, which will replace our existing office space. In the interim, we have relocated our corporate offices in September 2007 to newly leased offices located at 550 Monica Circle, Suite 201, Corona, CA 92880.

Sales

The table set forth below discloses selected quarterly data regarding sales for the three- and nine-months ended September 30, 2007 and 2006, respectively. Data from any one or more quarters or periods 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 means the number of unit cases (or unit case equivalents) of beverages directly or indirectly sold by us. Sales of Fizzit™ powdered drink mixes are expressed in actual cases.

Our 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 our 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 our products expands outside of California. Our experience with our energy drink products suggests that they are 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 the sales of our finished products and changes and/or increases in advertising and promotional expenses.

(In thousands, except average price per case)	Three-Months Ended		Nine-Months Ended	
	September 30		September 30	
	2007	2006	2007	2006
Net sales	\$ 247,211	\$ 178,647	\$ 657,826	\$ 454,430
Case sales (192-ounce case equivalents)	26,450	21,176	72,796	55,286
Average price per case	\$ 9.35	\$ 8.44	\$ 9.04	\$ 8.22

See Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Our Business” for additional information related to the increase in sales.

Critical Accounting Policies

There have been no material changes to our critical accounting policies from the information provided in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, included in our Form 10-K for the fiscal year ended December 31, 2006.

Recently Issued Accounting Pronouncements Not Yet Adopted

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 157, *Fair Value Measurements* (“SFAS No. 157”), 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 periods within those fiscal years. We are currently evaluating the effect of adopting SFAS No. 157 on our condensed 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 for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of adopting SFAS No. 159 on our condensed consolidated financial statements.

Inflation

We do not believe that inflation has a significant impact on our 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, including certain statements made in Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, may constitute forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act) regarding the expectations of management with respect to revenues, profitability, adequacy of funds from operations and the Company’s existing credit facility, among other things. All statements that 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 the control of the Company, and 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:

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- Any 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 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;

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- 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, 24-ounce cans and 32-ounce cans, smoothies in 11.5-ounce cans, E₂O Energy Water®, Energade®, Monster Energy®, Lost® Energy™ drinks, Joker Mad Energy™ energy drinks, Ace™ energy drinks and Unbound Energy® energy drinks in 8.3-ounce and/or 16-ounce and/or 24-ounce and/or 32-ounce cans, Rumba™ energy juice in 16-ounce cans, the Java Monster™ line of non-carbonated dairy based 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 which may restrict sales or other opportunities;
- Provisions in the Company's organizational documents and/or control by insiders which 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 SEC is not exhaustive. See the section entitled "Risk Factors" in our Form 10-K 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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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.

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At September 30, 2007, the Company's current portion of long term 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 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures – Under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13(a)-15(e) and 15(d)-15(e) of the Exchange Act) as of the end of the period covered by this report. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are adequate and effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting – There have been no changes in internal control over financial reporting that occurred during the fiscal period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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. In June 2007, the parties entered into a confidential settlement agreement resolving the parties' disputes in the litigation. National subsequently repudiated the settlement agreement and HBC responded by filing a motion in the United States District Court for the Central District of California to enforce the terms of the confidential settlement agreement. On August 14, 2007, the United States District Court entered an Order enforcing the settlement agreement and permanently enjoining National from manufacturing, distributing, shipping, marketing, selling and offering to sell "Freek" energy drinks in containers using the original "Freek" trade dress that was subject to the District Court's preliminary injunction. National filed a notice of appeal with the Ninth Circuit Court of Appeals of the United States. National requested the District Court to stay this Order pending its appeal to the Court of Appeals for the Ninth Circuit, which was subsequently denied by the District Court. The Ninth Circuit Court of Appeals has not yet docketed National's appeal.

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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 defendants cross-claimed seeking an order to restrain HBC from selling, or offering for sale, or promoting in Australia any drink product under the Monster Energy® or Monster® trademarks or any similar trademarks and for costs. The trial took place in February and closing oral submissions took place in June 2007. The Judge has not rendered his decision in the case to date.

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. On June 11, 2007, the United States District Court, Northern District of California granted the Company's motion to dismiss Chavez's complaint with prejudice. In late June, Mr. Chavez noticed an appeal in the United States Court of Appeals for the Ninth Circuit. Mr. Chavez, as the appellant, sought an extension to file his opening brief. Mr. Chavez's brief is now due on November 7, 2007 and Hansen's response is due December 7, 2007. No oral argument has been set to date.

