CENTRAL EUROPEAN DISTRIBUTION CORP
Form 10-Q
November 09, 2010
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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, 2010

OR

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

COMMISSION FILE NUMBER 0-24341

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.)**

3000 Atrium Way, Suite 265

Mt. Laurel, New Jersey	**08054**
(Address of Principal Executive Offices)	**(Zip code)**

Two Bala Plaza, Suite 300

Bala Cynwyd, Pennsylvania, 19004

(Former name or former address, if changed since last report)

(856) 273 - 6980

(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (check one):

Large Accelerated Filer x	Accelerated Filer ¨
Non-Accelerated Filer ¨ (Do not check if a smaller reporting company)	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 5, 2010: Common Stock ($.01 par value) 70,684,670

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CENTRAL EUROPEAN DISTRIBUTION CORPORATION

CONSOLIDATED CONDENSED BALANCE SHEET (UNAUDITED)

Amounts in columns expressed in thousands

(except share information)

	September 30, 2010	December 31, 2009 (as adjusted)
ASSETS		
Current Assets		
Cash and cash equivalents	$ 232,857	$ 126,439
Restricted cash	0	481,419
Accounts receivable, net of allowance for doubtful accounts of $38,373 and $37,630 respectively	312,499	475,126
Inventories	91,126	92,216
Prepaid expenses and other current assets	33,402	33,302
Loans granted	0	1,608
Loans granted to affiliates	0	7,635
Deferred income taxes	26,781	82,609
Current assets of discontinued operations	0	267,561
Total Current Assets	696,665	1,567,915
Intangible assets, net	760,370	773,222
Goodwill, net	1,450,122	1,484,072
Property, plant and equipment, net	202,569	215,916
Deferred income taxes	93,887	27,123
Equity method investment in affiliates	230,164	244,504
Non-current assets of discontinued operations	0	101,778
Total Non-Current Assets	2,737,112	2,846,615
Total Assets	$ 3,433,777	$ 4,414,530
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Trade accounts payable	$ 64,187	$ 113,006
Bank loans and overdraft facilities	98,522	81,053
Income taxes payable	2,284	3,827
Taxes other than income taxes	110,897	208,784
Other accrued liabilities	111,207	91,435
Short-term obligations under Senior Notes	0	358,943
Current portions of obligations under capital leases	471	481
Deferred consideration	4,853	160,880
Current liabilities of discontinued operations	0	194,761
Total Current Liabilities	392,421	1,213,170
Long-term debt, less current maturities	19,360	106,043
Long-term obligations under capital leases	824	480
Long-term obligations under Senior Notes	1,170,949	1,205,467
Long-term accruals	2,598	3,214
Deferred income taxes	193,824	198,174
Non-current liabilities of discontinued operations	0	2,820

Total Long Term Liabilities	1,387,555	1,516,198
Stockholders Equity		
Common stock ($0.01 par value, 120,000,000 shares authorized, 70,684,670 and 69,411,845 shares issued at September 30, 2010 and December 31, 2009, respectively)	707	694
Additional paid-in-capital	1,341,567	1,296,391
Retained earnings	263,453	264,917
Accumulated other comprehensive income / (loss) of continuing operations	48,224	82,994
Accumulated other comprehensive income / (loss) of discontinued operations	0	40,316
Less Treasury stock at cost (246,037 shares at September 30, 2010 and December 31, 2009, respectively)	(150)	(150)
Total CEDC Stockholders Equity	1,653,801	1,685,162
Noncontrolling interests in subsidiaries	0	0
Total Equity	1,653,801	1,685,162
Total Liabilities and Stockholders Equity	$ 3,433,777	$ 4,414,530

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 OPERATIONS (UNAUDITED)

Amounts in columns expressed in thousands

(except per share information)

	Three months ended September 30,		Nine months ended September 30,	
	September 30, 2010	2009 (as adjusted)	September 30, 2010	2009 (as adjusted)
Sales	**$ 347,492**	**$ 415,182**	**$ 1,058,260**	**$ 974,802**
Excise taxes	(189,732)	(227,639)	(575,097)	(540,598)
Net Sales	**157,760**	**187,543**	**483,163**	**434,204**
Cost of goods sold	80,448	92,029	243,241	214,455
Gross Profit	**77,312**	**95,514**	**239,922**	**219,749**
Operating expenses	48,239	53,496	144,369	128,023
Contingent consideration true-up	0	15,000	0	15,000
Gain on remeasurement of previously held equity interests	0	0	0	(225,605)
Impairment charge	0	0	0	20,309
Operating Income	**29,073**	**27,018**	**95,553**	**282,022**
Non operating income / (expense), net				
Interest (expense), net	(25,749)	(15,895)	(77,848)	(46,556)
Other financial income, net	81,773	57,831	4,987	29,021
Amortization of deferred charges	0	(16,192)	0	(27,423)
Other non operating (expense), net	(914)	(2,541)	(12,266)	(10,798)
Income / (loss) before taxes and equity in net income from unconsolidated investments	**84,183**	**50,221**	**10,426**	**226,266**
Income tax (expense)	(17,023)	(10,236)	(2,275)	(44,824)
Equity in net earnings / (losses) of affiliates	1,719	5,433	2,163	(13,419)
Income from continuing operations	**$ 68,879**	**$ 45,418**	**$ 10,314**	**$ 168,023**
Discontinued operations				
Income / (loss) from operations of distribution business (including impairment charge of $28.2 million and gain on disposal of $35.2 million in 9 months ended September 30, 2010)	30,870	1,979	(11,815)	8,471
Income tax benefit / (expense)	147	(204)	37	(1,098)
Income / (loss) on discontinued operations	**31,017**	**1,775**	**(11,778)**	**7,373**
Net income / (loss)	**99,896**	**47,193**	**(1,464)**	**175,396**
Less: Net income attributable to noncontrolling interests in subsidiaries	0	47	0	2,185

Net income / (loss) attributable to CEDC	**$ 99,896**	**$ 47,146**	**($ 1,464)**	**$ 173,211**
Income from continuing operations per share of common stock, basic	$ 0.98	$ 0.83	$ 0.15	$ 3.31
Income / (loss) from discontinued operations per share of common stock, basic	$ 0.44	$ 0.03	($ 0.17)	$ 0.14
Net income / (loss) from operations per share of common stock, basic	$ 1.42	$ 0.86	($ 0.02)	$ 3.45
Income from continuing operations per share of common stock, diluted	$ 0.98	$ 0.83	$ 0.15	$ 3.30
Income / (loss) from discontinued operations per share of common stock, diluted	$ 0.43	$ 0.02	($ 0.17)	$ 0.14
Net income / (loss) from operations per share of common stock, diluted	$ 1.41	$ 0.85	($ 0.02)	$ 3.44

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		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated other comprehensive income of continuing operations	Accumulated other comprehensive income of discontinued operations	Total
	Common Stock								
	No. of Shares	Amount	No. of Shares	Amount					
Balance at December 31, 2009 (as reported)	69,412	$ 694	246	($ 150)	$ 1,296,391	$ 264,917	$ 123,310	$ 0	$ 1,685,162
Impact of discontinued operations	0	0	0	0	0	0	(40,316)	40,316	0
Balance at December 31, 2009 (as adjusted)	69,412	694	246	(150)	1,296,391	264,917	$ 82,994	$ 40,316	$ 1,685,162
Net (loss) for 2010	0	0	0	0	0	(1,464)	0	0	(1,464)
Foreign currency translation adjustment	0	0	0	0	0	0	(34,770)	(40,316)	(75,086)
Common stock issued in connection with options	195	2	0	0	3,843	0	0	0	3,845
Common stock issued in connection with acquisitions	1078	11	0	0	41,333	0	0	0	41,344
Balance at September 30, 2010	70,685	$ 707	246	($ 150)	$ 1,341,567	$ 263,453	$ 48,224	$ 0	$ 1,653,801

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,	
	2010	2009 (as adjusted)
Cash flows from operating activities of continuing operations		
Net income / (loss)	($ 1,464)	$ 175,396
Adjustments to reconcile net income / (loss) to net cash provided by / (used in) operating activities:		
Net income from discontinued operations	11,778	7,373
Depreciation and amortization	12,717	8,458
Deferred income taxes	(12,103)	(34,727)
Unrealized foreign exchange (gains)	(2,090)	(28,536)
Cost of debt extinguishment	14,114	0
Stock options compensation expense	2,433	2,862
Dividends received	17,983	3,528
Hedge fair value revaluation	0	9,160
Equity income in affiliates	(2,163)	13,419
Gain on fair value remeasurement of previously held equity interest, net of impairment	0	(153,778)
Amortization of deferred charges	0	27,423
Other non cash items	11,532	3,429
Changes in operating assets and liabilities:		
Accounts receivable	155,430	136,759
Inventories	(3,179)	(919)
Prepayments and other current assets	(4,253)	8,231
Trade accounts payable	(44,636)	(56,805)
Other accrued liabilities and payables	(81,407)	(22,332)
Net cash provided by operating activities from continuing operations	74,692	98,941
Cash flows from investing activities of continuing operations		
Investment in fixed assets	(3,226)	(8,282)
Proceeds from the disposal of fixed assets	0	3,815
Changes in restricted cash	481,419	0
Investment in trademarks	(6,000)	0
Disposal of subsidiaries	124,160	0
Acquisitions of subsidiaries, net of cash acquired	(135,964)	(40,764)
Net cash provided / (used in) by investing activities from continuing operations	460,389	(45,231)
Cash flows from financing activities of continuing operations		
Borrowings on bank loans and overdraft facility	18,568	5,289
Payment of bank loans, overdraft facility and other borrowings	(76,265)	(61,930)
Payment of long-term borrowings	0	(601)
Payment of Senior Secured Notes	(367,954)	0
Repayment of obligation to former shareholders	0	(28,814)
Hedge closure	0	(1,940)
Repayment of short term capital leases	0	(913)
Proceeds from short term capital leases	324	0
Issuance of shares in public placement	0	179,579
Transactions with equity holders	7,500	(7,876)
Options exercised	2,336	817

Net cash provided by / (used in) financing activities from continuing operations	(415,491)	83,611
Cash flows from discontinued operations		
Net cash provided by operating activities of discontinued operations	2,806	10,237
Net cash (used in) investing activities of discontinued operations	(330)	(647)
Net cash provided by / (used in) financing activities of discontinued operations	100	(7,329)
Net cash provided by discontinued operations	2,576	2,261
Adjustment to reconcile the change in cash balances of discontinued operations	(2,576)	(2,261)
Currency effect on brought forward cash balances	(13,172)	26,819
Net Increase in Cash	106,418	164,140
Cash and cash equivalents at beginning of period	126,439	107,601
Cash and cash equivalents at end of period	$ 232,857	$ 271,741
Supplemental Schedule of Non-cash Investing Activities		
Common stock issued in connection with investment in subsidiaries	$ 41,344	$ 51,196
Supplemental disclosures of cash flow information		
Interest paid	$ 82,406	$ 48,329
Income tax paid	$ 25,441	$ 5,244

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 also a leading vodka producer by value and volume in Poland and Russia and produces the Absolwent, Zubrowka, Bols, Parliament, Green Mark, Soplica and Zhuravli brands, among others. In addition, it produces and distributes Royal Vodka, the number one selling vodka in Hungary. As well as sales and distribution of its own branded spirits, the Company is a leading exclusive importer of wines and spirits in Poland, Russia and Hungary. As disclosed further in Note 2 and Note 5, due to the sale of its distribution business completed on August 2, 2010 the Company has presented the distribution business in Poland as a discontinued operation in these financial statements.

