



**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(MARK ONE)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE TRANSITION PERIOD FROM .**

**COMMISSION FILE NUMBER 0-24341**

**CENTRAL EUROPEAN DISTRIBUTION CORPORATION**

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**54-1865271**  
(I.R.S. Employer  
Identification No.)

**Two Bala Plaza, Suite #300, Philadelphia, PA**  
(Address of Principal Executive Offices)

**19004**  
(Zip code)

**(610) 660-7817**  
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

Large Accelerated Filer ☐ Accelerated Filer ☒ Non-Accelerated Filer ☐

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

The number of shares outstanding of each class of the issuer's common stock as of November 6, 2007:

Common Stock (\$.01 par value) 40,404,771



1JT64FL4QF=NX=6

## INDEX

	<u>PAGE</u>
PART I	FINANCIAL INFORMATION
Item 1	Financial Statements
	<a href="#"><u>Consolidated Condensed Balance Sheets, September 30, 2007 (unaudited) and December 31, 2006</u></a>
	3
	<a href="#"><u>Consolidated Condensed Statements of Income (unaudited) for the nine month periods ended September 30, 2007 and September 30, 2006</u></a>
	4
	<a href="#"><u>Consolidated Condensed Statement of Changes in Stockholders' Equity (unaudited) as of September 30, 2007</u></a>
	5
	<a href="#"><u>Consolidated Condensed Statements of Cash Flows (unaudited) for the nine month periods ended September 30, 2007 and September 30, 2006</u></a>
	6
	<a href="#"><u>Notes to Consolidated Condensed Financial Statements (unaudited)</u></a>
	7-19
Item 2	<a href="#"><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></a>
	20
Item 3	<a href="#"><u>Quantitative and Qualitative Disclosures about Market Risk</u></a>
	31
Item 4	<a href="#"><u>Controls and Procedures</u></a>
	31
PART II	<a href="#"><u>OTHER INFORMATION</u></a>
Item 6	<a href="#"><u>Exhibits</u></a>
	33
<a href="#"><u>Signatures</u></a>	34



1JTB4FL4QG1CVT6

CENTRAL EUROPEAN DISTRIBUTION CORPORATION  
CONSOLIDATED CONDENSED BALANCE SHEET (UNAUDITED)  
Amounts in columns expressed in thousands  
(except share information)

	September 30, 2007	December 31, 2006
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 97,362	\$ 159,362
Accounts receivable, net of allowance for doubtful accounts of \$27,300 and \$24,354 respectively	196,962	224,575
Inventories	111,528	89,522
Prepaid expenses and other current assets	14,476	24,299
Deferred income taxes	2,060	5,336
<b>Total Current Assets</b>	422,388	503,094
Intangible assets, net	500,850	371,624
Goodwill, net	444,299	398,005
Property, plant and equipment, net	71,590	49,801
Deferred income taxes	16,636	3,305
Other assets	744	204
<b>Total Assets</b>	<u>\$1,456,507</u>	<u>\$1,326,033</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Trade accounts payable	\$ 118,225	\$ 138,585
Bank loans and overdraft facilities	35,182	24,656
Income taxes payable	4,334	2,975
Taxes other than income taxes	76,171	94,985
Other accrued liabilities	61,375	57,620
Current portions of obligations under capital leases	1,699	2,005
<b>Total Current Liabilities</b>	296,986	320,826
Long-term debt, less current maturities	112,784	8
Long-term obligations under capital leases	2,239	1,122
Long-term obligations under Senior Secured Notes	333,879	393,434
Deferred income taxes	91,833	68,275
<b>Total Long Term Liabilities</b>	540,735	462,839
Minority interests	473	21,395
<b>Stockholders' Equity</b>		
Common Stock (\$0.01 par value, 80,000,000 shares authorized, 40,403,771 and 38,691,635 shares issued at September 30, 2007 and December 31, 2006, respectively)	404	387
Additional paid-in-capital	426,257	374,985
Retained earnings	159,899	128,084
Accumulated other comprehensive income	31,903	17,667
Less Treasury Stock at cost (246,037 shares at September 30, 2007 and December 31, 2006)	(150)	(150)
<b>Total Stockholders' Equity</b>	618,313	520,973
<b>Total Liabilities and Stockholders' Equity</b>	<u>\$1,456,507</u>	<u>\$1,326,033</u>

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



CENTRAL EUROPEAN DISTRIBUTION CORPORATION  
CONSOLIDATED CONDENSED STATEMENTS OF INCOME (UNAUDITED)  
Amounts in columns expressed in thousands  
(except per share information)

	Three months ended		Nine months ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
<b>PROFIT AND LOSS</b>				
<b>Sales</b>	<b>\$ 368,910</b>	<b>\$ 298,566</b>	<b>\$ 992,056</b>	<b>\$ 818,075</b>
Excise taxes	(69,311)	(64,664)	(195,607)	(172,027)
<b>Net Sales</b>	<b>299,599</b>	<b>233,902</b>	<b>796,449</b>	<b>646,048</b>
Cost of goods sold	237,892	183,198	632,870	512,104
<b>Gross Profit</b>	<b>61,707</b>	<b>50,704</b>	<b>163,579</b>	<b>133,944</b>
Operating expenses	33,297	26,662	91,104	73,299
<b>Operating Income</b>	<b>28,410</b>	<b>24,042</b>	<b>72,475</b>	<b>60,645</b>
Non operating income / (expense), net				
Interest (expense), net	(9,337)	(7,931)	(26,291)	(23,846)
Other financial income / (expense), net	(1,110)	5,856	(6,672)	(1,734)
Other non operating income / (expense), net	1,006	(139)	(1,008)	1,337
<b>Income before taxes</b>	<b>18,969</b>	<b>21,828</b>	<b>38,504</b>	<b>36,402</b>
Income tax expense	1,943	3,929	5,628	6,350
Minority interests	6	2,461	1,061	6,690
<b>Net income</b>	<b>\$ 17,020</b>	<b>\$ 15,438</b>	<b>\$ 31,815</b>	<b>\$ 23,362</b>
<b>Net income per share of common stock, basic</b>	<b>\$ 0.42</b>	<b>\$ 0.43</b>	<b>\$ 0.80</b>	<b>\$ 0.66</b>
<b>Net income per share of common stock, diluted</b>	<b>\$ 0.42</b>	<b>\$ 0.43</b>	<b>\$ 0.79</b>	<b>\$ 0.65</b>

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

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	Total
	No. of Shares	Amount	No. of Shares	Amount				
Balance at December 31, 2006	38,692	\$ 387	246	\$ (150)	\$374,985	\$128,084	\$ 17,667	\$520,973
Net income for 2007	—	—	—	—	—	31,815	—	31,815
Foreign currency translation adjustment	—	—	—	—	—	—	14,236	14,236
Comprehensive income for 2007	—	—	—	—	—	31,815	14,236	46,051
Common stock issued in public placement	1,554	16	—	—	42,338	—	—	42,354
Common stock issued in connection with options	110	1	—	—	2,241	—	—	2,242
Common stock issued in connection with acquisitions	48	0	—	—	1,693	—	—	1,693
Refundable purchase price related to Botapol acquisition	—	—	—	—	5,000	—	—	5,000
Balance at September 30, 2007	40,404	\$ 404	246	\$ (150)	\$426,257	\$159,899	\$ 31,903	\$618,313

