

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the Quarterly Period Ended September 30, 2004 Commission file number 0-18761

HANSEN NATURAL CORPORATION  
(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

39-1679918  
(I.R.S. Employer  
Identification No.)

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

(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 X No \_\_\_

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes X No \_\_\_

The Registrant had 10,089,664 shares of common stock outstanding as of October 22, 2004.

HANSEN NATURAL CORPORATION AND SUBSIDIARIES  
SEPTEMBER 30, 2004

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HANSEN NATURAL CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
SEPTEMBER 30, 2004 AND DECEMBER 31, 2003 (Unaudited)

	September 30, 2004	December 31, 2003
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 17,279,468	\$ 1,098,785
Accounts receivable (net of allowance for doubtful accounts, sales returns and cash discounts of \$1,756,854 in 2004 and \$875,351 in 2003 and promotional allowances of \$8,582,031 in 2004 and \$4,666,770 in 2003)	14,319,664	5,372,983
Inventories, net	19,702,590	17,643,786
Prepaid expenses and other current assets	338,376	481,777
Deferred income tax asset	3,634,732	2,080,609
	-----	-----
Total current assets	55,274,830	26,677,940
PROPERTY AND EQUIPMENT, net	3,378,968	2,803,282
INTANGIBLE AND OTHER ASSETS:		
Trademark license and trademarks (net of accumulated amortization of \$204,861 in 2004 and \$146,218 in 2003)	18,262,629	18,293,704
Deposits and other assets	323,445	222,102
	-----	-----
	18,586,074	18,515,806
	-----	-----
	\$ 77,239,872	\$ 47,997,028
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 17,789,810	\$ 6,521,402
Accrued liabilities	1,573,894	1,185,342
Accrued compensation	993,411	883,459
Current portion of long-term debt	416,400	244,271
Income taxes payable	2,932,392	647,263
	-----	-----
Total current liabilities	23,705,907	9,481,737
LONG-TERM DEBT, less current portion	151,518	358,064
DEFERRED INCOME TAX LIABILITY	3,689,117	3,107,649
COMMITMENTS AND CONTINGENCIES (NOTE 7)		
SHAREHOLDERS' EQUITY:		
Common stock - \$0.005 par value; 30,000,000 shares authorized; 11,088,664 shares issued, 10,881,903 outstanding in 2004; 10,624,864 shares issued, 10,418,103 outstanding in 2003	55,443	53,124
Additional paid-in capital	14,262,524	12,681,169
Retained earnings	36,189,908	23,129,830
Common stock in treasury, at cost; 206,761 in 2004 and 2003	(814,545)	(814,545)
	-----	-----
Total shareholders' equity	49,693,330	35,049,578
	-----	-----
	\$ 77,239,872	\$ 47,997,028
	=====	=====

See accompanying notes to condensed consolidated financial statements.

HANSEN NATURAL CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
FOR THE THREE- AND NINE-MONTHS ENDED SEPTEMBER 30, 2004 AND 2003 (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
GROSS SALES	\$ 68,123,372	\$ 42,613,935	\$ 164,867,266	\$ 105,369,780
LESS: Discounts, allowances and promotional payments	15,481,895	9,322,847	34,863,463	21,583,206
NET SALES	52,641,477	33,291,088	130,003,803	83,786,574
COST OF SALES	28,832,269	20,004,236	71,527,845	50,751,336
GROSS PROFIT	23,809,208	13,286,852	58,475,958	33,035,238
OPERATING EXPENSES:				
Selling, general and administrative	13,865,099	9,743,117	36,443,831	25,035,334
Amortization of trademark license and trademarks	19,278	15,346	58,643	36,579
Total operating expenses	13,884,377	9,758,463	36,502,474	25,071,913
OPERATING INCOME	9,924,831	3,528,389	21,973,484	7,963,325
NET NONOPERATING EXPENSE	8,104	9,337	27,152	57,291
INCOME BEFORE PROVISION FOR INCOME TAXES	9,916,727	3,519,052	21,946,332	7,906,034
PROVISION FOR INCOME TAXES	4,118,079	1,425,217	8,886,254	3,201,944
NET INCOME	\$ 5,798,648	\$ 2,093,835	\$ 13,060,078	\$ 4,704,090
NET INCOME PER COMMON SHARE:				
Basic	\$ 0.54	\$ 0.20	\$ 1.23	\$ 0.46
Diluted	\$ 0.49	\$ 0.19	\$ 1.11	\$ 0.45
NUMBER OF COMMON SHARES USED IN PER SHARE COMPUTATIONS:				
Basic	10,816,157	10,253,818	10,591,359	10,233,182
Diluted	11,842,804	10,755,822	11,736,047	10,534,573

See accompanying notes to condensed consolidated financial statements.

HANSEN NATURAL CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE NINE-MONTHS ENDED SEPTEMBER 30, 2004 AND 2003 (Unaudited)

	September 30, 2004	September 30, 2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 13,060,078	\$ 4,704,090
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of trademark license and trademarks	58,643	36,579
Depreciation and other amortization	550,913	416,239
Loss on disposal of property and equipment	9,706	11,361
Deferred income taxes	(972,655)	
Provision for allowance for doubtful accounts	216,722	23,657
Effect on cash of changes in operating assets and liabilities:		
Accounts receivable	(9,163,403)	(4,230,311)
Inventories	(2,058,804)	(1,965,181)
Prepaid expenses and other current assets	143,401	327,261
Accounts payable	11,268,408	4,343,455
Accrued liabilities	388,553	463,727
Accrued compensation	109,952	399,306
Income taxes payable	2,285,129	386,440
Net cash provided by operating activities	15,896,643	4,916,623
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(956,067)	(1,300,272)
Proceeds from sale of property and equipment	24,698	19,788
Increase in trademark license and trademarks	(27,568)	(437,118)
(Decrease)/increase in deposits and other assets	(101,343)	49,287
Net cash used in investing activities	(1,060,280)	(1,668,315)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on long-term debt	(239,354)	(3,212,076)
Issuance of common stock	1,583,674	401,824
Net cash provided by (used in) financing activities	1,344,320	(2,810,252)
NET INCREASE IN CASH AND CASH EQUIVALENTS	16,180,683	438,056
CASH AND CASH EQUIVALENTS, beginning of year	1,098,785	537,920
CASH AND CASH EQUIVALENTS, end of period	\$ 17,279,468	\$ 975,976
<b>SUPPLEMENTAL INFORMATION</b>		
Cash paid during the year for:		
Interest	\$ 29,272	\$ 67,102
Income taxes	\$ 7,573,781	\$ 2,815,504

**NON-CASH TRANSACTIONS**

During the nine-months ended September 30, 2004, the Company entered into capital leases of \$204,937 for the acquisition of promotional vehicles.