2. BASIS OF PRESENTATION

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States.

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, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

The balance sheet at December 31, 2009 has been derived from the audited financial statements at that date except for presentation and disclosure requirements resulting from discontinued operations described in the paragraphs below as well as the deconsolidation of Whitehall Group on the basis of requirements set forth in ASC 810 both of which resulted in retrospective application, 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, 2009.

As a result of the requirements set out in ASC 810, the Company changed the method of consolidation of Whitehall Group, in which the Company controls 49% of the voting interest from consolidation to the equity method of accounting. This change was applied retrospectively to all the periods presented in the financial statements. Please refer to Note 4 for details.

For the purpose of financial reporting Management analyzed the requirements of U.S. GAAP (mainly ASC 360-10 *Property Plant and Equipment* and ASC 205-20 *Presentation of Financial Statements*) and concluded that as of March 31, 2010, the Company s activities meet the required criteria and therefore it is necessary to present its distribution business, described below, as a component held for sale. On August 2, 2010 the Company has closed the sale of 100% of its distribution business in Poland to Eurocash S.A. for a purchase price of 378.6 million Polish zlotys ($124.2 million) in cash, on a debt free, cash free basis, after all price adjustments.

The table below presents the impact from the change in the presentation of the Company s distribution business to discontinued operations as well as the impact of the adoption of ASC Topic 810 in relation to the Whitehall Group on the Consolidated Statements of Operations and Consolidated Balance Sheet of the Company as of December 31, 2009 in comparison to information previously filed in the Company s Form 10-K for 2009.

	December 31, 2009 (as adjusted)	Whitehall Group	Distribution business	December 31, 2009 (as reported)
Total Current Assets	1,567,915	(121,629)	73,414	1,616,130
Total Non-Current Assets	2,846,615	13,502	2,350	2,830,763
Total Current Liabilities	1,213,170	(85,238)	74,155	1,224,253
Total Long Term Liabilities	1,516,198	0	1,608	1,514,590
Redeemable noncontrolling interests in Whitehall Group	0	(22,888)	0	22,888

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Adjustments in the table above related to the disposal of distribution business represent the assets and liabilities in that business that are subsequently retained by the Company going forward.

	Three months ended September 30, 2009 (as adjusted)	Distribution business (-)	Whitehall Group (-)	Three months ended September 30, 2009 (as reported)
Sales	**$ 415,182**	**$ 124,718**	**$ 37,387**	**$ 577,287**
Excise taxes	(227,639)	40,451	0	(187,188)
Net Sales	**187,543**	**165,169**	**37,387**	**390,099**
Cost of goods sold	92,029	147,017	21,223	260,269
Gross Profit	**95,514**	**18,152**	**16,164**	**129,830**
Operating expenses	68,496	15,585	10,960	95,040
Operating Income	**27,018**	**2,568**	**5,204**	**34,790**
Non operating income / (expense), net				
Interest (expense), net	(15,895)	(575)	(909)	(17,379)
Other financial income / (expense), net	57,831	0	281	58,112
Amortization of deferred charges	(16,192)	0	0	(16,192)
Other non operating income / (expense), net	(2,541)	(14)	2,236	(319)
Income before taxes and equity in net income from unconsolidated investments	**50,221**	**1,979**	**6,812**	**59,012**
Income tax (expense)	(10,236)	(204)	(1,144)	(11,584)
Equity in net earnings / (losses) of affiliates	5,433	0	(4,477)	956
Net income from continuing operations	**$ 45,418**	**$ 1,775**	**$ 1,191**	**$ 48,384**
Discontinued operations				
Income / (loss) from operations of distribution business (including impairment charge of $28.2 million)	1,979	(1,979)	0	0
Income tax (expense)	(204)	204	0	0
Income / (loss) on discontinued operations	**1,775**	**(1,775)**	0	0
Net income / (loss)	**$ 47,193**	**$ 0**	**$ 1,191**	**$ 48,384**
Less: Net income attributable to noncontrolling interests in subsidiaries	47	0	0	47
Less: Net income attributable to noncontrolling interests in Whitehall Group	0	0	1,191	1,191
Net income / (loss) attributable to CEDC	**$ 47,146**	**$ 0**	**$ 0**	**$ 47,146**

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	Nine months ended September 30, 2009 (as adjusted)	Distribution business (-)	Whitehall Group (-)	Nine months ended September 30, 2009 (as reported)
Sales	**$ 974,802**	**$ 341,311**	**$ 91,362**	**$ 1,407,475**
Excise taxes	(540,598)	103,219	0	(437,379)
Net Sales	**434,204**	**444,530**	**91,362**	**970,096**
Cost of goods sold	214,455	390,961	53,992	659,408
Gross Profit	**219,749**	**53,569**	**37,370**	**310,688**
Operating expenses	(62,273)	42,938	27,703	8,368
Operating Income	**282,022**	**10,631**	**9,667**	**302,320**
Non operating income / (expense), net				
Interest (expense), net	(46,556)	(1,850)	(3,110)	(51,516)
Other financial income / (expense), net	29,021	(270)	(3,570)	25,181
Amortization of deferred charges	(27,423)	0	0	(27,423)
Other non operating income / (expense), net	(10,798)	(39)	1,876	(8,961)
Income before taxes and equity in net income from unconsolidated investments	**226,266**	**8,472**	**4,863**	**239,601**
Income tax benefit / (expense)	(44,824)	(1,098)	(437)	(46,359)
Equity in net earnings / (losses) of affiliates	(13,419)	0	(3,593)	(17,013)
Net income from continuing operations	**$ 168,023**	**$ 7,374**	**$ 833**	**$ 176,229**
Discontinued operations				
Income / (loss) from operations of distribution business (including impairment charge of $28.2 million)	8,471	(8,471)	0	0
Income tax (expense)	(1,098)	1,098	0	0
Income / (loss) on discontinued operations	**7,373**	**(7,373)**	0	0
Net income / (loss)	**$ 175,396**	**$ 0**	**$ 833**	**$ 176,229**
Less: Net income attributable to noncontrolling interests in subsidiaries	2,185	0	0	2,185
Less: Net income attributable to noncontrolling interests in Whitehall Group	0	0	833	833
Net income / (loss) attributable to CEDC	**$ 173,211**	**$ 0**	**$ 0**	**$ 173,211**

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3. ACQUISITIONS

Acquisitions made prior to December 31, 2008 were accounted for in accordance with SFAS No. 141, *Business Combinations*. Effective January 1, 2009, all business combinations are accounted for in accordance with SFAS 141R that has been codified as ASC Topic 805 *Business Combinations*.

On April 22, 2010, in accordance with the terms of the Option Agreement dated November 19, 2009, the Company exercised its right to issue to Cayman 4 and Cayman 5, in settlement of consideration owed under the Lion Option Agreement, 799,330 shares and 278,745 shares, respectively, of the Company s common stock (the Share Issuance). The impact of the Share Issuance was to repay $45 million of the $50 million of deferred consideration recorded as a liability as of March 31, 2010.

4. IMPACT OF ASC TOPIC 810 ON ACCOUNTING FOR WHITEHALL GROUP

In June 2009, the FASB issued new guidance on variable interest entities. ASU 2009-17, *Consolidations* (Topic 810) *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* (VIE), amended prior guidance requiring an enterprise to perform an analysis to determine whether the enterprise s variable interest or interests give it a controlling financial interest in a VIE. Determining who consolidates a VIE is based on two requirements: (i) who has the power over key decisions, and (ii) who has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. If one party has both, then that party consolidates the entity. Power is based on who controls the decisions that most significantly impact the economic activities of the entity.

Except for the amount of $7.6 million that was lent at market rates as working capital by the Company to the Whitehall Group, which was repaid in the first quarter of 2010, there were no transfers of financial assets to VIE as the Whitehall Group is generally a self financing entity. The Company does not have any continuing involvement with transferred financial assets that allow the transferors to receive cash flows or other benefits from the assets or requires the transferors to provide cash flows or other assets in relation to the transferred financial assets.

According to the Whitehall Group shareholder s agreement, Whitehall Group shall be under the sole effective control of its majority shareholder Mark Kaufman or one of his affiliates acting in the capacity of CEO. Mark Kaufman shall be responsible for the management and operations of Whitehall Group s business, his actions in certain areas are, however, dependent on the consent of the board of directors.

ASU 2009-17 was effective for the Company from January 1, 2010. Due to the revision of ASC Topic 810, including the redefining of control , and because the day-to-day control over the business has been delegated to the CEO Mark Kaufman and the list of activities for which the Company has overview is limited, the Company changed the accounting treatment for its 49% voting interest in Whitehall Group from consolidation to the equity method of accounting.

Adoption of the requirements of ASC Topic 810 resulted as of December 31, 2009 in a net decrease in assets of $108 million, liabilities of $85 million and non-controlling interest of $23 million. Please refer to Note 2 for the disclosure impact from the adoption of ASC Topic 810 on the consolidated financial statements of the Company as of December 31, 2009. As of September 30, 2010 we continue to hold 50% minus one vote of the voting power and 80% of the total economic shares of Whitehall.

5. DISCONTINUED OPERATIONS

For the purpose of financial reporting we analyzed the requirements of US-GAAP (mainly ASC 360-10 *PP&E* and ASC 205-20 *Presentation of Financial Statements*) and concluded that as of March 31, 2010, the Company s distribution business met the required criteria defined in these standards and therefore it was necessary to present its distribution business, described below, as a component held for sale. There were no changes in that determination in the following periods until the sales transaction date of August 2, 2010.

On April 8, 2010, the Company, through its wholly owned subsidiary Carey Agri International Poland sp. z o.o. (Carey Agri), entered into a Preliminary Agreement on Sale of Shares (the Preliminary Agreement) with Eurocash S.A. (Eurocash) pursuant to which (i) the Company agreed to sell all shares of Astor sp. z o.o., Dako-Galant Przedsiebiorstwo Handlowo Produkcyjne sp. z o.o., Damianex S.A., Delikates sp. z o.o., Miro sp. z o.o., MTC sp. z o.o., Multi-Ex S.A., Onufry S.A., Panta-Hurt sp. z o.o., Polskie Hurtownie Alkoholi sp. z o.o., Premium Distributors sp. z o.o., Przedsiebiorstwo Dystrybucji Alkoholi Agis S.A., Przedsiebiorstwo Handlu Spozywczego sp. z o.o. and Saol Dystrybucja sp. z o.o., representing 100% of the Company s distribution business in Poland to Eurocash and (ii) Eurocash agreed to pay total consideration of 400 million Polish zlotys ($137 million) in cash, on a debt free, cash free basis, subject to potential price adjustments (if any) and Polish anti-trust approval (the Total Consideration). Under the terms of

the Preliminary Agreement, the Total Consideration was deposited into an escrow account to be released upon deletion of security by Eurocash; in any event, 75% of the Total Consideration would be released to the Company 90 days following the transaction closing date. The escrow was released on September 23, 2010.

