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White Paper Study

Energy Drink Due Diligence Report: Hansen Natural Corporation

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The following abridged report profiles Hansen Natural Corporation and their penetration into the Energy Drink industry.

The report will touch upon its:

1. Industry Overview
2. History and Background
3. Business Model
4. Competition
5. Sales and Marketing Strategy
6. Customer Profile



INDUSTRY OVERVIEW

The “alternative” beverage category combines non-carbonated ready-to-drink iced teas, lemonades, juice cocktails, single serve juices and fruit beverages, ready-to-drink dairy and coffee drinks, energy drinks, sports drinks, and single-serve still water (flavored, unflavored and enhanced) with “new age” beverages, including sodas that are considered natural, sparkling juices and flavored sparkling beverages. The “alternative” beverage category is the fastest growing segment of the beverage marketplace according to Beverage Marketing Corporation. According to Beverage Marketing Corporation, wholesale sales in 2008 for the “alternative” beverage category of the market are estimated at \$26.0 billion representing a growth rate of approximately 2.8% over the estimated wholesale sales in 2007 of approximately \$25.3 billion (revised from previously reported estimate of \$25.5 billion).



HISTORY/BACKGROUND

Hansen Natural Corporation, incorporated on April 25, 1990, is a holding company that carries no operating business, except through their wholly owned subsidiaries: Hansen Beverage Company (“HBC”) which was incorporated in Delaware on June 8, 1992; MLDA, formerly known as Hard e Beverage Company, and previously known as Hard Energy Company and as CVI Ventures, Inc., which was incorporated in Delaware on April 30, 1990; Monster Energy UK Limited (“Monster UK”), a direct wholly owned subsidiary of HBC, which was incorporated in the United Kingdom on October 9, 2007; Monster Energy AU Pty, Ltd. (“MEAU”), a direct wholly owned subsidiary of HBC, which was incorporated in Australia on August 5, 2008; and Monster Energy Limited

(“MEL”), a direct wholly owned subsidiary of HBC, which was incorporated in Ireland on September 24, 2008. In 2008, HBC and Monster UK generated all of our operating revenues.

The company was originally founded in the 1930s by Hubert Hansen and his three sons offering and selling fresh, non-pasteurized juices in Los Angeles, California. The business eventually became Hansen’s Juices, Inc., which subsequently became known as The Fresh Juice Company of California, Inc. (“FJC”). FJC retained the right to market and sell fresh non-pasteurized juices under the Hansen trademark. In 1977, Tim Hansen, one of the grandsons of Hubert Hansen, perceived a demand for pasteurized natural juices and juice blends that are shelf stable and formed Hansen Foods, Inc. (“HFI”). HFI expanded its product line from juices to include Hansen’s Natural Sodas®.

The California Co-Packers Corporation (d/b/a/ Hansen Beverage Company) (“CCC”) acquired certain assets of HFI, including the right to market the Hansen’s® brand name, in January 1990. On July 27, 1992, HBC acquired the Hansen’s® brand natural soda and apple juice business from CCC. Under our ownership, the Hansen beverage business has significantly expanded and includes a wide range of beverages within the growing “alternative” beverage

category, including in particular, energy drinks. In September 1999, we acquired all of FJC’s rights to manufacture, sell and distribute fresh non-pasteurized juice products under the Hansen’s® trademark together with certain additional rights.

In 2000, HBC, through its wholly-owned subsidiary, Blue Sky Natural Beverage Co. (“Blue Sky”), which was incorporated in Delaware on September 8, 2000, acquired the natural soda business previously conducted by Blue Sky Natural Beverage Co., a New Mexico corporation (“BSNBC”), under the Blue Sky® trademark. In 2001, HBC, through its wholly-owned subsidiary Hansen Junior Juice Company, (“Junior Juice”), which was incorporated in Delaware on May 7, 2001, acquired the Junior Juice business previously conducted by Pasco Juices, Inc. (“Pasco”) under the Junior Juice® trademark.



BUSINESS MODEL

Hansen develops, markets, sells and distributes “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 flavored sparkling beverages under the Hansen’s[®] brand name. They also develop, market, sell and distribute energy drinks under the following brand names: Monster Energy[®]; Monster Hitman Energy Shooter[™]; Lost[®] Energy[™]; and Joker Mad Energy[™] names as well as Rumba[®], Samba and Tango brand energy juices. They also market, sell and distribute the Java Monster[™] line of non-carbonated dairy based coffee drinks. Additionally, they market, sell and distribute natural sodas, premium natural sodas with supplements, organic natural sodas, seltzer waters, sports drinks and energy drinks under the Blue Sky[®] brand name. In July 2008 they began to market, sell and distribute enhanced water beverages under the Vidration[™] brand name.

Their Monster Energy[®] brand energy drinks 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), Monster Energy[®] Khaos[™] energy drinks (introduced in August 2005), Monster Energy[®] M-80[™] energy drinks (introduced in March 2007, and named “RIPPER” in certain countries), Monster Energy[®] Heavy Metal[™] energy drinks (introduced in November 2007) and Monster Energy[®] MIXXD[™] (introduced in December 2007).