See accompanying notes to condensed consolidated financial statements.

## 1. BASIS OF PRESENTATION

Reference is made to the Notes to Consolidated Financial Statements, in the Company's Form 10-K for the year ended December 31, 2003, for a summary of significant policies utilized by Hansen Natural Corporation ("Hansen" or "Company") and its wholly-owned subsidiaries, Hansen Beverage Company ("HBC") and Hard e Beverage Company ("HEB"), and other disclosures, which should be read in conjunction with this report. HBC owns all of the issued and outstanding common stock of Blue Sky Natural Beverage Co. and Hansen Junior Juice Company.

The Company's financial statements included in Form 10-Q have been prepared in accordance with GAAP and 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 accounting principles generally accepted in the United States of America. The information set forth in these interim condensed consolidated financial statements for the nine-months ended September 30, 2004 and 2003 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 accounting principles generally accepted in the United States of America necessarily requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

**Trademark License and Trademarks** - Trademark license and trademarks represent the costs paid by the Company for exclusive ownership of the Hansen's(r) trademark in connection with the manufacture, sale and distribution of beverages and water and non-beverage products. The Company also owns in its own right, a number of other trademarks in the United States as well as in a number of countries around the world. The Company also owns the Blue Sky(r) trademark, which was acquired in September 2000, and the Junior Juice(r) trademark, which was acquired in May 2001. The Company amortizes its trademark license and trademarks with a finite life (as discussed below) over 1 to 25 years. The adoption of Statement of Financial Accounting Standards ("SFAS") No. 142, effective January 1, 2002, resulted in the elimination of amortization of indefinite life assets. The following provides additional information concerning the Company's trademark licenses and trademarks as of September 30, 2004 and December 31, 2003:

	September 30, 2004	December 31, 2003
Amortizing trademark licenses and trademarks	\$ 1,169,778	\$ 1,155,803
Accumulated amortization	(204,861)	(146,218)
	964,917	1,009,585
Non-amortizing trademark licenses and trademarks	17,297,712	17,284,119
	\$ 18,262,629	\$18,293,704

All amortizing trademark licenses and trademarks have been assigned an estimated finite useful life, and are amortized on a straight-line basis over the number of years that approximate their respective useful lives ranging from 1 to 25 years (weighted average life of 23 years). The straight-line method of amortization allocates the cost of the trademark licenses and trademarks to earnings over the period of expected benefit. Total amortization expense during the nine-months ended September 30, 2004 and 2003 was \$58,643 and \$36,579, respectively. As of September 30, 2004, future estimated amortization expense related to amortizing trademark licenses and trademarks through the year ending December 31, 2009 is:

2004 - Remainder	\$14,431
2005	55,284
2006	55,284
2007	55,284
2008	55,136
2009	55,136

Revenue Recognition - The Company records revenue at the time the related products are shipped and the risk of ownership has passed. Management believes an adequate provision against gross sales has been made for estimated returns, allowances and cash discounts based on the Company's historical experience.

Advertising and Promotional Allowances - The Company accounts for advertising production costs by expensing such production costs the first time the related advertising takes place. Advertising expenses amounted to \$9.0 million and \$6.6 million for the nine-months ended September 30, 2004 and 2003, respectively. Advertising expenses are included in selling, general and administrative expenses with the exception of certain advertising expenses such as coupon redemptions which are accounted for as a reduction of gross sales. In addition, the Company supports its customers, including distributors, with promotional allowances, a portion of which is utilized for marketing and indirect advertising by them. Such promotional allowances amounted to \$25.8 million and \$13.2 million for the nine-months ended September 30, 2004 and 2003, respectively and are included as a reduction of gross sales.

Stock Based Compensation - The Company accounts for its stock option plans in accordance with Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. Under APB Opinion No. 25, no compensation expense is recognized because the exercise price of the Company's employee stock options equals the market price of the underlying stock at the date of the grant. In December 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure. SFAS No. 148 amends SFAS No. 123, Accounting for Stock-based Compensation, and was effective immediately upon issuance. The Company follows the requirements of APB Opinion No. 25 and the disclosure-only provision of SFAS No. 123, as amended by SFAS No. 148. Had compensation cost for the Company's option plans been determined based on the fair value at the grant date for awards consistent with the provisions of SFAS No. 123, the Company's net income and net income per common share for the nine-months ended September 30, 2004 and 2003 would have been reduced to the pro forma amounts indicated below:

Nine Months Ended September 30,

	2004	2003
	-----	-----
Net income, as reported	\$13,060,078	\$ 4,704,090
Less: Total stock based employee compensation expense determined under fair value based method for all awards, net of related tax effects	252,132	164,297
	-----	-----
Net income, pro forma	\$12,807,946	\$ 4,539,793
	=====	=====
Net income per common share, as reported - Basic	\$ 1.23	\$ 0.46
Net income per common share, as reported - Dilute	\$ 1.11	\$ 0.45
Net income per common share, pro forma - Basic	\$ 1.21	\$ 0.44
Net income per common share, pro forma - Diluted	\$ 1.09	\$ 0.43

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used:

	Dividend Yield	Expected Volatility	Risk-Free Interest Rate	Expected Lives
	-----	-----	-----	-----
2004	0%	43%	4.0%	8 years
2003	0%	13%	3.5%	8 years

### 3. NEWLY ISSUED ACCOUNTING PRONOUNCEMENTS

In January 2003, the FASB issued FIN 46, Consolidation of Variable Interest Entities. In general, a variable interest entity is a corporation, partnership, trust or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. With respect to variable interest entities created before January 31, 2003, in December 2003 the FASB issued FIN 46R which, among other things, revised the implementation date to first fiscal years or interim periods ending after March 15, 2004, with the exception of Special Purpose Entities ("SPE"). The consolidated requirements apply to all SPE's in the first fiscal year or interim period ending after December 15, 2003. As the Company has determined that it does not have any SPE's or variable interest entities to which these interpretations apply, the Company adopted FIN46R in the firstquarter of 2004 and such adoption did not have a material impact on its financial statements.



In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Instruments with Characteristics of Both Liabilities and Equity, as amended by various FASB staff positions posted in October and November 2003, which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 requires that an issuer classify a financial instrument that is within its scope which may have previously been reported as equity, as a liability (or an asset in some circumstances).

