CENTRAL EUROPEAN DISTRIBUTION CORP
Form 10-Q
November 10, 2008
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE TRANSITION PERIOD FROM .

COMMISSION FILE NUMBER 0-24341

CENTRAL EUROPEAN DISTRIBUTION CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware	**54-1865271**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
Two Bala Plaza, Suite #300, Philadelphia, PA	**19004**
(Address of Principal Executive Offices)	**(Zip code)**

(610) 660-7817

(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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (check one):

Large Accelerated Filer	x	Accelerated Filer	¨
Non-Accelerated Filer	¨	Smaller Reporting Company	¨

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

The number of shares outstanding of each class of the issuer s common stock as of November 7, 2008:

Common Stock ($.01 par value) 47,302,374

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CENTRAL EUROPEAN DISTRIBUTION CORPORATION

CONSOLIDATED CONDENSED BALANCE SHEET (UNAUDITED)

Amounts in columns expressed in thousands

(except share information)

	September 30, 2008	December 31, 2007
ASSETS		
Current Assets		
Cash and cash equivalents	$ 89,740	$ 87,867
Accounts receivable, net of allowance for doubtful accounts of $28,363 and $29,277 respectively	313,033	316,277
Inventories	195,853	141,272
Prepaid expenses and other current assets	34,847	16,536
Deferred income taxes	10,085	5,141
Total Current Assets	643,558	567,093
Intangible assets, net	700,726	545,697
Goodwill, net	909,596	577,282
Property, plant and equipment, net	115,623	79,979
Deferred income taxes	10,639	11,407
Equity method investment in affiliates	214,960	
Subordinated intercompany loans	103,500	
Other assets		710
	2,055,044	1,215,075
Total Assets	$ 2,698,602	$ 1,782,168
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Trade accounts payable	$ 182,621	$ 172,340
Bank loans and overdraft facilities	218,829	42,785
Income taxes payable	1,498	5,408
Taxes other than income taxes	85,575	101,929
Other accrued liabilities	140,693	71,959
Current portions of obligations under capital leases	2,370	1,759
Total Current Liabilities	631,586	396,180
Long-term debt, less current maturities	70,177	122,952
Long-term obligations under capital leases	3,548	2,708
Long-term obligations under Senior Notes	627,136	344,298
Other long-term accrued liabilities	13,418	
Deferred income taxes	136,234	100,113
Total Long Term Liabilities	850,513	570,071
Minority interests	21,457	481
Stockholders Equity		

Common Stock ($0.01 par value, 80,000,000 shares authorized, 46,458,850 and 40,566,096 shares issued at September 30, 2008 and December 31, 2007, respectively)	465	406
Additional paid-in-capital	753,964	429,554

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Retained earnings	271,186	205,186
Accumulated other comprehensive income	169,581	180,440
Less Treasury Stock at cost (246,037 shares at September 30, 2008 and December 31, 2007)	(150)	(150)
Total Stockholders Equity	1,195,046	815,436
Total Liabilities and Stockholders Equity	$ 2,698,602	$ 1,782,168

The accompanying notes are an integral part of the consolidated condensed financial statements.

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CENTRAL EUROPEAN DISTRIBUTION CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF INCOME (UNAUDITED)

Amounts in columns expressed in thousands

(except per share information)

	Three months ended		Nine months ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
PROFIT AND LOSS				
Sales	**$ 586,038**	**$ 368,910**	**$ 1,536,964**	**$ 992,056**
Excise taxes	(133,597)	(69,311)	(349,601)	(195,607)
Net Sales	**452,441**	**299,599**	**1,187,363**	**796,449**
Cost of goods sold	336,609	237,892	901,577	632,870
Gross Profit	**115,832**	**61,707**	**285,786**	**163,579**
Operating expenses	62,992	33,297	164,635	91,104
Operating Income	**52,840**	**28,410**	**121,151**	**72,475**
Non operating income / (expense), net				
Interest (expense), net	(14,417)	(9,337)	(39,242)	(26,291)
Other financial income / (expense), net	(34,730)	(1,110)	6,373	(6,672)
Other non operating income / (expense), net	(423)	1,006	(565)	(1,008)
Income before taxes	**3,270**	**18,969**	**87,717**	**38,504**
Income tax expense	678	1,943	17,944	5,628
Minority interests	3,018	6	5,762	1,061
Equity in net earnings of affiliates	1,087		1,989	
Net income	**$ 661**	**$ 17,020**	**$ 66,000**	**$ 31,815**
Net income per share of common stock, basic	$ 0.01	$ 0.42	$ 1.53	$ 0.80
Net income per share of common stock, diluted	$ 0.01	$ 0.42	$ 1.50	$ 0.79

The accompanying notes are an integral part of the consolidated condensed financial statements.

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CENTRAL EUROPEAN DISTRIBUTION CORPORATION

CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN

STOCKHOLDERS EQUITY (UNAUDITED)

Amounts in columns expressed in thousands

(except per share information)

	Common Stock		Common Stock Treasury Stock					
	No. of Shares	Amount	No. of Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated other comprehensive income	Total
Balance at December 31, 2007	40,566	$ 406	246	$ (150)	$ 429,554	$ 205,186	$ 180,440	$ 815,436
Net income for 2008						66,000		66,000
Foreign currency translation adjustment							(10,859)	(10,859)
Comprehensive income for 2008						66,000	(10,859)	55,141
Common stock issued in public placement	3,575	36			233,809			233,845
Common stock issued in connection with options	79	1			4,091			4,092
Common stock issued in connection with acquisitions	2,239	22			86,510			86,532
Balance at September 30, 2008	46,459	$ 465	246	$ (150)	$ 753,964	$ 271,186	$ 169,581	$ 1,195,046

The accompanying notes are an integral part of the consolidated condensed financial statements.

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CENTRAL EUROPEAN DISTRIBUTION CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOW (UNAUDITED)

Amounts in columns expressed in thousands

	Nine months ended September 30, 2008	Nine months ended September 30, 2007
CASH FLOW		
Operating Activities		
Net income	$ 66,000	$ 31,815
Adjustments to reconcile net income to net cash provided by / (used in) operating activities:		
Depreciation and amortization	11,586	7,292
Deferred income taxes	(6,051)	(9,355)
Minority interests	5,762	1,061
Unrealized foreign exchange (gains) / losses	(1,212)	(4,414)
Cost of debt extinguishment	1,156	11,869
Stock options expense	2,798	1,424
Equity income in affiliates	(1,989)	
Other non cash items	(1,290)	1,290
Changes in operating assets and liabilities:		
Accounts receivable	45,352	46,427
Inventories	(24,784)	(6,213)
Prepayments and other current assets	10,922	6,297
Trade accounts payable	(20,113)	(35,667)
Other accrued liabilities and payables	(41,473)	(21,508)
Net Cash provided by Operating Activities	46,664	30,318
Investing Activities		
Investment in fixed assets	(15,717)	(22,342)
Proceeds from the disposal of fixed assets	7,628	2,647
Purchase of financial assets	(103,500)	
Refundable purchase price related to Botapol acquisition		5,000
Acquisitions of subsidiaries, net of cash acquired	(547,575)	(141,000)
Net Cash used in Investing Activities	(659,164)	(155,695)
Financing Activities		
Borrowings on bank loans and overdraft facility	95,219	132,524
Borrowings on long-term bank loans	43,192	
Payment of bank loans and overdraft facility	(31,935)	(25,207)
Payment of long-term borrowings		(7)
Payment of Senior Secured Notes	(20,197)	(95,440)
Movements in capital leases payable	1,408	329
Issuance of shares in public placement	233,845	42,355
Net Borrowings on Convertible Senior Notes	304,403	
Options exercised	1,293	1,117
Net Cash provided by Financing Activities	627,228	55,671
Currency effect on brought forward cash balances	(12,855)	7,706
Net Increase / (Decrease) in Cash	1,873	(62,000)
Cash and cash equivalents at beginning of period	87,867	159,362

Cash and cash equivalents at end of period	$ 89,740	$ 97,362
Supplemental Schedule of Non-cash Investing Activities		
Common stock issued in connection with investment in subsidiaries	$ 86,532	$ 1,693
Supplemental disclosures of cash flow information		
Interest paid	$ 40,161	$ 37,676
Income tax paid	$ 13,354	$ 13,817

The accompanying notes are an integral part of the consolidated condensed financial statements.

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CENTRAL EUROPEAN DISTRIBUTION CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

Amounts in tables expressed in thousands, except per share information

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Central European Distribution Corporation (CEDC), a Delaware corporation, and its subsidiaries (collectively referred to as we, us, our, or the Company) operate primarily in the alcohol beverage industry. The Company is Central Europe s largest integrated spirit beverages business. The Company is the largest vodka producer by value and volume in Poland and produces the Absolwent, Zubrowka, Bols and Soplica brands, among others. The Company currently exports its products to many markets around the world. In addition, it produces and distributes Royal Vodka, the number one selling vodka in Hungary. The Company is the leading distributor and the leading importer of spirits, wine and beer in Poland and Hungary. In March 2008, the Company continued its expansion plans in the region by purchasing an 85% stake in Copecresto Enterprises Limited, which owns the leading premium vodka brand in Russia, Parliament Vodka. In May 2008, the Company also acquired a 75% economic stake in the Whitehall Group of companies in Russia, which is one of the leading importers of premium wines and spirits in Russia. In July 2008, the Company closed a strategic investment in the Russian Alcohol Group (Russian Alcohol) providing the Company with an effective indirect equity stake of approximately 42% in Russian Alcohol.

2. BASIS OF PRESENTATION

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. Our Company consolidates all entities that we control by ownership of a majority voting interest except for the Whitehall Group in which the Company controls 49.9% of voting interest. All inter-company accounts and transactions have been eliminated in the consolidated financial statements.

CEDC s subsidiaries maintain their books of account and prepare their statutory financial statements in their respective local currencies. The subsidiaries financial statements have been adjusted to reflect accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by generally accepted accounting principles in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary to fairly present our financial condition, results of operations and cash flows for the interim periods presented have been included. Operating results for the three and nine-month periods ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

The balance sheet at December 31, 2007 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The unaudited interim financial statements should be read with reference to the consolidated financial statements and footnotes thereto included in our annual report on Form 10-K for the year ended December 31, 2007.

3. ACQUISITIONS

On March 11, 2008, the Company and certain of its affiliates entered into a Share Sale and Purchase Agreement and certain other agreements with White Horse Intervest Limited, a British Virgin Islands Company, and certain of White Horse s affiliates, relating to the Company s acquisition from White Horse of 85% of the share capital of Copecresto Enterprises Limited, a Cypriot company, (the Parliament Acquisition). In connection with this acquisition, the Company paid a consideration of approximately $180 million in cash and 2.2 million shares of common stock. On May 2, 2008 the Company delivered the remaining 250,000 shares of the share consideration. There is still $15 million of the cash consideration that is deferred pending the consummation of certain reorganization transactions expected to be completed over the next 18-24 months.

On May 23, 2008, the Company and certain of its affiliates, entered into, and closed upon, a Share Sale and Purchase Agreement and certain other agreements whereby the Company acquired shares representing 50% minus one vote of the voting power, and 75% of the economic interests, in the Whitehall Group (the Whitehall Acquisition). The Whitehall Group is a leading importer of premium spirits and wines in Russia. The aggregate consideration paid by the Company was $200 million, paid in cash at the closing. In addition, on October 21, 2008 the Company issued to the seller 843,524 shares of its common stock, par value $0.01 per share. The Company is still expected to pay 16.05 million payable on the first anniversary of the closing. Furthermore, if the average daily closing price of the Company s common stock during the 20 trading day period ending on the date that is six months after the closing date (the Average Market Price) is less than $51.32 (a per share valuation based on an averaging formula agreed upon among the parties)(the Minimum Share Price), the Company will be required to make an additional cash payment in an amount equal to the difference between the Minimum Share Price and the Average Market Price multiplied by the 843,524 shares of common stock issued by the Company as part of the consideration. Finally, if, during the 90 day period following the six-month anniversary of the closing date, the seller sells any of the 843,524 shares of Company common stock issued as part of the consideration for an average sales price per share that is less than the Minimum Share Price, the Company will be required to make an additional cash payment in an amount equal to the difference between the Minimum Share Price and the average sales price per share multiplied by the number of shares of Company common stock sold.

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The Company has consolidated the Whitehall Group as a business combination as of May 23, 2008, on the basis that the Whitehall Group is a Variable Interest Entity and the Company has been assessed as being the primary beneficiary. Included within the Whitehall Group is a 50/50 joint venture with Möet Henessy. This joint venture is accounted for using the equity method and is recorded on the face of the balance sheet in investments with minority interest initially recorded at fair value on the face of the balance sheet. The current term of the joint venture is until June 2013 at which point the Whitehall Group will have the option to acquire the remaining shares of the entity.