In addition, On April 8, 2010, the Company also entered into a Distribution Agreement with Eurocash pursuant to which Eurocash will distribute the Company s portfolio of brands and exclusive import brands in Poland for a period of six years.

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During the nine month period ended September 30, 2010 the Company recorded an impairment charge related to goodwill upon the sale of the distribution business of 80.8 Polish zlotys ($28.2 million). The results of the distribution business are included in earnings from discontinued operations, net of taxes, for all periods presented.

As already mentioned in Note 2 on August 2, 2010 the Company has closed the sale of 100% of its distribution business in Poland to Eurocash SA for a purchase price of 378.6 million Polish zlotys in cash, on a debt free, cash free basis, after all price adjustments. As shown in the table below resulting from disposal the Company realized in the three month period ended September 30, 2010 a gain on sale amounting to $35.2 million being the difference between the value of the net assets of the disposed business decreased by costs associated directly to disposal and cash received by the Company.

Cash Received	**$ 124,160**
less:	
Assets of discontinued operations	173,168
Liabilities of discontinued operations	(119,921)
OCI related to discontinued operations	(19,549)
Goodwill of discontinued operations	52,306
Total net book value of discontinued operations	86,004
Expenses related directly to disposal of discontinued operations	2,991
Gain on disposal	**$ 35,165**

The Company will continue to generate cash flows from the distribution business after its sale to Eurocash as the Company has signed a six year agreement with Eurocash for the distribution of certain of CEDC s portfolio of its own brands and other exclusive import brands in Poland. Management has concluded, however, that sales of products other than CEDC s constituted the significant portion of the distribution business. CEDC estimates that sales of its products through the transferred distribution network will not exceed 10% of the sales of the Company, on a consolidated basis. Management does not consider the cash flows expected to be generated under the distribution agreement with Eurocash to be significant in the future. Results of discontinued operations were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Net sales	$ 50,637	$ 165,169	$ 348,898	$ 444,527
Earnings/(losses) from operations before taxes	(4,295)	1,979	(18,812)	8,471
Gain on disposal of discontinued operations	35,165	0	35,165	0
Taxes on earnings operations	147	(204)	37	(1,098)
Goodwill Impairment	0	0	(28,168)	0
Earnings/(losses) from discontinued operations	$ 31,017	$ 1,775	($ 11,778)	$ 7,373

Earnings from discontinued operations for the three month period ended September 30, 2010 in the table above include gain on disposal of $35.2 million.

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The following table includes the consolidated assets and liabilities of the distribution business that have been segregated and classified as assets held for sale and liabilities related to assets held for sale, as appropriate, in the consolidated condensed balance sheets as at December 31, 2009.

	December 31, 2009
Cash	$ 14,253
Trade receivables, less allowances	136,077
Inventories	104,391
Prepaid expenses and Other receivables	12,840
Total current assets	267,561
Plant and equipment, net	16,179
Goodwill	84,766
Intangible assets, net	833
Total noncurrent assets	101,778
Payables and accrued liabilities	178,902
Current portion long-term debt	15,859
Total current liabilities	194,761
Long-term debt	2,500
Other long term liabilities	320
Total noncurrent liabilities	2,820
Accumulated other comprehensive income	$ 40,316

6. RESTRICTED CASH

On the balance sheet as of December 31, 2009 the Company disclosed restricted cash of $481 million that included 264 million (approximately US $381 million as of December 31, 2009) as repayment of Senior Secured Notes due 2012 to be settled in 2010 and $100 million funded into escrow and recorded as Restricted Cash for the remaining obligations under the Russian Alcohol acquisition.

On January 4, 2010 the Company completed the redemption of its Senior Secured Notes due 2012 with the final payment of all outstanding principal, accrued interest and the call premium, releasing the cash of 263.9 million (approximately $381 million) and on January 11, 2010, the Company paid $100 million to Lion Capital to settle the Russian Alcohol acquisition.

7. INTANGIBLE ASSETS OTHER THAN GOODWILL

The major components of intangible assets are:

	September 30, 2010	December 31, 2009
Non-amortizable intangible assets:		
Trademarks	$ 782,203	$ 795,543
Impairment	(21,973)	(22,589)
Total	**760,230**	**772,954**
Amortizable intangible assets:		
Customer relationships	824	847

Less accumulated amortization	(684)	(579)
Total	**140**	**268**
Total intangible assets	**$ 760,370**	**$ 773,222**

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, Zubrowka, Absolwent, Royal, Parliament, Green Mark, Zhuravli and the rights for Bols Vodka in Poland, Hungary and Russia. On February 8, 2010 the Company purchased the Urozhay brand rights for $6 million. Taking the above into consideration, as well as the evidence provided by analyses of vodka products life cycles, market studies, competitive and environmental trends, we believe that these brands will generate cash flows for an indefinite period of time, and that the useful lives of these brands are therefore indefinite. In accordance with ASC Topic 350-30, intangible assets with an indefinite life are not amortized but are reviewed at least annually for impairment. The change in the value of trademarks between September 30, 2010 and December 31, 2009 result mainly from the foreign exchange differences caused by devaluation of Polish zloty against U.S. dollar.

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8. EQUITY METHOD INVESTMENTS IN AFFILIATES

We hold the following investments in unconsolidated affiliates:

	Type of affiliate	Carrying Value September 30, 2010	Carrying Value December 31, 2009
Whitehall Group	Equity-Accounted Affiliate	230,164	244,504
	Total Carrying value	$ 230,164	$ 244,504

The Company has a 80% economic interest and an effective voting interests of 49% in Whitehall Group and a voting interest of 25% in the Moet Hennessy joint venture, which is included in Whitehall Group.

The summarized financial information of investments are shown in the table below with the balance sheet financial information reflecting Whitehall Group and its joint venture with Moet Hennessy consolidated under the equity method as of December 31, 2009. The results from operations for the three and nine months ended September 30, 2009 include the results of Whitehall Group and its joint venture together with Moet Hennessy. Additionally the results for the nine months ended September 30, 2009 include results of Russian Alcohol, which was consolidated under the equity method until April 24, 2009.

	September 30, 2010	December 31, 2009
Current assets	$ 90,408	$ 129,737
Noncurrent assets	94,967	93,137
Current liabilities	57,590	86,067
Noncurrent liabilities	0	7,635

	Total Three months ended September 30, 2010	Total Three months ended September 30, 2009	Total Nine months ended September 30, 2010	Total Nine months ended September 30, 2009
Net sales	$ 37,806	$ 37,388	$ 94,350	$ 172,154
Gross profit	4,617	16,164	24,417	79,539
Income/(loss) from continuing operations	2,161	6,791	2,717	(36,123)
Net income/(loss)	2,161	6,791	2,717	(36,123)
Net income/(loss) attributable to the registrant	1,719	5,433	2,163	(13,419)

9. 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 and our proportionate share of the comprehensive income/(loss) of our equity method affiliates. 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, 2010, our functional currencies (Polish zloty, Russian ruble and Hungarian forint) used to translate the balance sheet weakened against the U.S. dollar as compared to the exchange rate as of December 31, 2009, and as a result a comprehensive loss was recognized.

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10. 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,	
	2010	2009	2010	2009
Basic:				
Income from continuing operations	$ 68,879	$ 45,418	$ 10,314	$ 168,023
Income / (loss) on discontinued operations	31,017	1,775	(11,778)	7,373
Net income / (loss)	**$ 99,896**	**$ 47,193**	**($ 1,464)**	**$ 175,396**
Weighted average shares of common stock outstanding (used to calculate basic EPS)	70,432	55,159	69,925	50,789
Net effect of dilutive employee stock options based on the treasury stock method	183	341	270	171
Weighted average shares of common stock outstanding (used to calculate diluted EPS)	70,615	55,500	70,195	50,960
Net income / (loss) per common share - basic:				
Continuing operations	$ 0.98	$ 0.83	$ 0.15	$ 3.31
Discontinued operations	$ 0.44	$ 0.03	($ 0.17)	$ 0.14
	$ 1.42	$ 0.86	($ 0.02)	$ 3.45
Net income / (loss) per common share - diluted:				
Continuing operations	$ 0.98	$ 0.83	$ 0.15	$ 3.30
Discontinued operations	$ 0.43	$ 0.02	($ 0.17)	$ 0.14
	$ 1.41	$ 0.85	($ 0.02)	$ 3.44

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 month periods ended September 30, 2010 and 2009. 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 periods.

11. BORROWINGS

Bank Facilities

As of September 30, 2010 amount of $53.2 million remained available under the Company s overdraft facilities. These overdraft facilities are renewed on an annual basis.

As of September 30, 2010, the Company had utilized approximately $61.4 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 and are secured by 33.95% of the share capital of Polmos Bialystok S.A. The indebtedness under the credit line agreement matures on February 24, 2011.

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 Group acquisitions, 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. In the second quarter of 2009 this facility was converted into Polish zlotys. The maturity of the term loan was extended to May 2013 and the maturity of the short term facility was extended to May 2011. The loan is guaranteed by the

Company, Bols Sp. z o.o, a wholly owned subsidiary of the Company (Bols) and certain other subsidiaries of the Company, and is secured by all of the capital stock of Bols and 60% of the capital stock of Copecresto.

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, of which $20.0 million was outstanding as at September 30, 2010. 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 due 2012

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 2012 Notes), of which approximately 245 million remained payable as of December 31, 2009. On January 4, 2010 the Company completed the redemption of its Senior Secured Notes due 2012 with

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the final payment of all outstanding principal, accrued interest and call premium, releasing the cash of 263.9 million (approximately $380.4 million), recorded in Restricted Cash at year end, from the trustee thus relieving the Company of all of its remaining obligations under the Senior Secured Notes indenture.

As of December 31, 2009, the Company had accrued interest of $12.2 million related to the 2012 Notes that was paid together with the principal amount and a 4% premium on early repayment on January 4, 2010. Total obligations under the 2012 Notes are shown net of deferred finance costs, amortized over the life of the borrowings using the effective interest rate method.

	December 31, 2009
Senior Secured Notes due 2012	$ 365,989
Fair value bond mark to market	(301)
Unamortized portion of closed hedges	(2,000)
Unamortized issuance costs	(4,745)
Total	**$ 358,943**

Convertible Senior Notes due 2013

On March 7, 2008, the Company completed the issuance of $310 million aggregate principal amount of 3% Convertible Senior Notes due 2013 (the Convertible Senior 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 principal amount, subject to certain adjustments. Upon conversion of the notes, the Company will deliver cash up to the aggregate principal 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 Senior Notes were used to fund the cash portions of the acquisition of Copecresto Enterprises Limited and Whitehall Group.

As of September 30, 2010 the Company had accrued interest of $0.4 million related to the Convertible Senior Notes, with the next coupon due for payment on March 15, 2011. As of December 31, 2009, accrued interest related to Convertible Senior Notes is presented together with the Convertible Senior Notes balance. 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, 2010	December 31, 2009
Convertible Senior Notes	$ 310,000	$ 312,711
Unamortized issuance costs	(3,406)	(4,209)
Debt discount related to Convertible Senior Notes	(9,608)	(12,665)
Total	**$ 296,986**	**$ 295,837**

Senior Secured Notes due 2016

On December 2, 2009, the Company issued and sold $380 million 9.125% Senior Secured Notes due 2016 and 380 million 8.875% Senior Secured Notes due 2016 (collectively referred to as the Senior Secured Notes due 2016) in an offering to institutional investors that is exempt from registration under the U.S. Securities Act of 1933. The Company used a portion of the net proceeds from the Senior Secured Notes due 2016 to redeem the Company s outstanding 8% Senior Secured Notes due 2012, having an aggregate principal amount of 245.4 million on January 4, 2010. The remainder of the net proceeds from the Senior Secured Notes due 2016 was used to (i) purchase Lion Capital s remaining equity interest in Russian Alcohol by exercising the Lion Option (described below) and the Co-Investor Option, pursuant to the terms and conditions of the Lion Option Agreement (described below) and the Co-Investor Option Agreement, respectively (ii) repay all amounts outstanding under Russian Alcohol credit facilities and (iii) repay certain other indebtedness.