In November 2003, the FASB issued FASB Staff Position (FSP) No. 150-3 which deferred the effective dates for applying certain provisions of SFAS No. 150 related to mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests for public and nonpublic entities. For public companies, SFAS No. 150 is effective for mandatorily redeemable financial instruments entered into or modified after May 31, 2003 and is effective for all other financial instruments as of the first interim period beginning after June 15, 2003. For mandatorily redeemable noncontrolling interests that would not have to be classified as liabilities by a subsidiary under the exception in paragraph 9 of SFAS No. 150, but would be classified as liabilities by the parent, the classification and measurement provisions of SFAS No. 150 are deferred indefinitely. For other mandatorily redeemable noncontrolling interests that were issued before November 5, 2003, the measurement provisions of SFAS No. 150 are deferred indefinitely. For those instruments, the measurement guidance for redeemable shares and noncontrolling interest in other literature shall apply during the deferral period. The adoption of SFAS No. 150 did not have a significant impact on the Company's consolidated financial position, results of operations, or cash flow.

#### 4. INVENTORIES

Inventories consist of the following at:

	September 30, 2004	December 31, 2003
Raw Materials	\$ 8,140,024	\$ 6,979,701
Finished Goods	12,389,980	11,900,304
	20,530,004	18,880,005
Less inventory reserves	(827,414)	(1,236,219)
	\$ 19,702,590	\$ 17,643,786
	=====	=====

## 5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at:

	September 30, 2004	December 31, 2003
Leasehold improvements	\$ 261,745	\$ 230,027
Furniture and office equipment	963,737	881,741
Equipment	2,244,366	2,481,917
Vehicles	2,122,661	1,636,878
	5,592,509	5,230,563
Less accumulated depreciation and amortization	(2,213,541)	(2,427,281)
	\$ 3,378,968	\$ 2,803,282

## 6. 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, 2004 and 2003 is presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Weighted-average shares outstanding:				
Weighted-average shares outstanding -				
Basic	10,816,157	10,253,818	10,591,359	10,233,182
Dilutive securities	1,026,647	502,004	1,144,688	301,391
Weighted-average shares outstanding -				
Diluted	11,842,804	10,755,822	11,736,047	10,534,573

For the nine months ended September 30, 2003, options outstanding totaling 25,000 shares were excluded from the calculations, as their effect would have been antidilutive. For the three months ended September 30, 2004 and 2003 and the nine months ended September 30, 2004, no options outstanding were excluded from the calculations.

## 7. COMMITMENTS & CONTINGENCIES

In March 2003, HBC entered into an advertising display agreement ("Monorail Agreement") with the Las Vegas Monorail Company ("LVMC") in terms of which HBC was granted the right, in consideration of the payment by HBC to LVMC of the sum of \$1,000,000 per year, payable quarterly, to advertise and promote its products on a designated four car monorail vehicle as well as the right to sell certain of its products on all monorail stations for payment of additional consideration.

The initial term of the Monorail Agreement commenced on July 15, 2004 and will end on July 14, 2005. Not less than 120 days before the expiration of the initial term and each renewal term, as the case may be, HBC has the right to renew the Monorail Agreement for a further one year term up to a maximum of nine additional one year terms and LVMC has the right, notwithstanding such election by HBC, to terminate the Monorail Agreement at the expiration of the then current term.

During 2003 the Company filed a complaint in the United States District court for the Central District of California against Rockstar, Inc. and Rockstar Beverage Company for an injunction, damages and further relief based on false and unlawful claims and advertising by Rockstar and unfair competition. In April 2004 Rockstar filed a counterclaim in which Rockstar alleges trade dress infringement, interference with contract, unfair competition, defamation and trade libel. During August 2004 the dispute was settled. Rock Star agreed to withdraw and/or amend many claims made by it on and in connection with its products. Further, all of Rock Star's counter-claims were dismissed and the Company released from all liability in connection therewith.

At the end of 2003 the Company was awarded exclusive three year contracts by the State of California Department of Health Services ("DHS") under the DHS's Woman, Infants and Children Supplement and Nutritional Program ("WIC") to supply 64-ounce shelf stable ready-to-drink ("RTD") 100% apple and 64-ounce shelf stable RTD 100% apple grape juices. The three year agreements have a one year extension option subject to agreement between the Company and the State of California DHS. The start dates of the contracts were July 12, 2004 and the Company is supplying juices pursuant thereto. Unsuccessful bidders formally protested the Company's awards of the WIC contracts for apple juice and apple grape juice. After hearings conducted by a Hearing Officer appointed by the California Department of General Services, the awards to the Company were upheld. Tree Top, Inc., the unsuccessful bidder for the apple juice contract, filed a petition for a writ of mandate in the California Superior Court requesting a temporary stay of implementation of the apple juice contract pending adjudication of its petition to set aside the award of the apple juice contract. Tree Top's application for a temporary stay and petition were both denied by the California Superior Court. Tree Top thereafter filed before the Court of Appeal of the State of California, Third Appellate District ("Court of Appeal"), two successive petitions to set aside the apple juice contract award and, with both petitions, requests for a temporary stay of implementation of the apple juice award pending adjudication of the petitions. Both petitions and related requests for stay were denied by the Court of Appeal. On June 21, 2004, Tree Top filed a notice of appeal of the Superior Court decision in the Court of Appeal. In October 2004 the latest appeal filed by Tree Top was dismissed. Consequently, the validity of the apple juice contract to the Company ceased to be subject to legal challenge. The Company is currently performing under the awarded contracts.

In September 2004 Barrington Capital Corporation through an alleged successor in interest, Sandburg Financial Corporation (both entities with whom the Company has never had any dealings) served a Notice of Motion ("Motion") on the Company and each of its subsidiaries as well as on a number of other unrelated entities and individuals. The Motion seeks to amend a default judgement granted against a completely unconnected company, Hansen Foods, Inc., to add the Company and its subsidiary companies, as well as the other entities and individuals cited, as judgement debtors. The default judgement was entered on February 15, 1996, for \$7,626,000 plus legal interest and attorneys' fees in the sum of \$211,000 arising out of a breach of contract claim that allegedly occurred in the 1980's. Barrington Capital Corporation's/Sandburg Financial Corporation's claim is based on the misconceived and unsubstantiated theory that the Company and its subsidiaries are alter egos and/or successors of Hansen Foods, Inc. The Motion is based on demonstrably false allegations, misstated legal propositions and lacks any substantial supporting evidence. The Company and its subsidiaries intend to vigorously oppose the Motion and believe that the Motion is without any merit.

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 not have a material adverse effect on the Company's financial position or results of operations.