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.

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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, et al. 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) and, on July 24, 2007, the Company and the individual defendants' moved to dismiss the complaint. That motion has not been fully briefed or argued before the Court. By stipulation that was so ordered by the Court on July 21, 2007, the parties agreed to the terms of a stay of discovery pending the disposition of defendants' motion to dismiss the complaint.

On April 23, 2007, the Federal Derivative Action plaintiffs filed an amended consolidated complaint and, on June 11, 2007, the Company and the individual defendants' moved to dismiss the consolidated complaint. That motion has not been fully briefed or argued before the Court.

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 superseded all previously filed class action complaints and became the operative complaint to which the Company had to respond. Lead Plaintiff alleged, 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 (collectively, the "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 Exchange Act 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. Plaintiff sought an unspecified amount of damages.

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On June 25, 2007, the Defendants moved to dismiss the consolidated class action complaint. On October 16, 2007, the District Court granted the Defendants' motions to dismiss the consolidated class action complaint with prejudice and without leave to amend. The Court then entered final judgment in favor of the Defendants.

ITEM 1A. RISK FACTORS

There have been no material changes with respect to the risk factors disclosed in our Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Repurchases of Equity Securities

In November 2005, the Company's Board authorized the repurchase of up to \$50 million of its common stock. In September 2006 the Board approved an increase in the share repurchase program from \$50 million to \$75 million. The timing and amount of any share repurchases will be determined by management based on market conditions and other considerations. This stock repurchase program does not have an expiration date. The only purchases made under the repurchase program were for \$27.7 million of stock in the quarter ended September 30, 2006.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

3.1* Amended and Restated Bylaws of Hansen Natural Corporation

- 31.1* Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2* Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1* Certification of Chief Executive Officer 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 Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* **Filed herewith**

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SIGNATURES

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

HANSEN NATURAL CORPORATION
Registrant

Date: November 9, 2007

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

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

In connection with the quarterly report of Hansen Natural Corporation (the "Company") on Form 10-Q for the quarter ended September 30, 2007 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: November 9, 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 quarterly report on Form 10-Q 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: November 9, 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 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 quarterly report on Form 10-Q 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: November 9, 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-Q for the quarter ended September 30, 2007 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: November 9, 2007

/s/ Hilton H. Schlosberg

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

AMENDED AND RESTATED BY-LAWS

OF

HANSEN NATURAL CORPORATION

ARTICLE I

MEETINGS OF STOCKHOLDERS

SECTION 1. Annual Meeting. A meeting of stockholders shall be held annually for the election of directors and the transaction of such other business as is related to the purpose or purposes set forth in the notice of meeting on such date and at such time as may be fixed by the Board of Directors.

SECTION 2. Special Meetings. Special meetings of the stockholders for any purpose may be called by the Board of Directors, the Chairman, the President or the Secretary, but such special meetings may not be called by any other person or persons. Special meetings shall be held at such time as may be fixed in the call and stated in the notices of meeting or waiver thereof. At any special meeting only such business may be transacted as is related to the purpose or purposes for which the meeting is convened.

SECTION 3. Place of Meetings. Meetings of stockholders shall be held at such place, within or without the State of Delaware or the United States of America, as may be fixed in the call and stated in the notice of meeting or waiver thereof.

SECTION 4. Notice of Meetings; Adjourned Meetings. Notice of each meeting of stockholders shall be given in writing and shall state the place, date and hour of the meeting. The purpose or purposes for which the meeting is called shall be stated in the notice of each special meeting and of each annual meeting at which any business other than the election of directors is to be transacted.

A copy of the notice of any meeting shall be given, personally or by mail, not less than ten (10) nor more than sixty (60) days before the date of the meeting, to each stockholder entitled to vote at such meeting. If mailed, such notice is given when deposited in the United States mail, with postage thereon prepaid, directed to the stockholder at his address as it appears on the record of stockholders.

When a meeting is adjourned for less than thirty (30) days in any one adjournment, it shall not be necessary to give any notice of the adjourned meeting if the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken, and at the adjourned meeting any business may be transacted that might have been transacted on the original date of the meeting. When a meeting is adjourned for thirty (30) days or more, notice of the adjourned meeting shall be given as in the case of an original meeting.