On July 9, 2008, the Company closed a strategic investment in the Russian Alcohol Group (Russian Alcohol) through an equity investment of $181.5 million in Russian Alcohol which provided the Company with an effective indirect stake of approximately 42% in Russian Alcohol. This transaction is in connection with Lion Capital LLP s acquisition of a controlling stake in Russian Alcohol. In addition to the equity investment, CEDC purchased $103.5 million of exchangeable notes which bear interest at 8.3% and can be fully exchanged into additional shares of Russian Alcohol starting in 2010. Our agreements governing this investment include put and call options to acquire an indirect controlling interest in Russian Alcohol starting in 2010 based on the prior year EBITDA.

The fair value of the net assets acquired in connection with the 2008 Parliament and Whitehall group acquisitions as of the acquisition date are:

	Parliament Group	Whitehall Group	Total Acquisitions
ASSETS			
Cash and cash equivalents	2,862	3,240	6,102
Accounts receivable	3,441	21,107	24,548
Inventory	1,602	27,905	29,507
Other current assets	6,120	19,565	25,685
Equipment	24,631	2,054	26,685
Intangibles, including Trademarks	144,835	6,006	150,841
Investments		52,050	52,050
Total Assets	**$ 183,491**	**$ 131,927**	**$ 315,418**
LIABILITIES			
Trade payables	4,587	19,370	23,957
Borrowings	44	18,818	18,862
Other short term liabilities	4,389	7,409	11,798
Deferred tax	34,759	2,514	37,273
Total Liabilities	**$ 43,779**	**$ 48,111**	**$ 91,890**
Minority interests	6,302	7,488	13,790
Net identifiable assets and liabilities	**133,410**	**76,328**	**209,738**
Goodwill on acquisition	**136,858**	**200,207**	**337,065**
Consideration paid, satisfied in cash	168,735	203,442	372,177
Consideration paid, satisfied in shares	86,533		86,533
Deferred consideration	15,000	73,093	88,093
Cash (acquired)	**$ 2,862**	**$ 3,240**	**$ 6,102**
Net Cash Outflow	$ 165,873	$ 200,202	$ 366,075

The Company has adjusted its purchase price allocation calculation by capitalization of customer contracts in Whitehall Group which resulted in an increase of $6.0 million which trued up deferred tax and other accruals of $20.7 million.

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The goodwill arising out of the Parliament and Whitehall acquisitions is attributable to the immediate platform for expansion in Russia that they provide to the Company. The Company is in the process of completing its valuations and refining its purchase price adjustments for Parliament and Whitehall, which are expected to be finalized by December 31, 2008. The primary areas of further review include finalizing fixed asset and intangible asset valuations. As such, the allocation of the purchase price is subject to further adjustments.

The Company has not presented pro-forma results of operations of the Company to give effect to these acquisitions as if the acquisitions had occurred on January 1, 2008 and 2007 because there are no pre-closing interim results from Parliament and Whitehall that are available on a basis similar to US GAAP. The companies were not required to prepare interim consolidated financial statements and as such have only statutory tax accounts available. The Company believes that the inclusion of this information would provide misleading information for the investor.

The Company is in the process of completing its valuations and calculation its purchase price adjustments related to the acquisition in Russian Alcohol Group, which are expected to be quantified by March 31, 2009.

4. EXCHANGABLE CONVERTIBLE NOTES

On July 9, 2008, the Company closed a strategic investment in the Russian Alcohol Group (Russian Alcohol) and in addition to the equity investment, CEDC purchased exchangeable notes from Lion/Rally Lux 3 (Lion Lux), a Luxembourg Company and indirect subsidiary of a Cayman Islands Company (Cayco) that served as the investment vehicle.

The Notes rank pari passu with the other unsecured obligations of Lion Lux, represent a direct and unsecured obligation of Lion Lux and are structurally subordinated to indebtedness of subsidiaries of Lion Lux, including Pasalba Limited (Pasalba), a company incorporated under the laws of the Republic of Cyprus that made the investment. The Notes have a principal amount of $103.5 million and accrue interest at a rate of 8.3% per annum, which interest may, at Lion Lux s option, be paid in kind with additional Notes.

Lion Lux will be required to redeem the Notes at their principal amount, together with any accrued but unpaid interest, on the date that is ten years and six months after the closing of the investment (the Maturity Date). Upon a change in control of Cayco or its majority-owned subsidiary (Cayco Sub) that occurs when no Exchange Right (as defined below) has been exercised, the Company will be permitted to request that Lion Lux redeem any Notes in respect of which such Exchange Right has not been exercised, at their principal amount plus accrued and unpaid interest thereon. Furthermore, Lion Lux will be permitted to redeem any Note at any time after the expiration of the Company s right to purchase all of the outstanding capital stock of Cayco Sub held by Cayco (the Call Option) under the Shareholders Agreement governing the investment, subject to the Exchange Right.

Each holder of Notes has the right to require Cayco to purchase its Notes in exchange for the issue by Cayco of additional shares of Cayco stock (the Exchange Right). Holders of Notes will be permitted to exercise the Exchange Right only one time during certain 45-day periods in each of 2010 (the 2010 Period), 2011 (the 2011 Period) and, if the Call Option is extended into 2012 pursuant to its terms, 2012 (the 2012 Period); provided, that in the event the Call Option or Cayco s right to require the Company to purchase all of the outstanding capital stock of Cayco Sub held by Cayco (the Put Option) is exercised during any such period, holders will be required to exercise the Exchange Right within 10 business days after notice of the exercise of the Call Option or Put Option. The Exchange Right may also be exercised in the event of an initial public offering. The Exchange Right will expire one day after the end of the 2012 Period.

The number of additional shares of Cayco stock that will be issued in connection with any exercise of an Exchange Right will be calculated as a function of, among other things, the number of shares of Cayco stock then outstanding, the number of shares of Cayco Sub stock then outstanding, the number of shares of Cayco Sub stock then held by Cayco, the principal and accrued interest of the Notes pursuant to which the Exchange Right was exercised, and the equity value of Pasalba and its subsidiaries based on (1) if the Exchange Right is exercised during the 2010 Period, Pasalba s and its subsidiaries 2009 EBITDA multiplied by 13.0, (2) if the Exchange Right is exercised during the 2011 Period, Pasalba s and its subsidiaries 2010 EBITDA multiplied by 12.5, or (3) if the Exchange Right is exercised during the 2012 Period, Pasalba s and its subsidiaries 2011 EBITDA multiplied by 12.0 and, in each such case, subject to further adjustment for debt, cash and working capital. The maximum percentage which such newly issued Cayco shares will represent in the share capital of Cayco, on a look-through basis, following their issue will be equal to that percentage of Cayco shares (being approximately 19%, 21% and 23% in respect of the 2010 Period, 2011 Period and 2012 Period, respectively) (the Notional Shares), which the Notional Shares would represent on the date of exchange if the relevant holder had not subscribed for the Note but had instead subscribed for the Notional Shares on the date of the Exchangeable Note Instrument.

Lion Lux is prohibited from paying dividends or making other distributions to its shareholders without the consent of the holders of Notes representing two thirds in nominal value of the Notes outstanding, other than in connection with repayment of loan notes issued by the parent of

Lion Lux to the sellers of Russian Alcohol. In addition, the holders of Notes representing two thirds in nominal value of the Notes outstanding have certain approval rights relating to certain matters, including, but not limited to, (i) the incurring of any indebtedness by Lion Lux which is either senior to the Notes or secured, and (ii) any acquisition by Cayco or any subsidiary of Cayco with consideration payable in excess of $50 million. Holders of Notes are permitted to transfer Notes to any person, subject to certain exceptions and a right of first refusal which will be granted to an affiliate of Lion.

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5. INTANGIBLE ASSETS OTHER THAN GOODWILL

The major components of intangible assets are:

	September 30, 2008	December 31, 2007
Non-amortizable intangible assets:		
Trademarks	$ 693,390	$ 543,123
Total	**693,390**	**543,123**
Amortizable intangible assets:		
Trademarks	$ 6,953	$ 6,754
Customer relationships	8,003	1,913
Less accumulated amortization	(7,620)	(6,093)
Total	**7,336**	**2,574**
Total intangible assets	**$ 700,726**	**$ 545,697**

Management considers trademarks that are indefinite-lived assets to have high or market-leader brand recognition within their market segments based on the length of time they have existed, the comparatively high volumes sold and their general market positions relative to other products in their respective market segments. These trademarks include Soplica, Zubrówka, Absolwent, Royal, Parliament and the rights for Bols Vodka in Poland, Hungary and Russia. Taking the above into consideration, as well as the evidence provided by analyses of vodka products life cycles, market studies, competitive and environmental trends, management believes that these brands will generate cash flows for an indefinite period of time, and that the useful lives of these brands are indefinite. In accordance with SFAS 142, intangible assets with an indefinite life are not amortized but are reviewed at least annually for impairment.

6. COMPREHENSIVE INCOME/(LOSS)

Comprehensive income/(loss) is defined as all changes in equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive income/(loss) includes net income adjusted by, among other items, foreign currency translation adjustments. The foreign translation losses/gains on the re-measurements from foreign currencies to U.S. dollars are classified separately as a component of accumulated other comprehensive income included in stockholders equity.

As of September 30, 2008, the Polish Zloty exchange rate used to translate the balance sheet strengthened by approximately 2.9% as compared to the exchange rate as of December 31, 2007, and as a result a comprehensive income was recognized. Additionally, translation gains and losses with respect to long-term subordinated inter-company loans with the parent company are charged to other comprehensive income. No deferred tax benefit has been recorded on the comprehensive income/(loss) in regard to the long-term inter-company transactions with the parent company, as the repayment of any equity investment is not anticipated in the foreseeable future.

7. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share for the periods indicated.

	Three months ended September 30,		Nine months ended September 30,	
	2008	**2007**	**2008**	**2007**
Basic:				
Net income	$ 661	$ 17,020	$ 66,000	$ 31,815
Weighted average shares of common stock outstanding	46,205	40,124	43,154	39,755
Basic earnings per share	$ 0.01	$ 0.42	$ 1.53	$ 0.80

Diluted:				
Net income	$ 661	$ 17,020	$ 66,000	$ 31,815
Weighted average shares of common stock outstanding	46,205	40,124	43,154	39,755
Net effect of dilutive employee stock options based on the treasury stock method	785	690	784	535
Totals	**46,990**	**40,814**	**43,938**	**40,290**
Diluted earnings per share	$ 0.01	$ 0.42	$ 1.50	$ 0.79

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Employee stock options granted have been included in the above calculations of diluted earnings per share since the exercise price is less than the average market price of the common stock during the three and nine months periods ended September 30, 2008 and 2007. In addition there is no adjustment to fully diluted shares related to the Convertible Senior Notes as the average market price was below the conversion price for the period.

8. BORROWINGS

Bank Facilities

As of September 30, 2008, $48.5 million remained available under the Company s overdraft facilities. These overdraft facilities are renewed on an annual basis.

As of September 30, 2008, the Company had utilized approximately $101.3 million of a multipurpose credit line agreement in connection with the 2007 tender offer in Poland to purchase the remaining outstanding shares of Polmos Bialystok S.A. The Company s obligations under the credit line agreement are guaranteed through promissory notes by certain subsidiaries of the Company. The indebtedness under the credit line agreement matures on March 31, 2009.

On April 24, 2008, the Company signed a credit agreement with Bank Zachodni WBK SA in Poland to provide up to $50 million of financing to be used to finance a portion of the Parliament and Whitehall acquisition, as well as general working capital needs of the Company. The agreement provides for a $30 million five year amortizing term facility and a one year $20 million short term facility with annual renewal.

On July 2, 2008, the Company entered into a Facility Agreement with Bank Handlowy w Warszawie S.A., which provided for a term loan facility of $40 million. The term loan matures on July 4, 2011 and is guaranteed by CEDC, Carey Agri and certain other subsidiaries of the Company and is secured by all of the shares of capital stock of Carey Agri and subsequently will be further secured by shares of capital stock in certain other subsidiaries of CEDC.

Senior Secured Notes

In connection with the Bols and Polmos Bialystok acquisitions, on July 25, 2005 the Company completed the issuance of 325 million 8% Senior Secured Notes due 2012 (the Notes). Interest is due semi-annually on the 25th of January and July, and the Notes are guaranteed on a senior basis by certain of the Company s subsidiaries. The Indenture governing our Notes contains certain restrictive covenants, including covenants limiting the Company s ability to: make certain payments, including dividends or other distributions, with respect to the share capital of the parent or its subsidiaries; incur or guarantee additional indebtedness or issue preferred stock; make certain investments; prepay or redeem subordinated debt or equity; create certain liens or enter into sale and leaseback transactions; engage in certain transactions with affiliates; sell assets or consolidate or merge with or into other companies; issue or sell share capital of certain subsidiaries; and enter into other lines of business.

During the nine months ending September 30, 2008, the Company purchased 13.8 million of outstanding Senior Secured Notes back on the open market and retired 9.8 million as of September 30, 2008.