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

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

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

### Critical Accounting Policies

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

**Trademark License and Trademarks** - Trademark license and trademarks primarily represent the costs paid by the Company for exclusive ownership of the Hansen's(r) trademark in connection with the manufacture, sale and distribution of beverages and water and non-beverage products. The Company also owns in its own right, a number of other trademarks in the United States as well as in a number of countries around the world. The Company also owns the Blue Sky(r) trademark and the Junior Juice(r) trademark. During 2002, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets. Under the provisions on SFAS No. 142, the Company discontinued amortization on indefinite-lived trademark licenses and trademarks while continuing to amortize remaining trademark licenses and trademarks over one to 25 years.

In accordance with SFAS No. 142, we evaluate our non-amortizing trademark license and trademarks annually for impairment. We measure impairment by the amount that the carrying value exceeds the estimated fair value of the trademark license and trademarks. The fair value is calculated using the income approach. Based on our annual impairment analysis performed in the fourth quarter of 2003 and our analysis of the trademark license and trademarks for the quarter ended September 30, 2004, the estimated fair values of trademark license and trademarks exceeded the carrying value.

Long-Lived Assets - Management regularly reviews property and equipment and other long-lived assets, including identifiable amortizing intangibles, for possible impairment. This review occurs annually, or more frequently if events or changes in circumstances indicate the carrying amount of the asset may not be recoverable. If there is indication of impairment of property and equipment or amortizable intangible assets, then management prepares an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its eventual disposition. If these cash flows are less than the carrying amount of the asset, an impairment loss is recognized to write down the asset to its estimated fair value. The fair value is estimated at the present value of the future cash flows discounted at a rate commensurate with management's estimates of the business risks. Annually, or earlier, if there is indication of impairment of identified intangible assets not subject to amortization, management compares the estimated fair value with the carrying amount of the asset. An impairment loss is recognized to write down the intangible asset to its fair value if it is less than the carrying amount. Preparation of estimated expected future cash flows is inherently subjective and is based on management's best estimate of assumptions concerning expected future conditions. No impairments were identified as of September 30, 2004.

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

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

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

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

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

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

## Our Business

### Overview

We develop, market, sell and distribute, in the main, a wide range of branded beverages. The majority of our beverages fall within the growing "alternative" beverage category. The principal brand names under which our beverages are marketed are Hansen's(r), Monster Energy(tm), Blue Sky(r), Junior Juice(r), and Lost(r). We own all of our above-listed brand names other than Lost(r) which we produce, market, sell and distribute under an exclusive licensing arrangement with Lost International LLC.

Our company principally generates revenues, income and cash flows by developing, producing, marketing, selling and distributing finished beverage products. We generally sell these products to retailers as well as distributors.

We incur significant marketing expenditures to support our brands including advertising costs, sponsorship fees and special promotional events. We focus on developing brand awareness and trial through sampling both in stores and at events. Retailers and distributors receive rebates, promotions, point of sale materials, merchandise displays and coolers. We also use in-store promotions and in-store placement of point-of-sale materials and racks, prize promotions, price promotions, competitions, and sponsorship of, and endorsements from, selected public and extreme sports figures and causes. Consumers receive coupons, discounts and promotional incentives. These marketing expenditures help to enhance distribution and availability of our products as well as awareness and increase consumer preference for our brands. We believe greater distribution and availability, awareness and preference promotes long term growth of the Company's brands.

During the third quarter of 2004, we continued to expand our existing product lines and further develop our markets. In particular, we continue 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.

We believe that one of the keys to success in the beverage industry is differentiation, such as making Hansen's(r) 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 labels and graphics from time to time.

We again achieved record sales in the third quarter of 2004. The increase in gross and net sales in the third quarter of 2004 was primarily attributable to increased sales of products with relatively higher price points, including increased sales by volume of our Monster Energy™ drinks, which were introduced in April 2002, sales of our low carbohydrate ("Lo-Carb") Monster Energy™ drinks, which were introduced in August 2003 and sales of our Lost(r) Energy drinks in 16-ounce cans, which were introduced in January 2004. The increase in net sales was also attributable to increased sales by volume of apple juice and juice blends, private label beverages and smoothies in cans. The increase in net sales was also attributable, to a lesser extent, to sales of our Deuce Energy drinks and sales of our juices in aseptic pouches which were introduced in July 2003. The increase in gross and net sales was partially offset by decreased sales by volume primarily of Hansen's(r) energy and functional drinks in 8.2-ounce cans, Hansen's(r) children's multi-vitamin juice drinks in aseptic packaging, Natural Sodas, teas, lemonades and juice cocktails, Hansen's(r) E2O Energy Water and sparkling beverages as well as an increase in total discounts, allowances and promotional payments to support the overall increase in the level of sales.

Gross profit for the nine months ended September 30, 2004, as a percentage of net sales, was 45.0% which was higher than the 39.4% gross profit percentage achieved in the nine months ended September 30, 2003. The increase in gross profit percentage was primarily due to a change in the Company's product mix including the increase in certain product lines as described above and customer mix including an increase in sales to full service distributors.

During the nine months ended September 30, 2004, sales outside of California represented 55% of our aggregate sales, as compared to approximately 45% of our aggregate sales in the nine months ended September 30, 2003. Sales to distributors outside the United States, during the nine months ended September 30, 2004, amounted to \$1.6 million compared to \$1.0 million in the nine months ended September 30, 2003, accounting for approximately 1% of our net sales for each period respectively.

Our customers are typically retail grocery and specialty chains, club stores, mass merchandisers, convenience chains, full service beverage distributors and health food distributors. In the nine months ended September 30, 2004, sales to retailers represented 21% of our revenues, sales to club stores and mass merchandisers represented 14% of our revenues, sales to full service distributors represented 51% of our revenues and sales to health food distributors represented 10% of our revenues.

In the first quarter of 2004, we introduced a carbonated Lost(r) Energy drink in 16-ounce cans. The Lost(r) brand name is owned by Lost International LLC and the drinks are produced, sold and distributed by the Company under exclusive license from Lost International LLC. During the second quarter of 2004, we introduced a private label sports drink that we developed for one of our customers.

During October 2004 we introduced a new Monster Energy(tm) "Assault" energy drink in 16 oz. cans.

Sales of our dual-branded 100% juice line named "Juice Blast(r)", which was launched in conjunction with Costco and is sold through Costco stores, were lower in the third quarter of 2004 than in 2003 primarily due to the discontinuance of the product by certain Costco regions. We are continuing to work with those regions with a view to having the product reinstated in certain of such regions in the future.