SECTION 5. Waiver of Notice. The transactions of any meeting of stockholders, however called and with whatever notice, if any, are as valid as those at a meeting duly held after regular call and notice, if: (a) all the stockholders entitled to vote are present in person or by proxy and no objection to holding the meeting is made by any stockholder; or if (b) a quorum is present either in person or by proxy and no objection to holding the meeting is made by anyone so present, and if, either before or after the meeting, each of the persons entitled to vote, not present in person or by proxy, signed a written waiver of notice, or a consent to the holding of the meeting, or an approval of the action taken as shown by the minutes thereof.

Whenever notice is required to be given to any stockholder, a written waiver thereof signed by such stockholder, whether before or after the time thereon stated, shall be deemed equivalent to such

notice. Attendance of a person at a meeting of stockholders shall constitute a waiver of notice of such meeting, except when such stockholder attends for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any meeting of stockholders need be specified in any written waiver of notice thereof.

SECTION 6. Qualification of Voters. Except as may be otherwise provided in the Certificate of Incorporation, every stockholder of record shall be entitled to one vote on each matter submitted to a vote at a meeting of stockholders for every share standing in his name on the record of stockholders.

SECTION 7. Quorum. At any meeting of the stockholders the presence, in person or by proxy, of the holders of one-third of the shares entitled to vote thereat shall constitute a quorum for the transaction of any business. When a quorum is once present to organize a meeting, it is not broken by the subsequent withdrawal of any stockholders. The stockholders present may adjourn the meeting despite the absence of a quorum.

SECTION 8. Proxies. Every stockholder entitled to vote at a meeting of stockholders or to express consent or dissent without a meeting may authorize another person or persons to act for him, by proxy. Every proxy must be executed by the stockholder or his attorney-in-fact. No proxy shall be valid after the expiration of three (3) years from the date thereof unless otherwise provided in the proxy. Every proxy shall be revocable at the pleasure of the stockholder executing it, except as otherwise provided therein and as permitted by

law. Except as otherwise provided in the proxy, any proxy holder may appoint in writing a substitute to act in his place.

SECTION 9. Voting. Except as otherwise required by law, directors shall be elected by a plurality of the votes cast at a meeting of stockholders entitled to vote in the election, in person or by proxy by the holders of shares; provided a quorum is present. Whenever any corporate action, other than the election of directors, is to be taken by vote of the stockholders at a meeting, it shall, except as otherwise required by law or the Certificate of Incorporation, be authorized by a majority of the votes cast thereat, in person or by proxy.

SECTION 10. Action Without a Meeting.

(a) Notwithstanding anything to the contrary contained herein, whenever stockholders are required or permitted to take any action at a meeting or by vote, such action may be taken without a meeting, without prior notice and without a vote, by consent in writing setting forth the action so taken, signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

(b) In order that the Corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which date shall not be more than ten (10) days after the date upon which the resolution fixing the record date is adopted by the Board of Directors. Any stockholder of record seeking to have the stockholders authorize or take corporate action by written consent shall, by written notice to the Secretary, request that the Board of Directors fix a record date. The Board of Directors shall promptly, but in all events within ten (10) days after the date on which such written notice is received, adopt a resolution fixing the record date (unless a record date has previously been fixed by the Board of Directors pursuant to the first sentence of this Section 10(b)). If no record date has been fixed by the Board of Directors pursuant to the first sentence of this Section 10(b) or otherwise within ten (10) days after the date on which such written

notice is received, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is required by applicable law, shall be the first date after the expiration of such ten (10) day time period on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the Corporation by delivery to its registered office in Delaware, its principal place of business, or any officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded. If no record date has been fixed by the Board of Directors pursuant to the first sentence of this Section 10(b), the record date for determining stockholders entitled to consent to corporate action in writing without a meeting if prior action by the Board of Directors is required by applicable law shall be at the close of business on the date on which the Board of Directors adopts the resolution taking such prior action.

(c) In the event of the delivery, in the manner provided by this Section 10 and applicable law, to the Corporation of written consent or consents to take corporate action and/or any related revocation or revocations, the Corporation shall engage independent inspectors of elections for the purpose of performing promptly a ministerial review of the validity of the consents and revocations. For the purpose of permitting the inspectors to perform such review, no action by written consent and without a meeting shall be effective until such inspectors have completed their review, determined that the requisite number of valid and unrevoked consents delivered to the Corporation in accordance with this Section 10 and applicable law have been obtained to authorize or take the action specified in the consents, and certified such determination for entry in the records of the Corporation kept for the purpose of recording the proceedings of meetings of stockholders. Nothing contained in this Section 10(c) shall in any way be construed to suggest or imply that the Board of Directors or any stockholder shall not be entitled to contest the validity of any consent or revocation thereof, whether before or after such certification by the independent inspectors, or to take any other action (including, without limitation, the commencement, prosecution or defense of any litigation with respect thereto, and the seeking of injunctive relief in such litigation).