As of September 30, 2008 and December 31, 2007, the Company had accrued interest included in other accrued liabilities of $5.0 million and $15.8 million respectively related to the Senior Secured Notes, with the next coupon due for payment on January 25, 2009. Total obligations under the Senior Secured Notes are shown net of deferred finance costs, amortized over the life of the borrowings using the effective interest rate method and fair value adjustments from the application of hedge accounting as shown in the table below:

	September 30, 2008	December 31, 2007
Senior Secured Notes	$ 359,871	$ 381,689
Fair value bond mark to market	(24,172)	(28,204)
Unamortized portion of closed hedges	(739)	(858)
Unamortized issuance costs	(7,008)	(8,329)
Value of Senior Secured Notes bought back but not retired	(5,752)	

Total	**$**	**322,200**	**$**	**344,298**

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Convertible Senior Notes

On March 7, 2008, the Company completed the issuance of $310 million aggregate principal amount of 3% Convertible Senior Notes due 2013 (the Convertible Notes). Interest is due semi-annually on the 15th of March and September, beginning on September 15, 2008. The Convertible Senior Notes are convertible in certain circumstances into cash and, if applicable, shares of our common stock, based on an initial conversion rate of 14.7113 shares per $1,000 principle amount, subject to certain adjustments. Upon conversion of the notes, the Company will deliver cash up to the aggregate principle amount of the notes to be converted and, at the election of the Company, cash and/or shares of common stock in respect to the remainder, if any, of the conversion obligation.

The proceeds from the Convertible Notes were used to fund the cash portions of the acquisition of Copecresto Enterprises Limited and Whitehall.

As of September 30, 2008 the Company had accrued interest included in other accrued liabilities of $0.39 million related to the Convertible Senior Notes, with the next coupon due for payment on March 15, 2009. Total obligations under the Convertible Senior Notes are shown net of deferred finance costs, amortized over the life of the borrowings using the effective interest rate method as shown in the table below:

	September 30, 2008	December 31, 2007
Convertible Senior Notes	$ 310,000	$
Unamortized issuance costs	(5,064)	
Total	**$ 304,936**	**$**

Total borrowings as disclosed in the financial statements are:

	September 30, 2008	December 31, 2007
Short term bank loans and overdraft facilities for working capital	$ 117,563	$ 42,785
Short term bank loans for share tender	101,266	
Total short term bank loans and utilized overdraft facilities	**218,829**	**42,785**
Long term bank loans for share tender		122,952
Long term obligations under Senior Secured Notes	322,200	344,298
Long term obligations under Convertible Senior Notes	304,936	
Other total long term debt, less current maturities	70,177	
Total debt	**$ 916,142**	**$ 510,035**

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	September 30, 2008
Principal repayments for the following years	
2008	$ 5,876
2009	212,938
2010	
2011	40,000
2012 and beyond	657,328
Total	**$ 916,142**

9. INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out method) or market value. Elements of cost include materials, labor and overhead and are classified as follows:

	September 30, 2008	December 31, 2007
Raw materials and supplies	$ 25,462	$ 19,051
In-process inventories	2,307	2,479
Finished goods and goods for resale	168,084	119,742
Total	**$ 195,853**	**$ 141,272**

Because of the nature of the products supplied by the Company, great attention is paid to inventory rotation. Where goods are estimated to be obsolete or unmarketable they are written down to a value reflecting the net realizable value in their relevant condition.

Cost includes customs duty (where applicable), and all costs associated with bringing the inventory to a condition for sale. These costs include importation, handling, storage and transportation costs, and exclude rebates received from suppliers, which are reflected as reductions to closing inventory. Inventories are comprised primarily of beer, wine, spirits, packaging materials and non-alcoholic beverages.

10. INCOME TAXES

The Company operates in several tax jurisdictions primarily: the United States of America, Poland, Hungary and Russia. All subsidiaries file their own corporate tax returns as well as account for their own deferred tax assets and liabilities. The Company does not file a tax return in Delaware based upon its consolidated income, but does file a return in Delaware based on the income statement for transactions occurring in the United States of America.

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109 , effective January 1, 2007. Interpretation 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. Interpretation 48 also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest and penalties. Adoption of Interpretation 48 did not have a significant impact on the Corporation s financial statements.

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The Company files income tax returns in the U.S., Poland, Hungary, Russia, as well as in various other countries throughout the world in which we conduct our business. The major tax jurisdictions and their earliest fiscal years that are currently open for tax examinations are 2003 in the U.S., 2002 in Poland and Hungary and 2005 in Russia.

11. STOCKHOLDERS EQUITY

On June 25, 2008, the Company completed a public offering of 3,250,000 shares of common stock, at an offering price to the public of $68.00 per share. In addition, pursuant to the terms of the offering the underwriters exercised their over-allotment option for an additional 325,000 shares. The net proceeds from the offering, including the sale of shares in accordance with the over-allotment option, was $233.8 million, after deducting underwriting discounts and commissions and estimated offering expenses. The majority of the proceeds of the equity offering were used to fund a portion of the Company s investment in the Russian Alcohol Group.

12. OPERATING SEGMENTS

As a result of the Company s expansion into new geographic areas, namely Russia, the Company has implemented a segmental approach to the business based upon geographic locations. As such the Company operates in three primary segments: Poland, Russia and Hungary.

	Segment Net Revenues			
	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Segment				
Poland	$ 356,065	$ 290,594	$ 1,003,189	$ 773,137
Russia	84,948		154,521	
Hungary	11,428	9,005	29,653	23,312
Total Net Sales	$ 452,441	$ 299,599	$ 1,187,363	$ 796,449

	Operating Profit			
	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Segment				
Poland	$ 32,601	$ 27,969	$ 86,266	$ 72,582
Russia	20,540		36,489	
Hungary	2,362	1,746	5,172	4,128
Corporate Overhead				
General corporate overhead	(1,543)	(826)	(3,978)	(2,809)
Option Expense	(1,120)	(479)	(2,798)	(1,426)
Total Operating Profit	$ 52,840	$ 28,410	$ 121,151	$ 72,475

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	Indentifiable Operating Assets	
	September 30, 2008	December 31, 2007
Segment		
Poland	$ 1,910,772	$ 1,735,620
Russia	742,997	0
Hungary	37,078	39,320
Corporate	7,755	7,228
Total Identifiable Assets	$ 2,698,602	$ 1,782,168

	Goodwill	
	September 30, 2008	December 31, 2007
Segment		
Poland	$ 585,872	$ 568,726
Russia	314,915	0
Hungary	8,809	8,556
Corporate	0	0
Total Goodwill	$ 909,596	$ 577,283

13. INTEREST INCOME / (EXPENSE)

For the three and nine months ended September 30, 2008 and 2007 respectively, the following items are included in Interest income / (expense):

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Interest income	$ 3,243	$ 1,245	$ 6,871	$ 4,024
Interest expense	(17,660)	(10,582)	(46,113)	(30,315)
Total interest (expense), net	$ (14,417)	$ (9,337)	$ (39,242)	$ (26,291)

14. OTHER FINANCIAL INCOME / (EXPENSE)

For the three and nine months ended September 30, 2008 and 2007, the following items are included in Other Financial Income / (Expense):

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Foreign exchange impact related to acquisition financing	$ (49,190)	$ (1,106)	$ (9,232)	$ 5,066
Foreign exchange impact related to Long term Notes receivable	13,006		13,006	
Cost of bank guarantee for tender				(349)
Premium for early debt retirement				(6,940)
Write-off of hedge associated with retired debt			(305)	(2,757)
Write-off of financing costs associated with retired debt			(851)	(2,167)
Other gains / (losses)	1,454	(4)	3,755	475
Total other financial income / (expense), net	$ (34,730)	$ (1,110)	$ 6,373	$ (6,672)

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15. FINANCIAL INSTRUMENTS

Financial Instruments and Their Fair Values

Financial instruments consist mainly of cash and cash equivalents, accounts receivable, accounts payable, bank loans, overdraft facilities and long-term debt. The monetary assets represented by these financial instruments are primarily located in Poland, Hungary and Russia. Consequently, they are subject to currency translation risk when reporting in U.S. Dollars.

Derivative financial instruments

The Company is exposed to market movements in foreign currency exchange rates that could affect the Company s results of operations and financial condition. In accordance with SFAS 133, Accounting for Derivative Instruments and Hedging Activities , the Company recognizes all derivatives as either assets or liabilities on the balance sheet and measures those instruments at fair value.

The fair values of the Company s derivative instruments can change with fluctuations in interest rates and/or currency rates and are expected to offset changes in the values of the underlying exposures. The Company s derivative instruments are held to hedge economic exposures. The Company follows internal policies to manage interest rate and foreign currency risks, including limitations on derivative market-making or other speculative activities.

To qualify for hedge accounting under SFAS No. 133, the details of the hedging relationship must be formally documented at the inception of the arrangement, including the risk management objective, hedging strategy, hedged item, specific risk that is being hedged, the derivative instrument, how effectiveness is being assessed and how ineffectiveness will be measured. The derivative must be highly effective in offsetting either changes in the fair value or cash flows, as appropriate, of the risk being hedged.

Effectiveness is evaluated on a retrospective and prospective basis based on quantitative measures. When it is determined that a derivative is not, or has ceased to be, highly effective as a hedge, the Company discontinues hedge accounting prospectively. The Company discontinues hedge accounting prospectively when (1) the derivative is no longer highly effective in offsetting changes in the cash flows of a hedged item; (2) the derivative expires or is sold, terminated, or exercised; (3) it is no longer probable that the forecasted transaction will occur; or (4) management determines that designating the derivative as a hedging instrument is no longer appropriate.

Fair value hedges are hedges that offset the risk of changes in the fair values of recorded assets, liabilities and firm commitments. The Company records changes in the fair value of derivative instruments which are designated and deemed effective as fair value hedges, in earnings offset by the corresponding changes in the fair value of the hedged items.

In September 2005, the Company entered into a coupon swap arrangement which exchanges a fixed Euro based coupon of 8%, with a variable Euro based coupon (IRS) based upon the 6 month Euribor rate plus a margin. The hedge is accounted for as a fair value hedge according to SFAS 133 and is tested for effectiveness on a quarterly basis using the long haul method. Under this method, as long as the hedge is deemed highly effective both the fair value of the hedge and the hedge item are marked to market with the net impact recorded as gain or loss in the income statement. For the nine months ended September 30, 2008, the company recorded a net gain of $403,200. In September 2005, the Company entered into a second hedge that exchanged the variable Euro coupon with a variable Polish Zloty coupon (CIRS). However, due to the continued strength of the Polish economy and currency the Company closed this swap contract. The hedge did not qualify for hedge accounting and therefore the changes in fair value were reflected in the results of operations.

In March 2008, a portion of the IRS hedge related to the repurchased Senior Secured Notes was closed and written off, and a new hedging relationship was created with the hedge match one for one the remaining outstanding Senior Secured Notes.

In February 2007 and December 2006, a portion of the IRS hedge was closed and a new hedging relationship was created. The mark to market valuation of the closed hedges at the time was frozen and is being amortized over the remaining useful life of the hedged item. The hedge closure in December 2006 was related to the part of the Senior Secured Notes repurchased in January 2007. Consequently, the amount was written off in January 2007 following the repurchase. As of September 30, 2008, there is an unamortized asset of $0.7 million recorded as an adjustment to the valuation of the Senior Secured Notes.

16. FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Company adopted SFAS No. 157, which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The Company s adoption of SFAS No. 157 did not have a material impact on our consolidated financial statements.

We evaluate the position of each financial instrument measured at fair value in the hierarchy individually based on the valuation methodology we apply. At September 30, 2008, we have no material financial assets or liabilities carried at fair value using significant level 1 or level 2 inputs and the only instruments we value using level 3 inputs are currency swap agreements as follows:

Coupon Swap

In September 2005, the Company entered into a coupon swap arrangement which exchanges a fixed Euro based coupon of 8%, with a variable Euro based coupon (IRS) based upon the 6 month Euribor rate plus a margin. The hedge is accounted for as a fair value hedge according to SFAS 133 and is tested for effectiveness on a quarterly basis using the long haul method. Under this method, as long as the hedge is deemed highly effective both the fair value of the hedge and the hedged item are marked to market with the net impact recorded as gain or loss in the income statement.

The fair value of these instruments as at September 30, 2008, was a $24.2 million liability, which represented a $4.0 million decrease from the $28.2 million liability as at December 31, 2007 and was recognized as a gain in the consolidated statement of operations. This gain, however, was offset by the fair value revaluation of the Senior Secured Notes.

17. STOCK OPTION PLANS AND RESTRICTED STOCK AWARDS

As of January 1, 2006, the Company adopted SFAS No. 123(R) Share-Based Payment requiring the recognition of compensation expense in the Condensed Consolidated Statements of Income related to the fair value of its employee share-based options. SFAS No. 123(R) revises SFAS No. 123 Accounting for Stock-Based Compensation and supersedes APB Opinion No. 25 Accounting for Stock Issued to Employees . SFAS No. 123(R) is supplemented by SEC Staff Accounting Bulletin (SAB) No. 107 Share-Based Payment . SAB No. 107 expresses the SEC staff s views regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations including the valuation of share-based payments arrangements.

The Company recognizes the cost of all employee stock options on a straight-line attribution basis over their respective vesting periods, net of estimated forfeitures. The Company has selected the modified prospective method of transition; accordingly, prior periods have not been restated.