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



1JT64FL4QG20K=6

**CENTRAL EUROPEAN DIS**

RR Donnelley ProFile

ACWIN-CTXP78  
9.8

MWRJluram0ma

06-Nov-2007 12:22 EST

**61934 TX 6** 1\*

**FORM 10-Q**

TAM

HTM IFV 0C

Page 1 of 1

CENTRAL EUROPEAN DISTRIBUTION CORPORATION  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOW (UNAUDITED)  
Amounts in columns expressed in thousands

	Nine months ended September 30,	
	2007	2006
<b>CASH FLOW</b>		
<b>Operating Activities</b>		
Net income	\$ 31,815	\$ 23,362
Adjustments to reconcile net income to net cash provided by / (used in) operating activities:		
Depreciation and amortization	7,292	6,858
Deferred income taxes	(9,355)	(2,254)
Bad debt provision	239	752
Minority interests	1,061	6,690
Hedge valuation	—	(11,772)
Unrealized foreign exchange (gains) / losses	(4,414)	13,508
Cost of debt extinguishment	11,869	—
Stock options expense	1,424	959
Other non cash items	1,051	—
Changes in operating assets and liabilities:		
Accounts receivable	46,427	57,388
Inventories	(6,213)	8,924
Prepayments and other current assets	6,297	2,632
Trade accounts payable	(35,667)	(33,304)
Other accrued liabilities and payables	(21,508)	(18,505)
Net Cash provided by Operating Activities	30,318	55,238
<b>Investing Activities</b>		
Investment in fixed assets	(22,342)	(6,978)
Proceeds from the disposal of fixed assets	2,647	909
Investment in trademarks	—	(1,210)
Refundable purchase price related to Botapol acquisition	5,000	—
Acquisitions of subsidiaries, net of cash acquired	(141,000)	(22,403)
Net Cash used in Investing Activities	(155,695)	(29,682)
<b>Financing Activities</b>		
Borrowings on bank loans and overdraft facility	132,524	16,647
Payment of bank loans and overdraft facility	(25,207)	(19,505)
Payment of long-term borrowings	(7)	—
Payment of Senior Secured Notes	(95,440)	—
Hedge closure	—	(4,677)
Movements in capital leases payable	329	(1,865)
Issuance of shares in public placement	42,355	—
Proceeds from sales of financial assets, net	—	1,891
Options exercised	1,117	801
Net Cash provided by Financing Activities	55,671	(6,708)
Currency effect on brought forward cash balances	7,706	4,384
Net Increase / (Decrease) in Cash	(62,000)	23,232
Cash and cash equivalents at beginning of period	159,362	60,745
Cash and cash equivalents at end of period	<u>\$ 97,362</u>	<u>\$ 83,977</u>
<b>Supplemental Schedule of Non-cash Investing Activities</b>		
Common stock issued in connection with investment in subsidiaries	<u>1,693</u>	<u>\$ 161</u>
<b>Supplemental disclosures of cash flow information</b>		
Interest paid	\$ 37,676	\$ 36,807
Income tax paid	<u>\$ 13,817</u>	<u>\$ 6,873</u>

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



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. Historically the Company has operated as a distributor and importer of alcoholic beverages in Poland. Since acquisitions made in 2005, the Company became the largest vodka producer and the leading distributor and importer of alcoholic beverages in Poland. In July 2006, the Company expanded outside of Poland through the acquisition of Bols Hungary, becoming a leading importer of alcoholic beverages in Hungary. The Company is based in Warsaw and operates through its subsidiaries in Poland and Hungary.

## 2. BASIS OF PRESENTATION

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

CEDC’s subsidiaries maintain their books of account and prepare their statutory financial statements in their respective local currencies. The subsidiaries’ financial statements have been adjusted to reflect accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by generally accepted accounting principles in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary to fairly present our financial condition, results of operations and cash flows for the interim periods presented have been included. Operating results for the nine and three-month periods ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

The balance sheet at December 31, 2006 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The unaudited interim financial statements should be read with reference to the consolidated financial statements and footnotes thereto included in our annual report on Form 10-K for the year ended December 31, 2006.

## 3. ACQUISITIONS

On February 20, 2007, the Company closed a tender for the remaining outstanding shares of common stock of Polmos Bialystok, obtaining an additional 2.54 million shares for approximately \$90.9 million, thus increasing the Company’s ownership in Polmos Bialystok to 90.14%. In addition, the Company purchased additional shares on the market and performed a mandatory buyout to purchase an additional 9.79% of the outstanding shares of common stock of Polmos Bialystok S.A for approximately \$41.9 million. As of September 30, 2007 the Company’s owned 99.93% of the outstanding common stock of Polmos.

In connection with the tender and the mandatory buyout, the Company partially financed the purchase price for the shares through a draw down on a credit facility for approximately \$112.8 million.

On March 31, 2007, the Company also acquired the distribution assets of a small distributor in Northeast Poland for the total consideration of \$1.2 million.

On July 16, 2007, the Company signed a Letter of Intent to acquire a significant majority interest in a company in Russia holding various alcoholic beverage production and distribution assets, including the trademark rights for the Parliament brand in Russia. The Letter of Intent is subject to the execution of definitive agreements, which would be subject to customary closing conditions. The acquisition is currently expected to close during first quarter 2008 and will be financed through a combination of cash, debt and equity.

On July 27, 2007, the Company signed the final Share Purchase Agreement to acquire 100% of the outstanding shares of PHS Sp. z o.o. “PHS”, a leading Polish distributor of alcoholic beverages. The total purchase price of approximately \$8.4 million was funded through a combination of 80% cash and 20% shares of common stock of CEDC.

The fair value of the net assets acquired in connection with all 2007 acquisitions as of the acquisition date are:



CENTRAL EUROPEAN DISTRIBUTION CORPORATION  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)  
Amounts in tables expressed in thousands, except per share information

**ASSETS**

Cash and cash equivalents	\$ 265
Finacial assets	1
Trade recievables, gross	3,572
Inventory	8,259
Prepayments	1,072
Deferred tax - current	334
Equipment	1,357
Trademarks	87,552
<b>Total Assets</b>	<b><u>\$102,412</u></b>

**LIABILITIES**

Trade payables	\$ 7,093
Overdraft and short term bank loans	3,952
Other taxes payable	262
Other Accrued liabilities	17,152
Long term leases	193
<b>Total Liabilities</b>	<b><u>\$ 28,652</u></b>
Minority interests	(21,959)
<b>Net identifiable assets and liabilities</b>	<b>\$ 95,719</b>
<b>Goodwill on acquisition</b>	<b>\$ 47,240</b>
Consideration paid, satisfied in cash	141,265
Consideration paid, satisfied in shares	1,694
<b>Cash (acquired)</b>	<b><u>\$ 265</u></b>
Net Cash Outflow	\$141,000

**4. INTANGIBLE ASSETS OTHER THAN GOODWILL**

The major components of intangible assets are:

	September 30, 2007	December 31, 2006
<b>Non-amortizable intangible assets:</b>		
Trademarks	\$ 498,211	\$ 369,052
<b>Total</b>	<b>\$ 498,211</b>	<b>\$ 369,052</b>
<b>Amortizable intangible assets:</b>		
Trademarks	\$ 6,196	\$ 5,663
Customer relationships	1,824	1,228
Less accumulated amortization	(5,381)	(4,319)
<b>Total</b>	<b>\$ 2,639</b>	<b>\$ 2,572</b>
<b>Total intangible assets</b>	<b><u>\$ 500,850</u></b>	<b><u>\$ 371,624</u></b>





1JTB4FL4QGZ=QZ6

CENTRAL EUROPEAN DISTRIBUTION CORPORATION  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

Amounts in tables expressed in thousands, except per share information

Following the tender for the additional shares of Polmos Bialystok in February and June 2007, the Company recorded an additional \$87.1 million of the carrying value of the trademarks to reflect the ownership increase from 69% to 99% as well as the updated trademarks valuation. This relates mainly to Absolut and Zubrówka trademarks which have indefinite lives.