As of September 30, 2010 and December 31, 2009 the Company had accrued interest of $26.9 million and $6.6 million respectively, related to the Senior Secured Notes due 2016, with the next coupon due for payment on December 1, 2010. As of

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December 31, 2009, accrued interest related to the Senior Secured Notes due 2016 is presented together with the Senior Secured Notes balance. Total obligations under the Senior Secured Notes due 2016 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, 2010	December 31, 2009
Senior Secured Notes due 2016	$ 897,569	$ 934,410
Unamortized issuance costs	(23,606)	(24,780)
Total	**$ 873,963**	**$ 909,630**

Total borrowings as disclosed in the financial statements are:

	September 30, 2010	December 31, 2009
Short term bank loans and overdraft facilities for working capital	$ 37,089	$ 60,000
Short term obligations under Senior Secured Notes	0	358,943
Short term bank loans for share tender	61,433	21,053
Total short term bank loans and utilized overdraft facilities	**98,522**	**439,996**
Long term bank loans for share tender	0	63,158
Long term obligations under Senior Secured Notes	873,963	909,630
Long term obligations under Convertible Senior Notes	296,986	295,837
Other total long term debt, less current maturities	19,360	42,885
Total debt	**$ 1,288,831**	**$ 1,751,506**

	September 30, 2010
Principal repayments for the following years	
2010	$ 3,030
2011	98,719
2012	6,453
2013	306,666
2014 and beyond	873,963
Total	**$ 1,288,831**

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12. 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, 2010	December 31, 2009
Raw materials and supplies	$ 29,273	$ 31,220
In-process inventories	2,994	2,914
Finished goods and goods for resale	58,859	58,082
Total	**$ 91,126**	**$ 92,216**

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 and raw materials and non-alcoholic beverages.

13. 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 statement of operations for transactions occurring in the United States of America. For income taxes accounted for on an interim basis, the Company estimates the annual effective tax rate and applies this rate to its pre-tax US GAAP income/(loss), unless a discrete event occurs that requires additional consideration.

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 2006 in the U.S., 2005 in Poland and Hungary and 2007 in Russia.

14. OPERATING SEGMENTS

The Company operates and manages its business based upon three primary segments: Poland, Russia and Hungary. Selected financial data split based upon this segmentation assuming elimination of intercompany revenues and profits is shown below: Segment information represents only continuing operations.

	Segment Net Revenues			
	Three months ended September 30,		Nine months ended September 30,	
	2010	**2009**	**2010**	**2009**
Segment				
Poland	$ 52,382	$ 67,390	$ 153,213	$ 171,736
Russia	98,744	111,792	311,667	239,054
Hungary	6,634	8,361	18,283	23,414
Total Net Sales	$ 157,760	$ 187,543	$ 483,163	$ 434,204

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	Operating Income			
	Three months ended September 30,		Nine months ended September 30,	
	2010	**2009**	**2010**	**2009**
Segment				
Poland before fair value adjustments	$ 14,276	$ 16,445	$ 40,197	$ 44,382
Gain on remeasurement of previously held equity interests	0	0	0	225,605
Contingent consideration true-up	0	(15,000)	0	(15,000)
Impairment charge	0	0	0	(20,309)
Poland after fair value adjustments	14,276	1,445	40,197	234,678
Russia	15,843	26,520	58,816	50,387
Hungary	1,001	1,683	2,800	3,519
Corporate Overhead				
General corporate overhead	(1,286)	(1,692)	(3,827)	(3,700)
Option Expense	(761)	(938)	(2,433)	(2,862)
Total Operating Profit	$ 29,073	$ 27,018	$ 95,553	$ 282,022

	Identifiable Operating Assets	
	September 30, 2010	**December 31, 2009**
Segment		
Poland	$ 1,256,215	$ 1,348,131
Russia	2,140,786	2,269,098
Hungary	26,816	38,643
Corporate	9,960	389,319
Total Identifiable Assets	$ 3,433,777	$ 4,045,191

	Goodwill	
	September 30, 2010	**December 31, 2009**
Segment		
Poland	$ 391,415	$ 402,433
Russia	1,051,582	1,074,314
Hungary	7,125	7,325
Corporate		
Total Goodwill	$ 1,450,122	$ 1,484,072

15. INTEREST INCOME / (EXPENSE)

For the three and nine months ended September 30, 2010 and 2009, respectively, the following items are included in Interest income / (expense):

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Interest income	$ 1,294	$ 2,205	$ 3,666	$ 9,016
Interest expense	(27,043)	(18,100)	(81,514)	(55,572)

Total interest (expense), net	($ 25,749)	($ 15,895)	($ 77,848)	($ 46,556)

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Higher interest expense when comparing the three months ended September 30, 2010 and three months ended September 30, 2009 results mainly from the higher interest rate associated with the Senior Secured Notes that increased from 8% to approximately 9%, as well as the increase in the amount of Notes as at September 30, 2010 in comparison to September 30, 2009 from $357 million to $874 million.

16. OTHER FINANCIAL INCOME / (EXPENSE)

For the three and nine months ended September 30, 2010 and 2009, respectively, the following items are included in Other financial income / (expense):

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Foreign exchange impact related to foreign currency financing	$ 81,773	$ 57,801	$ 792	$ 15,658
Foreign exchange impact related to long term Notes receivable	0	0	0	9,276
Other gains / (losses)	0	30	4,195	4,087
Total other financial income / (expense), net	$ 81,773	$ 57,831	$ 4,987	$ 29,021

17. OTHER NON OPERATING INCOME / (EXPENSE)

For the three and nine months ended September 30, 2010 and 2009, the following items are included in Other Non Operating Income / (Expense):

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Early redemption call premium	$ 0	$ 0	($ 14,115)	$ 0
Write-off of unamortized offering costs	0	0	(4,076)	0
Dividend received	0	0	7,642	0
Other gains / (losses)	(914)	(2,541)	(1,717)	(10,798)
Total other non operating income / (expense), net	($ 914)	($ 2,541)	($ 12,266)	($ 10,798)

Other non operating items in the nine month period ended September 30, 2010 include early redemption call premium as well as write-off of unamortized offering costs both related to the 2012 Senior Secured Notes that were refinanced with the new 2016 Senior Secured Notes in January 2010. The amount of $7.6 million for the nine month period ended September 30, 2010 refers to dividends received in the second quarter of 2010 from the distribution business presented as discontinued operations in these financial statements.

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18. FAIR VALUE MEASUREMENTS

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.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents The carrying amount approximates fair value because of the short maturity of those instruments.

Short term securities This consists of foreign exchange options to protect against foreign exchange risk of payments related to term loans denominated in U.S. dollars in 2009. As of September 30, 2009 the change in fair value of options, based on the mark to market valuation, is recorded as a gain or loss in the consolidated statement of operations. As of September 30, 2010 the Company was not part of any hedge agreements.

The carrying amounts of financial instruments as shown in the table below approximate their fair values:

	September 30, 2010 Carrying Amount
Cash and cash equivalents	$ 232,857
Equity method investment in affiliates	230,164
Bank loans, overdraft facilities and long-term debt	1,288,831

19. STOCK OPTION PLANS AND WARRANTS

The Company adopted ASC Topic 718 *Compensation - Stock Compensation* requiring the recognition of compensation expense in the Consolidated Condensed Statements of Operations related to the fair value of its employee share-based options.

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.

ASC Topic 718 requires the recognition of compensation expense in the Consolidated Condensed Statements of Operations 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.

A summary of the Company s stock option and restricted stock units activity, and related information for the nine month period ended September 30, 2010 is as follows:

Total Options	*Number of Options*	*Weighted-Average Exercise Price*
Outstanding at January 1, 2010	1,481,550	$ 27.85
Granted	82,000	$ 28.70
Exercised	(65,025)	$ 18.66
Forfeited	0	$ 0.00

Outstanding at March 31, 2010	1,498,525	$	28.29
Exercisable at March 31, 2010	1,156,900	$	28.04
Outstanding at April 1, 2010	1,498,525	$	28.29
Granted	0	$	0.00
Exercised	(47,125)	$	16.16
Forfeited	0	$	0.00
Outstanding at June 30, 2010	1,451,400	$	28.68
Exercisable at June 30, 2010	1,168,775	$	30.18
Outstanding at June 30, 2010	1,451,400	$	28.68
Granted	0	$	0.00
Exercised	(15,000)	$	24.05
Forfeited	(28,500)	$	38.60
Outstanding at September 30, 2010	1,407,900	$	28.53
Exercisable at September 30, 2010	1,135,775	$	29.96

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Nonvested restricted stock units	*Number of Restricted Stock Units*	*Weighted-Average Grant Date Fair Value*
Nonvested at January 1, 2010	79,074	$ 44.63
Granted	5,512	$ 31.39
Vested		$
Forfeited	(1,681)	$ 41.35
Nonvested at March 31, 2010	82,905	$ 43.85
Nonvested at April 1, 2010	82,905	$ 43.85
Granted	18,135	$ 28.13
Vested	(18,700)	$ 34.51
Forfeited	(12,059)	$ 39.26
Nonvested at June 30, 2010	70,281	$ 43.07
Nonvested at June 30, 2010	70,281	$ 43.07
Granted	22,297	$ 26.55
Vested	(2,900)	$ 35.66
Forfeited	(11,554)	$ 59.97
Nonvested at September 30, 2010	78,124	$ 36.13

Nonvested restricted stock	*Number of Restricted Stock*	*Weighted-Average Grant Date Fair Value*
Nonvested at January 1, 2010		$
Granted	36,835	$ 28.41
Vested		$
Forfeited		$
Nonvested at March 31, 2010	36,835	$ 28.41
Nonvested at April 1, 2010	36,835	$ 28.41
Granted	9,166	$ 35.59
Vested		$
Forfeited		$
Nonvested at June 30, 2010	46,001	$ 29.84
Nonvested at June 30, 2010	46,001	$ 29.84
Granted		$
Vested		$
Forfeited		$
Nonvested at September 30, 2010	46,001	$ 29.84

During the nine months ended September 30, 2010, the range of exercise prices for outstanding options was $1.13 to $60.92. During 2010, the weighted average remaining contractual life of options outstanding will be 4.9 years. Exercise prices for options exercisable as of September 30, 2010 ranged from $1.13 to $60.92. The Company has also granted 22,297 restricted stock units to its employees at an average price of $26.55, during the third quarter of 2010.

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, 2010, the Company has not changed the terms of any outstanding awards.

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During the nine months ended September 30, 2010, the Company recognized compensation cost of $1.2 million and a related deferred tax asset of $0.42 million.