SFAS No. 123(R) Share-Based Payment requires the recognition of compensation expense in the Consolidated Statements of Income related to the fair value of employee share-based options. Determining the fair value of share-based awards at the grant date requires judgment, including estimating the expected term that stock options will be outstanding prior to exercise, the associated volatility and the expected dividends. Judgment is also required in estimating the amount of share-based awards expected to be forfeited prior to vesting. If actual forfeitures differ significantly from these estimates, share-based compensation expense could be materially impacted. Prior to adopting SFAS No. 123(R), the Company applied Accounting Principles Board (APB) Opinion No. 25, and related Interpretations, in accounting for its stock-based compensation plans. All employee stock options were granted at or above the grant date market price. Accordingly, no compensation cost was recognized for fixed stock option grants in prior periods.

The Company s 2007 Stock Incentive Plan (Incentive Plan) provides for the grant of stock options, stock appreciation rights, restricted stock and restricted stock units to directors, executives, and other employees (employees) of the Company and to non-employee service providers of the Company. Following a shareholder resolution in April 2003 and the stock splits of May 2003, May 2004 and June 2006, the Incentive Plan authorizes, and the Company has reserved for future issuance, up to 1,397,333 shares of Common Stock (subject to an anti-dilution adjustment in the event of a stock split, re-capitalization, or similar transaction). The Compensation Committee of the Board of Directors of the Company administers the Incentive Plan.

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The option exercise price for stock options granted under the Incentive Plan may not be less than fair market value but in some cases may be in excess of the closing price of the Common Stock on the date of grant. The Company uses the stock option price based on the closing price of the Common Stock on the day before the date of grant if such price is not materially different than the opening price of the Common Stock on the day of the grant. Stock options may be exercised up to 10 years after the date of grant except as otherwise provided in the particular stock option agreement. Payment for the shares must be in cash, which must be received by the Company prior to any shares being issued. Stock options granted to directors and officers as part of an employee employment contract vest after 2 years. Stock options granted to general employees as part of a loyalty program vest after three years. The Incentive Plan was approved by CEDC shareholders during the annual shareholders meeting on April 30, 2007 to replace the Company s 1997 Stock Incentive Plan (the Old Stock Incentive Plan), which expired in November 2007. The Stock Incentive Plan will expire in November 2017. The terms and conditions of the Stock Incentive Plan are substantially similar to those of the Old Stock Incentive Plan.

Before January 1, 2006 CEDC, the holding company, realized net operating losses and therefore an excess tax benefit (windfall) resulting from the exercise of the awards and a related credit to Additional Paid-in Capital (APIC) of $2.2 million was not recorded in the Company s books. The excess tax benefits and the credit to APIC for the windfall should not be recorded until the deduction reduces income taxes payable on the basis that cash tax savings have not occurred. The Company will recognize the windfall upon realization.

A summary of the Company s stock option and restricted stock units activity, and related information for the nine months ended September 30, 2008 is as follows:

Total Options	***Number of Options***	***Weighted-Average Exercise Price***
Outstanding at January 1, 2008	1,253,037	$ 22.02
Granted	165,875	$ 55.21
Exercised	(11,763)	$ 16.33
Forfeited	(8,362)	$ 25.87
Outstanding at March 31, 2008	1,398,787	$ 35.12
Exercisable at March 31, 2008	966,512	$ 19.69
Outstanding at March 31, 2008	1,398,787	$ 35.12
Granted	68,500	$ 60.92
Exercised	(51,436)	$ 16.94
Forfeited		
Outstanding at June 30, 2008	1,415,851	$ 28.00
Exercisable at June 30, 2008	915,074	$ 19.84
Outstanding at June 30, 2008	1,415,851	$ 28.00
Exercised	(15,150)	$ 14.80
Forfeited	(3,000)	$ 19.04
Outstanding at September 30, 2008	1,397,701	$ 28.16
Exercisable at September 30, 2008	915,675	$ 20.43

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Nonvested restricted stock units	Number of Restricted Stock Units	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2008	35,830	$ 34.73
Granted	3,000	$ 58.08
Vested		$
Forfeited	(490)	$ 34.51
Nonvested at March 31, 2008	38,340	$ 36.56
Nonvested at March 31, 2008	38,340	$ 36.56
Granted	8,363	$ 65.33
Vested	(600)	$ 34.51
Forfeited	(600)	$ 46.30
Nonvested at June 30, 2008	45,503	$ 41.74
Nonvested at June 30, 2008	45,503	$ 41.74
Granted	23,779	$ 73.92
Vested		$
Forfeited	(1,500)	$ 34.51
Nonvested at September 30, 2008	67,782	$ 53.20

During 2008, the range of exercise prices for outstanding options was $1.13 to $60.92. During 2008, the weighted average remaining contractual life of options outstanding was 5.6 years. Exercise prices for options exercisable as of September 30, 2008 ranged from $1.13 to $44.15. The Company has also granted 23,779 restricted stock units to its employees at an average price of $73.92.

The Company has issued stock options to employees under stock based compensation plans. Stock options are issued at the current market price, subject to a vesting period, which varies from one to three years. As of September 30, 2008, the Company has not changed the terms of any outstanding awards.

During the nine months ended September 30, 2008, the Company recognized compensation cost of $2.79 million and a related deferred tax asset of $0.57 million.

As of September 30, 2008, there was $5.9 million of total unrecognized compensation cost related to non-vested stock options and restricted stock units granted under the Plan. The costs are expected to be recognized over a weighted average period of 32 months through 2008-2011.

Total cash received from exercise of options during the nine months ended September 30, 2008 amounted to $1.3 million.

For the nine month period ended September 30, 2008, the compensation expense related to all options was calculated based on the fair value of each option grant using the binomial distribution model. The Company has never paid cash dividends and does not currently have plans to pay cash dividends, and thus has assumed a 0% dividend yield. Expected volatilities are based on average of implied and historical volatility projected over the remaining term of the options. The expected life of stock options is estimated based on historical data on exercise of stock options, post-vesting forfeitures and other factors to estimate the expected term of the stock options granted. The risk-free interest rates are derived from the U.S. Treasury yield curve in effect on the date of grant for instruments with a remaining term similar to the expected life of the options. In addition, the Company applies an expected forfeiture rate when amortizing stock-based compensation expenses. The estimate of the forfeiture rates is based primarily upon historical experience of employee turnover. As individual grant awards become fully vested, stock-based compensation expense is adjusted to recognize actual forfeitures. The following weighted-average assumptions were used in the calculation of fair value:

	2008	2007
Fair Value	$ 18.16	$ 10.03
Dividend Yield	0%	0%
Expected Volatility	34.1% -38.5%	30.5 -38.4%

Weighted Average Volatility	37.5%	37.1%
Risk Free Interest Rate	1.5% -3.2%	4.7 -5.1%
Expected Life of Options from Grant	3.2	3.2

18. COMMITMENTS AND CONTINGENT LIABILITIES

The Company is involved in litigation from time to time and has claims against it in connection with matters arising in the ordinary course of business. In the opinion of management, the outcome of these proceedings will not have a material adverse effect on the Company s operations.

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As part of the Share Purchase Agreement related to the October 2005 Polmos Bialystok Acquisition, the Company is required to ensure that Polmos Bialystok will make investments of at least 77.5 million Polish Zloty during the five years after the acquisition was consummated. As of September 30, 2008, the Company had invested 60.3 million Polish Zloty (approximately $25.5 million) in Polmos Bialystok.

Pursuant to the shareholders agreement governing the Company s investment in Copecresto Enterprises Limited, the Company has the right to purchase all (but not less than all) of the shares of Copecresto capital stock held by the other shareholder. The other shareholder has the right to require the Company to purchase any or all of the shares of Copecresto capital stock held by such other shareholder; provided, that such other shareholder may not exercise this right other than in respect of all of the shares of Copecresto capital stock it holds if the amount of Copecresto capital stock subject to such exercise is less than 1% of the total outstanding capital stock of Copecresto.

The Company s right may be exercised beginning on March 13, 2015 and will terminate on the earliest to occur of (1) the delivery of a notice of default under the shareholders agreement, (2) the delivery of a notice of the other shareholder s exercise of its right in respect of all of the Copecresto capital stock held by such shareholder and (3) the date that is ten years after the date of completion of certain reorganization transactions relating to Copecresto. The other shareholder s right may be exercised beginning on March 13, 2011 and will terminate on the earliest to occur of (A) the delivery of a notice of default under the shareholders agreement, (B) the Company s exercise of its right and (C) the date that is ten years after the date of completion of certain reorganization transactions relating to Copecresto. The other shareholder also may exercise its right one or more times within the three months following any change in control of the Company or of Bols Sp. z o.o., a subsidiary of the Company.

The aggregate price that the Company would be required to pay in the event either of these rights is exercised will be equal to the product of (x) a fraction, the numerator of which is the total number of shares of capital stock of Copecresto covered by the exercise of the right, and the denominator of which is the total number of shares of capital stock of Copecresto then outstanding, multiplied by (y) the EBITDA of Copecresto from the year immediately preceding the year in which the right is exercised, multiplied by (z) 12, if the right is exercised in 2010 or before, 11, if the right is exercised in 2011, or 10, if the right is exercised in 2012 or later; provided, that in no event will the product of (y) and (z), above, be less than $300,000,000.

The Whitehall Acquisition purchase agreement includes an agreement that if the average daily closing price of the Company s common stock during the 20-trading day period ending on the date that is six months after the closing date (the Average Market Price) is less than $51.32 (a per share valuation based on an averaging formula agreed upon among the parties) (the Minimum Share Price), the Company will be required to pay the Seller an amount equal to the difference between the Minimum Share Price and the Average Market Price per share multiplied by the 843,524 shares of common stock issued by the Company as part of the consideration. If during the 90-day period following the six-month anniversary of the closing date, the Seller sells any of the common stock included in the consideration for an average sales price per share that is less than the Minimum Share Price, the Company will be required to pay the Trustee an amount equal to the difference between the Minimum Share Price and the average sales price per share multiplied by the number of shares of Company common stock sold by the Seller. CEDC s aggregate liability under the price guarantee set forth shall be limited to an amount in U.S. Dollars representing the 843,524 shares of common stock multiplied by the Minimum Share Price less the amount representing the aggregate number of CEDC Shares actually sold by Seller multiplied by the average sales price.

As part of the Whitehall Acquisition, the Company entered into a shareholders agreement with the other shareholder pursuant to which the Company has the right to purchase, and the other shareholder has the right to require the Company to purchase, all (but not less than all) of the shares of Whitehall capital stock held by such shareholder. Either of these rights may be exercised at any time, subject, in certain circumstances, to the consent of third parties. The aggregate price that the Company would be required to pay in the event either of these rights is exercised will fall within a range, determined based on Whitehall s EBIT as well as the EBIT of certain related businesses, during two separate periods: (1) the period from January 1, 2008 through the end of the year in which the right is exercised, and (2) the two full financial years immediately preceding the end of the year in which the right is exercised. Subject to certain limited exceptions, the exercise price will be (A) no less than the future value as of the date of exercise of $42.7 million, and (B) no more than the future value as of the date of exercise of $99.7 million. CEDC s aggregate liability under the price guarantee set forth shall be limited to an amount in U.S. Dollars representing the 843,524 shares of common stock multiplied by the Minimum Share Price less the amount representing the aggregate number of CEDC shares actually sold by Seller multiplied by the average sales price.

On July 9, 2008, the Company completed its strategic investment in Russian Alcohol Group and (1) paid $181.5 million for approximately 47.5% of the common equity of a newly formed Cayman Islands company (Cayco) which indirectly acquired all of the outstanding equity of Russian Alcohol Group (the Acquisition), and (2) purchased $103.5 million in subordinated exchangeable loan notes (the Notes) issued by a subsidiary of Cayco and exchangeable into equity of Cayco. Pursuant to the shareholders agreement entered into in connection with this strategic investment, the Company has the right to purchase, and Cayco has the right to require the Company to purchase, all (but not less than all) of the outstanding capital stock of a majority-owned subsidiary of Cayco (Cayco Sub) held by Cayco, which in either case would give the Company indirect control over Russian Alcohol Group.

The Company s right is exercisable during two 45-day periods, the first commencing on the later of (1) the date that the audited 2009 Operating Group accounts are approved by Cayco Sub and (2) the date on which all earnout payments that are payable in connection with the Acquisition have been paid (the 2010 Period), and the second commencing on the date that the audited 2010 Operating Group accounts are approved by Cayco Sub (the 2011 Period). The Company s right may be extended after

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the end of the 2011 Period in a limited circumstance to a period commencing on the date that the audited 2011 Operating Group accounts are approved by Cayco Sub (the 2012 Period). If the Company exercises its right, Cayco will be obligated to exercise its drag-along rights under the shareholders agreement governing Cayco Sub to cause the transfer to the Company, on the same terms, the remaining capital stock of Cayco Sub not held by Cayco. Cayco s right will be exercisable during the 2010 Period and the 2011 Period and will expire one day after the end of the 2011 Period, and will be extended if the Company s right is extended to the 2012 Period.