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

**5. COMPREHENSIVE INCOME/(LOSS)**

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

As of September 30, 2007, the Polish Zloty exchange rate used to translate the balance sheet strengthened as compared to the exchange rate as of December 31, 2006, and as a result a comprehensive income was recognized. Additionally, translation gains and losses with respect to long-term subordinated inter-company loans with the parent company are charged to other comprehensive income. No deferred tax benefit has been recorded on the comprehensive income/(loss) in regard to the long-term inter-company transactions with the parent company, as the repayment of any equity investment is not anticipated in the foreseeable future.

**6. 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,	
	2007	2006	2007	2006
<b>Basic:</b>				
Net income	\$17,020	\$15,438	\$31,815	\$23,362
Weighted average shares of common stock outstanding	40,124	35,690	39,755	35,652
Basic earnings per share	\$ 0.42	\$ 0.43	\$ 0.80	\$ 0.66
<b>Diluted:</b>				
Net income	\$17,020	\$15,438	\$31,815	\$23,362
Weighted average shares of common stock outstanding	40,124	35,690	39,755	35,652
Net effect of dilutive employee stock options based on the treasury stock method	690	358	535	397
<b>Totals</b>	<b>40,814</b>	<b>36,048</b>	<b>40,290</b>	<b>36,049</b>
Diluted earnings per share	\$ 0.42	\$ 0.43	\$ 0.79	\$ 0.65

Contingent shares for acquisitions and employee stock options granted have been included in the above calculations of diluted earnings per share since the exercise price is less than the average market price of the common stock during the three and nine months periods ended September 30, 2006 and 2007.



CENTRAL EUROPEAN DISTRIBUTION CORPORATION  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)  
Amounts in tables expressed in thousands, except per share information

## 7. BORROWINGS

### *Bank Facilities*

In June 2006, the Company consolidated all working capital facilities to three banks. These facilities are used primarily to support the Company's working capital requirements. These credit lines are only denominated in Polish Zloty.

As of September 30, 2007, \$70.6 million remained available under the Company's overdraft facilities. These overdraft facilities are renewed on an annual basis.

As of September 30, 2007, the company had utilized approximately \$112.8 million of a multipurpose credit line agreement in connection with a tender offer in Poland to purchase the remaining outstanding shares of Polmos Bialystok S.A. The Company's obligations under the credit line agreement are guaranteed through promissory notes by certain subsidiaries of the Company. The indebtedness under the credit line agreement bears interest at a rate equal to the one month Warsaw Interbank Rate plus a margin of 1.0% and matures on November 8, 2007. The Company has a bank commitment in place to refinance the full amount of this loan prior to maturity with the same interest rates and fee structure. The maturity date of the available debt is March 31, 2009. Accordingly, given the availability of the agreement with bank to refinance this loan with a new loan with the extended maturity date and the Company's intention to use it, this loan was reclassified to the long-term bank loans.

### *Senior Secured Notes*

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

In order to reduce the Company's borrowing costs, two redemptions of its Senior Secured Notes were completed during the first quarter of 2007 as described below.

On January 19, 2007, the Company completed a redemption of the Senior Secured Notes equal to €32.5 million. In addition to the payment of principal and accrued interest the Company paid a premium of 8%. The repurchase was financed with the proceeds from the equity offerings completed in December 2006.

On March 29, 2007 the Company completed a second redemption of the Senior Secured Notes equal to €32.5 million. In addition to the payment of principal and accrued interest the Company paid a premium of 8%. The repurchase was financed with the proceeds from the equity offerings completed in February 2007.

In line with above reduction of the Senior Secured Notes the Company recognized a loss of \$2.8 million related to the portion of the Interest Rate Swap of \$32.5 million closed in connection with the January repurchase and prepaid financing costs associated with retired debt for \$2.2 million relating to both repurchases.

As of September 30, 2007 and December 31, 2006, the Company had accrued interest included in other accrued liabilities of \$6.4 million and \$15.5 million respectively related to the Senior Secured Notes, with the next coupon due for payment on January 25, 2008. Total obligations under the Senior Secured Notes are shown net of deferred finance costs, amortized over the life of the borrowings using the effective interest rate method and fair value adjustments from the application of hedge accounting as shown in the table below:

	September 30, 2007	December 31, 2006
Senior Secured Notes	\$ 369,229	\$ 427,810
Fair value bond mark to market	(26,610)	(20,452)
Unamortized portion of closed hedges	(830)	(3,760)
Unamortized bond costs	(7,910)	(10,164)
<b>Total</b>	<b>\$ 333,879</b>	<b>\$ 393,434</b>



1JT64FL5KVN5L76

CENTRAL EUROPEAN DISTRIBUTION CORPORATION  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)  
Amounts in tables expressed in thousands, except per share information

Total borrowings as disclosed in the financial statements are:

	September 30, 2007	December 31, 2006
Short term bank loans and overdraft facilities for working capital	\$ 35,182	\$ 24,656
<b>Total short term bank loans and overdraft facilities</b>	<b>\$ 35,182</b>	<b>\$ 24,656</b>
Long term bank loans for share tender	112,782	—
Long term obligations under Senior Secured Notes	333,879	393,434
Other total long term debt, less current maturities	2	8
<b>Total debt</b>	<b>\$ 481,845</b>	<b>\$ 418,098</b>

  

	September 30, 2007
Principal repayments for the following years	
2007	\$ —
2008	35,184
2009	112,782
2010	—
2011 and beyond	333,879
<b>Total</b>	<b>\$ 481,845</b>

The amounts due in 2008 relate to normal working capital facilities which are typically renewed on an annual basis.

## 8. 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, 2007	December 31, 2006
Raw materials and supplies	\$ 17,414	\$ 13,084
In-process inventories	406	298
Finished goods and goods for resale	93,708	76,140
<b>Total</b>	<b>\$ 111,528</b>	<b>\$ 89,522</b>



1JT64FL4QZF7G6

CENTRAL EUROPEAN DISTRIBUTION CORPORATION  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

Amounts in tables expressed in thousands, except per share information

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

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

**9. LEASE OBLIGATIONS***Operating Leases and Rent Commitments*

In February 2004, the Company entered into a non cancelable operating lease agreement commencing May 1, 2004 for its main warehouse and office in Warsaw, which stipulated monthly payments of \$122,700 per month. This agreement was signed for a seven-year period.

In September 2006, the Company entered into a non cancelable operating lease agreement commencing October 1, 2006 for its headquarters in Warsaw, which stipulated monthly payments of \$40,700. This agreement was signed for a four-year period.

The Company also has rental agreements for all of the regional offices and warehouse space. Monthly rentals range from approximately \$2,000 to \$11,670. All of the regional office and warehouse leases can be terminated by either party within two or three month's prior notice.