(d) Every written consent shall bear the date of signature of each stockholder who signs the consent and no written consent shall be effective to take the corporate action referred to therein unless, within sixty (60) days after the earliest dated written consent received in accordance with this Section 10, a valid written consent or valid written consents signed by a sufficient number of stockholders to take such action are delivered to the Corporation in the manner prescribed in this Section 10 and applicable law, and not revoked."

SECTION 11. Determination of Stockholders of Record. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action (other than action by consent in writing without a meeting), the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date: (i) in the case of determination of stockholders entitled to vote at any meeting of stockholders or adjournment thereof, shall, unless otherwise required by law, be not more than sixty (60) nor less than ten (10) days before the date of such meeting; and (ii) in the case of any other action (other than action by consent in writing without a meeting), shall be not more than sixty (60) days prior to such other action. If no record date is fixed: (i) the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is

given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held; and (ii) the record date for determining stockholders for any other purpose (other than action by consent in writing without a meeting) shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

SECTION 12. List of Stockholders Entitled to Vote. The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held (which place shall be specified in the notice of the meeting), or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

SECTION 13. Inspectors of Election. The Chairman of any meeting of the stockholders may appoint one or more Inspectors of Election. Any Inspector so appointed to act at any meeting of the stockholders, before entering upon the discharge of his or her duties, shall be sworn faithfully to execute the duties of an Inspector at such meeting with strict impartiality, and according to the best of his or her ability.

SECTION 14. Notice of Stockholder Business and Nominations.

(A) Annual Meetings of Stockholders.

(1) Nominations of persons for election to the Board of Directors and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders only (a) pursuant to the Corporation's notice of meeting (or any supplement thereto), (b) by or at the direction of the Board of Directors or (c) by any stockholder of the Corporation who was a stockholder of record of the Corporation at the time the notice provided for in this Section 14 is delivered to the Secretary of the Corporation, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this Section 14.

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (c) of paragraph (A)(1) of this Section 14, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation and any such proposed business other than the nominations of persons for election to the Board of Directors must constitute a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the ninetieth day nor earlier than the close of business on the one hundred twentieth day prior to the first anniversary of the preceding year's annual meeting (provided, however, that in the event that the date of the annual meeting is more than thirty days before or more than seventy days after such anniversary date, notice by the stockholder must be so delivered not earlier than the close of business on the one hundred twentieth day prior to such annual meeting and not later than the close of business on the later of the ninetieth day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made by the Corporation). In no event shall the public announcement of an adjournment or postponement of an annual meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth: (a) as to each person whom the stockholder proposes to nominate for election as a director (i) all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to and in accordance with Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and (ii) such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the text of the proposal or business (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend the By-laws of the Corporation, the language of the proposed amendment), the reasons

for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner, (ii) the class and number of shares of capital stock of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner, (iii) a representation that the stockholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business or nomination, and (iv) a representation whether the stockholder or the beneficial owner, if any, intends or is part of a group which intends (a) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Corporation's outstanding capital stock required to approve or adopt the proposal or elect the nominee and/or (b) otherwise to solicit proxies from stockholders in support of such proposal or nomination. The foregoing notice requirements of this Section 14 shall be deemed satisfied by a stockholder if the stockholder has notified the Corporation of his or her intention to present a proposal or nomination at an annual meeting in compliance with applicable rules and regulations promulgated under the Exchange Act and such stockholder's proposal or nomination has been included in a proxy statement that has been prepared by the Corporation to solicit proxies for such annual meeting. The Corporation may require any proposed nominee to furnish such other information as it

may reasonably require to determine the eligibility of such proposed nominee to serve as a director of the Corporation.

(3) Notwithstanding anything in the second sentence of paragraph (A) (2) of this Section 14 to the contrary, in the event that the number of directors to be elected to the Board of Directors at an annual meeting is increased and there is no public announcement by the Corporation naming the nominees for the additional directorships at least one hundred days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Section 14 shall also be considered timely, but only with respect to nominees for the additional directorships, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the tenth day following the day on which such public announcement is first made by the Corporation.