As of September 30, 2010, there was $3.1 million of total unrecognized compensation cost related to non-vested stock options, restricted stock units and restricted stock granted under the Plan. The costs are expected to be recognized over a weighted average period of 36 months through 2010-2013.

Total cash received from exercise of options during the nine months ended September 30, 2010 amounted to $2.3 million.

For the nine month period ended September 30, 2010, the compensation expense related to all options was calculated based on the fair value of each option grant using a 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 an 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:

	Nine months ended September 30,	
	2010	2009
Fair Value	$12.57	$8.07
Dividend Yield	0%	0%
Expected Volatility	68.2%	47.3% - 80.4%
Weighted Average Volatility	68.2%	57.6%
Risk Free Interest Rate	0.3% - 0.5%	0.4%
Expected Life of Options from Grant	3.2	3.2

20. 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.

The Polmos Bialystok Acquisition

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 six years after the acquisition was consummated. As of September 30, 2010, the Company had invested 73.4 million Polish zloty (approximately $25.1 million) in Polmos Bialystok.

The Whitehall Acquisition

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 Group 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 Group 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, plus, in each case, the time-adjusted value of any dividends paid by Whitehall Group. Subject to certain limited exceptions, the exercise price will be (A) no less than the future value as of the date of exercise of $32.0 million, and (B) no more than the future value as of the date of exercise of $89.0 million, plus, in each case, the time-adjusted value of any dividends paid by Whitehall Group.

In the event that the Company is required to refinance or retire the indebtedness described above, and/or acquires the capital stock of Whitehall Group, such transactions would be financed through additional sources of debt or equity funding. We cannot provide assurances as to whether or on what terms such funding would be available.

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Supply Contracts

The Company has various agreements covering its sources of supply, which, in some cases, may be terminated by either party on relatively short notice. Thus, there is a risk that a portion of the Company s supply of products could be curtailed at any time.

21. SUBSEQUENT EVENTS

NONE

22. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In July 2010, the FASB issued ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. This ASU amends disclosure requirements with respect to the credit quality of financing receivables and the related allowance for credit losses. Entities will be required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. Disclosures to be made as of the end of a reporting period will be effective for the Company s reporting period ending December 31, 2010; the disclosures about activity that occurs during a reporting period will be effective for the Company s reporting period ending March 31, 2011. Since this ASU will only amend disclosure requirements, not current accounting practice, the Company does not anticipate that adoption of this ASU will have any impact on the Company s balance sheets, statements of income or statements of cash flows.

23. OFF-BALANCE SHEET ARRANGEMENTS

NONE

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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 Condensed 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. These 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, financing, results and integration of the Company s acquisitions, including future acquisitions the Company may make;
- information about the impact of Polish and/or Russian regulations on the Company business;
- statements about local and global credit markets, currency exchange rates and economic conditions;
- 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 filed with the SEC on March 1, 2010. 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

The Company is the world s largest vodka producer and Central and Eastern Europe s largest integrated spirit beverages business with its primary operations in Poland, Russia and Hungary. During 2009 the Company continued its investment strategy in Russia by restructuring its purchase agreement with Lion Capital in April, 2009 and subsequently buying out the remainder of Russian Alcohol in December, 2009. As a result, the Company began to consolidate the full activities of Russian Alcohol starting from the second quarter of 2009. Additionally the Company purchased the remaining minority interests in Parliament in Russia, thus acquiring full ownership of its vodka producing assets and brands.

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In connection with the completion of these investments the Company completed three capital raising initiatives comprised of two public equity offerings, with net proceeds of approximately $491 million, and a notes offering with net proceeds of approximately $930 million. The primary use of the equity proceeds was to fund the remaining buyout of Parliament and to partially fund the remaining buyout of Russian Alcohol. The proceeds from the notes offering were used to (i) fund a portion of the buyout of Russian Alcohol, (ii) to refinance approximately $380 million of the Company s outstanding Senior Secured Notes due in 2012, and (iii) to refinance approximately $264 million of debt in place in Russian Alcohol. As a result of the notes offering the Company has extended the maturities of a significant portion of its debt to 2016 and settled its payment obligations to Lion Capital for the purchase of Russian Alcohol.

Significant factors affecting our consolidated results of operations

Effect of Acquisitions of Production Subsidiaries

During 2008 and 2009, the Company continued its acquisition strategy outside of Poland and Hungary with its investments into the production and importation of alcoholic beverages in Russia, completing a number of acquisitions and investments, as described below, all of which have had an impact on our consolidated results of operations beginning in the periods in which we first acquired an interest in the relevant entities.

Changes in Accounting Treatment

As described in Note 2 of the Consolidated Financial Statements, in June 2009, the FASB issued new guidance on variable interest entities. ASU 2009-17, Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities, amends current guidance requiring an enterprise to perform an analysis to determine whether the enterprise s variable interest or interests give it a controlling financial interest in a variable interest entity. ASU 2009-17 is effective for the Company from January 1, 2010. As a result of adoption ASC Topic 810, the Company changed from consolidation to the equity method of accounting for its 49% voting interest in Whitehall Group effective as of May 23, 2008. This change was applied retrospectively to all the periods presented in the financial statements. Adoption of the requirements of ASC Topic 810 resulted as of December 31, 2009 in net decrease in assets of $108 million, liabilities of $85 million and non-controlling interest of $23 million. The following management discussion and analysis is prepared on the basis of the adjusted balances for 2009 and therefore does not include the results of operations for the Whitehall Group.

Also as described in Note 5 of the Consolidated Financial Statements, on August 2, 2010 the Company has closed the sale of 100% of its distribution business in Poland to Eurocash SA for a purchase price of 378.5 million Polish zlotys in cash, on a debt free, cash free basis, after all price adjustments. Resulting from disposal the Company realized in the three month period ended September 30, 2010 a gain on the sale amounting to $35.2 million being the difference between the value of the net assets of the disposed business increased by costs associated directly to disposal and cash received by the Company. Based upon the application of ASC 205-20, the Company has presented these companies as a held for sale asset. As a result, the sales and costs of the Polish distribution business are no longer reflected in the results of operations above net income from continuing operations in 2010 and prior periods. For comparability purposes this has been applied retroactively to 2009 and is reflected in the below management discussion and analysis.

The Russian Alcohol Acquisition

On July 9, 2008, the Company completed an investment with Lion Capital and certain of Lion Capital s affiliates and certain other investors, pursuant to which the Company, Lion Capital and such other investors acquired all of the outstanding equity of Russian Alcohol. In connection with that investment, the Company acquired an indirect equity stake in Russian Alcohol of approximately 42%, and Lion Capital acquired substantially all of the remainder of the equity of Russian Alcohol. The agreements governing that investment gave the Company the right to acquire, and gave Lion Capital the right to require the Company to acquire, Lion Capital s equity stake in Russian Alcohol (the Prior Agreement). On April 24, 2009, the Company entered into new agreements with Lion Capital to replace the Prior Agreement, which would permit the Company, through a multi-stage equity purchase, to acquire over the next five years (including 2009) all of the equity interests in Russian Alcohol held by Lion Capital.

As a result of these agreements, the Company assessed Russian Alcohol as a variable interest entity, with the Company being the primary beneficiary. Pursuant to this change, the Company began to consolidate Russian Alcohol as of the second quarter of 2009 and recorded a non-controlling interest of 9.4%, representing equity not held by the Company or Lion Capital. From the accounting perspective, the Company treated the acquisition of Russian Alcohol equity interests held by Lion Capital as if this acquisition had happened on April 24, 2009. As of this date CEDC recorded at fair value all future payments due under these agreements as a liability. The total present value of deferred consideration as of April 24, 2009, amounted to $447.2 million and was determined using a 14.5% discount rate. The present value of the liability was amortized over the period of time ending on the date the last payment is made which was initially expected to be in 2013, with recognition of a non cash interest expense every quarter in the statement of operations.

The discount amortization charge for the period from April 24, 2009 to December 31, 2009 amounted to $38.5 million.

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On December 9, 2009 the Company accelerated the terms set up in the Lion Option Agreement and the Co-Investor Option Agreement, each dated April 24, 2009, and completed the Lion Option and the Co-Investor Option, respectively, thereby purchasing the remaining indirect equity interests in Cayman 6, less the sole voting share of Cayman 6, comprising the remaining equity interest in Russian Alcohol that was not owned by the Company, from affiliates of Lion Capital.

On January 20, 2010, after the receipt of antimonopoly clearances for the acquisition from the FAS and the Antimonopoly Committee of the Ukraine, the Company purchased the sole voting share of Cayman 6 from an affiliate of Lion Capital and thereby acquired control of Russian Alcohol. The Company began consolidating all profit and loss results for Russian Alcohol beginning April 1, 2009.

During 2009 and continuing this year, we have been active in integrating the recently acquired production companies into our Existing Operations. The acquisition and integration of these businesses into our operations have had a significant effect on our results of operations. As discussed below, these acquisitions have impacted our net sales, cost of goods sold, operating profit and equity earnings from affiliates.

Effect of Debt Refinancing

In December 2009, the Company issued new euro and U.S. dollar Senior Secured Notes due in 2016 with net proceeds of approximately $930 million. Of these proceeds approximately $380.4 million was used to redeem our previously outstanding Senior Secured Notes due in 2012. Notice of redemption was given in December, 2009 and the proceeds were funded to the trustee, however the actual repayment of the notes did not take place until January, 2010. Therefore, as at December 31, 2009, the full amounts of the Senior Secured Notes due 2012 remained as a short term liability and the cash funded to the trustee was on the balance sheet as restricted cash. Additionally as a result of this the Company recognized interest expense in December, 2009 for both the new and old note issuances.

In the process of refinancing the debt of Russian Alcohol through the proceeds of the 2016 Notes, the Company recognized in 2009 a one-time charge of approximately $13.9 million related to the write-off of capitalized financing cost and net charge of $3 million related to the closure of hedges associated with the prior financing. These charges are reflected in Other Financial Expenses.

As these notes were funded in U.S. dollars and euros and lent to Polish zloty and Russian ruble reporting entities, the Company is exposed to exchange rate movements as described in the following section.

Effect of Exchange Rate and Interest Rate Fluctuations

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 statement of operations. 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 statement of operations is by the movement of the average exchange rate used to restate the statement of operations from Polish zloty, Russian ruble and Hungarian forint to U.S. dollars. The amounts shown as exchange rate gains or losses on the face of the statement of operations relate only to realized gains or losses on transactions that are not denominated in Polish zloty, Russian ruble or Hungarian forint.

Because the Company s reporting currency is the U.S. dollar, the translation effects of fluctuations in the exchange rate of our functional currencies have impacted the Company s financial condition and results of operations and have affected the comparability of our results between financial periods.

The Company also has borrowings including its Convertible Notes due 2013 and Senior Secured Notes 2016 that are denominated in U.S. dollars and euros, which have been lent to its operations where the functional currency is the Polish zloty and Russian ruble. The effect of having debt denominated in currencies other than the Company s functional currencies is to increase or decrease the value of the Company s liabilities on that debt in terms of the Company s functional currencies when those functional currencies depreciate or appreciate in value, respectively. As a result of this, the Company is exposed to gains and losses on the re-measurement of these liabilities. The table below summarizes the pre-tax impact of a one percent movement in each of the exchange rate which could result in a significant impact in the results of the Company s operations.