The following is a schedule by years of the future rental payments under the non-cancelable operating lease as of September 30, 2007:

2007	\$ 735
2008	2,481
2009	2,431
2010	1,329
Thereafter	820
<b>Total</b>	<b><u>\$7,796</u></b>

During the third quarter of 2007, the Company continued its policy of renewing its transportation fleet by way of capital leases. The future minimum lease payments for the assets under capital lease as of September 30, 2007 are as follows:

2007	\$2,327
2008	1,611
2009	—
<b>Gross payments due</b>	<b><u>\$3,938</u></b>
Less interest	(315)
<b>Net payments due</b>	<b><u>\$3,623</u></b>



CENTRAL EUROPEAN DISTRIBUTION CORPORATION  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)  
Amounts in tables expressed in thousands, except per share information

## 10. INCOME TAXES

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

Our tax provision for interim periods is determined using an estimate of our annual effective tax rate in each of our tax jurisdictions. The company is currently generating tax loss carry forwards in the United States at a 35% tax rate, which has the effect of reducing the overall effective tax rate below the 19% Polish statutory rate.

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

The Company has recorded a provision for the penalty and interests on penalty for a Polish subsidiary in the amount of approximately \$0.2 million. This provision was recognized during 2006 and was not related to the implementation of FASB Interpretation No. 48.

In August 2007, the Company received confirmation from the Polish tax office regarding a change in tax treatment for unrealized gains. As such the Company recognized a one time reduction in a deferred tax assets during the quarter. Partially offsetting this was an increase in the provision for unutilized tax loss carry forwards in Poland. The net difference was fully recognized in the current quarter resulting in an effective tax rate of 10% for the quarter as compared to a normal rate of 18%-19%.

The Company files income tax returns in the U.S., Poland, Hungary and the Netherlands. Tax liabilities of the Company's subsidiaries may be subject to examinations by the tax authorities for the year as indicated in the table below and subsequent years:

Tax jurisdiction	
U.S.	2003
Poland	2001
Hungary	2001
The Netherlands	2001

Currently there is one ongoing examination of the Corporation's income tax returns for prior years in Polmos Bialystok. The Company does not expect any material issues to arise as a result of this tax examination. As the application of tax laws and regulations and transactions are susceptible to varying interpretations, amounts reported in the consolidated financial statements could be changed at a later date upon final determination by the tax authorities.

## 11. INTEREST INCOME / (EXPENSE)

For the three and nine months ended September 30, 2007 and 2006 respectively, the following items are included in Interest income / (expense):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Interest income	\$ 1,245	\$ 881	\$ 4,024	\$ 2,665
Interest expense	(10,582)	(8,812)	(30,315)	(26,511)
Total interest (expense), net	\$ (9,337)	\$ (7,931)	\$ (26,291)	\$ (23,846)



1JT64FL4QFZMBS6

CENTRAL EUROPEAN DISTRIBUTION CORPORATION  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)  
Amounts in tables expressed in thousands, except per share information

## 12. OTHER FINANCIAL INCOME / (EXPENSE)

For the three and nine months ended September 30, 2007 and 2006, the following items are included in Other Financial Income / (Expense):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Foreign exchange impact related to Senior Secured Notes financing	\$ (1,106)	\$ 5,392	\$ 5,066	\$ (13,508)
Cost of bank guarantee for tender	—	—	(349)	—
Premium for early debt retirement	—	—	(6,940)	—
Gain on closed CIRS contracts (described in Note 13, below)	—	—	—	11,772
Write-off of hedge associated with retired debt	—	—	(2,757)	—
Write-off of financing costs associated with retired debt	—	—	(2,167)	—
Other foreign exchange gains / (losses)	(4)	464	475	2
Total other financial income / (expense), net	\$ (1,110)	\$ 5,856	\$ (6,672)	\$ (1,734)

## 13. FINANCIAL INSTRUMENTS

### *Financial Instruments and Their Fair Values*

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

### *Derivative financial instruments*

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

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

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





CENTRAL EUROPEAN DISTRIBUTION CORPORATION  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)  
Amounts in tables expressed in thousands, except per share information

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

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

In September 2005, the Company entered into a coupon swap arrangement which exchanges a fixed Euro based coupon of 8%, with a variable Euro based coupon (IRS) based upon the 6 month Euribor rate plus a margin. The hedge is accounted for as a fair value hedge according to SFAS 133 and is tested for effectiveness on a quarterly basis using the long haul method. Under this method, as long as the hedge is deemed highly effective both the fair value of the hedge and the hedge item are marked to market with the net impact recorded as gain or loss in the income statement. For the nine months ended September 30, 2007, the company recorded a net gain of \$806,000. In September 2005, the Company entered into a second hedge that exchanged the variable Euro coupon with a variable Polish Zloty coupon (CIRS). However, due to the continued strength of the Polish economy and currency the Company closed this swap contract. The hedge did not qualify for hedge accounting and therefore the changes in fair value were reflected in the results of operations.

In February 2007 and December 2006, a portion of the IRS hedge was closed and a new hedging relationship was created. The mark to market valuation of the closed hedges at the time was frozen and is being amortized over the remaining useful life of the hedged item. The hedge closure in December 2006 was related to the part of the Senior Secured Notes repurchased in January 2007. Consequently, the amount was written off in January 2007 following the repurchase. As of September 30, 2007, there is an unamortized asset of \$0.8 million recorded as an adjustment to the valuation of the Senior Secured Notes.

#### 14. STOCK OPTION PLANS AND RESTRICTED STOCK AWARDS

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

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

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

The Company's 1997 Stock Incentive Plan ("Incentive Plan") provides for the grant of stock options, stock appreciation rights, restricted stock and restricted stock units to directors, executives, and other employees ("employees") of the Company and to non-employee service providers of the Company. Following a shareholder resolution in April 2003 and the stock splits of May 2003, May 2004 and June 2006, the Incentive Plan authorizes, and the Company has reserved for future issuance, up to 5,906,250 shares of Common Stock (subject to an anti-dilution adjustment in the event of a stock split, re-capitalization, or similar transaction). The Compensation Committee of the Board of Directors of the Company administers the Incentive Plan.



CENTRAL EUROPEAN DISTRIBUTION CORPORATION  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)  
Amounts in tables expressed in thousands, except per share information

The option exercise price for stock options granted under the Incentive Plan may not be less than fair market value but in some cases may be in excess of the closing price of the Common Stock on the date of grant. The Company uses the stock option price based on the closing price of the Common Stock on the day before the date of grant if such price is not materially different than the opening price of the Common Stock on the day of the grant. Stock options may be exercised up to 10 years after the date of grant except as otherwise provided in the particular stock option agreement. Payment for the shares must be in cash, which must be received by the Company prior to any shares being issued. Stock options granted to directors and officers as part of an employee employment contract vest within 1-2 years. Stock options granted to general employees as part of a loyalty program vest after three years. The Incentive Plan will expire in November 2007; however, a new plan was approved by CEDC shareholders during the annual shareholders meeting on April 30, 2007. This new plan will expire in November 2017. The terms and conditions of the new stock incentive plan are substantially similar to those of the old stock incentive plan.