The price the Company would be required to pay in the event either of these rights is exercised will be equal to the adjusted equity value of Russian Alcohol Group, determined based on EBITDA multiplied by the product of Cayco s ownership percentage and 14.05, 13.14, or 12.80, depending on when the right is exercised, less the debt of Russian Alcohol Group plus certain adjustments for cash and working capital. That price, however, in the case of the Company s right, is subject to a floor equal to the total amount invested by the other party in Cayco multiplied by 2.05 or 2.20, depending on when the right is exercised (in either case less any dividends or distributions actually received). Russian Alcohol Group has indebtedness in place that, following any exercise of the Company s or Cayco s rights described above, would continue to be serviced in accordance with its terms or refinanced or retired. The current amount of such indebtedness is approximately $170 million. In the event that the Company elects to refinance or retire this indebtedness, or acquire the capital stock of Copecresto, Whitehall or Cayco Sub pursuant to the rights described above, such transactions may be financed through additional sources of debt or equity funding.

19. RELATED PARTY TRANSACTION

In January of 2005, the Company entered into a rental agreement for a facility located in northern Poland, which is 33% owned by the Company s Chief Operating Officer. The monthly rent to be paid by the Company for this location is approximately $16,300 per month and relates to facilities to be shared by two subsidiaries of the Company.

During the nine months of 2008, the Company made sales to a restaurant which is partially owned by the Chief Executive Officer of the Company. All sales were made on normal commercial terms, and total sales for the nine months ended September 30, 2008 and 2007 were approximately $56,100 and $86,000.

20. SUBSEQUENT EVENTS

In connection with the Company s investment in the Whitehall Group and pursuant to terms of the Share Sale and Purchase Agreement governing the investment, on October 21, 2008 the Company issued 843,524 shares of its common stock to the seller.

21. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 Fair Value Measurements (SFAS 157). SFAS 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, with early adoption permitted. The Company has implemented certain provisions of this pronouncement and is not expecting any material impact that the full implementation of SFAS 157 would have on the consolidated financial statements when adopted.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for our Company from January 1, 2008. The implementation of SFAS 159, did not have any material impact on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141-R, Business Combinations . This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, which are business combinations in the year ending December 31, 2009 for the Company. The objective of this Statement is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160), which the Company will adopt on January 1, 2009. SFAS 160 amends Accounting Research Bulletin No. 51, Consolidated Financial Statements (ARB 51) and establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the accounting for future ownership changes with respect to those subsidiaries. The most significant impact of the standard, at adoption, will be to retrospectively reclassify our minority interests ($21 million at September 30, 2008) from a liability to a separate component of stockholders equity and to retrospectively reclassify income from minority interests from a component of net income to income attributable to the parent company ($3 million for the nine months ended September 30, 2008) which will be presented below net income. All other components of SFAS 160 will be applied prospectively.

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In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities An Amendment of SFAS No. 133 . SFAS 161 seeks to improve financial reporting for derivative instruments and hedging activities by requiring enhanced disclosures regarding the impact on financial position, financial performance, and cash flows. To achieve this increased transparency, SFAS 161 requires (1) the disclosure of the fair value of derivative instruments and gains and losses in a tabular format; (2) the disclosure of derivative features that are credit risk-related; and (3) cross-referencing within the footnotes. SFAS 161 is effective for us on January 1, 2009. We are in the process of evaluating the new disclosure requirements under SFAS 161.

In May 2008, the FASB issued FSP APB 14-1, which impacts the accounting treatment for convertible debt instruments that allow for either mandatory or optional cash settlements. FSP APB 14-1 will impact the accounting associated with our $310.0 million senior convertible notes. This FSP will require us to recognize additional non-cash interest expense based on the market rate for similar debt instruments without the conversion feature. Furthermore, it requires recognizing interest expense in prior periods pursuant to the retrospective accounting treatment. FSP APB 14-1 will become effective beginning in our first quarter of 2009 and is required to be applied retrospectively to all presented periods, as applicable. We are currently evaluating the impact on our financial statements of applying the provisions of FSP APB 14-1.

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

The following analysis should be read in conjunction with the Consolidated Financial Statements and the notes thereto appearing elsewhere in this report.

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995 Regarding Forward-Looking Information.

This report contains forward-looking statements, which provide our current expectations or forecasts of future events. These forward-looking statements may be identified by the use of forward-looking terminology, including the terms believes, estimates, anticipates, expects, intends, may, will or should or, in each case, their negative, or other variations or comparable terminology, but the absence of these words does not necessarily mean that a statement is not forward-looking. Those forward looking statements include all matters that are not historical facts. They appear in a number of places throughout this report and include, without limitation:

- information concerning possible or assumed future results of operations, trends in financial results and business plans, including those relating to earnings growth and revenue growth, liquidity, prospects, strategies and the industry in which the Company and its subsidiaries operate;
- statements about the level of our costs and operating expenses relative to the Company revenues, and about the expected composition of the Company s revenues;
- statements about consummation and integration of the Company s acquisitions, including future acquisitions the Company may make;
- information about the impact of Polish regulations on the Company business;
- other statements about the Company s plans, objectives, expectations and intentions; and
- other statements that are not historical facts.

By their nature, forward-looking statements involve known and unknown risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, the development of the industry in which we operate, and the effects of acquisitions on us may differ materially from those anticipated in or suggested by the forward-looking statements contained in this report. In addition, even if our results of operations, financial condition and liquidity, and the development of the industry in which we operate, are consistent with the forward-looking statements contained in this report, those results or developments may not be indicative of results or developments in subsequent periods.

We urge you to read and carefully consider the items of the other reports that we have filed with or furnished to the SEC for a more complete discussion of the factors and risks that could affect us and our future performance and the industry in which we operate, including the risk factors described in the Company s Annual Report on Form 10-K for the year ended, December 31, 2007 filed with the SEC on February 29, 2008 and the Company s Form 8-K filed with the SEC on June 18, 2008. In light of these risks, uncertainties and assumptions, the forward-looking events described in this report may not occur as described, or at all.

You should not unduly rely on these forward-looking statements, because they reflect our judgment only as of the date of this report. The Company undertakes no obligation to publicly update or revise any forward-looking statement to reflect circumstances or events after the date of this report, or to reflect on the occurrence of unanticipated events. All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this report.

The following discussion and analysis provides information which management believes is relevant to the reader s assessment and understanding of the Company s results of operations and financial condition and should be read in conjunction with the Consolidated Financial Statements and the notes thereto found elsewhere in this report.

Overview

We are the largest vodka producer by value and volume in Poland, and one of the largest producers of vodka in the world. We produced and sold over 9.3 million nine-liter cases of vodka in 2007 in the four main vodka segments in Poland: top premium, premium, mainstream and economy. In addition, in our Bols plant, we produce the top selling vodka in Hungary, *Royal Vodka*, which we distribute through our Hungarian subsidiary, Bols Hungary.

In March 2008, we closed our acquisition of 85% of the capital stock of the Parliament Group in Russia which owns various alcoholic beverage production and distribution assets, including the *Parliament* vodka brand. *Parliament* vodka is a top selling premium vodka brand in Russia. *Parliament* is expected to reach sales of over 3 million 9 liter cases in 2008. *Parliament* provides us our first platform in Russia where we can not only grow the *Parliament* brand domestically, but also add import brands into the mix, thereby leveraging the existing structure to take advantage of the premiumization of alcohol consumption taking place in the Russian market. In May 2008, we closed our acquisition of a 75% economic stake in the Whitehall Group in Russia which is a leading importer of premium spirits in Russia. In July 2008, we completed a strategic investment in the Russian Alcohol Group (Russian Alcohol) providing the Company with an initial stake of approximately 42% in Russian Alcohol, which we account for as an equity investment.

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Results of Operations:

Three months ended September 30, 2008 compared to three months ended September 30, 2007

A summary of the Company s operating performance (expressed in thousands except per share amounts) is presented below.

PROFIT AND LOSS

	Three months ended	
	September 30, 2008	**September 30, 2007**
PROFIT AND LOSS		
Sales	**$ 586,038**	**$ 368,910**
Excise taxes	(133,597)	(69,311)
Net Sales	**452,441**	**299,599**
Cost of goods sold	336,609	237,892
Gross Profit	**115,832**	**61,707**
Operating expenses	62,992	33,297
Operating Income	**52,840**	**28,410**
Non operating income / (expense), net		
Interest (expense), net	(14,417)	(9,337)
Other financial income / (expense), net	(34,730)	(1,110)
Other non operating income / (expense), net	(423)	1,006
Income before taxes	**3,270**	**18,969**
Income tax expense	678	1,943
Minority interests	3,018	6
Equity in net earnings of affiliates	1,087	
Net income	**$ 661**	**$ 17,020**
Net income per share of common stock, basic	$ 0.01	$ 0.42
Net income per share of common stock, diluted	$ 0.01	$ 0.42

Net Sales

Net sales represent total sales net of all customer rebates, excise tax on production and exclusive imports and value added tax. Total net sales increased by approximately 51.0%, or $152.8 million, from $299.6 million for the three months ended September 30, 2007 to $452.4 million for the three months ended September 30, 2008. This increase in sales is due to the following factors:

Net Sales for three months ended September 30, 2007	$ 299,599
Increase from acquisitions	92,794
Existing business sales growth	19,073
Excise tax reduction	(35,636)

Impact of foreign exchange rates	76,611
Net sales for three months ended September 30, 2008	$ 452,441

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Factors impacting our existing business sales for the three months ending September 30, 2008 include the growth of our key vodka brands, with *Bols Vodka*, our flagship premium vodka and *Soplica*, growing by 15% and 13% in volume terms respectively as compared to the three months ending September 30, 2007. Sales of our exclusive import brands in U.S. Dollars grew by 36% in value terms for the three months ending September 30, 2008 as compared to the same period in 2007.

As of January 2008, sales of products which we produce at Polmos Bialystok and Bols to certain key accounts were moved from our distribution companies to the producer, Polmos Bialystok and Bols in order to reduce distribution costs. When a sale is reported directly from a producer, excise tax is eliminated from net sales and when a sale is made from a distribution company the sales are recorded gross with excise tax. Therefore the movement of the sales contracts from a distributor to the producer reduces the amount of net sales reported through the elimination of excise tax and also increases gross profit as a percent of sales. The impact of this sales reduction for the three months ended September 30, 2008 was $35.6 million.

Based upon average exchange rates for the three months ended September 30, 2008 and September 30, 2007, the Polish Zloty appreciated by approximately 20%. This resulted in an increase of $76.6 million of sales in U.S. Dollar terms.

As a result of our recent acquisitions in Russia, we have moved to a segmental approach to our business split by our primary geographic locations of operations, Poland, Russia and Hungary. Included in the sales growth from acquisitions of $92.8 million was $84.9 million of sales related to the newly acquired Russian businesses of Parliament and Whitehall, which is reflected in our Russian Segment in the below table.

	Segment Net Revenues Three months ended September 30,	
	2008	**2007**
Segment		
Poland	$ 356,065	$ 290,594
Russia	84,948	
Hungary	11,428	9,005
Total Net Sales	$ 452,441	$ 299,599

Gross Profit

Total gross profit increased by approximately 87.7%, or $54.1 million, to $115.8 million for the three months ended September 30, 2008, from $61.7 million for the three months ended September 30, 2007, reflecting sales growth for the factors noted above in the three months ended September 30, 2008. Gross margin increased from 20.6% of net sales for the three months ended September 30, 2007 to 25.6% of net sales for the three months ended September 30, 2008. The primary factor resulting in the improved margin was the inclusion of the newly acquired businesses in Russia, Parliament and Whitehall, which, as producers and importers, operate on a higher gross profit margin than the Polish business, which is more significantly impacted by lower margin distribution operations. Margins were further improved from lower spirit pricing for the three months ended September 30, 2008 as well as the growth of the exclusive import brands.

Operating Expenses

Operating expenses consist of selling, general and administrative, or S,G&A expenses, advertising expenses, non-production depreciation and amortization, and provision for bad debts. Operating expenses as a percent of sales increased from 11.1% for the three months ended September 30, 2007 to 13.9% for the three months ended September 30, 2008. Total operating expenses as a percent of sales however decreased from 14.5% for the three months ended June 30, 2008 due to the impact of volume leverage on the cost base. Total operating expenses increased by approximately 89.2%, or $29.7 million, from $33.3 million for the three months ended September 30, 2007 to $63.0 million for the three months ended September 30, 2008. Approximately $7.6 million of this increase resulted primarily from the effects of the acquisition of Parliament in March 2008, approximately $9.3 million of this increase resulted from the effects of the acquisition of the Whitehall Group, approximately $1.1 million of this increase resulted from the effects of the acquisition of PHS in July 2007 and the remainder of the increase resulted primarily from the growth of the business and the impact of foreign exchange expenses as detailed below.

Operating expenses for three months ended September 30, 2007	$ 33,297

Increase from acquisitions	17,965
Increase from existing business growth	2,941
Impact of foreign exchange rates	8,789
Operating expenses for three months ended September 30, 2008	$ 62,992

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The table below sets forth the items of operating expenses.