KEY PRODUCT LINES

Monster Energy® Drinks - In 2002, we launched a new carbonated energy drink under the Monster Energy® brand name in 16-ounce cans, which was almost double the size of our Hansen's branded energy drinks (in 8.3-ounce cans) and the vast majority of competitive energy drinks on the market at that time. Our Monster Energy® drinks contain different types and levels of supplements than our Hansen's® energy drinks and are marketed through our full service distributor network. We offer the following products under the Monster Energy® brand energy drink product line: Monster Energy®, lo-carb Monster Energy®, Monster Energy® Assault®, Monster Energy® Khaos™, Monster Energy® M-80™ (named "RIPPER" in certain countries), Monster Energy® Heavy Metal™ and Monster Energy® MIXXD™. We package our Monster Energy® drinks in 8.3-ounce and/or 16-ounce and/or 24-ounce and/or 32-ounce and/or 500ml aluminum cans and/or 500ml glass bottles.

Lost® Energy™ Drinks - In 2004, we launched a new carbonated energy drink under the Lost® brand name. The Lost® brand name is owned by Lost International, LLC and the drinks are produced, sold and distributed by us under an exclusive license from Lost International, LLC. We offer the following products under the Lost® Energy™ brand energy drink product line: Lost®, Lost® Perfect 10™, Lost® Five-0™ and Lost® Cadillac™. We package our Lost® Energy™ drinks in 8.3-ounce and/or 16-ounce and/or 24-ounce aluminum cans.

Energy Juice - In 2004, we launched a new non-carbonated energy juice under the Rumba® brand name. Our energy juice is a 100% juice product that targets male and female morning beverage consumers and is positioned as a substitute for coffee, caffeinated sodas and 100% orange or other juices. We offer the following products under the energy juice product line: Rumba®, Samba and Tango. We package our energy juices in 15.5-ounce aluminum cans.

Joker Mad Energy™ Drinks - In 2005, we introduced Joker Mad Energy™ energy drinks. We offer the following products under the Joker Mad Energy™ product line: Joker Mad Energy™, Joker Mad Energy™ Lo-Carb and Joker Mad Energy™ with Juice. We package our Joker Mad Energy™ drinks in 16-ounce aluminum cans.

Java Monster™ Coffee Drinks - In 2007, we launched a new line of non-carbonated dairy based coffee drinks under the Java Monster™ brand name. We offer the following products under the Java Monster™ product line:

Java Monster™ Originale™, Java Monster™ Loca Moca®, Java Monster™ Mean Bean®, Java Monster™ Russian, Java Monster™ Irish Blend™, Java Monster™ Chai Hai™, Java Monster™ Nut Up™ and Java Monster™ Lo-Ball™. We package our Java Monster™ coffee drinks in 15-ounce aluminum cans.

Monster Hitman Energy Shooter™ - In 2008, we introduced a new line of energy shooters in 3-ounce polyethylene terephthalate ("PET") plastic bottles. We offer the following products under the Monster Hitman Energy Shooter™ product line: Monster Hitman Energy Shooter™, Monster LOBO Energy Shooter™ and Monster Sniper Energy Shooter™.

Vidration® - In July 2008, we introduced our zero calorie, vitamin enhanced, water line under the Vidration® brand name in 20-ounce PET bottles.

Hansen's® Energy Drinks - Our Hansen's® energy drinks compete in the "functional" beverage category, namely, beverages that provide a real or perceived benefit in addition to simply delivering refreshment. Our Hansen's® energy drinks contain vitamins, minerals, nutrients, herbs and supplements (collectively "supplements"). Since 2006, we have marketed our Hansen's® brand energy drinks through the Warehouse segment. We offer the following under the Hansen's® energy drink product line: Hansen's® Energy Pro and Hansen's Diet Red Energy®. We package our Hansen's® energy drinks in 8.3-ounce aluminum cans.



COMPETITION

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

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

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

Hansen competes not only for consumer preference, but also for maximum marketing efforts by multi-brand

licensed bottlers, brokers and distributors, many of which have a principal affiliation with competing companies and brands. Our products compete with all liquid refreshments and with products of much larger and substantially better financed competitors, including the products of numerous nationally and internationally known producers such as TCCC, PepsiCo, Inc., Cadbury Schweppes plc, Red Bull GmbH, Kraft Foods, Inc., Nestle Beverage Company, Tree Top and Ocean Spray. We also compete with companies that are smaller or primarily local in operation. Our products also compete with private label brands such as those carried by grocery store chains, convenience store chains and club stores.

Hansen’s energy drinks, including Hansen’s® energy, Diet Red Energy®, Monster Energy®, Lost® Energy™, Joker Mad Energy™ and Rumba®, Samba and Tango energy juice in 8.3-ounce and/or 16-ounce and/or 24-ounce and/or 32-ounce and/or 500ml aluminum cans and/or 500ml glass bottles, and our Monster Hitman Energy Shooter™’s compete directly with Red Bull, Rockstar, Full Throttle, No Fear, Amp, Adrenaline Rush, NOS, Redline, 180, Red Devil, Rip It, Vitaminenergy, 5-Hour Energy Shot, Redline Energy Shot, NOS Energy Shot, Rockstar Energy Shot, Full Throttle Quick Shot, Amp Energy Shot and many other brands. TCCC and PepsiCo Inc. also market and/or distribute additional products in that market segment such as Pepsi Max, Mountain Dew, Mountain Dew MDX and Vault.