Exchange Rate	Value of notional amount	Pre-tax impact of a 1% movement in exchange rate
USD-Polish zloty	$426 million	$4.3 million gain/loss
USD-Russian ruble	$264 million	$2.6 million gain/loss

EUR-Polish zloty	380 million or approximately $517 million	$5.2 million gain/loss

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Results of Operations:

Three months ended September 30, 2010 compared to three months ended September 30, 2009

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

	Three months ended September 30, 2010	Three months ended September 30, 2009 (as adjusted)
Sales	**$ 347,492**	**$ 415,182**
Excise taxes	(189,732)	(227,639)
Net Sales	**157,760**	**187,543**
Cost of goods sold	80,448	92,029
Gross Profit	**77,312**	**95,514**
Operating expenses	48,239	53,496
Contingent consideration true-up	0	15,000
Gain on remeasurement of previously held equity interests	0	0
Impairment charge	0	0
Operating Income	**29,073**	**27,018**
Non operating income / (expense), net		
Interest (expense), net	(25,749)	(15,895)
Other financial income, net	81,773	57,831
Amortization of deferred charges	0	(16,192)
Other non operating (expense), net	(914)	(2,541)
Income / (loss) before taxes and equity in net income from unconsolidated investments	**84,183**	**50,221**
Income tax (expense)	(17,023)	(10,236)
Equity in net earnings / (losses) of affiliates	1,719	5,433
Income from continuing operations	**$ 68,879**	**$ 45,418**
Discontinued operations		
Income / (loss) from operations of distribution business (including impairment charge of $28.2 million and gain on disposal of $35.2 million in 3 months ended September 30, 2010)	30,870	1,979
Income tax benefit / (expense)	147	(204)
Income / (loss) on discontinued operations	**31,017**	**1,775**
Net income / (loss)	**99,896**	**47,193**
Less: Net income attributable to noncontrolling interests in subsidiaries	0	47
Net income / (loss) attributable to CEDC	**$ 99,896**	**$ 47,146**

Income from continuing operations per share of common stock, basic	$	0.98	$	0.83
Income from discontinued operations per share of common stock, basic	$	0.44	$	0.03
Net income from operations per share of common stock, basic	$	1.42	$	0.86
Income from continuing operations per share of common stock, diluted	$	0.98	$	0.83
Income from discontinued operations per share of common stock, diluted	$	0.43	$	0.02
Net income from operations per share of common stock, diluted	$	1.41	$	0.85

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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 decreased by approximately 15.8%, or $29.7 million, from $187.5 million for the three months ended September 30, 2009 to $157.8 million for the three months ended September 30, 2010. Our business split by segment, which represents our primary geographic locations of operations, Poland, Russia and Hungary, is shown below:

	Segment Net Sales Three months ended September 30,	
	2010	2009
Segment		
Poland	$ 52,382	$ 67,390
Russia	98,744	111,792
Hungary	6,634	8,361
Total Net Sales	$ 157,760	$ 187,543

Sales for Poland decreased by $15.0 million from $67.4 million for the three months ending September 30, 2009 to $52.4 million for the three months ending September 30, 2010. This decrease was driven mainly by a decline in year on year sales of $11.5 million due to a combination of a 5%-7% drop in the vodka market during the quarter in Poland, which we believe was primarily due to the heat wave that hit Eastern Europe as well as an approximately three percent point drop in market share of our brands in Poland. The drop in market share was primarily from reduced sales of our mainstream products in the traditional trade. Partially offsetting the decline in our domestic vodka sales was an approximately ten percent growth in both of our import and export brands. In addition to the local currency sales decline our sales results in Poland were further impacted by a weakening of the Polish zloty against the U.S. dollar during the quarter which accounted for approximately $3.5 million of the decrease in sales in U.S. dollar terms.

Sales for Russia decreased by $13.1 million from $111.8 million for the three months ending September 30, 2009 to $98.7 million for the three months ending September 30, 2010. On a local currency basis, organic sales declined by approximately 14% which was due to a volume drop of approximately 8%, which is in line with what we believe were the overall trends in the vodka market for the quarter, as well a 3% reduction due to mix and a 3% reduction due to higher trade marketing spending. The volume decline was primarily due to the overall weaker vodka market during the quarter as vodka sales were impacted by the record heat wave and forest fires effecting Russia during July and August 2010. Although volumes recovered in September, the recovery was not enough to offset the double digit declines in July in August. The higher trade marketing represents extra spend that the Company made beginning in June 2010 to drive volume in the summer months. However due as well to the extreme weather conditions and fires as noted above, the benefits of this spend were not realized as planned, thus driving a lower average sales price without the benefit of the incremental volume gains, The local currency sales reduction was partially offset by a strengthening of the Russian ruble against the U.S. dollar which accounted for approximately $2.7 of sales in U.S. dollar terms.

The Hungarian sales decline was driven mainly by the soft consumer environment and excise tax increase on January 1, 2010 with local currency sales down 8%. This 8% decline in the third quarter of 2010, however represents an improvement over our approximately 30% drop in local currency sales during the first and second quarters of 2010.

Gross Profit

Total gross profit decreased by approximately 19.1%, or $18.2 million, to $77.3 million for the three months ended September 30, 2010, from $95.5 million for the three months ended September 30, 2009, reflecting the decrease in gross profit margins percentage in the three months ended September 30, 2010. Gross margin decreased from 50.9% of net sales for the three months ended September 30, 2009 to 49.0% of net sales for the three months ended September 30, 2010. The primary drivers of this drop were lower margins generated in Russia due to the factors described above, namely the impact of sales mix and higher trade marketing spend. In addition the cost of goods sold for the period was adversely impacted due to higher spirits prices in 2010 as compared to the same period in the prior year. Spirit prices which increased by 20%-25% during the quarter due to the heat in Eastern Europe during the summer however have now stabilized. The value of this increase in spirit price would represent approximately 3%-4% of gross margin on a normalized basis. However, as the Company still had reserves of spirit at old prices at the beginning of the third quarter of 2010, this actually translated into a value equal to approximately 2%-4% of gross margin.

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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. Total operating expenses decreased by approximately 29.6%, or $20.3 million, from $68.5 million for the three months ended September 30, 2009 to $48.2 million for the three months ended September 30, 2010. This decrease resulted primarily from the impact of cost reduction programs in Poland and Russia as well as lower sales as compared to the same quarter in the prior year. Operating expenses net of fair value adjustments decreased by $5.3 million, from $53.5 million for the three months ended September 30, 2009 to $48.2 million for the three months ended September 30, 2010. The 2010 cost base was decreased by approximately $6.7 million resulting from savings mainly in Russia and Poland offset by certain cost related to reorganization of the Russian business resulting in increased non-recurring costs of approximately $3.4 million. The table below sets forth the items of operating expenses.

	Three Months Ended September 30,	
	2010	2009
	($ in thousands)	
S,G&A	$ 40,536	$ 43,378
Marketing	5,907	8,360
Depreciation and amortization	1,796	1,758
Operating expense before fair value adjustments	$ 48,239	$ 53,496
Contingent consideration true-up	0	15,000
Total operating expense	$ 48,239	$ 68,496

S,G&A consists of salaries, warehousing and transportation costs, administrative expenses and bad debt expense. S,G&A expenses decreased by $2.9 million, from $43.4 million for the three months ended September 30, 2009 to $40.5 million for the three months ended September 30, 2010.

Depreciation and amortization remained at similar level of $1.8 million for the three months ended September 30, 2009 and 2010.

Operating Income

Total operating income increased by approximately 7.8%, or $2.1 million, from $27.0 million for the three months ended September 30, 2009 to $29.1 million for the three months ended September 30, 2010, primarily driven by lower sales value in Poland and Russia. The table below summarizes the segmental split of operating profit.

	Operating Income Three months ended September 30,	
	2010	2009
Segment		
Poland before fair value adjustments	$ 14,276	$ 16,445
Contingent consideration true-up	0	(15,000)
Poland after fair value adjustments	14,276	1,445
Russia	15,843	26,520
Hungary	1,001	1,683
Corporate Overhead		
General corporate overhead	(1,286)	(1,692)
Option Expense	(761)	(938)
Total Operating Income	$ 29,073	$ 27,018

Operating income in Poland before fair value adjustment decreased by $2.2 million driven mainly by the impact of lower sales volumes in Poland as described above.

The operating income in Russia decreased by $10.7 million, driven by primarily by the impact of lower sales volume and worse sales mix for the three months ending September 30, 2010 as compared to the same period last year. These decreases were partially offset by further underlying costs savings.

Non Operating Income and Expenses

Total interest expense increased by approximately 61.6%, or $9.8 million, from $15.9 million for the three months ended September 30, 2009 to $25.7 million for the three months ended September 30, 2010. This increase is mainly a result of the additional

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interest from Senior Secured Notes due 2016. The incremental borrowings were used primarily to finance the remaining buy out of Russian Alcohol which was completed in January 2010 and was offset with the reduction in amortization of deferred charges related to the outstanding liability for the Russian Alcohol acquisition.

The Company recognized $81.8 million of unrealized foreign exchange rate gains in the three months ended September 30, 2010, primarily related to the impact of movements in exchange rates on our U.S. dollar and euro denominated liabilities, as compared to $57.8 million of gains in the three months ended September 30, 2009. These gains resulted mainly from the appreciation of the Polish zloty and Russian ruble against the U.S. dollar and euro.

Income Tax

Our effective tax rate for the three months ending September 30, 2010 was 20.2%, which is driven by the blended statutory tax rates rate of 19% in Poland and 20% in Russia.

Equity in Net Earnings

Equity in net earnings for the three months ending September 30, 2010 include the Company s proportional share of net income from its investment in the Whitehall Group.