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

A summary of the Company's stock option and restricted stock units activity, and related information for the period ended September 30, 2007 is as follows:

<b>Total Options</b>	<b>Number of Options</b>	<b>Weighted- Average Exercise Price</b>
Outstanding at January 1, 2007	1,319,900	\$ 19.31
Granted	191,000	\$ 29.57
Exercised	(64,275)	\$ 15.59
Forfeited	(37,762)	\$ 23.23
Outstanding at March 31, 2007	1,408,863	\$ 20.76
Exercisable at March 31, 2007	925,175	\$ 18.85
Outstanding at April 1, 2007	1,408,863	\$ 20.76
Granted	56,500	\$ 29.75
Exercised	(15,625)	\$ 15.08
Forfeited	(11,250)	\$ 15.08
Outstanding at June 30, 2007	1,438,488	\$ 21.15
Exercisable at June 30, 2007	1,005,175	\$ 19.56
Outstanding at July 1, 2007	1,438,488	\$ 21.15
Granted	18,750	\$ 44.15
Exercised	(30,250)	\$ 18.86
Forfeited	—	\$ —
Outstanding at September 30, 2007	1,426,988	\$ 21.50
Exercisable at September 30, 2007	993,675	\$ 19.63





1JT64FL4QF=2M16

CENTRAL EUROPEAN DISTRIBUTION CORPORATION  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)  
Amounts in tables expressed in thousands, except per share information

	<i>Number of Restricted Stock Units</i>	<i>Weighted- Average Grant Date Fair Value</i>
<b>Nonvested restricted stock units</b>		
Nonvested at April 1, 2007	—	\$ —
Granted	36,430	\$ 34.51
Vested	—	\$ —
Forfeited	—	\$ —
Nonvested at June 30, 2007	36,430	\$ 34.51
Nonvested at July 1, 2007	36,430	\$ 34.51
Granted	1,000	\$ 34.51
Vested	—	\$ —
Forfeited	(2,100)	\$ 34.51
Nonvested at September 30, 2007	35,330	\$ 34.51

During 2007, the range of exercise prices for outstanding options was \$1.13 to \$44.15. During 2007, the weighted average remaining contractual life of options outstanding was 5.3 years. Exercise prices for options exercisable as of September 30, 2007 ranged from \$1.13 to \$29.14. The Company has also granted 1,000 restricted stock units to its employees priced at \$34.51.

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, 2007, the Company has not changed the terms of any outstanding awards.

During the nine and three months ended September 30, 2007, the Company recognized compensation cost of \$1.4 million and \$0.48 million and a related deferred tax asset of \$0.27 million and \$0.09 million, respectively.

As of September 30, 2007, there was \$3.0 million of total unrecognized compensation cost related to non-vested stock options and restricted stock units granted under the Plan. The costs are expected to be recognized over a weighted average period of 20 months through 2007-2009.

Total cash received from exercise of options during the nine months ended September 30, 2007 amounted to \$1.1 million.

For the nine months period ended September 30, 2007, the compensation expense related to all options was calculated based on the fair value of each option grant using the binomial distribution model. The Company has never paid cash dividends and does not currently have plans to pay cash dividends, and thus has assumed a 0% dividend yield. Expected volatilities are based on average of implied and historical volatility projected over the remaining term of the options. The expected life of stock options is estimated based on historical data on exercise of stock options, post-vesting forfeitures and other factors to estimate the expected term of the stock options granted. The risk-free interest rates are derived from the U.S. Treasury yield curve in effect on the date of grant for instruments with a remaining term similar to the expected life of the options. In addition, the Company applies an expected forfeiture rate when amortizing stock-based compensation expenses. The estimate of the forfeiture rates is based primarily upon historical experience of employee turnover. As individual grant awards become fully vested, stock-based compensation expense is adjusted to recognize actual forfeitures. The following weighted-average assumptions were used in the calculation of fair value:

	2007	2006
Fair Value	\$10.03	\$7.33
Dividend Yield	0%	0%
Expected Volatility	30.5% - 38.4%	31.9 - 50.7%
Weighted Average Volatility	37.1%	33.9%
Risk Free Interest Rate	4.7% - 5.1%	4.3 - 5.1%
Expected Life of Options from Grant	3.2	3.2



CENTRAL EUROPEAN DISTRIBUTION CORPORATION  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)  
Amounts in tables expressed in thousands, except per share information

**15. STOCKHOLDERS' EQUITY**

In February 2007, the Company completed a public offering of 1,553,571 shares of common stock at an offering price of \$28 per share. The offering raised \$42.3 million net of expenses, which was used to repurchase an additional portion of the Senior Secured Notes on March 30, 2007.

According to the share sale agreement with Takirra Investment Corporation, Rémy Cointreau S.A., and Botapol Management B.V. (an indirect subsidiary of Rémy) to acquire 100% of the outstanding capital stock of Botapol Holding B.V., the Company was entitled to the potential reimbursement of \$5.0 million to be paid in cash if the weighted average of the closing price of the Company's common stock exceeded \$27.1 per share at any time during the period from twelve to eighteen months after the closing of the Bols Acquisition. This condition was met, and the Company was reimbursed with \$5.0 million recorded in additional paid in capital.

**16. 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.

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 (approximately \$23 million based on the then-current exchange rate) during the five years after the acquisition was consummated. As of September 30, 2007, the Company has invested 38.0 million Polish Zloty (approximately \$14.3 million) in Polmos Bialystok.

As of September 30, 2007, the Company has secured letters for credit for the construction of rectification lines with a cash deposit of \$4.7 million. Moreover, custom liabilities with the local tax office for imported products have been secured by cash held by the bank for \$1.5 million.

**17. RELATED PARTY TRANSACTION**

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

During the nine months of 2007, the Company made sales to a restaurant which is partially owned by the Chief Executive Officer of the Company. All sales were made on normal commercial terms, and total sales for the nine months ended September 30, 2007 and 2006 were approximately \$86,000 and \$78,500.

**18. SUBSEQUENT EVENTS**

There were no subsequent events materially affecting Company's business.

**19. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS 157"). SFAS 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, with early adoption permitted. The Company is currently estimating the impact that the implementation of SFAS 157 would have on the consolidated financial statements when adopted.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for



CENTRAL EUROPEAN DISTRIBUTION CORPORATION  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)  
Amounts in tables expressed in thousands, except per share information

which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for our Company January 1, 2008. The Company is evaluating the impact that the adoption of SFAS No. 159 will have on our consolidated financial statements



1JT64FL4QF=Z126

CENTRAL EUROPEAN DISTRIBUTION CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS

Amounts in tables expressed in thousands, except per share information

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

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

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

This report contains forward-looking statements, which provide our current expectations or forecasts of future events. These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "believes," "estimates," "anticipates," "expects," "intends," "may," "will" or "should" or, in each case, their negative, or other variations or comparable terminology, but the absence of these words does not necessarily mean that a statement is not forward-looking. 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;
- statements about the level of our costs and operating expenses relative to the Company revenues, and about the expected composition of the Company's revenues;
- statements about consummation and integration of the Company's acquisitions, including future acquisitions the Company may make;
- information about the impact of Polish regulations on the Company business;
- other statements about the Company's plans, objectives, expectations and intentions; and
- other statements that are not historical facts.

By their nature, forward-looking statements involve known and unknown risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, the development of the industry in which we operate, and the effects of acquisitions, such as Bols and Bialystok, 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, including the risk factors described in the Company's Annual Report on Form 10-K for the year ended, December 31, 2006 filed with the SEC on March 15, 2007. In light of these risks, uncertainties and assumptions, the forward-looking events described in this report may not occur as described, or at all.

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

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

**Overview**

We are the largest vodka producer by value and volume in Poland and the leading distributor and importer of alcoholic beverages in Poland and in Hungary. Our business involves the distribution of products that we produce from our two distilleries, importation on an exclusive basis of many well known international beers, wines and spirits brands and wholesaling of a range of products from local and international drinks companies, in Poland and Hungary.