In September 2000, HBC, through its wholly owned subsidiary Blue Sky, acquired the Blue Sky(r) Natural Soda business. The Blue Sky(r) Natural Soda brand is the leading natural soda in the health food trade. Blue Sky offers natural sodas, premium natural sodas with added ingredients such as Ginseng and anti-oxidant vitamins, organic sodas and seltzer waters in 12-ounce cans and a Blue Energy drink in 8.3-ounce cans. During 2004, we continued to expand distribution of Blue Sky products into mainstream grocery chain stores throughout the country and introduced a new line of tea soda products in 12 oz. cans during the third quarter. We are planning to introduce additional new products under the Blue Sky(r) trademark later in the year and early in 2005.

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

During the first nine months of 2004, we entered into several new distribution agreements for the sale of our products. We intend to continue building our national sales force throughout the remainder of 2004 to support and grow the sales of our products.

A chain grocery store strike in Southern California, which commenced during the last quarter of 2003, adversely affected sales of those of our products that are carried by the stores concerned. However, the drop in sales of such products was partially offset by increased sales of certain of those products that are carried by other retailers in Southern California not engaged in the strike. The strike ended in March 2004 and the grocery stores concerned are fully staffed and operational.



At the end of 2003, we were awarded exclusive three year contracts by the State of California, Department of Health Services ("DHS") under the DHS's Women, Infant and Children Supplemental Nutrition Program ("WIC"), to supply 100% Apple juice and 100% Apple Grape juice in 64-ounce PET plastic bottles. Unsuccessful bidders formally protested the Company's awards of the WIC contracts for apple juice and apple grape juice. After hearings conducted by a Hearing Officer appointed by the California Department of General Services, the awards to the Company were upheld. Tree Top, Inc., the unsuccessful bidder for the apple juice contract, filed a petition for a writ of mandate in the California Superior Court requesting a temporary stay of implementation of the apple juice contract pending adjudication of its petition to set aside the award of the apple juice contract. Tree Top's application for a temporary stay and petition were both denied by the California Superior Court. Tree Top thereafter filed before the Court of Appeal of the State of California, Third Appellate District ("Court of Appeal"), two successive petitions to set aside the apple juice contract award and, with both petitions, requests for a temporary stay of implementation of the apple juice award pending adjudication of the petitions. Both petitions and related requests for stay were denied by the Court of Appeal. On June 21, 2004, Tree Top filed a notice of appeal of the Superior Court decision in the Court of Appeal. In October 2004 the latest appeal filed by Tree Top was dismissed. Consequently, the validity of the apple juice contract to the Company ceased to be subject to legal challenge. The Company is currently performing under the awarded contracts. We continue to incur expenditures in connection with the development and introduction of new products and flavors.

#### Results of Operations

The following table sets forth key statistics for the three-months ended September 30, 2004 and 2003, respectively.

	Three-Months Ended September 30,		Percentage
	2004	2003	Change
			04 vs. 03
Gross sales	\$ 68,123,372	\$ 42,613,935	59.9%
Less: Discounts, allowances and promotional payments	15,481,895	9,322,847	66.1%
Net sales	52,641,477	33,291,088	58.1%
Cost of sales	28,832,269	20,004,236	44.1%
Gross profit	23,809,208	13,286,852	79.2%
Gross profit margin	45.2%	39.9%	
Selling, general and administrative expenses	13,865,099	9,743,117	42.3%
Amortization of trademark license and trademarks	19,278	15,346	25.6%
Operating income	9,924,831	3,528,389	181.3%
Operating income as a percent of net sales	18.9%	10.6%	
Net nonoperating expense	8,104	9,337	( 13.2%)
Income before provision for income taxes	9,916,727	3,519,052	181.8%
Provision for income taxes	4,118,079	1,425,217	188.9%
Effective tax rate	41.5%	40.5%	
Net income	\$ 5,798,648	\$ 2,093,835	176.9%
Net income as a percent of net sales	11.0%	6.3%	
Net income per common share:			
Basic	\$ 0.54	\$ 0.20	170.0%
Diluted	\$ 0.49	\$ 0.19	157.9%

Results of Operations for the Three Months Ended September 30, 2004 Compared to the Three Months Ended September 30, 2003

Gross Sales. For the three-months ended September 30, 2004, gross sales were \$68.1 million, an increase of \$25.5 million or 59.9% higher than the \$42.6 million gross sales for the three-months ended September 30, 2003. The increase in gross sales for the three-months ended September 30, 2004 was primarily attributable to increased sales volume of certain of our existing products as well as the introduction of new products, as discussed in "Net Sales" below.

Net Sales. For the three-months ended September 30, 2004, net sales were \$52.6 million, an increase of \$19.4 million or 58.1% higher than net sales of \$33.3 million for the three-months ended September 30, 2003. The increase in net sales for the three-months ended September 30, 2004 was primarily attributable to increased sales of products with relatively higher price points, including increased sales by volume of our Monster Energy™ drinks, which were introduced in April 2002, sales of our low carbohydrate ("Lo-Carb") Monster Energy™ drinks, which were introduced in August 2003 and sales of our Lost(r) Energy drinks in 16-ounce cans, which were introduced in January 2004. The increase in net sales was also attributable to increased sales by volume of apple juice and juice blends, private label beverages and smoothies in cans. The increase in net sales was also attributable, to a lesser extent, to sales of our Deuce Energy drinks and sales of our juices in aseptic pouches which were introduced in July 2003. The increase in gross and net sales was partially offset by decreased sales by volume primarily of Hansen's(r) energy and functional drinks in 8.2-ounce cans, Hansen's(r) children's multi-vitamin juice drinks in aseptic packaging, Natural Sodas, teas, lemonades and juice cocktails, Hansen's(r) E20 Energy Water and sparkling beverages as well as an increase in total discounts, allowances and promotional payments to support the overall increase in the level of sales.

Gross Profit. Gross profit was \$23.8 million for the three-months ended September 30, 2004, an increase of \$10.5 million or 79.2% higher than the gross profit for the three-months ended September 30, 2003 of \$13.3 million. Gross profit as a percentage of net sales, increased to 45.2% for the three-months ended September 30, 2004 from 39.9% for the three-months ended September 30, 2003. Increases in gross sales volume contributed to an increase in gross profit while a change in the Company's product and customer mix and the related increase in the percentage of sales of higher margin products increased both gross profit and gross profit as a percentage of net sales.

Total Operating Expenses. Total operating expenses were \$13.9 million for the three-months ended September 30, 2004, an increase of \$4.1 million or 42.3% higher than total operating expenses of \$9.8 million for the three-months ended September 30, 2003. Total operating expenses as a percentage of net sales decreased to 26.4% for the three-months ended September 30, 2004 as compared to 29.3% for the three-months ended September 30, 2003. The increase in total operating expenses was primarily attributable to increased selling, general and administrative expenses whereas the decrease in total operating expenses as a percentage of net sales was primarily attributable to a decrease in the percentage of selling, general and administrative expenses as a percentage of net sales.