(B) Special Meetings of Stockholders. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Corporation's notice of meeting (1) by or at the direction of the Board of Directors or (2) provided that the Board of Directors has determined that directors shall be elected at such meeting, by any stockholder of the Corporation who is a stockholder of record at the time the notice provided for in this Section 14 is delivered to the Secretary of the Corporation, who is entitled to vote at the meeting and upon such election and who complies with the notice procedures set forth in this Section 14. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board of Directors, any such stockholder entitled to vote in such election of directors may nominate a person or persons (as the case may be) for election to such position(s) as specified in the Corporation's notice of meeting, if the stockholder's notice required by paragraph (A)(2) of this Section 14 shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the close of business on the one hundred twentieth day prior to such special meeting and not later than the close of business on the later of the ninetieth day prior to such special meeting or the tenth day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. In no event shall the public announcement of an adjournment or postponement of a special meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above.

(C) General.

(1) Only such persons who are nominated in accordance with the procedures set forth in this Section 14 shall be eligible to be elected at an annual or special meeting of stockholders of the Corporation to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 14. Except as otherwise provided by law, the chairman of the meeting shall have the power and duty (a) to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Section 14 (including whether the stockholder or beneficial owner, if any, on whose behalf the nomination or proposal is made solicited (or is part of a group which solicited) or did not so solicit, as the case may be, proxies in support of such stockholder's nominee or proposal in compliance with such stockholder's representation as required by clause (A)(2)(c)(iv) of this Section 14) and (b) if any proposed nomination or business was not made or proposed in compliance with this Section 14, to declare that such nomination shall be disregarded or that such proposed business shall not be transacted. Notwithstanding the foregoing provisions of this Section 14, unless otherwise required by law, if the stockholder (or a qualified representative of the stockholder) does not appear at the annual or special meeting of stockholders of the Corporation to present a nomination or proposed business, such nomination shall be disregarded and such proposed business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the Corporation. For purposes of this Section 14, to be considered a qualified representative of the stockholder, a person must be authorized by a writing executed by such stockholder or an electronic transmission delivered by such stockholder to act for such stockholder as proxy at the meeting of stockholders and such person must produce such writing or electronic transmission, or a reliable reproduction of the writing or electronic transmission, at the meeting of stockholders.

(2) For purposes of this Section 14, "public announcement" shall include disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(3) Notwithstanding the foregoing provisions of this Section 14, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 14. Nothing in this Section 14 shall be deemed to affect any rights (a) of stockholders to request inclusion of proposals or nominations in the Corporation's proxy statement pursuant to applicable rules and regulations promulgated under the Exchange Act or (b) of the holders of any series of Preferred Stock to elect directors pursuant to any applicable provisions of the certificate of incorporation."

SECTION 15. Conduct of Meetings. The date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at a meeting shall be announced at the meeting by the person presiding over the meeting. The Board of Directors may adopt by resolution such rules and regulations for the conduct of the meeting of stockholders as it shall deem appropriate. Except to the extent inconsistent with such rules and regulations as adopted by the Board of Directors, the person presiding over any meeting of stockholders shall have the right and authority to convene and to adjourn the meeting, to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such presiding person, are appropriate for the proper

conduct of the meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the presiding person of the meeting, may include, without limitation, the following: (i) the establishment of an agenda or order of business for the meeting; (ii) rules and procedures for maintaining order at the meeting and the safety of those present; (iii) limitations on attendance at or participation in the meeting to stockholders of record of the Corporation, their duly authorized and constituted proxies or such other persons as the presiding person of the meeting shall determine; (iv) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (v) limitations on the time allotted to questions or comments by participants. The presiding person at any meeting of stockholders, in addition to making any other determinations that may be appropriate to the

conduct of the meeting, shall, if the facts warrant, determine and declare to the meeting that a matter or business was not properly brought before the meeting and if such presiding person should so determine, such presiding person shall so declare to the meeting and any such matter or business not properly brought before the meeting shall not be transacted or considered. Unless and to the extent determined by the Board of Directors or the person presiding over the meeting, meetings of stockholders shall not be required to be held in accordance with the rules of parliamentary procedure."

ARTICLE II

BOARD OF DIRECTORS

SECTION 1. Power of Board and Qualification of Directors. The business and affairs of the Corporation shall be managed by the Board of Directors.