Their Java Monster™ line of non-carbonated dairy based coffee drinks competes directly with Starbucks Frappuccino, Starbucks Double Shot, Starbucks Double Shot Energy Plus Coffee and other Starbucks coffee drinks, Rockstar Roasted, Caribou Coffee, Cinnabon coffee drinks, Godiva dairy based drinks and Full Throttle Coffee.



SALES AND MARKETING

Hansen's sales and marketing strategy for all their beverages is to focus their efforts on developing brand awareness and trial through sampling both in stores and at events. They use our branded vehicles and other promotional vehicles at events where they sample their products to consumers. They 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.

Their extreme sports team endorsements include teams such as the Pro Circuit – Kawasaki Motocross and Supercross teams, Kawasaki Factory Motocross and Supercross teams, Robby Gordon Racing Team, Ken Block Rally Racing Team and the Tech 3 Moto GP Team (new for 2009). Their individual athlete and/or personality endorsements include extreme sports figures and athletes such as NASCAR Camping World Truck Series racer Ricky Carmichael, Moto GP motorcycle racer Valentino Rossi (new for 2009), television personalities such as Rob Dyrdek as well as many athletes that compete in other sports related activities, particularly, the Winter and Summer X-Games, supercross, motocross, freestyle motocross, surfing, skateboarding, wakeboarding, skiing, snowboarding, BMX, mountain bike downhill racing, snowmobile freestyle, snowmobile racing, etc. Their event endorsements include a wide range of events such as the Monster Energy® Supercross Series, the AMA Pro Motocross Championship Series and the Vans Warped Tour. In-store posters, outdoor posters, print, radio and television advertising, together with price promotions and coupons, may also be used to promote our brands.

Hansen believes that one of the keys to success in the beverage industry is differentiation, which entails making their products visually distinctive from other beverages

on the shelves of retailers. They review their products and packaging on an ongoing basis and, where practical, endeavor to make them better and unique. The labels and graphics for many of their products are redesigned from time to time to maximize their visibility and identification, wherever they may be placed in stores and we will continue to reevaluate the same from time to time.

Where appropriate Hansen partners with retailers to assist in their marketing efforts. For example, while Hansen retains responsibility for the marketing of the Juice Slam® line of children's multi-vitamin juice drinks, Costco has undertaken partial responsibility for the marketing of the Juice Blast® line.



CUSTOMER PROFILE

Their customers are primarily full service beverage distributors, retail grocery and specialty chains, wholesalers, club stores, drug chains, mass merchandisers, convenience chains, health food distributors and food service customers. Gross sales to our various customer types for the years ended December 2009, 2008 and 2007 are reflected below. Such information reflects sales made by us directly to the customer types concerned, which include our full service beverage distributors. Such full service beverage distributors in turn sell certain of our products to the customer types listed below. They do not have complete details of the sales of our products by our full service distributors to their respective customers and therefore limit Hansen’s description of its customer types to include sales to such full service distributors without reference to their sales to their own customers. The allocations below reflect changes made by us to the categories historically reported.

	2009	2008	2007
Full service distributors	66%	68%	69%
Club stores, drug chains & mass merchandisers	12%	14%	14%
Outside the U.S.	13%	8%	5%
Retail grocery, specialty chains and wholesalers	6%	8%	9%
Other	3%	2%	3%

Hansen’s customers include CCE, CCBC, Consolidated, United and other TCCC North American Bottlers, Wal-Mart, Inc. (including Sam’s Club), AB Distributors, Kalil Bottling Group, Trader Joe’s, John Lenore & Company, Pepsi Canada, ULC (“Pepsi Canada”) (terminated by Hansen effective December 31, 2008), Swire Coca-Cola, Costco, The Kroger Co., Safeway, Inc. and SUPERVALU, Inc. A decision by any large customer to decrease amounts purchased from Hansen or to cease carrying its products could have a material negative effect on our financial condition and consolidated results of operations. CCE, a customer of the DSD segment with sales within specific markets in the United States, Canada, the United Kingdom and certain countries in Europe, accounted for approximately 27% of Hansen’s net sales for the year ended December 13, 2009. The DPS Group, a former customer of the DSD division, accounted for approximately 13% and 16% of Hansen’s net sales for the years ended December 31, 2008 and 2007, respectively. Hansen’s distribution agreement with the DPS Group was terminated by Hansen effective November 9, 2008. The terminated DPS Group territories are now

serviced by a combination of TCCC North American Bottlers and AB Distributors. Wal-Mart, Inc. (including Sam’s Club), a customer of both the DSD and Warehouse divisions, accounted for approximately 9%, 11% and 12% of the net sales for the years ended December 31, 2009, 2008 and 2007, respectively.

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