Selling expenses were \$8.7 million for the three-months ended September 30, 2004, an increase of \$2.7 million or 43.9% higher than selling expenses of \$6.0 million for the three-months ended September 30, 2003. Selling expenses as a percentage of net sales for the three-months ended September 30, 2004 were 16.5% which was lower than selling expenses as a percentage of net sales of 18.1% for the three-months ended September 30, 2003. The increase in selling expenses was primarily attributable to an increase in distribution and storage expenses of \$982,000, increased expenditures for trade development activities with distributors of \$433,000, merchandise displays, point of sale and premium materials of \$573,000, increased advertising of \$266,000 and other promotional activities of \$334,000. General and administrative expenses were \$5.2 million for the three-months ended September 30, 2004, an increase of \$1.5 million or 39.6% higher than general and administrative expenses of \$3.7 million for the three-months ended September 30, 2003. General and administrative expenses as a percentage of net sales for the three-months ended September 30, 2004 were 9.8% which was lower than general and administrative expenses as a percentage of net sales of 11.1% for the three-months ended September 30, 2003. The increase in general and administrative expenses was primarily attributable to increased payroll expenses for sales, marketing and administrative activities of \$609,000, fees for legal and accounting services including services related to the implementation and testing required by the Sarbanes-Oxley Act of 2002 of \$301,000 as well as increased expenses of \$106,000 incurred to maintain certain fixed assets. The decrease in general and administrative expenses as a percentage of net sales was attributable to general and administrative expenses increasing at a lower rate than net sales for the three months ended September 30, 2004 as compared to the three months ended September 30, 2003.

Operating Income. Operating income was \$9.9 million for the three-months ended September 30, 2004, an increase of \$6.4 million or 181.3% higher than operating income of \$3.5 million for the three-months ended September 30, 2003. Operating income as a percentage of net sales increased to 18.9% for the three-months ended September 30, 2004 from 10.6% for the three-months ended September 30, 2003. The increase in operating income and operating income as a percentage of net sales was attributable to higher gross profit as well as gross profit increasing at a higher rate than the increase in operating expenses for the three months ended September 30, 2004 as compared to the three months ended September 30, 2003.

Net Nonoperating Expense. Net nonoperating expense was \$8,000 for the three-months ended September 30, 2004, a decrease of \$1,000 from net non-operating expense of \$9,000 for the three-months ended September 30, 2003. The decrease in net non-operating expense was primarily attributable to decreased interest expense incurred on the Company's borrowings, which was primarily attributable to the decrease in outstanding loan balances.

Provision for Income Taxes. Provision for income taxes for the three-months ended September 30, 2004 was \$4.1 million as compared to provision for income taxes of \$1.4 million for the comparable period in 2003. The effective combined federal and state tax rate for the three-months ended September 30, 2004 was 41.5%, which was higher than the effective tax rate of 40.5% for the three-months ended September 30, 2003 due to the increase in income before provision for income taxes, to a level which resulted in an increase in the effective federal tax rate, which was partially offset by a decrease in state taxes due to an apportionment of sales and related state taxes to various states outside of California.

Net Income. Net income was \$5.8 million for the three-months ended September 30, 2004, an increase of \$3.7 million or 176.9% higher than net income of \$2.1 million for the three-months ended September 30, 2003. The increase in net income was attributable to the increase in gross profit of \$10.5 million and decrease in nonoperating expense of \$1,000 which was partially offset by the increase in operating expenses of \$4.1 million and an increase in provision for income taxes of \$2.7 million.

Results of Operations for the Nine Months Ended September 30, 2004 Compared to the Nine Months Ended September 30, 2003

Gross Sales. For the nine-months ended September 30, 2004, gross sales were \$164.9 million, an increase of \$59.5 million or 56.5% higher than the \$105.4 million gross sales for the nine-months ended September 30, 2003. The increase in gross sales for the nine-months ended September 30, 2004 was primarily attributable to increased sales volume of certain of our existing products as well as the introduction of new products as discussed in "Net Sales" below.

Net Sales. For the nine-months ended September 30, 2004, net sales were \$130.0 million, an increase of \$46.2 million or 55.2% higher than net sales of \$83.8 million for the nine-months ended September 30, 2003. The increase in net sales for the nine-months ended September 30, 2004 was primarily attributable to increased sales of products with relatively higher price points, including increased sales by volume of Monster Energy™ drinks which were introduced in April 2002, sales of Lo-Carb Monster Energy™ drinks, which were introduced in August 2003 and sales of our Lost(r) energy drinks in 16-ounce cans, which were introduced in January 2004. The increase in net sales was also attributable to increased sales by volume of apple juice and juice blends and Natural Sodas, in particular Diet Natural Sodas, and sales of private label beverages which were introduced in March 2004. The increase in net sales was also attributable, to a lesser extent, to increased sales by volume of our Deuce Energy drinks, smoothies in cans, Energade(r) Energy sports drinks, Junior Juice(r) brand drinks and sales of juice drinks in pouches which were introduced in July 2003. The increase in net sales was partially offset by decreased sales by volume primarily of Hansen's(r) children's multi-vitamin juice drinks in aseptic packaging, Hansen's(r) energy and functional drinks in 8.3-ounce cans, teas, lemonades and juice cocktails, Diet Red Energy drinks, soy smoothies and smoothies in bottles, Hansen's(r) E2O Energy Water and sparkling beverages as well as an increase in total discounts, allowances and promotional payments to support the overall increase in the level of sales.

Gross Profit. Gross profit was \$58.5 million for the nine-months ended September 30, 2004, an increase of \$25.4 million or 77.0% higher than the gross profit for the nine-months ended September 30, 2003 of \$33.0 million. Gross profit as a percentage of net sales, increased to 45.0% for the nine-months ended September 30, 2004 from 39.4% for the nine-months ended September 30, 2003. Increases in gross sales volume contributed to an increase in gross profit while a change in the Company's product and customer mix and the related increase in the percentage of sales of higher margin products increased both gross profit and gross profit as a percentage of net sales.

Total Operating Expenses. Total operating expenses were \$36.5 million for the nine-months ended September 30, 2004, an increase of \$11.4 million or 45.6% higher than total operating expenses of \$25.1 million for the nine-months ended September 30, 2003. Total operating expenses as a percentage of net sales decreased to 28.1% for the nine-months ended September 30, 2004 as compared to 29.9% for the nine-months ended September 30, 2003. The increase in total operating expenses was primarily attributable to increased selling, general and administrative expenses.