SECTION 2. Number of Directors. The number of directors constituting the whole Board of Directors shall be such number not less than one (1) nor more than fifteen (15) as may be fixed from time to time by resolution adopted by the stockholders or by the Board.

SECTION 3. Election and Term of Directors. At each annual meeting of stockholders, directors shall be elected to serve until the next annual meeting and until their respective successors are elected and qualified.

SECTION 4. Resignations. Any director of the Corporation may resign at any time by giving written notice to the Board of Directors, the Chairman of the Board, the President or the Secretary of the Corporation. Such resignation shall take effect at the time specified therein; and unless otherwise specified therein the acceptance of such resignation shall not be necessary to make it effective.

SECTION 5. Removal of Directors. Any or all of the directors may be removed with or without cause by vote of the stockholders.

SECTION 6. Newly Created Directorships and Vacancies. Newly created directorships resulting from an increase in the number of directors or vacancies occurring in the Board of Directors for any reason may be filled by vote of a majority of the directors then in office, even if less than a quorum exists, or may be filled by the stockholders. Vacancies occurring as a result of the removal of directors by stockholders without cause shall be filled by the stockholders. A director elected to fill a vacancy or a newly created directorship shall be elected to hold office until the next annual meeting of stockholders.

SECTION 7. Executive and Other Committees of Directors. The Board of Directors, by resolution adopted by a majority of the whole Board, may designate from among its members an executive committee and other committees to serve at the pleasure of the Board of Directors, each consisting of one or more directors, and each of which, to the extent provided in the resolution, shall have all the authority of the Board to the full extent authorized by law, including the power or authority to declare a dividend or to authorize the issuance of stock. The Board of Directors may designate one or more directors as alternate members of any such committee, who may replace any absent member or members at any meeting of such committee.

SECTION 8. Compensation of Directors. The Board of Directors shall have authority to fix the compensation of directors for services in any capacity, or to allow a fixed sum plus expenses, if any, for attendance at meetings of the Board or of committees designated thereby.

SECTION 9. Interest of Director in a Transaction. No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association or other organization in which one or more of its directors or officers

are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board or committee thereof which authorizes the contract or transaction, or solely because his or their votes are counted for such purpose, if:

(a) The material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or

(b) The material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction

is specifically approved in good faith by vote of the stockholders; or

(c) The contract or transactions is fair as to the Corporation as of the time it is authorized, approved or ratified, by the Board of Directors, a committee thereof, or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorized the contract or transaction.

ARTICLE III

MEETINGS OF THE BOARD

SECTION 1. Regular Meetings. Regular meetings of the Board of Directors may be held without notice at such times and places, within or without the State of Delaware, or the United States of America, as may from time to time be fixed by the Board or the Chairman.

SECTION 2. Special Meetings; Notice; Waiver. Special meetings of the Board of Directors may be held at any time and place, within or without the State of Delaware or the United States of America, upon the call of the Chairman of the Board, the President or the Secretary, by oral, telegraphic or written notice, duly given to or sent or mailed or telefaxed to each director not less than one (1) day before such meeting, unless a shorter period of notice is appropriate under the circumstances. Special meetings shall be called by the Chairman of the Board, the President or the Secretary on the written request of any two directors.

Notice of a special meeting need not be given to any director who submits a signed waiver of notice whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to him.

A notice, or waiver of notice, need not specify the purpose of any special meeting of the Board of Directors.

SECTION 3. Quorum; Action by the Board; Adjournment. At all meetings of the Board of Directors, one-third of the whole Board shall constitute a quorum for the transaction of business, except that when a Board of one director is authorized, then one director shall constitute a quorum.

The vote of a majority of the directors present at the time of the vote, if a quorum is present at such time, shall be the act of the Board, except as may be otherwise specifically provided by law or by the Certificate of Incorporation or by these By-Laws.

A majority of the directors present, whether or not a quorum is present, may adjourn any meeting to another time and place.

SECTION 4. Action Without a Meeting. Action taken by a majority of the directors or members of a committee without a meeting is nevertheless Board or committee action if written consent to the action in question is signed by all the directors or members of the committee, as the case may be, and filed with the minutes of the proceedings of the Board or committee, whether done before or after the action so taken.

SECTION 5. Action Taken by Conference Telephone. Members of the Board of Directors or any committee of the Corporation may hold and/or participate in a meeting by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other.