	Three Months Ended September 30,	
	2008	2007
	($ in thousands)	
S,G&A	$ 48,927	$ 26,713
Marketing.	10,732	4,727
Depreciation and amortization	3,333	1,857
Total operating expense	$ 62,992	$ 33,297

S,G&A consists of salaries, warehousing and transportation costs, administrative expenses and bad debt expense. S,G&A increased by approximately 83.1%, or $22.2 million, from $26.7 million for the three months ended September 30, 2007 to $48.9 million for the three months ended September 30, 2008. Approximately $13.6 million of this increase resulted primarily from the effects of the acquisitions discussed above and the remainder of the increase resulted primarily from the growth of the business and the appreciation of the Polish Zloty against the U.S. Dollar. As a percent of sales, S,G&A has increased from 8.9% of net sales for the three months ended September 30, 2007 to 10.8% of net sales for the three months ended September 30, 2008.

Depreciation and amortization increased by approximately 73.7%, or $ 1.4 million, from $1.9 million for the three months ended September 30, 2007 to $3.3 million for the three months ended September 30, 2008. This increase resulted primarily from our existing business growth and the acquisition of Parliament and Whitehall.

Operating Income

Total operating income increased by approximately 85.9%, or $24.4 million, from $28.4 million for the three months ended September 30, 2007 to $52.8 million for the three months ended September 30, 2008. This increase resulted primarily from the factors described under Net Sales above. The table below summarizes the segmental split of operating profit.

	Operating Profit Three months ended September 30,	
	2008	2007
Segment		
Poland	$ 32,601	$ 27,969
Russia	20,540	
Hungary	2,362	1,746
Corporate Overhead		
General corporate overhead	(1,543)	(826)
Option Expense	(1,120)	(479)
Total Operating Profit	$ 52,840	$ 28,410

Non Operating Income and Expenses

Total interest expense increased by approximately 54.8%, or $5.1 million, from $9.3 million for the three months ended September 30, 2007 to $14.4 million for the three months ended September 30, 2008. This increase resulted from a combination of additional borrowings to finance the investment in Russian Alcohol Group in July 2008 and increased interest rates in 2008 as compared to 2007.

The Company recognized $34.7 million of unrealized foreign exchange rate loss in the three months ended September 30, 2008, primarily related to the impact of movements in exchange rates on our USD and EUR denominated acquisition financing, as compared to $1.1 million for the three months ended September 30, 2007.

Income Tax

Our effective tax rate for the three months ending September 30, 2008 was 20.7%, which is driven by the blended statutory tax rates rate of 19% in Poland and 24% in Russia.

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Minority Interests and Equity in Net Earnings

Minority interest for the three months ending September 30, 2008 relates primarily to the minority stake of 25% in Whitehall Group and 15% stake in Parliament.

Equity in net earnings for the three months ending September 30, 2008 include CEDC s proportional share of net income from its investments accounted for under the equity method. This includes $2.7 million of income from the investment in the MHWH J.V. and $1.6 million of losses from the investment in the Russian Alcohol Group. Included in the results of the Russian Alcohol Group were non cash foreign exchange losses related to the revaluation of debt instruments denominated in U.S. Dollars. Excluding the impact of this foreign exchange revaluation the contribution of the Russian Alcohol Group to equity earnings would be $8.8 million.

Nine months ended September 30, 2008 compared to nine months ended September 30, 2007

A summary of the Company s operating performance (expressed in thousands except per share amounts) is presented below.

	Nine months ended	
	September 30, 2008	**September 30, 2007**
Sales	**$ 1,536,964**	**$ 992,056**
Excise taxes	(349,601)	(195,607)
Net Sales	**1,187,363**	**796,449**
Cost of goods sold	901,577	632,870
Gross Profit	**285,786**	**163,579**
Operating expenses	164,635	91,104
Operating Income	**121,151**	**72,475**
Non operating income / (expense), net		
Interest (expense), net	(39,242)	(26,291)
Other financial income, net	6,373	(6,672)
Other non operating income / (expense), net	(565)	(1,008)
Income before taxes	**87,717**	**38,504**
Income tax expense	17,944	5,628
Minority interests	5,762	1,061
Equity in net earnings of affiliates	1,989	
Net income	**$ 66,000**	**$ 31,815**
Net income per share of common stock, basic	$ 1.53	$ 0.80
Net income per share of common stock, diluted	$ 1.50	$ 0.79

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Net Sales

Total net sales increased by approximately 49.1%, or $391.0 million, from $796.4 million for the nine months ended September 30, 2007 to $1,187.4 million for the nine months ended September 30, 2008. This increase in sales is due to the following factors:

Net Sales for nine months ended September 30, 2007	$ 796,449
Increase from acquisitions	207,419
Existing business sales growth	50,450
Excise tax reduction	(79,218)
Impact of foreign exchange rates	212,263
Net sales for nine months ended September 30, 2008	$ 1,187,363

Factors impacting our existing business sales for the nine months ending September 30, 2008 include the growth of our key vodka brands, with *Bols Vodka*, our flagship premium vodka, growing by 15% in volume terms as compared to the nine months ending September 30, 2007. Sales of our exclusive import brands in U.S Dollars grew by 40% in value terms for the nine months ending September 30, 2008 as compared to the same period in 2007.

As of January 2008, sales of products which we produce at Polmos Bialystok and Bols to certain key accounts were moved from our distribution companies to the producer, Polmos Bialystok and Bols in order to reduce distribution costs. When a sale is reported directly from a producer, excise tax is eliminated from net sales and when a sale is made from a distribution company the sales are recorded gross with excise tax. Therefore the movement of the sales contracts from a distributor to the producer reduces the amount of net sales reported through the elimination of excise tax and also increases gross profit as a percent of sales. The impact of this sales reduction for the nine months ended September 30, 2008 was $79.2 million.

Based upon average exchange rates for the nine months ended September 30, 2008 and 2007, the Polish Zloty appreciated by approximately 21%. This resulted in an increase of $212.3 million of sales in U.S. Dollar terms.

As a result of our recent acquisitions in Russia, we have moved to a segmental approach to our business split by our primary geographic locations of operations, Poland, Russia and Hungary. Included in the sales growth from acquisitions of $207.4 million was $154.5 million of sales related to the newly acquired Russian businesses of Parliament and Whitehall, which is reflected in our Russian Segment in the below table.

	Segment Net Revenues Nine months ended September 30, 2008	2007
Segment		
Poland	$ 1,003,189	$ 773,137
Russia	$ 154,521	
Hungary	$ 29,653	$ 23,312
Total Net Sales	$ 1,187,363	$ 796,449

Gross Profit

Total gross profit increased by approximately 74.7%, or $122.2 million, to $285.8 million for the nine months ended September 30, 2008, from $163.6 million for the nine months ended September 30, 2007, reflecting sales growth for the factors noted above in the nine months ended September 30, 2008. Gross margin increased from 20.5% of net sales for the nine months ended September 30, 2007 to 24.1% of net sales for the nine months ended September 30, 2008. Factors impacting our margins include improved sales mix, lower spirit costs, the impact of excise tax as described above as well as the consolidation of Parliament and Whitehall from the first quarter and second quarter of 2008 respectively. Parliament and Whitehall which, as producer and importer, operate on a higher gross profit margin than the Polish business, which is more heavily impacted by lower margin distribution operations. Margins were further improved from lower spirit pricing for the nine months ended September 30, 2008 as well as the growth of the exclusive import brands.

Operating Expenses

Total operating expenses increased by approximately 80.7%, or $73.5 million, from $91.1 million for the nine months ended September 30, 2007 to $164.6 million for the nine months ended September 30, 2008. Approximately $20.6 million of this increase resulted from the effects of the acquisition of Parliament in March 2008, approximately $12.9 million of this increase resulted from the effects of the acquisition of the Whitehall Group, approximately $5.5 million of this increase resulted from the effects of the acquisition of PHS and the remainder of the increase resulted primarily from the growth of the business and the impact of foreign exchange expenses as detailed below.

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Operating expenses for nine months ended September 30, 2007	$ 91,104
Increase from acquisitions	38,992
Increase from existing business growth	9,080
Impact of foreign exchange rates	25,459
Operating expenses for nine months ended September 30, 2008	$ 164,635

The table below sets forth the items of operating expenses.

	Nine Months Ended September 30,	
	2008	2007
	($ in thousands)	
S,G&A	$ 126,792	$ 74,275
Marketing.	29,395	11,442
Depreciation and amortization	8,448	5,387
Total operating expense	$ 164,635	$ 91,104

S,G&A increased by approximately 70.7%, or $52.5 million, from $74.3 million for the nine months ended September 30, 2007 to $126.8 million for the nine months ended September 30, 2008. Approximately $33.8 million of this increase resulted primarily from the effects of the acquisitions discussed above and the remainder of the increase resulted primarily from the growth of the business and the appreciation of the Polish Zloty against the U.S. Dollar. As a percent of sales, S,G&A has increased from 9.3% of net sales for the nine months ended September 30, 2007 to 10.7% of net sales for the nine months ended September 30, 2008.

Depreciation and amortization increased by approximately 55.6%, or $ 3.0 million, from $5.4 million for the nine months ended September 30, 2007 to $8.4 million for the nine months ended September 30, 2008. This increase resulted primarily from our existing business growth and the acquisitions of Parliament and Whitehall.

Operating Income

Total operating income increased by approximately 67.2%, or $48.7 million, from $72.5 million for the nine months ended September 30, 2007 to $121.2 million for the nine months ended September 30, 2008. This increase resulted primarily from the factors described under Net Sales above. The table below summarizes the segmental split of operating profit.

	Operating Profit Nine months ended September 30,	
	2008	2007
Segment		
Poland	$ 86,266	$ 72,582
Russia	36,489	
Hungary	5,172	4,128
Corporate Overhead		
General corporate overhead	(3,978)	(2,809)
Option Expense	(2,798)	(1,426)
Total Operating Profit	$ 121,151	$ 72,475

Income Tax

Our effective tax rate for the nine months ending September 30, 2008 was 20.5%, which is the driven by the blended statutory tax rates rate of 19% in Poland and 24% in Russia

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Minority Interests and Equity in Net Earnings

Minority interest for the nine months ending September 30, 2008 relates mainly to minority stake of 25% in Whitehall Group and 15% stake in Parliament.

Equity in net earnings for the nine months ending September 30, 2008 include CEDC s proportional share of net income from its investments accounted for under the equity method. This includes $3.6 million of income from the investment in the MHWH J.V. and $1.6 million of losses from the investment in the Russian Alcohol Group. Included in the results of the Russian Alcohol Group were non cash foreign exchange losses related to the revaluation of debt instruments denominated in U.S. Dollars. Excluding the impact of this foreign exchange revaluation the contribution of the Russian Alcohol Group to equity earnings would be $8.8 million.

Non Operating Income and Expenses

Total interest expense increased by approximately 49.0%, or $12.9 million, from $26.3 million for the nine months ended September 30, 2007 to $39.2 million for the nine months ended September 30, 2008. This increase resulted from a combination of additional borrowings to finance the purchase of Polmos Bialystok shares completed in June 2007, the issuance of our Convertible Senior Notes to finance the Parliament acquisition and the Whitehall acquisition and increased interest rates in 2008 as compared to 2007.

The Company recognized $6.4 million of unrealized foreign exchange rate gain in the nine months ended September 30, 2008, related to the impact of movements in exchange rates on our Senior Secured and Senior Convertible Notes, as these borrowings have been lent down to entities that have the Polish Zloty as the functional currency, as compared to $6.7 million of losses for the nine months ended September 30, 2007.

Liquidity and Capital Resources

The company has funded the $285 million investment in the Russian Alcohol Group, which was completed in July 2008, through the proceeds of the equity offering closed on June 30, 2008 and additional borrowings described in more detail below. The Company s remaining uses of cash in the future will be to fund its working capital requirements, service indebtedness, finance capital expenditures and fund acquisitions. The Company expects to fund these requirements in the future with cash flows from its operating activities, cash on hand, the financing arrangements described below, and other arrangements we may enter into from time to time.

Financing Arrangements

Existing Credit Facilities

As of September 30, 2008, $48.5 million remained available under the Company s overdraft facilities. These overdraft facilities are renewed on an annual basis.

As of September 30, 2008, the Company had utilized approximately $101.3 million of a multipurpose credit line agreement in connection with the 2007 tender offer in Poland to purchase the remaining outstanding shares of Polmos Bialystok S.A. The Company s obligations under the credit line agreement are guaranteed through promissory notes by certain subsidiaries of the Company. The indebtedness under the credit line agreement matures on March 31, 2009.

On April 24, 2008, the Company signed a credit agreement with Bank Zachodni WBK SA in Poland to provide up to $50 million of financing to be used to finance a portion of the Parliament and Whitehall acquisition, as well as general working capital needs of the Company. The agreement provides for a $30 million five year amortizing term facility and a one year $20 million short term facility with annual renewal.

On July 2, 2008, the Company entered into a Facility Agreement with Bank Handlowy w Warszawie S.A., which provided for a term loan facility of $40 million. The term loan matures on July 4, 2011 and is guaranteed by CEDC, Carey Agri and certain other subsidiaries of the Company and is secured by all of the shares of capital stock of Carey Agri and subsequently will be further secured by shares of capital stock in certain other subsidiaries of CEDC.