Selling expenses were \$21.8 million for the nine-months ended September 30, 2004, an increase of \$6.9 million or 45.8% higher than selling expenses of \$15.0 million for the nine-months ended September 30, 2003. Selling expenses as a percentage of net sales for the nine-months ended September 30, 2004 were 16.8% which was slightly lower than selling expenses as a percentage of net sales of 17.9% for the nine-months ended September 30, 2003. The increase in selling expenses was primarily attributable to an increase in distribution and storage expenses of \$2.7 million, increased expenditures for merchandise displays, point-of-sale and premium materials of \$1.7 million, trade development activities with distributors of \$1.1 million, sampling and in-store demonstrations of \$723,000, and other promotional activities of \$444,000. General and administrative expenses were \$14.6 million for the nine-months ended September 30, 2004, an increase of \$4.5 million or 45.2% higher than general and administrative expenses of \$10.1 million for the nine-months ended September 30, 2003. General and administrative expenses as a percentage of net sales for the nine-months ended September 30, 2004 were 11.2% which was slightly lower than general and administrative expenses as a percentage of net sales of 12.0% for the nine-months ended September 30, 2003. The increase in general and administrative expenses was primarily attributable to increased payroll expenses for sales, marketing and administrative activities of \$2.1 million, fees for legal and accounting services including services related to the implementation and testing required by the Sarbanes-Oxley Act of 2002 and services related to establishing and protecting trademarks of \$992,000, travel and entertainment expenses of \$386,000 as well as \$199,000 incurred to maintain certain fixed assets. The decrease in general and administrative expenses as a percentage of net sales was attributable to net sales increasing at a higher rate than general and administrative expenses for the nine-months ended September 30, 2004 as compared to the nine months ended September 30, 2003.

Operating Income. Operating income was \$22.0 million for the nine-months ended September 30, 2004, an increase of \$14.0 million or 175.9% higher than operating income of \$8.0 million for the nine-months ended September 30, 2003. Operating income as a percentage of net sales increased to 16.9% for the nine-months ended September 30, 2004 from 9.5% for the nine-months ended September 30, 2003. The increase in operating income and operating income as a percentage of net sales was attributable to a higher gross profit as well as gross profit increasing at a higher rate than the increase in operating expenses for the nine months ended September 30, 2004 as compared to the nine months ended September 30, 2003.

Net Nonoperating Expense. Net nonoperating expense was \$27,000 for the nine-months ended September 30, 2004, a decrease of \$30,000 from net non-operating expense of \$57,000 for the nine-months ended September 30, 2003. The decrease in net non-operating expense was primarily attributable to decreased interest expense incurred on the Company's borrowings, which was primarily attributable to the decrease in outstanding loan balances.

Provision for Income Taxes. Provision for income taxes for the nine-months ended September 30, 2004 was \$8.9 million as compared to provision for income taxes of \$3.2 million for the comparable period in 2003. The effective combined federal and state tax rate for the nine-months ended September 30, 2004 was 40.5%, which was comparable to the effective tax rate of 40.5% for the nine-months ended September 30, 2003.

Net Income. Net income was \$13.1 million for the nine-months ended September 30, 2004, an increase of \$8.4 million or 177.6% higher than net income of \$4.7 million for the nine-months ended September 30, 2003. The increase in net income was attributable to the increase in gross profit of \$25.4 million and decrease in nonoperating expense of \$30,000 which was partially offset by the increase in operating expenses of \$11.4 million and an increase in provision for income taxes of \$5.7 million.

#### Liquidity and Capital Resources

As at September 30, 2004, the Company had working capital of \$32.0 million, as compared to working capital of \$17.2 million as at December 31, 2003. The increase in working capital is primarily attributable to net income earned after adjustment for certain noncash expenses, primarily depreciation and other amortization, (which was partially offset by deferred income tax expense) and proceeds received from the issuance of common stock. Such increase was partially offset by acquisition of property and equipment, repayment by the Company of a portion of the Company's long-term debt, increases in deposits and other assets and additions to trademark license and trademarks.

Net cash provided by operating activities was \$15.9 million for the nine-months ended September 30, 2004 as compared to net cash provided by operating activities of \$4.9 million in the comparable period in 2003. For the nine-months ended September 30, 2004, cash provided by operating activities was attributable to net income earned after adjustments for the effect of certain expenses, primarily depreciation and other amortization and increase in deferred tax assets and liabilities, as well as increases in accounts payable, income taxes payable, accrued liabilities and accrued compensation and decreases in prepaid expenses and other current assets which was partially offset by increases in accounts receivable and inventories. The increase in accounts receivable was attributable primarily to increased sales during the period. Purchases of inventories, increases in accounts receivable and other assets, acquisition of property and equipment, acquisition of trademark licenses and trademarks, repayment of our line of credit and payments of accounts payable and income taxes payable are expected to remain our principal recurring use of cash and working capital funds.

Net cash used in investing activities was \$1.1 million for the nine-months ended September 30, 2004 as compared to net cash used in investing activities of \$1.7 million in the comparable period in 2003. In the nine-months ended September 30, 2004, cash used in investing activities was primarily attributable to acquisitions of property and equipment, an increase in deposits and other assets and additions to trademark license and trademarks, which was partially offset by proceeds from the sale of property and equipment. Management, from time to time, considers the acquisition of capital equipment, particularly, specific items of production equipment required to produce certain of our products, storage racks, merchandise display racks, vans and promotional vehicles, coolers and other promotional equipment and businesses compatible with the image of the Hansen's(r) brand, as well as the introduction of new product lines.

Net cash provided by financing activities was \$1.3 million for the nine-months ended September 30, 2004 as compared to net cash used in financing activities of \$2.8 million for the comparable period in 2003. For the nine-months ended September 30, 2004, cash provided by financing activities was primarily attributable to proceeds received from the issuance of common stock which was partially offset by principal payments of long-term debt. For the nine-months ended September 30, 2003, cash was used for principle payment of long-term debt which was partially offset by proceeds from the issuance of common stock.

HBC has a credit facility from Comerica Bank-California ("Comerica"), consisting of a revolving line of credit and a term loan. The utilization of the revolving line of credit by HBC was dependent upon certain levels of eligible accounts receivable and inventory from time to time. Such revolving line of credit and term loan are secured by substantially all of HBC's assets, including accounts receivable, inventory, trademarks, trademark licenses and certain equipment. The revolving line of credit remains in full force and effect through September 2005. Interest on borrowings under the line of credit is based on Comerica's base (prime) rate, plus an additional percentage of up to 0.5% or the LIBOR rate, plus an additional percentage of up to 2.5%, depending upon the level of certain financial ratios of HBC from time to time. At September 30, 2004, HBC had no balances outstanding under the credit facility and borrowing capacity available to the Company from Comerica under the credit facility was \$6,000,000.