ARTICLE IV

OFFICERS

SECTION 1. Officers. The Board of Directors shall elect a Chairman, President, one or more Vice Presidents, a Secretary and a Treasurer of the Corporation and from time to time may elect or appoint such other officers as it may determine. Any two or more offices may be held by the same person.

Securities of other corporations held by the Corporation may be voted by any officer designated by the Board and, in the absence of any such designation, by the Chairman, the President, any Vice President, the Secretary, or the Treasurer.

The Board may require any officer to give security for the faithful performance of his duties.

SECTION 2. Chairman of the Board. The Chairman of the Board shall preside as chairman of all meetings of directors and stockholders and shall be the chief executive officer of the Corporation, unless otherwise determined by the Board of Directors, with all the rights and powers incident to that position.

SECTION 3. Vice Chairman of the Board. The Vice Chairman of the Board shall preside as chairman of all meetings of the directors and stockholders whenever the Chairman of the Board is absent and shall perform such other duties as may be prescribed or assigned to him by the Board of Directors or the Chairman.

SECTION 4. President. The President shall be the chief operating officer of the Corporation, unless otherwise determined by the Board of Directors, with all the rights and powers incident to that position.

SECTION 5. Vice President. The Vice Presidents shall perform such duties as may be prescribed or assigned to them by the Board of Directors, the Chairman of the Board or the President. In the absence of the President, the first-elected Executive Vice President shall perform the duties of the President. In the event of the refusal or incapacity of the President to function as such, the first-elected Executive Vice President and the other Vice Presidents, in order of their rank, shall so perform the duties of the President; and the order of rank of such other Vice Presidents shall be determined by the designated rank of their offices or, in the absence of such designation, by seniority in the office of Vice President; provided that said order or rank may be established otherwise by action of the Board of Directors from time to time.

SECTION 6. Treasurer. The Treasurer shall perform all the duties customary to that office, and shall have the care and custody of the funds and securities of the Corporation. He shall at all reasonable times exhibit his books and accounts to any director upon application, and shall give such bond or bonds for the faithful performance of his duties with such surety or sureties as the Board of Directors from time to time may determine.

SECTION 7. Secretary. The Secretary shall act as Secretary of and shall keep the minutes of the meetings of the Board of Directors and of the Stockholders, have the custody of the seal of the Corporation and perform all of the other duties usual to that office.

SECTION 8. Assistant Treasurer and Assistant Secretary. Any Assistant Treasurer or Assistant Secretary shall perform such duties as may be prescribed or assigned to him by the Board of Directors, the Chairman of the Board or the President. An Assistant Treasurer shall give such bond or bonds for the faithful performance of his duties with such surety or sureties as the Board of Directors from time to time may determine.

SECTION 9. Term of Office; Removal. Each officer shall hold office for such term as may be prescribed by the Board and may be removed at any time by the Board with or without cause. The removal of an officer without cause shall be without prejudice to his contract rights, if any. The election or appointment of an officer shall not of itself create contract rights.

SECTION 10. Compensation. The compensation of all officers of the Corporation shall be fixed by the Board of Directors.

ARTICLE V

SHARE CERTIFICATES

SECTION 1.

(a) Form of Share Certificates. The shares of the Corporation may be represented by certificates, in such form as the Board of Directors may from time to time prescribe, signed by the Chairman of the Board, a Vice Chairman of the Board, the President, an Executive Vice President, or a Vice President, and by the Secretary, an Assistant Secretary, the Treasurer or an Assistant Treasurer, and shall be sealed with the seal of the Corporation or a facsimile thereof. The signatures of the officers upon a certificate may be facsimiles if the certificate is countersigned by a transfer agent or registered by a registrar other than the Corporation or its employees. In case any such officer who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer at the date of issue.

(b) Book-entry system for share ownership. Notwithstanding the foregoing, the Corporation may issue shares of stock in the form of uncertificated shares. Such uncertificated shares of stock shall be credited to a book entry account maintained by the Corporation (or its designee) on behalf of the stockholder.

(c) Direct Registration Program. Notwithstanding the foregoing, the shares of stock of the Corporation shall be eligible for a Direct Registration Program operated by a clearing agency registered under Section 17A of the Securities Exchange Act of 1934, as amended.

SECTION 2. Lost Certificates. In case of the loss, theft, mutilation or destruction of a stock certificate, a duplicate certificate will be issued by the Corporation upon notification thereof and receipt of such proper indemnity as shall be prescribed by the Board of Directors in its discretion.