Senior Secured Notes

In connection with the Bols and Polmos Bialystok acquisitions, on July 25, 2005 the Company completed the issuance of 325 million 8% Senior Secured Notes due 2012 (the Notes). Interest is due semi-annually on the 25th of January and July, and the Notes are guaranteed on a senior basis by certain of the Company s subsidiaries. The Indenture governing our Notes contains certain restrictive covenants, including covenants limiting the Company s ability to: make certain payments, including dividends or other distributions, with respect to the share capital of the parent or its subsidiaries; incur or guarantee additional indebtedness or issue preferred stock; make certain investments; prepay or redeem subordinated debt or equity; create certain liens or enter into sale and leaseback transactions; engage in certain transactions with affiliates; sell assets or consolidate or merge with or into other companies; issue or sell share capital of certain subsidiaries; and enter into other lines of business.

During the nine months ending September 30, 2008, the Company purchased 13.8 million of its outstanding Senior Secured Notes back on the open market and retired 9.8 million as of September 30, 2008.

Convertible Senior Notes

On March 7, 2008, the Company completed the issuance of $310 million of 3% Convertible Senior Notes due 2013 (the Convertible Notes). Interest is due semi-annually on the 15th of March and September, beginning on September 15, 2008. The Convertible Senior Notes are convertible in certain circumstances into cash and, if applicable, shares of our common stock, based on an initial conversion rate of 14.7113 shares per $1,000 principle amount, subject to certain adjustments. Upon conversion of the Convertible Notes, the Company will deliver cash up to the aggregate principle amount of the Convertible Notes to be converted and, at the election of the Company, cash or shares of common stock in respect to the remainder, if any, of the conversion obligation.

The proceeds from the Convertible Notes were used to fund the cash portion of the acquisition of 85% of the capital stock of the Parliament Group and 75% of the economic interest in the Whitehall Group.

Equity Issuance

On March 11, 2008, the Company and certain of its affiliates entered into a Share Sale and Purchase Agreement and certain other agreements with White Horse Intervest Limited, a British Virgin Islands Company, and certain of White Horse s affiliates, relating to the Company s acquisition from White Horse of 85% of the share capital of Copecresto Enterprises Limited, a Cypriot company, owner of the Parliament group. In connection with this acquisition, the Company paid a consideration of approximately $180 million in cash and 2.2 million shares of common stock. According to the agreement the shares are to remain locked up and can not be sold for a period of one year from closing, subject to certain limited exceptions.

On May 23, 2008, the Company and certain of its affiliates entered into, and closed upon, a Share Sale and Purchase Agreement and certain other agreements whereby the Company acquired shares representing 50% minus one vote of the voting power, and 75% of the economic interests in the Whitehall Group. The Whitehall Group is a leading importer of premium spirits and wines in Russia. The aggregate consideration paid by the Company was $200 million, paid in cash at the closing. In addition, on October 21, 2008 the Company issued 843,524 shares of its common stock and still expects to pay 16.05 million on the first anniversary of the closing.

On June 25, 2008, the Company completed a public offering of 3,250,000 shares of common stock, at an offering price to the public of $68.00 per share. In addition, pursuant to the terms of the offering the underwriters exercised their over-allotment option for an additional 325,000 shares. The net proceeds from the offering, including the sale of shares in accordance with the over-allotment option, was $233.8 million, after deducting underwriting discounts and commissions and estimated offering expenses. The majority of the proceeds of the equity offering were used to fund a portion of the Company s investment in the Russian Alcohol Group.

Statement of Liquidity and Capital Resources

During the periods under review, the Company s primary sources of liquidity were cash flows generated from operations, credit facilities, the equity offerings, the Convertible Senior Notes offering and proceeds from options exercised. The Company s primary uses of cash were to fund its working capital requirements, service indebtedness, finance capital expenditures and fund acquisitions. The following table sets forth selected information concerning the Company s consolidated cash flow during the periods indicated.

	Nine months ended September 30, 2008	Nine months ended September 30, 2007
	($ in thousands)	
Cash flow from operating activities	$ 46,664	$ 30,318
Cash flow from investing activities	$ (659,164)	$ (155,695)
Cash flow from financing activities	$ 627,228	$ 55,671

Net cash flow from operating activities

Net cash flow from operating activities represents net cash from operations and interest. Net cash provided by operating activities for the nine months ended September 30, 2008 was $46.7 million as compared to $30.3 million for the nine months ended September 30, 2007. The primary drivers for the change were overall growth in the business partially offset by higher working capital needs. Working capital movements utilized

$30.1 million of cash outflows for the nine months ended September 30, 2008 as compared to $10.7 million of cash outflows for the nine months ended September 30, 2007. The primary driver for the increased working capital utilization was driven by the overall growth of the business as well as the Parliament acquisition. The entities acquired in Russia as part of the Parliament acquisition were newly formed legal entities with no receivables, inventory and accounts payable balances as of acquisition date. Therefore approximately $20 million was funded into the business during the 9 months ending September 30, 2008 in order to build up a normalized working capital base.

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Net cash flow used in investing activities

Net cash flows used in investing activities represent net cash used to acquire subsidiaries and fixed assets as well as proceeds from sales of fixed assets. Net cash used in investing activities for the nine months ended September 30, 2008 was $659.2 million as compared to $155.7 million for the nine months ended September 30, 2007. The primary cash outflows from investing activities for the nine months ended September 30, 2008 were the cash consideration and expenses related to the Parliament, Whitehall and Russian Alcohol Group acquisitions and the acquisition of $103.5 million in subordinated exchangeable notes in connection with the investment in Russian Alcohol Group.

Net cash flow from financing activities

Net cash flow from financing activities represents cash used for servicing indebtedness, borrowings under credit facilities and cash inflows from private placements and exercise of options. Net cash provided by financing activities was $627.2 million for the nine months ended September 30, 2008 as compared to $55.7 million for the nine months ended September 30, 2007. The primary source of cash from financing activities was the Company s offering of $310 million of Convertible Secured Notes to fund the Parliament and Whitehall acquisition, which resulted in net proceeds of $304.4 million, and the proceeds from the common equity offering of $233.8 million, which were used to fund the investment in the Russian Alcohol Group, completed in July 2008.

The Company s Future Liquidity and Capital Resources

The Company s primary uses of cash in the future will be to fund its working capital requirements, service indebtedness, finance capital expenditures and fund acquisitions. The Company expects to fund these requirements in the future with cash flows from its operating activities, cash on hand, the financing arrangements described above and other financing arrangements it may enter into from time to time.

Acquisitions Purchase/Sale Rights

On March 13, 2008, the Company acquired 85% of the share capital of Copecresto Enterprises Limited, a producer and distributor of beverages in Russia, for $180,335,257 in cash and 2,238,806 shares of the Company s common stock. In addition, on May 23, 2008, the Company s subsidiary, Polmos Bialystok, closed on its acquisition of 50% minus one vote of the voting power and 75% of the economic interests in the Whitehall Group, a leading importer of premium spirits and wines in Russia, for $200 million in cash and the obligation to issue approximately 838,000 shares of common stock and to make an additional cash payment of 16.05 million on the first anniversary of the acquisition. Finally, on July 9, 2008, the Company closed on its acquisition of approximately 47.5% of the common equity of a Cayman Islands company, referred to as Cayco, for approximately $181.5 million in cash, and purchased $103.5 million in subordinated exchangeable loan notes from a subsidiary of Cayco. Lion Capital LLP and affiliates of Goldman Sachs & Co. own the remaining common equity of Cayco, which indirectly own approximately 88.4% of the outstanding equity of the Russian Alcohol Group. The Russian Alcohol Group, also referred to as RAG, is the leading vodka producer in Russia. The Company entered into shareholders agreements with the other shareholders of Copecresto, Whitehall and RAG, respectively, that include purchase and sale rights relating to the Company s potential acquisition of the equity interests in these entities that are owned by the other shareholders thereof. The exercise of these rights could affect the Company s liquidity.

Copecresto Acquisition

Pursuant to the Copecresto shareholders agreement, the Company has the right to purchase all (but not less than all) of the shares of Copecresto capital stock held by the other shareholder. The other shareholder has the right to require the Company to purchase any or all of the shares of Copecresto capital stock held by such other shareholder; provided, that such other shareholder may not exercise this right other than in respect of all of the shares of Copecresto capital stock it holds if the amount of Copecresto capital stock subject to such exercise is less than 1% of the total outstanding capital stock of Copecresto.

The Company s right may be exercised beginning on March 13, 2015 and will terminate on the earliest to occur of (1) the delivery of a notice of default under the shareholders agreement, (2) the delivery of a notice of the other shareholder s exercise of its right in respect of all of the Copecresto capital stock held by such shareholder and (3) the date that is ten years after the date of completion of certain reorganization transactions relating to Copecresto. The other shareholder s right may be exercised beginning on March 13, 2011 and will terminate on the earliest to occur of (A) the delivery of a notice of default under the shareholders agreement, (B) the Company s exercise of its right and (C) the date that is ten years after the date of completion of certain reorganization transactions relating to Copecresto. The other shareholder also may exercise its right one or more times within the three months following any change in control of the Company or of Bols Sp. z o.o., a subsidiary of the Company.

The aggregate price that the Company would be required to pay in the event either of these rights is exercised will be equal to the product of (x) a fraction, the numerator of which is the total number of shares of capital stock of Copecresto covered by the exercise of the right, and the denominator of which is the total number of shares of capital stock of Copecresto then outstanding, multiplied by (y) the EBITDA of Copecresto from the year immediately preceding the year in which the right is exercised, multiplied by (z) 12, if the right is exercised in 2010 or before, 11, if the right is exercised in 2011, or 10, if the right is exercised in 2012 or later; provided, that in no event will the product of (y) and (z), above, be less than $300,000,000.

Furthermore, if the average daily closing price of the Company s common stock during the 20 trading day period ending on the date that is six months after the closing date (the Average Market Price) is less than $51.32 (a per share valuation based on an averaging formula agreed upon among the parties) (the Minimum Share Price), the Company will be required to make an additional cash payment in an amount equal to the difference between the Minimum Share Price and the Average Market Price multiplied by the 843,524 shares of common stock issued by the Company as part of the consideration. Finally, if, during the 90 day period following the six-month anniversary of the closing date, the seller sells any of the 843,524 shares of Company common stock issued as part of the consideration for an average sales price per share that is less than the Minimum Share Price, the Company will be required to make an additional cash payment in an amount equal to the difference between the Minimum Share Price and the average sales price per share multiplied by the number of shares of Company common stock sold.

Whitehall Acquisition

Pursuant to the Whitehall shareholders agreement, Polmos Bialystok has the right to purchase, and the other shareholder has the right to require Polmos Bialystok to purchase, all (but not less than all) of the shares of Whitehall capital stock held by such shareholder. Either of these rights may be exercised at any time, subject, in certain circumstances, to the consent of third parties. The aggregate price that the Company would be required to pay in the event either of these rights is exercised will fall within a range determined based on Whitehall s EBIT as well as the EBIT of certain related businesses, during two separate periods: (1) the period from January 1, 2008 through the end of the year in which the right is exercised, and (2) the two full financial years immediately preceding the end of the year in which the right is exercised. Subject to certain limited exceptions, the exercise price will be (A) no less than the future value as of the date of exercise of $42.7 million and (B) no more than the future value as of the date of exercise of $99.7 million.

Russian Alcohol Group Acquisition

Pursuant to the RAG shareholders agreement, the Company has the right to purchase, and Cayco has the right to require the Company to purchase, all (but not less than all) of the outstanding capital stock of a majority-owned subsidiary of Cayco held by Cayco, which in either case would give the Company indirect control over RAG. These rights may be exercised at various times as set forth in the shareholders agreement.

The price the Company would be required to pay in the event either of these rights is exercised will be equal to the adjusted equity value of RAG, determined based on EBITDA multiplied by the product of Cayco s ownership percentage and 14.05, 13.14, or 12.80, depending on when the right is exercised, less the debt of RAG plus certain adjustments for cash and working capital. That price, however, in the case of the Company s right, is subject to a floor equal to the total amount invested by Lion Capital in Cayco multiplied by 2.05 or 2.20, depending on when the right is exercised (in either case less any dividends or distributions actually received). RAG has indebtedness in place that, following any exercise of the RAG purchase or sale right described above, would continue to be serviced in accordance with its terms or refinanced or retired. The current amount of such indebtedness is approximately $170 million. In the event that the Company elects to refinance or retire this indebtedness, or acquire the capital stock of Copecresto, Whitehall or Cayco s subsidiary pursuant to the rights described above, such transactions may be financed through additional sources of debt or equity funding.

Effects of Inflation and Foreign Currency Movements

Inflation in Poland is projected at 4.0% for 2008, compared to actual inflation of 2.5% in 2007.

Substantially all of Company s operating cash flows and assets are denominated in Polish Zloty, Russian Ruble and Hungarian Forint. This means that the Company is exposed to translation movements both on its balance sheet and income statement. The impact on working capital items is demonstrated on the cash flow statement as the movement in exchange on cash and cash equivalents. The impact on the income statement is by the movement of the average exchange rate used to restate the income statement from Polish Zloty and Hungarian Forint to U.S. Dollars. The amounts shown as exchange rate gains or losses on the face of the income statement relate only to realized gains or losses on transactions that are not denominated in Polish Zloty or Hungarian Forint.