The terms of the Company's line of credit contain certain financial covenants including certain financial ratios and annual net income requirements. The line of credit contains provisions under which applicable interest rates will be adjusted in increments based on the achievement of certain financial ratios. The Company was in compliance with its financial ratios and annual net income requirements and obtained a waiver from Comerica with regards to its capital expenditure limitations at September 30, 2004.

If any event of default shall occur for any reason, whether voluntary or involuntary, Comerica may declare all or any portion outstanding on the line of credit immediately due and payable, exercise rights and remedies available to secured parties under the Uniform Commercial Code, institute legal proceedings to foreclose upon the lien and security interest granted or for the sale of any or all collateral.

Purchase obligations represent commitments made by the Company and its subsidiaries to various suppliers for raw materials used in the manufacturing and packaging of our products. These obligations vary in terms. Other commitments represent our obligations under our agreement with the Las Vegas Monorail Company. See also "ITEM 1-NOTE 6, COMMITMENTS & CONTINGENCIES." The following represents a summary of the Company's contractual obligations and related scheduled maturities as of September 30, 2004:

	Long-Term Debt & Capital Lease Obligations	Operating Leases	Purchase Obligations	Other Commitments	Total
2004 - Remainder	\$ 114,844	\$ 240,230	\$ 3,794,715	\$ 250,000	\$ 4,399,789
2005	304,735	970,359	7,275,654	500,000	9,050,748
2006	148,339	1,017,128	6,175,267		7,340,734
2007		1,030,218	1,460,000		2,490,218
2008		773,997			773,997
Thereafter		1,199,730			1,199,730
	<u>\$ 567,918</u>	<u>\$ 5,231,662</u>	<u>\$ 18,705,636</u>	<u>\$ 750,000</u>	<u>\$ 25,255,216</u>

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

#### Sales

The table set forth below discloses selected quarterly data regarding sales for the first nine-months of the past two years. 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 of the Company means number of unit cases (or unit case equivalents) of beverages directly or indirectly sold by the Company. Sales of food bars and cereals are expressed in actual cases. A case of food bars and cereals is defined as follows:



\* A fruit and grain bar and functional nutrition bar case equals ninety 1.76-ounce bars.

\* A natural cereal case equals ten 13-ounce boxes measured by volume.

\* An active nutrition bar case equals thirty-two 1.4-ounce bars.

The Company's quarterly results of operations reflect seasonal trends that management believes are primarily the result of increased demand in the warmer months of the year. It has been our experience that beverage sales tend to be lower during the first and fourth quarters of each fiscal year. Because the primary historical market for Hansen's products is California which has a year-long temperate climate, the effect of seasonal fluctuations on quarterly results may have been mitigated; however such fluctuations may be more pronounced as the distribution of Hansen's products expands outside of California. The Company has not had sufficient experience with its food bars, cereal products and Hard e malt-based products and consequently has no knowledge of the trends which may occur with such products. Quarterly fluctuations may also be affected by other factors including the introduction of new products, the opening of new markets where temperature fluctuations are more pronounced, the addition of new bottlers and distributors, changes in the mix of the sales of its finished products, soda concentrates and food products and increased advertising and promotional expenses.

	(In Thousands)	
	Nine-months ended September 30, 2004	2003
	-----	-----
Unit Case Volume / Case Sales	21,889	15,796
Net Sales	\$ 130,004	\$ 83,787

#### Forward Looking Statements

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

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

\* 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;
- \* 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/or Federal Trade Commission, and/or certain state regulatory agencies;
- \* Changes in the cost and availability of raw materials and the ability to maintain favorable supply arrangements and relationships and procure timely and/or adequate production of all or any of the Company's products;
- \* 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, 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; and
- \* 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 and 16-ounce cans, smoothies in 11.5-ounce cans, E20 Energy Water(r), Energade(r), Monster Energy™ and Lost(r) energy drinks, soy smoothies, sparkling orangeades and lemonades in glass bottles and other products.

The foregoing list of important factors is not exhaustive.

The Company's actual results could be materially different from the results described or anticipated by the Company's 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 the Company's estimates and assumptions only as of the date that they were made. The Company expressly disclaims 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.

## Inflation

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

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

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) which the Company is exposed to are fluctuations in commodity prices affecting the cost of raw materials and changes in interest rates of the Company's long term debt. 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. We are also subject to other risks associated with the business environment in which we operate, including the collectability of accounts receivable.

At September 30, 2004, the majority of the Company's debt consisted of fixed rather than variable rate debt. The amount of variable rate debt fluctuates during the year based on the Company's cash requirements. If average interest rates were to increase one percent for the year ended September 30, 2004, the net impact on the Company's pre-tax earnings would have been insignificant.

## ITEM 4. CONTROL 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 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 material information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

There have been no significant 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 registrant's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is a party to various claims, complaints and other legal actions that have arisen in the normal course of business from time to time. The Company believes the outcome of these pending legal proceedings, in the aggregate, will not have a material adverse effect on the operations or financial position of the Company. See NOTE 7 to the financial statements, "COMMITMENTS AND CONTINGENCIES."

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits - See Exhibit Index

31.1 Certification by CEO pursuant to Rule 13A-14(a) or 15D-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification by CFO pursuant to Rule 13A-14(a) or 15D-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification by CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification by CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

On March 4, 2004, the Company filed a current report on Form 8-K reporting under Item 6 that the Company had issued a press release regarding a contract awarded to the Company by the State of California Department of Health Services' Women, Infant and Children Supplemental Nutrition Program.

SIGNATURES

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

HANSEN NATURAL CORPORATION  
Registrant

Date: November 15, 2004

/s/ RODNEY C. SACKS

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

Date: November 15, 2004

/s/ HILTON H. SCHLOSBERG

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Hilton H. Schlosberg  
Vice Chairman of the Board of Directors,  
President and Chief Financial 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, 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)) 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. 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
  - c. 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 15, 2004

/s/ RODNEY C. SACKS

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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)) 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. 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
  - c. 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 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 15, 2004

/s/ HILTON H. SCHLOSBERG

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

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

In connection with the quarterly report of Hansen Natural Corporation (the "Company") on Form 10-Q for the quarter ended September 30, 2004 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 15, 2004

/s/ RODNEY C. SACKS

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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, 2004 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 15, 2004

/s/ HILTON H. SCHLOSBERG

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