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Nine months ended September 30, 2010 compared to nine months ended September 30, 2009

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

	Nine months ended September 30, 2010	Nine months ended September 30, 2009 (as adjusted)
Sales	**$ 1,058,260**	**$ 974,802**
Excise taxes	(575,097)	(540,598)
Net Sales	**483,163**	**434,204**
Cost of goods sold	243,241	214,455
Gross Profit	**239,922**	**219,749**
Operating expenses	144,369	128,023
Consideration true-up	0	15,000
Gain on remeasurement of previously held equity interests	0	(225,605)
Impairment charge	0	20,309
Operating Income	**95,553**	**282,022**
Non operating income / (expense), net		
Interest (expense), net	(77,848)	(46,556)
Other financial income, net	4,987	29,021
Amortization of deferred charges	0	(27,423)
Other non operating (expense), net	(12,266)	(10,798)
Income before taxes and equity in net income from unconsolidated investments	**10,426**	**226,266**
Income tax (expense)	(2,275)	(44,824)
Equity in net earnings / (losses) of affiliates	2,163	(13,419)
Income /(loss) from continuing operations	**10,314**	**168,023**
Discontinued operations		
Income / (loss) from operations of distribution business (including impairment charge of $28.2 million)	(11,815)	8,471
Income tax (expense)	37	(1,098)
Income / (loss) on discontinued operations	**(11,778)**	**7,373**
Net income / (loss)	**(1,464)**	**175,396**
Less: Net income attributable to noncontrolling interests in subsidiaries	0	2,185
Net income / (loss) attributable to CEDC	**($ 1,464)**	**$ 173,211**
Income from continuing operations per share of common stock, basic	$ 0.15	$ 3.31

Income / (loss) from discontinued operations per share of common stock, basic	($	0.17)	$	0.14
Net (loss) from operations per share of common stock, basic	($	0.02)	$	3.45
Income from continuing operations per share of common stock, diluted	$	0.15	$	3.30
Income / (loss) from discontinued operations per share of common stock, diluted	($	0.17)	$	0.14
Net income / (loss) from operations per share of common stock, diluted	($	0.02)	$	3.44

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Net Sales

Total net sales increased by approximately 11.3%, or $49.0 million, from $434.2 million for the nine months ended September 30, 2009 to $483.2 million for the nine months ended September 30, 2010. The increase was driven primarily by the consolidation of Russian Alcohol during the full period in 2010, as it was not consolidated in the first quarter of 2009, resulting in an increase of $80 million offset by reduction of sales from our vodka production units to our distribution companies and a decline in year on year sales driven by the overall soft economic environment and lower consumer spending. Our business split by segment, which represents our primary geographic locations of operations, Poland, Russia and Hungary, is shown below:

	Segment Net Sales nine months ended September 30,	
	2010	2009
Segment		
Poland	$ 153,213	$ 171,736
Russia	311,667	239,054
Hungary	18,283	23,414
Total Net Sales	$ 483,163	$ 434,204

Sales for Poland decreased by $18.5 million from $171.7 million for the nine months ending September 30, 2009 to $153.2 million for the nine months ending September 30, 2010. This decrease was driven mainly by reduction of sales from our vodka production units to our distribution companies and a decline in year on year sales of $26.5 million as well as lower sales volume driven by the overall soft economic environment and lower consumer spending with the overall vodka market in Poland down versus the prior year. This decrease was partially offset by strengthening of the Polish zloty against the U.S. dollar which resulted in an increase of approximately $7.8 million of sales in U.S. dollar terms. In anticipation of the sale of this business we reduced inventory levels during the first half of 2010, in the distribution companies to be more in line with our new distribution agreement with Eurocash.

Sales for Russia increased by $72.6 million from $239.1 million for the nine months ending September 30, 2009 to $311.7 million for the nine months ending September 30, 2010. This increase was driven by a combination of the strengthening of the Russian ruble against the U.S. dollar which accounted for approximately $11.5 million of the increase and the organic growth of approximately $61.2 million due to the consolidation of Russian Alcohol which was completed in April 2009, which accounted for approximately $80.0 million of the increase. The remaining difference represents a decline in year on year sales of $18.8 million which was driven by lower sales volumes and the impact of sales mix. On top of an overall weaker consumer market spending still remained biased at the lower price points thus negatively impacting sales mix, the vodka market was further impacted by the extreme heat in Russia during July and August which significant reduced the demand for vodka.

The Hungarian sales decline was driven mainly by the soft consumer environment and an excise tax increase on January 1, 2010.

Gross Profit

Total gross profit increased by approximately 9.2%, or $20.2 million, to $239.9 million for the nine months ended September 30, 2010, from $219.7 million for the nine months ended September 30, 2009. The primary factor resulting in the increase was the inclusion of the results of Russian Alcohol. Gross margin as a percent of sales decreased by 1.0 percentage point from of 50.6% for the nine months ended September 30, 2009 to 49.6% for the nine months ended September 30, 2010.

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Operating Expenses

Total operating expenses increased by approximately 331.8%, or $206.7 million, from net revenues of $62.3 million for the nine months ended September 30, 2009 to net expenses of $144.4 million for the nine months ended September 30, 2010. This increase resulted primarily from the consolidation of the results of the Russian Alcohol Group, from which the Company recognized a one-time gain in the nine month period ended September 30, 2009, amounting to $225.6 million in operating income based on the remeasurement of previously held equity interests in Russian Alcohol to fair value, which was partially offset by an impairment charge of $20.3 million and contingent consideration true-up of $15.0 million. For comparability of costs between periods operating expenses after excluding these fair value adjustments shown separately in the table below as a percent of net sales increased from 29.5% for the nine months ended September 30, 2009 to 29.9% for the nine months ended September 30, 2010. Operating expenses net of fair value adjustments increased by $16.4 million, from $128.0 million for the nine months ended September 30, 2009 to $144.4 million for the nine months ended September 30, 2010. The increase was mainly due to consolidation of Russian Alcohol starting from Q2 2009 partially offset by cost reduction programs implemented in Poland and Russia as well as lower sales as compared to the same quarter in the prior year. The table below sets forth the items of operating expenses.

	Nine Months Ended September 30,	
	2010	2009
	($ in thousands)	
S,G&A	$ 122,261	$ 101,301
Marketing	16,059	21,231
Depreciation and amortization	6,049	5,491
Operating expense before fair value adjustments	$ 144,369	128,023
Contingent consideration true-up	0	15,000
Gain on remeasurement of previously held equity interests	0	(225,605)
Impairment charge	0	20,309
Total operating expense	$ 144,369	$ (62,273)

S,G&A increased by approximately 20.8%, or $21.0 million, from $101.3 million for the nine months ended September 30, 2009 to $122.3 million for the nine months ended September 30, 2010. The change in total SG&A was primarily caused by the factors mentioned above, namely the consolidation of Russian Alcohol offset by cost savings initiatives.

Depreciation and amortization increased by approximately 9.1%, or $0.5 million, from $5.5 million for the nine months ended September 30, 2009 to $6.0 million for the nine months ended September 30, 2010.

Operating Income

Total operating income decreased by approximately 66.1%, or $186.4 million, from $282.0 million for the nine months ended September 30, 2009 to $95.6 million for the nine months ended September 30, 2010, primarily driven by the consolidation of the results of Russian Alcohol, from which the Company recognized a one-time gain in the three month period ended September 30, 2009, amounting to $225.6 million in operating income based on the remeasurement of previously held equity interests in Russian Alcohol to fair value, which was partially offset by an impairment charge of $20.3 million and contingent consideration true-up of $15.0 million. However, excluding the impact of the gain, the impairment and true-up of contingent consideration described above, as a percent of net sales, operating profit margin decreased from 21.1% to 19.8%. The table below summarizes the segmental split of operating profit.

	Operating Income nine months ended September 30,	
	2010	2009
Segment		
Poland before fair value adjustments	$ 40,197	$ 44,382
Contingent consideration true-up	0	(15,000)
Gain on remeasurement of previously held equity interests	0	225,605
Impairment charge	0	(20,309)

Poland after fair value adjustments	40,197	234,678
Russia	58,816	50,387
Hungary	2,800	3,519
Corporate Overhead		
General corporate overhead	(3,827)	(3,700)
Option Expense	(2,433)	(2,862)
Total Operating Income	$ 95,553	$ 282,022

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Operating income in Poland decreased by approximately 82.9%, or $194.5 million, from $234.7 million for the nine months ended September 30, 2009 to $40.2 million for the nine months ended September 30, 2010 driven mainly by the consolidation of the results of Russian Alcohol, from which the Company recognized a one-time gain in the three month period ended September 30, 2009, amounting to $225.6 million in operating income based on the remeasurement of previously held equity interests in Russian Alcohol to fair value, which was partially offset by an impairment charge of $20.3 million and contingent consideration true-up of $15.0 million.

The operating income in Russia increased by $8.4 million, driven mainly by the consolidation of Russian Alcohol, cost savings and the appreciation of the Russian ruble. These increases were partially offset by the impact of lower sales volume and worse sales mix.

In Hungary operating income margins remained constant with lower sales, as described above.

Non Operating Income and Expenses

Total interest expense increased by approximately 66.9%, or $31.2 million, from $46.6 million for the nine months ended September 30, 2009 to $77.8 million for the nine months ended September 30, 2010. This increase is mainly a result of the additional interest from the Senior Secured Notes due 2016. The incremental borrowings were used primarily to finance the remaining buy out of Russian Alcohol which was completed in January 2010.

The Company recognized $5.0 million of unrealized foreign exchange rate gains in the nine months ended September 30, 2010, primarily related to the impact of movements in exchange rates on our U.S. dollar and euro denominated liabilities, as compared to $29.0 million in the nine months ended September 30, 2009. This loss resulted from the appreciation of the Polish zloty and Russian ruble against the U.S. dollar and Euro.

Income Tax

Our effective tax rate for the nine months ending September 30, 2010 was 21.8%, which is driven by the blended statutory tax rates rate of 19% in Poland and 20% in Russia.

Equity in Net Earnings

Equity in net earnings for the nine months ending September 30, 2010 include Company s proportional share of net income from its investments in the Whitehall Group.

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 including pursuant to existing arrangements described under The Company s Future Liquidity and Capital Resources . 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, 2010, $53.2 million remained available under the Company s overdraft facilities. These overdraft facilities are renewed on an annual basis.

As of September 30, 2010, the Company had utilized approximately $61.4 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 and are secured by 33.95% of the share capital of Polmos Bialystok S.A. The indebtedness under the credit line agreement matures on February 24, 2011.

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 Group acquisitions, as well as general working

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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. In the second quarter of 2009 this facility was converted into Polish zlotys. The maturity of the term loan was extended to May 2013 and the maturity of the short term facility was extended to May 2011. The loan is guaranteed by the Company, Bols Sp. z o.o, a wholly owned subsidiary of the Company (Bols) and certain other subsidiaries of the Company, and is secured by all of the capital stock of Bols and 60% of the capital stock of Copecresto.

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, of which $20.0 million was outstanding as at September 30, 2010. 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 due 2012

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 2012 Notes), of which approximately 245 million remained payable as of December 31, 2009. On January 4, 2010 the Company completed the redemption of its Senior Secured Notes due 2012 with the final payment of all outstanding principal, accrued interest and call premium, releasing the cash of 263.9 million (approximately $380.4 million), recorded in Restricted Cash at year end, from the trustee thus relieving the Company of all of its remaining obligations under the Senior Secured Notes indenture.

As of December 31, 2009, the Company had accrued interest of $12.2 million respectively related to the 2012 Notes that was paid together with the principal amount and a 4% premium on early repayment on January 4, 2010.

Convertible Senior Notes due 2013

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 principal amount, subject to certain adjustments. Upon conversion of the notes, the Company will deliver cash up to the aggregate principal 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 Group.

Senior Secured Notes due 2016

On December 2, 2009, the Company issued and sold $380 million 9.125% Senior Secured Notes due 2016 and 380 million 8.875% Senior Secured Notes due 2016 in an offering to institutional investors that is exempt from registration under the U.S. Securities Act of 1933. The Company used a portion of the net proceeds from the Senior Secured Notes due 2016 to redeem the Company s outstanding 8% Senior Secured Notes due 2012. The remainder of the net proceeds from the Senior Secured Notes due 2016 was used to (i) purchase Lion Capital s remaining equity interest in Russian Alcohol by exercising the Lion Option and the Co-Investor Option, pursuant to the terms and conditions of the Lion Option Agreement and the Co-Investor Option Agreement, respectively (ii) repay all amounts outstanding under Russian Alcohol credit facilities and (iii) repay certain other indebtedness.