SECTION 3. Transfer of Shares. The shares of stock of the Corporation shall be transferable only upon its books by the holders thereof in person or by their duly authorized attorneys or legal representatives, and upon such transfer the old certificates, if such shares are represented by certificates, shall be surrendered to the Corporation by the delivery thereof to the person in charge of the stock and transfer books and ledgers, or to such other person as the directors may designate, by whom they

shall be cancelled, and new certificates shall thereupon be issued, unless such shares have become uncertificated. A record shall be made of each transfer and whenever a transfer shall be made for collateral security, and not absolutely, it shall be so expressed in the entry of the transfer.

SECTION 4. Registered Stockholders. Except as otherwise provided by law, the Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends or other distributions and to vote as such owner, and to hold such person liable for calls and assessments, and shall not be bound to recognize any equitable or legal claim to or interest in such share or shares on the part of any other person.

ARTICLE VI

INDEMNIFICATION

SECTION 1. Indemnification of Actions Other Than by or in the Right of the Corporation. The Corporation (1) shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he is or was a director or an officer of the Corporation, and (2) except as otherwise required by Section 3 of this Article, may indemnify any person who was or is a party or threatened to be made a party to any threatened, pending or completed action, suit or proceedings, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he is or was an employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee, agent of or participant in another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorney's fees), judgments, fines and amounts actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

SECTION 2. Indemnification of Actions by or in the Right of the Corporation. The Corporation shall indemnify any person who was or is a party or is threatened to be a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was a Director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee, agent of or participant in another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper.

SECTION 3. Indemnification Against Expenses. To the extent that a person who is or was a director, officer, employee or agent of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 1 or Section 2 of this Article, or in defense of

any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

SECTION 4. Limitations on Indemnification. Any indemnification under Section 1 or Section 2 of this Article (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in said Sections 1 and 2. If, under applicable law, the entitlement to indemnification depends on whether the director, officer, employee or agent has met the appropriate standard of conduct, the burden of proof establishing that such person has not acted in accordance with such standard shall rest with the Corporation and such person shall be presumed to have acted in accordance with such standard unless, based upon a preponderance of the evidence, it shall be determined by a court of competent jurisdiction that such person has not met such standard. In any event, and not as a condition or in limitation of the foregoing, indemnification hereunder shall be made immediately upon the determination that such person has met such standard (1) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (2) if such a quorum is not obtainable, or, even if obtainable, a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (3) by the stockholders.

SECTION 5. Advancement of Expenses. Expenses incurred by any person who may have a right of indemnification under this Article in defending a civil or criminal action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the director, officer, employee or agent to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation pursuant to this Article.

SECTION 6. Article Not Exclusive of Other Rights. The indemnification provided by this Article shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under the Certificate of Incorporation, any By-law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

SECTION 7. Liability Insurance. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of or participant in another corporation, partnership, joint venture, trust or other enterprise against any

liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Article, Section 145 of the General Corporation Law of the State of Delaware or otherwise.

SECTION 8. Severability. The invalidity or unenforceability of any provision of this Article shall not affect the validity or enforceability of the remaining provisions of this Article.

ARTICLE VII

MISCELLANEOUS PROVISIONS

SECTION 1. Corporate Seal. The corporate seal shall have inscribed thereon the name of the Corporation and such other appropriate legend as the Board of Directors may from time to time determine.

SECTION 2. Fiscal Year. The fiscal year of the Corporation shall be the twelve months ending December 31 or such other period as may be prescribed by the Board of Directors.

SECTION 3. Checks and Notes. All checks and demands for money and notes or other instruments evidencing indebtedness or obligations of the Corporation shall be signed by such officer or officers or other person or persons as shall be thereunto authorized from time to time by the Board of Directors.

SECTION 4. Dividends. Dividends upon the capital stock of the Corporation, subject to the provisions of the certificate of incorporation, if any, and requirements of law may be declared from time to time by the board of directors of the Corporation at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock of the Corporation or its subsidiaries, subject to the provisions of the certificate of incorporation.

ARTICLE VIII

AMENDMENTS

SECTION 1. Power to Amend. By-laws of the Corporation may be adopted, amended or repealed by the Board of Directors, and also shall be subject to amendment or repeal by the stockholders entitled to vote thereon.