As a result of the issuance of the Company s Senior Secured Notes due 2012 of which 250 million are currently outstanding, we are exposed to foreign exchange movements. Movements in the EUR-Polish Zloty exchange rate will require us to revalue our liability on the Senior Secured Notes accordingly, the impact of which will be reflected in the results of the Company s operations. Every one percent movement in the EUR-Polish Zloty exchange rate will have an approximate $3.7 million change in the valuation of the liability with the offsetting pre-tax gain or losses recorded in the profit and loss of the Company.

In order to manage the cash flow impact of foreign exchange changes, the Company has entered into certain hedge agreements. As of September 30, 2008, the Company had outstanding a hedge contract for a seven year interest rate swap agreement. The swap agreement exchanges a fixed Euro based coupon of 8%, with a variable Euro based coupon (IRS) based upon the six month Euribor rate plus a margin.

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The average Zloty/Dollar exchange rate for nine month period ending September 30 used to create our income statement appreciated by approximately 21% as compared to the same period in 2007. The actual period end Zloty/Dollar exchange rate used to create our balance sheet appreciated by approximately 2.9% as compared to December 31, 2007.

The proceeds of our $310 million Senior Convertible Notes have been on-lent to subsidiaries that have the Polish Zloty as the functional currency. Movements in the USD-Polish Zloty exchange rate will require us to revalue our liability on the Senior Convertible Notes accordingly, the impact of which will be reflected in the results of the Company s operations. Every one percent movement in the USD-Polish Zloty exchange rate will have an approximate $3.0 million change in the valuation of the liability with the offsetting pre-tax gain or losses recorded in the profit and loss of the Company.

Critical Accounting Policies and Estimates

General

The Company s discussion and analysis of its financial condition and results of operations are based upon the Company s consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of net sales, expenses, assets and liabilities. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions.

Goodwill and Intangibles

Following the introduction of SFAS 142, acquired goodwill is no longer amortized. Instead the Company assesses the recoverability of its goodwill at least once a year or whenever adverse events or changes in circumstances or business climate indicate that expected future cash flows (undiscounted and without interest charges) for individual business units may not be sufficient to support the recorded goodwill. If undiscounted cash flows are not sufficient to support the goodwill, an impairment charge would be recognized to reduce the carrying value of the goodwill based on the expected discounted cash flows of the business unit. No such charge has been considered necessary through the date of the accompanying financial statements. Intangibles are amortized over their effective useful life. In estimating fair value, management must make assumptions and projections regarding such items as future cash flows, future revenues, future earnings, and other factors. The assumptions used in the estimate of fair value are generally consistent with the past performance of each reporting unit and are also consistent with the projections and assumptions that are used in current operating plans. Such assumptions are subject to change as a result of changing economic and competitive conditions. If these estimates or their related assumptions change in the future, the Company may be required to record an impairment loss for the assets. The fair values calculated have been adjusted where applicable to reflect the tax impact upon disposal of the asset.

In connection with the Bols and Bialystok acquisitions, the Company has acquired trademark rights to various brands, which were capitalized as part of the purchase price allocation process. As these brands are well established they have been assessed to have an indefinite life. These trademarks rights will not be amortized; however, management assesses them at least once a year for impairment.

In connection with White Horse acquisition the Company has included in non-amortizable intangible assets the preliminary valuation of the Parliament trademark, which capitalized as part of the purchase price allocation process. As this brand is well established it has been assessed to have an indefinite life. This trademark right will not be amortized; however, management assesses it at least once a year for impairment.

The calculation of the impairment charge for goodwill and indefinite lived intangible assets, requires the use of estimates. The discount rate used for the calculation was 7.42%. Factoring in a deviation of 10% for the discount rate as compared to management s estimate, there would still be no need for an impairment charge against goodwill.

Accounting for Business Combinations

The acquisition of businesses is an important element of the Company s strategy. We account for our acquisitions under the purchase method of accounting in accordance with SFAS 141, Business Combinations, and allocate the assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The determination of the values of the assets acquired and liabilities assumed, as well as associated asset useful lives, requires management to make estimates. The Company s acquisitions typically result in goodwill and other intangible assets; the value and estimated life of those assets may affect the amount of future period amortization expense for intangible assets with finite lives as well as possible impairment charges that may be incurred.

The calculation of purchase price allocation requires judgment on the part of management in determining the valuation of the assets acquired and liabilities assumed.

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The Company has consolidated the Whitehall Group as a business combination, on the basis that the Whitehall Group is a Variable Interest Entity in accordance with FIN 46R, Consolidation of Variable Interest Entities and the Company has been assessed as being the primary beneficiary.

Derivative Instruments

The Company is exposed to market movements from changes in foreign currency exchange rates that could affect the Company s results of operations and financial condition. In accordance with SFAS 133, Accounting for Derivative Instruments and Hedging Activities, the Company recognizes all derivatives as either assets or liabilities on the balance sheet and measures those instruments at fair value.

The fair values of the Company s derivative instruments can change with fluctuations in interest rates and/or currency rates and are expected to offset changes in the values of the underlying exposures. The Company s derivative instruments are held to hedge economic exposures. The Company follows internal policies to manage interest rate and foreign currency risks, including limitations on derivative market-making or other speculative activities.

At the inception of a transaction the Company documents the relationship between the hedging instruments and hedged items, as well as its risk management objective. This process includes linking all derivatives designated to specific firm commitments or forecasted transitions. The Company also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivative financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of hedged items.

Share Based Payments

As of January 1, 2006, the Company adopted SFAS No. 123(R) Share-Based Payment requiring the recognition of compensation expense in the Condensed Consolidated Statements of Income related to the fair value of its employee share-based options. SFAS No. 123(R) revises SFAS No. 123 Accounting for Stock-Based Compensation and supersedes APB Opinion No. 25 Accounting for Stock Issued to Employees . SFAS No. 123(R) is supplemented by SEC Staff Accounting Bulletin (SAB) No. 107 Share-Based Payment . SAB No. 107 expresses the SEC staff s views regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations including the valuation of share-based payments arrangements.

Grant-date fair value of stock options is estimated using a lattice-binomial option-pricing model. We recognize compensation cost for awards over the vesting period. The majority of our stock options have a vesting period between one to three years.

See Note 14 to our Consolidated Financial Statements for more information regarding stock-based compensation.

Recently Issued Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 Fair Value Measurements (SFAS 157). SFAS 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, with early adoption permitted. The Company has implemented certain provisions of this pronouncement and does not expect any material impact on the consolidated financial statements when SFAS 157 is fully implemented.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for the Company January 1, 2008. The implementation of SFAS 159, did not have any material impact on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141-R, Business Combinations . This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, meaning business combinations in the year ending December 31, 2009 for the Company. The objective of this Statement is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160), which the Company will adopt on January 1, 2009. SFAS 160 amends Accounting Research Bulletin No. 51, Consolidated Financial Statements (ARB 51) and establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the accounting for future ownership changes with respect to those subsidiaries. The most significant impact of the standard, at adoption, will be to retrospectively reclassify our minority interests ($21 million at September 30, 2008) from a liability to a separate

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component of stockholders equity and to retrospectively reclassify income from minority interests from a component of net income to income attributable to the parent company ($3million for the nine months ended September 30, 2008) which will be presented below net income. All other components of SFAS 160 will be applied prospectively.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities An Amendment of SFAS No. 133 . SFAS 161 seeks to improve financial reporting for derivative instruments and hedging activities by requiring enhanced disclosures regarding the impact on financial position, financial performance, and cash flows. To achieve this increased transparency, SFAS 161 requires (1) the disclosure of the fair value of derivative instruments and gains and losses in a tabular format; (2) the disclosure of derivative features that are credit risk-related; and (3) cross-referencing within the footnotes. SFAS 161 is effective for us on January 1, 2009. We are in the process of evaluating the new disclosure requirements under SFAS 161.

In May 2008, the FASB issued FSP APB 14-1, which impacts the accounting treatment for convertible debt instruments that allow for either mandatory or optional cash settlements. FSP APB 14-1 will impact the accounting associated with our $310.0 million senior convertible notes. This FSP will require us to recognize additional non-cash interest expense based on the market rate for similar debt instruments without the conversion feature. Furthermore, it requires recognizing interest expense in prior periods pursuant to the retrospective accounting treatment. FSP APB 14-1 will become effective beginning in our first quarter of 2009 and is required to be applied retrospectively to all presented periods, as applicable. We are currently evaluating the impact on our financial statements of applying the provisions of FSP APB 14-1.

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ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our operations are conducted primarily in Poland and Russia and our functional currencies are primarily the Polish Zloty and Russian Ruble and the reporting currency is the U.S. Dollar. Our financial instruments consist mainly of cash and cash equivalents, accounts receivable, accounts payable, inventories, bank loans, overdraft facilities and long-term debt. All of the monetary assets represented by these financial instruments are located in Poland. Consequently, they are subject to currency translation movements when reporting in U.S. Dollars.

If the U.S. Dollar increases in value against the Polish Zloty or Russian Ruble, the value in U.S. Dollars of assets, liabilities, revenues and expenses originally recorded in Polish Zloty or Russian Ruble will decrease. Conversely, if the U.S. Dollar decreases in value against the Polish Zloty or Russian Ruble, the value in U.S. Dollars of assets, liabilities, revenues and expenses originally recorded in Polish Zloty or Russian Ruble will increase. Thus, increases and decreases in the value of the U.S. Dollar can have a material impact on the value in U.S. Dollars of our non-U.S. Dollar assets, liabilities, revenues and expenses, even if the value of these items has not changed in their original currency.

Our commercial foreign exchange exposure mainly arises from the fact that substantially all of our revenues are denominated in Polish Zloty, our Senior Secured Notes are denominated in Euros and our Senior Convertible Notes are denominated in US Dollars. This debt has been on-lent to the operating subsidiary level in Poland, thus exposing the Company to movements in the EUR/Polish Zloty and USD/Polish Zloty exchange rate. Every one percent movement in the EUR-Polish Zloty exchange rate will have an approximate $3.7 million change in the valuation of the liability with the offsetting pre-tax gain or losses recorded in the profit and loss of the Company. Every one percent movement in the USD-Polish Zloty exchange rate will have an approximate $3.0 million change in the valuation of the liability with the offsetting pre-tax gain or losses recorded in the profit and loss of the Company.

As a result of the remaining outstanding 250 million Senior Secured Notes and our $310 million of Senior Convertible Notes which have been on-lent to Polish Zloty operating companies, we are exposed to foreign exchange movements. Movements in the EUR/Polish Zloty and USD/Polish Zloty exchange rate will require us to revalue our liability accordingly, the impact of which will be reflected in the results of the Company s operations.

In order to manage the cash flow impact of foreign exchange changes, the Company has entered into certain hedge agreements. As of September 30, 2008, the Company had outstanding a hedge contract for a seven year interest rate swap agreement hedging 250.2 million EUR of the Senior Secured Notes. The swap agreement exchanges a fixed Euro based coupon of 8%, with a variable Euro based coupon (IRS) based upon the 6 month Euribor rate plus a margin. Any changes in Euribor will result in a change in the interest expense. Each basis point move in Euribor will result in an increase or a decrease in annual interest expense of 25,020.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15(d)-15(e) of the Securities Exchange Act of 1934) refer to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Based upon the evaluation of the Company s disclosure controls and procedures as of the end of the period covered by this report, the Chief Executive Officer and Chief Financial Officer have concluded that the Company s disclosure controls and procedures were effective at the reasonable assurance level.

Inherent Limitations in Internal Control over Financial Reporting. The Company s management, including the Chief Executive Officer and Chief Financial Officer, does not expect that the Company s disclosure controls and procedures or internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Further, the design of any control system is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Accordingly, the Company s disclosure controls and procedures are designed to provide reasonable assurance that the controls and procedures will meet their objectives.

Changes to Internal Control over Financial Reporting. The Chief Executive Officer and the Chief Financial Officer conclude that, during the most recent fiscal quarter, there have been no changes in the Company s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company s internal controls over financial reporting.

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PART II. OTHER INFORMATION

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit Number	Exhibit Description
3.1	Amended and Restated Certificate of Incorporation (Filed as Exhibit 3.1 to the Quarterly Report on Form 10-Q filed with the SEC on August 8, 2006 and incorporated herein by reference).
3.2	Amended and Restated Bylaws (filed as Exhibit 99.3 to the Periodic Report on Form 8-K filed with the SEC on May 3, 2006 and incorporated herein by reference).
31.1.*	Certificate of the CEO pursuant to Rule 13a-15(e) or Rule 15d-15(e).
31.2*	Certificate of the CFO pursuant to Rule 13a-15(e) or Rule 15d-15(e).
32.1*	Certification of the CEO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of the CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith

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SIGNATURES

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

CENTRAL EUROPEAN DISTRIBUTION CORPORATION
(registrant)

Date: November 10, 2008	By: /s/ William V. Carey **William V. Carey** **President and Chief Executive Officer**
Date: November 10, 2008	By: /s/ Chris Biedermann **Chris Biedermann** **Vice President and Chief Financial Officer**