Statement of Liquidity and Capital Resources

During the period under review, the Company s primary sources of liquidity were cash flows generated from operations, credit facilities 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, 2010	Nine months ended September 30, 2009
	($ in thousands)	
Cash flow from operating activities	$ 74,692	$ 98,941
Cash flow from investing activities	$ 460,389	$ (45,231)
Cash flow from financing activities	$ (415,491)	$ 83,611

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, 2010 was $74.7 million as compared to $98.9 million for the nine months ended September 30,

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2009. Working capital movements included $22.0 million of cash inflows for the nine months ended September 30, 2010 as compared to $64.9 million of cash inflows for the nine months ended September 30, 2009. Included in cash flow from operating activities for the nine month period ended September 30, 2010, are interest payments made both in January 2010, on the retirement of the Senior Secured Notes of $26.6 million including $12.5 million of interest and $14.1 million of early repayment call premium as well as interest paid in June 2010 on the Senior Secured Notes due 2016 and interest accrued up to September 30, 2010 of $ 65,0 million. Thus in effect the Company incurred a double cash charge of interest during this period.

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 the release of cash from escrow. Net cash inflows for the nine months ended September 30, 2010 was $460.4 million. In December 2009, the Company funded into escrow a portion of the proceeds from the 2016 Senior Note issued to be used to repay the 2012 Senior Notes as well as the remaining cash portion of the deferred consideration to Lion Capital related to the acquisition of Russian Alcohol. These funds were then released in January 2010 resulting in a cash inflow from restricted cash of $481.3 million. The $135.9 million of cash out flow primarily represents the remaining cash obligations paid as a result of the final buy out of Russian Alcohol completed in January 2010, of which $100 million came from the release of restricted cash. Another $6 million of cash was used to purchase the Urozhay trade mark in Russia. Additionally the Company received $124.2 million from Eurocash as compensation from disposal of distribution business.

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 used in financing activities was $415.5 million for the nine months ended September 30, 2010 as compared to an inflow of $83.6 million for the nine months ended September 30, 2009. The primary uses in the nine months ended September 30, 2010 were repayment of 2012 Senior Notes for $367.9 million which includes $353.8 million of principle and 4% early redemption premium of $14.1 million. The cash inflow of $7.5 million represents the loan repayment from the Whitehall Group, an equity investment of the Company.

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, including pursuant to existing arrangements described below. 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. However, recent significant changes in market liquidity conditions resulting in a tightening in the credit markets and a reduction in the availability of debt and equity capital could impact our access to funding and our related funding costs (and we cannot provide assurances as to whether or on what terms such funding would be available), which could materially and adversely affect our ability to obtain and manage liquidity, to obtain additional capital and to restructure or refinance any of our existing debt.

Whitehall Acquisition

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 to the Seller 843,524 shares of its common stock, par value $0.01 per share.

On February 24, 2009, the Company and the seller amended the terms of the Stock Purchase Agreement governing the Whitehall acquisition to satisfy the Company s obligations to the seller pursuant to a share price guarantee in the original Stock Purchase Agreement. Pursuant to the terms of this amendment, the Company paid to the seller $5.9 million in cash, and issued to the seller 2,100,000 shares of its common stock, in settlement of a minimum share price guarantee by the Company, and later made an additional cash payment of $2.0 million on March 15, 2009. The first portion of deferred payments already due under the original Stock Purchase Agreement amounting to 8.1 million was paid on August 4, 2009 and the remaining portion of 8.3 million was paid on September 15, 2009. In consideration for these payments, the Company received an additional 375 Class B shares of Whitehall Group, which represents an increase in the Company s economic stake from 75% to 80%.

Pursuant to the Whitehall Group 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 Group 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 Group s EBIT as well as the EBIT of certain related businesses, during two separate periods: (1) the

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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, plus, in each case, the time-adjusted value of any dividends paid by Whitehall Group. Subject to certain limited exceptions, the exercise price will be (A) no less than the future value as of the date of exercise of $32.0 million and (B) no more than the future value as of the date of exercise of $89.0 million, plus, in each case, the time-adjusted value of certain dividends paid by Whitehall Group.

Effects of Inflation and Foreign Currency Movements

Inflation in Poland is projected at 2.5% for 2010, compared to actual inflation of 3.5% in 2009. In Russia and Hungary respectively, the projected inflation for 2010 is at 6.9% and 4.9%, compared to actual inflation of 8.8% and 5.6% in 2009.

Substantially all of the 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 statement of operations. 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 statement of operations is by the movement of the average exchange rate used to restate the statement of operations from Polish zloty, Russian ruble and Hungarian forint to U.S. dollars. The amounts shown as exchange rate gains or losses on the face of the statement of operations relate only to realized gains or losses on transactions that are not denominated in Polish zloty, Russian ruble or Hungarian forint.

Because the Company s reporting currency is the U.S. dollar, the translation effects of fluctuations in the exchange rate of our functional currencies have impacted the Company s financial condition and results of operations and have affected the comparability of our results between financial periods.

The Company has borrowings including its Convertible Notes due 2013 and Senior Secured Notes due 2016 that are denominated in U.S. dollars and euros, which have been lent to its operations where the functional currency is the Polish zloty and Russian ruble. The effect of having debt denominated in currencies other than the Company s functional currencies is to increase or decrease the value of the Company s liabilities on that debt in terms of the Company s functional currencies when those functional currencies depreciate or appreciate in value respectively. As a result of this, the Company is exposed to gains and losses on the re-measurement of these liabilities. The table below summarizes the pre-tax impact of a one percent movement in each of the exchange rate which could result in a significant impact in the results of the Company s operations.

Exchange Rate	Value of notional amount	Pre-tax impact of a 1% movement in exchange rate
USD-Polish zloty	$426 million	$4.3 million gain/loss
USD-Russian ruble	$264 million	$2.6 million gain/loss
EUR-Polish zloty	380 million or approximately $517 million	$5.2 million gain/loss

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.

Revenue Recognition

Revenues of the Company include sales of its own produced spirit brands, imported wine, beer and spirit brands as well as other third party alcoholic products purchased locally in Poland, the sale of each of these revenues streams are all processed and accounted for in the same manner. For all of its sources of revenue, the Company recognizes revenue when persuasive evidence of an arrangement exists, delivery of product has occurred, the sales price charged is fixed or determinable and collectability is reasonably assured. This generally means that revenue is recognized when title to the products are transferred to our customers. In particular, title usually transfers upon shipment to or receipt at our customers locations, as determined by the specific sales terms of the transactions.

Sales are stated net of sales tax (VAT) and reflect reductions attributable to consideration given to customers in various customer incentive programs, including pricing discounts on single transactions, volume discounts, promotional listing fees and advertising allowances, cash discounts and rebates. Net sales revenue includes excise tax except in the case where the sales are made from the production unit, in which case it is recorded net of excise tax.

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Goodwill and Intangibles

Following the adoption of ASC Topic 805 and ASC Topic 350, goodwill and certain intangible assets having indefinite lives are no longer subject to amortization. Their book values are tested annually for impairment, or more frequently, if facts and circumstances indicate the need. Fair value measurement techniques, such as the discounted cash flow methodology, are utilized to assess potential impairments. The testing of goodwill is performed at each reporting unit level. In the discounted cash flow method, the Company discounts forecasted performance plans to their present value. The discount rate utilized is the weighted average cost of capital for the reporting unit. US GAAP requires the impairment test to be performed in two stages. If the first stage does not indicate that the carrying values of the reporting units exceed the fair values, the second stage is not required. When the first stage indicates potential impairment, the company has to complete the second stage of the impairment test and compare the implied fair value of the reporting units goodwill to the corresponding carrying value of goodwill.

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, Polmos Bialystok, Parliament and Russian Alcohol 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.

The Company tested goodwill for impairment of the distribution business in Poland which we disclosed as discontinued operations in the financial statements as at March 31, 2010. In order to present the discontinued operations at fair value the Company recognized in the three month period ended March 31, 2010 an impairment charge of $28.2 million that was included in the results of the discontinued operations presented in the condensed consolidated statement of operations for the nine month period ended September 30, 2010. No further impairment charge was recognized in the three month period ended September 30, 2010.

Taking into account current estimations supporting our calculations under current market trends and conditions we believe that no further impairment charge is considered necessary through the date of the accompanying financial statements.

Accounting for Business Combinations

The acquisition of businesses is an important element of the Company s strategy. Acquisitions made prior to December 31, 2008 were accounted for in accordance with SFAS No. 141, Business Combinations (SFAS 141). Effective January 1, 2009, all business combinations will be accounted for in accordance with ASC Topic 805 Business Combinations .

We account for our acquisitions made in 2008 under the purchase method of accounting in accordance with ASC-810, 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.

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 ASC Topic 815 Derivatives and Hedging , 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.

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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 ASC Topic 718 Compensation Stock Compensation requiring the recognition of compensation expense in the Condensed Consolidated Statements of Income related to the fair value of its employee share-based options.

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 18 to our Consolidated Financial Statements for more information regarding stock-based compensation.

Recently Issued Accounting Pronouncements

In July 2010, the FASB issued ASU 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. This ASU amends disclosure requirements with respect to the credit quality of financing receivables and the related allowance for credit losses. Entities will be required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. Disclosures to be made as of the end of a reporting period will be effective for the Company s reporting period ending December 31, 2010; the disclosures about activity that occurs during a reporting period will be effective for the Company s reporting period ending March 31, 2011. Since this ASU will only amend disclosure requirements, not current accounting practice, the Company does not anticipate that adoption of this ASU will have any impact on the Company s balance sheets, statements of income or statements of cash flows.

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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, Hungarian forint and Russian ruble and the reporting currency is the U.S. dollar. Our financial instruments consist primarily 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, Russia and Hungary. 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, Russian ruble or Hungarian forint, the value in U.S. dollars of assets, liabilities, revenues and expenses originally recorded in Polish zloty, Russian ruble or Hungarian forint will decrease. Conversely, if the U.S. dollar decreases in value against the Polish zloty, Russian ruble or Hungarian forint, the value in U.S. dollars of assets, liabilities, revenues and expenses originally recorded in Polish zloty, Russian ruble or Hungarian forint 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.

The Company has borrowings including its Convertible Notes due 2013 and Senior Secured Notes 2016 that are denominated in U.S. dollars and euros, which have been lent to its operations where the functional currency is the Polish zloty and Russian ruble. The effect of having debt denominated in currencies other than the Company s functional currencies is to increase or decrease the value of the Company s liabilities on that debt in terms of the Company s functional currencies when those functional currencies depreciate or appreciate in value respectively. As a result of this, the Company is exposed to gains and losses on the re-measurement of these liabilities. The table below summarizes the pre-tax impact of a one percent movement in each of the exchange rate which could result in a significant impact in the results of the Company s operations.

Exchange Rate	Value of notional amount	Pre-tax impact of a 1% movement in exchange rate
USD-Polish zloty	$426 million	$4.3 million gain/loss
USD-Russian ruble	$264 million	$2.6 million gain/loss
EUR-Polish zloty	380 million or approximately $517 million	$5.2 million gain/loss

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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
[NONE]

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 May 5, 2010 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.
101*	The following financial statements from Central European Distribution Corporation s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, filed on August 9, 2010, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Income, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Cash Flows, (iv) Notes to Consolidated Financial Statements, tagged as blocks of text.

* 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 9, 2010

By: /s/ William V. Carey
William V. Carey
President and Chief Executive Officer

Date: November 9, 2010

By: /s/ Chris Biedermann
Chris Biedermann
Vice President and Chief Financial Officer