1JT64FL4QG076Y6

**CENTRAL EUROPEAN DIS**

RR Donnelley ProFile

ACWIN-CTXP78  
9.8

MWRJluram0ma

06-Nov-2007 12:22 EST

**61934 TX 21 1\*****FORM 10-Q**

TAM

HTM IFV 0C

Page 1 of 1

CENTRAL EUROPEAN DISTRIBUTION CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS

Amounts in tables expressed in thousands, except per share information

**Results of Operations:****Three months ended September 30, 2007 compared to three months ended September 30, 2006**

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

	Three months ended	
	September 30, 2007	September 30, 2006
<b>PROFIT AND LOSS</b>		
<b>Sales</b>	<b>\$ 368,910</b>	<b>\$ 298,566</b>
Excise taxes	(69,311)	(64,664)
<b>Net Sales</b>	<b>299,599</b>	<b>233,902</b>
Cost of goods sold	237,892	183,198
<b>Gross Profit</b>	<b>61,707</b>	<b>50,704</b>
Operating expenses	33,297	26,662
<b>Operating Income</b>	<b>28,410</b>	<b>24,042</b>
Non operating income / (expense), net		
Interest (expense), net	(9,337)	(7,931)
Other financial income / (expense), net	(1,110)	5,856
Other non operating income / (expense), net	1,006	(139)
<b>Income before taxes</b>	<b>18,969</b>	<b>21,828</b>
Income tax expense	1,943	3,929
Minority interests	6	2,461
<b>Net income</b>	<b>\$ 17,020</b>	<b>\$ 15,438</b>
<b>Net income per share of common stock, basic</b>	<b>\$ 0.42</b>	<b>\$ 0.43</b>
<b>Net income per share of common stock, diluted</b>	<b>\$ 0.42</b>	<b>\$ 0.43</b>

CENTRAL EUROPEAN DISTRIBUTION CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS

Amounts in tables expressed in thousands, except per share information

**Net Sales**

Net sales represent total sales net of all customer rebates, excise tax on production and exclusive imports and value added tax. Total net sales increased by approximately 28.1%, or \$65.7 million, from \$233.9 million for the three months ended September 30, 2006 to \$299.6 million for the three months ended September 30, 2007. This increase in sales is due to the following factors:

Net Sales for three months ended September 30, 2006	\$233,902
Increase from acquisitions	14,485
Existing business sales growth	23,433
Impact of foreign exchange rates	27,779
Net sales for three months ended September 30, 2007	\$299,599

Factors impacting our existing business sales in the third quarter of 2007 include the growth our key vodka brands, with Bols Vodka, our flagship premium vodka growing by 18% in volume terms as compared to the third quarter of 2006. In addition to growth of our own brands our sales of imports and other third party brands increased partially driven by new contracts including the distribution contract with Orlen, the largest gas station chain in Poland as well as market share gains taken from other distributors in Poland. Sales made by our distribution companies increased by 13% in the third quarter of 2007 as compared to the third quarter of 2006. Sales of our exclusive import brands grew by 49% in dollar value terms for the three months ending September 30, 2007, as compared to the same period in 2006.

**Gross Profit**

Total gross profit increased by approximately 21.7%, or \$11.0 million, to \$61.7 million for the three months ended September 30, 2007, from \$50.7 million for the three months ended September 30, 2006, reflecting sales growth for the factors noted above in the three months ended September 30, 2007. Gross margin decreased from 21.7% of net sales for the three months ended September 30, 2006 to 20.6% of net sales for the three months ended September 30, 2007. The primary factors driving the margin decline were the inclusion of PHS for the third quarter of 2007, which operates primarily as a wholesaler with lower margins, and higher growth in our distribution business, as well as a full quarter of impact from the Orlen contract. For the three months ended September 30, 2007 sales from distribution companies represented 83% of our total sales revenues as compared to 81% for the same period in 2006.

**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 increased by approximately 24.7%, or \$6.6 million, from \$26.7 million for the three months ended September 30, 2006 to \$33.3 million for the three months ended September 30, 2007. Approximately \$1.0 million of this increase resulted primarily from the effects of the acquisition of PHS in July 2007 and the remainder of the increase resulted primarily from the growth of the business and the impact of foreign exchange expenses as detailed below.

Operating expenses for three months ended September 30, 2006	\$26,662
Increase from acquisitions	1,026
Increase from existing business growth	2,391
Impact of foreign exchange rates	3,218
Operating expenses for three months ended September 30, 2007	\$33,297

The table below sets forth the items of operating expenses.



**CENTRAL EUROPEAN DISTRIBUTION CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF**  
**OPERATIONS**

Amounts in tables expressed in thousands, except per share information

	<b>Three Months Ended</b>	
	<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(\$ in thousands)</b>	
S,G&A	\$ 26,713	\$ 21,558
Marketing	4,727	3,476
Depreciation and amortization	1,857	1,628
Total operating expense	\$ 33,297	\$ 26,662

S,G&A consists of salaries, warehousing and transportation costs, administrative expenses and bad debt expense. S,G&A increased by approximately 23.6%, or \$5.1 million, from \$21.6 million for the three months ended September 30, 2006 to \$26.7 million for the three months ended September 30, 2007. Approximately \$1.1 million of this increase resulted primarily from the effects of the PHS acquisition in July 2007 and the remainder of the increase resulted primarily from the growth of the business and the appreciation of the Polish Zloty against the U.S. Dollar. As a percent of sales, S,G&A has decreased from 9.2% of net sales for the three months ended September 30, 2006 to 8.9% of net sales for the three months ended September 30, 2007.

Depreciation and amortization increased by approximately 18.8%, or \$ 0.3 million, from \$1.6 million for the three months ended September 30, 2006 to \$1.9 million for the three months ended September 30, 2007. This increase resulted primarily from our existing business growth.

#### **Operating Income**

Total operating income increased by approximately 18.3%, or \$4.4 million, from \$24.0 million for the three months ended September 30, 2006 to \$28.4 million for the three months ended September 30, 2007. This increase resulted primarily from the factors described above.

#### **Non Operating Income and Expenses**

Total interest expense increased by approximately 17.7%, or \$1.4 million, from \$7.9 million for the three months ended September 30, 2006 to \$9.3 million for the three months ended September 30, 2007. This increase resulted from a combination of additional borrowings for the purchase of Polmos Bialystok shares completed in June 2007, and increased interest rates in 2007 as compared to 2006.

The Company recognized \$1.1 million of unrealized foreign exchange rate losses related to the impact of movements in exchange rates on our Senior Secured Notes.

Other non-operating income increased by approximately \$1.1 million for the three months ended September 30, 2007. This increase resulted primarily from a gain in sales of assets recorded in 2007.

#### **Income Tax**

In August 2007, the Company received confirmation from the Polish tax office regarding a change in tax treatment for unrealized gains. As such the Company recognized a one time reduction in a deferred tax assets during the quarter. Partially offsetting this was an increase in the provision for unutilized tax loss carry forwards in Poland. The net difference was fully recognized in the current quarter resulting in an effective tax rate of 10% for the quarter as compared to a normal rate of 18%-19%.

#### **Results of Operations:**

##### **Nine months ended September 30, 2007 compared to nine months ended September 30, 2006**

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



1JT64FL4QG0JCX6

CENTRAL EUROPEAN DISTRIBUTION CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS

Amounts in tables expressed in thousands, except per share information

	Nine months ended	
	September 30, 2007	September 30, 2006
<b>Sales</b>	<b>\$ 992,056</b>	<b>\$ 818,075</b>
Excise taxes	(195,607)	(172,027)
<b>Net Sales</b>	<b>796,449</b>	<b>646,048</b>
Cost of goods sold	632,870	512,104
<b>Gross Profit</b>	<b>163,579</b>	<b>133,944</b>
Operating expenses	91,104	73,299
<b>Operating Income</b>	<b>72,475</b>	<b>60,645</b>
Non operating income / (expense), net		
Interest (expense), net	(26,291)	(23,846)
Other financial (expense), net	(6,672)	(1,734)
Other non operating income / (expense), net	(1,008)	1,337
<b>Income before taxes</b>	<b>38,504</b>	<b>36,402</b>
Income tax expense	5,628	6,350
Minority interests	1,061	6,690
<b>Net income</b>	<b>\$ 31,815</b>	<b>\$ 23,362</b>
<b>Net income per share of common stock, basic</b>	<b>\$ 0.80</b>	<b>\$ 0.66</b>
<b>Net income per share of common stock, diluted</b>	<b>\$ 0.79</b>	<b>\$ 0.65</b>

#### Net Sales

Total net sales increased by approximately 23.3%, or \$150.5 million, from \$646.0 million for the nine months ended September 30, 2006 to \$796.5 million for the nine months ended September 30, 2007. This increase in sales is due to the following factors:

Net Sales for nine months ended September 30, 2006	\$646,048
Increase from acquisitions	32,934
Existing business sales growth	48,856
Impact of foreign exchange rates	68,611
Net sales for nine months ended September 30, 2007	\$796,449

Factors impacting our existing business sales for the nine months ending September 30, 2007 include the growth of our key vodka brands, with Bols Vodka, our flagship premium vodka, growing by 17% in volume terms as compared to the nine months ending September 30, 2006. In addition to the growth of our own brands, our sales of imports and other third party brands increased due in part to new contracts, including the distribution contract with Orlen, the largest gas station chain in Poland as well as market share gains taken from other distributors in Poland. Sales of our exclusive import brands grew by 50% in dollar value terms for the nine months ending September 30, 2007 as compared to the same period in 2006.





**CENTRAL EUROPEAN DISTRIBUTION CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF**  
**OPERATIONS**

Amounts in tables expressed in thousands, except per share information

**Gross Profit**

Total gross profit increased by approximately 22.2%, or \$29.7 million, to \$163.6 million for the nine months ended September 30, 2007, from \$133.9 million for the nine months ended September 30, 2006, reflecting sales growth for the factors noted above in the nine months ended September 30, 2007. Gross margin decreased from 20.7% of net sales for the nine months ended September 30, 2006 to 20.5% of net sales for the nine months ended September 30, 2007. The primary factor driving the margin decline was the inclusion of PHS for the third quarter of 2007, which operates primarily as a wholesaler with lower margins, as well as higher growth in our distribution business. For the nine months ended September 30, 2007 sales from distribution companies represented 82% of our total sales revenues as compared to 81% for the same period in 2006.

**Operating Expenses**

Total operating expenses increased by approximately 24.3%, or \$17.8 million, from \$73.3 million for the nine months ended September 30, 2006 to \$91.1 million for the nine months ended September 30, 2007. Approximately \$3.4 million of this increase resulted primarily from the effects of the acquisition of Bols Hungary in August 2006, \$1.0 resulted from the effects of the acquisition of PHS in July 2007 and the remainder of the increase resulted primarily from the growth of the business and the impact of foreign exchange expenses, as detailed below.

Operating expenses for nine months ended September 30, 2006	\$73,299
Increase from acquisitions	4,653
Increase from existing business growth	5,369
Impact of foreign exchange rates	7,783
Operating expenses for nine months ended September 30, 2007	\$91,104

The table below sets forth the items of operating expenses.

	Nine Months Ended September 30,	
	2007	2006
	(\$ in thousands)	
S,G&A	\$74,275	\$59,753
Marketing	11,442	8,911
Depreciation and amortization	5,387	4,635
Total operating expense	\$91,104	\$73,299

S,G&A increased by approximately 24.2%, or \$14.5 million, from \$59.8 million for the nine months ended September 30, 2006 to \$74.3 million for the nine months ended September 30, 2007. Approximately \$2.7 million of this increase resulted primarily from the effects of the Bols Hungary acquisition in August 2006, \$1.1 million resulted from the effects of the PHS acquisition in July 2007 and the remainder of the increase resulted primarily from the growth of the business and the appreciation of the Polish Zloty against the U.S. Dollar. As a percent of sales, S,G&A has increased from 9.2% of net sales for the nine months ended September 30, 2006 to 9.3% of net sales for the nine months ended September 30, 2007.

Depreciation and amortization increased by approximately 17.4%, or \$0.8 million, from \$4.6 million for the nine months ended September 30, 2006 to \$5.4 million for the nine months ended September 30, 2007. This increase resulted primarily from our existing business growth.



**CENTRAL EUROPEAN DISTRIBUTION CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF**  
**OPERATIONS**

Amounts in tables expressed in thousands, except per share information

**Operating Income**

Total operating income increased by approximately 19.6%, or \$11.9 million, from \$60.6 million for the nine months ended September 30, 2006 to \$72.5 million for the nine months ended September 30, 2007. This increase resulted primarily from the factors described above.

**Non Operating Income and Expenses**

Total interest expense increased by approximately 10.5%, or \$2.5 million, from \$23.8 million for the nine months ended September 30, 2006 to \$26.3 million for the nine months ended September 30, 2007. This increase resulted from a combination of additional borrowings for the purchase of Polmos Bialystok shares completed in June 2007, and increased interest rates in 2007 as compared to 2006.

In order to reduce the Company's overall cost of borrowings, the Company completed a redemption of a portion of its Senior Secured Notes. In connection with this redemption, the Company incurred one-off early debt retirement costs of approximately \$6.9 million relating to the 8% premium for early debt redemption and \$4.9 million of written off financing costs and hedges associated with the retired debt. For detailed information regarding these costs please refer to Note 12 to our consolidated financial statements. In addition, the Company recognized a \$5.1 million of foreign exchange rate gains related to the impact of movements in exchange rates on our Senior Secured Notes.

Other non-operating income decreased by approximately \$2.3 million for the nine months ended September 30, 2007. This decrease resulted primarily from a gain in sales of assets recorded in 2006, including a gain on sales of accounts receivable which were fully provided for. In addition the company booked a write off for certain non recurring transaction costs for \$0.8 million during the second quarter of 2007.

**Income Tax**

In August 2007, the Company received confirmation from the Polish tax office regarding a change in tax treatment for unrealized gains. As such the Company recognized a one time reduction in a deferred tax assets during the quarter. Partially offsetting this was an increase in the provision for unutilized tax loss carry forwards in Poland. The net difference was fully recognized in the current quarter resulting in an effective tax rate of 14.6% for the nine months ended September 30, 2007 as compared to a normal rate of 18%-19%.

**Liquidity and Capital Resources**

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

**Financing Arrangements**

*Existing Credit Facilities*

As of September 30, 2007, the Company had total debt outstanding under existing credit facilities in the Polish Zloty equivalent of approximately \$148.0 million. In order to fund working capital and other liquidity requirements, the Company also has available non-committed credit lines with various banks and credit institutions. As of September 30, 2007, the amount of available, unutilized and uncommitted credit facilities was the Polish Zloty equivalent of approximately \$70.6 million. These existing credit facilities are subject to renewal on an annual basis.

*Financing for Polmos Bialystok Tender*

On October 12, 2006, Carey Agri entered into a multipurpose credit line agreement with Fortis Bank SA/NV, Austrian Branch, in connection with a tender offer and mandatory buy-out of outstanding shares of Polmos Bialystok S.A.

The indebtedness under the credit line agreement bears interest at a rate equal to the one month Warsaw Interbank Rate plus a margin of 1.00% and matured on November 9, 2007.



1JT64FL4QG0=N56

CENTRAL EUROPEAN DISTRIBUTION CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS

Amounts in tables expressed in thousands, except per share information

In February 2007 and June 2007, the Company drew down approximately \$112.8 million under the credit line agreement following the closing of the tender offer for the outstanding common shares of Polmos Bialystok. The Company has committed financing in place to roll this over into a new facility that will be due March 31, 2009.

#### *Senior Secured Notes*

On July 25, 2005, the Company completed the issuance of €325 million 8% Senior Secured Notes due 2012. The Indenture governing the Senior Secured Notes contains certain restrictive covenants, including covenants limiting the Company's ability to: make certain payments, including dividends or other distributions, with respect to the share capital of the parent or its subsidiaries; incur or guarantee additional indebtedness or issue preferred stock; make certain investments; prepay or redeem subordinated debt or equity; create certain liens or enter into sale and leaseback transactions; engage in certain transactions with affiliates; sell assets or consolidate or merge with or into other companies; issue or sell share capital of certain subsidiaries; and enter into other lines of business.

On January 19, 2007, the Company completed a redemption of the Senior Secured Notes equal to €32.5 million. In addition to the payment of principal and accrued interest, the Company paid an early premium of 8%. The redemption was financed with the proceeds from the Company's equity offering completed in December 2006.

On March 29, 2007, the Company completed a second redemption of the Senior Secured Notes equal to €32.5 million. In addition to the payment of principal and accrued interest the Company paid an early redemption premium of 8%. The redemption was financed with the proceeds from the Company's equity offering completed in February 2007.

In line with above reduction of the Senior Secured Notes the Company recognized a loss of \$2.8 million related to the portion of the Interest Rate Swap of \$32.5 million closed in connection with the January redemption and prepaid financing costs associated with retired debt for \$2.2 million relating to both redemptions.

#### *Equity Offering*

In February 2007, the Company closed a public offering of 1,553,571 shares of common stock at an offering price of \$28 per share. The proceeds from this offering were used to repurchase a portion of our Senior Secured Notes as described above.

#### **Statement of Liquidity and Capital Resources**

During the periods under review, the Company's primary sources of liquidity were cash flows generated from operations, credit facilities, the equity offerings 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, 2007	Nine months ended September 30, 2006
	(\$ in thousands)	
Cash flow from operating activities	\$ 30,318	\$ 55,238
Cash flow from investing activities	\$ (155,695)	\$ (29,682)
Cash flow from financing activities	\$ 55,671	\$ (6,708)

#### *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, 2007 was \$30.3 million as compared to \$55.2 million for the nine months ended September 30, 2006. The primary driver for this change was working capital movements. Working capital movements utilized \$10.7 million of cash outflows for the nine months ended September 30, 2007 as compared to \$17.1 million of cash inflows for the nine months ended September 30, 2006. The primary drivers for the change in working capital movements were higher levels of sales in 2007, and higher inventory levels as at September 30, 2007. Due to the high growth of imported products, the company needs to keep more stock on hand of these products relative to domestic ones, thus contributing to growth in inventory. In addition, in 2006, the Company received benefits from a change in credit terms which required wholesaler to pay cash on delivery for vodka which resulted in a one time pick up in cash collections.



1JT64FL4QG12PV6

CENTRAL EUROPEAN DISTRIBUTION CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS

Amounts in tables expressed in thousands, except per share information

*Net cash flow used in investing activities*

Net cash flows used in investing activities primarily represents net cash used to acquire subsidiaries and fixed assets offset by proceeds from sales of fixed assets. Net cash used in investing activities for the nine months ended September 30, 2007 was \$155.7 million as compared to \$29.7 million for the nine months ended September 30, 2006. The primary cash outflows from investing activities for the nine months ended September 30, 2007 were the acquisition of additional shares of common stock of Polmos Bialystok that took place in February 2007 and June 2007, which resulted in a cash outflow of \$132.8, million, the acquisition of PHS for \$7.3 million that took place in July 2007 and the acquisition of a small distributor in Northeast Poland for \$1.2 million that took place in March 2007. Investment in fixed assets of \$22.3 million are represented primarily by investment in new rectification lines at our production facilities of approximately \$14.5 million, and the remaining amount has been invested in maintenance projects including vehicles, IT, intangibles and other fixed assets.

In January of 2007, the Company received a payment of \$5.0 million related to the Botapol acquisition completed in August 2005. According to the acquisition agreement, up to \$5.0 million of the cash consideration paid for Botapol was required to be reimbursed to the Company if the weighted average of the closing price of the Company's common stock exceeded \$27.1 per share at any time during the period from twelve to eighteen months after the closing of the Bols Acquisition. This condition was met and the Company has recorded the cash inflow.

*Net cash flow from financing activities*

Net cash flow from financing activities represents cash used for servicing indebtedness, borrowings under credit facilities and cash inflows from private placements and exercise of options. Net cash provided by financing activities was \$55.7 million for the nine months ended September 30, 2007 as compared to a net cash outflow of \$6.7 million for the nine months ended September 30, 2006. The cash flows from financing activities during the nine months ended September 30, 2007 include outflows of \$95.4 million for the payments to redeem a portion of our Senior Secured Notes and inflows of \$42.4 million from the public offering of our common stock issued in connection with this redemption. The Company also drew down \$132.5 million in order to finance the acquisition of additional shares of common stock of Polmos Bialystok as described above and repaid \$25.2 million of bank loans and overdraft facilities connected with working capital.

***The Company's Future Liquidity and Capital Resources***

The Company's primary uses of cash in the future will be to fund its working capital requirements, service indebtedness, finance capital expenditures and fund acquisitions. The Company expects to fund these requirements in the future with cash flows from its operating activities, cash on hand, and financing arrangements available to the Company, including those described above.

***Effects of Inflation and Foreign Currency Movements***

Inflation in Poland is projected at 2.3% to 2.6% for 2007, compared to actual inflation of 1.0% in 2006.

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

As a result of the remaining outstanding €260 million of Senior Secured Notes due 2012, the Company is exposed to foreign exchange movements. Movements in the EUR-Polish Zloty exchange rate will require us to revalue our liability on the Senior Secured Notes accordingly, the impact of which will be reflected in the results of the Company's operations. In order to manage the cash flow impact of foreign exchange changes, the Company has entered into certain hedge agreements. As of September 30, 2007, the Company had outstanding a hedge contract on a notional amount of €254.0 of the Senior Secured Notes for a seven year interest rate swap agreement. The swap agreement exchanges a fixed Euro based coupon of 8%, with a variable Euro based coupon (IRS) based upon the six month Euribor rate plus a margin.



1JT64FL4QG15RH6

CENTRAL EUROPEAN DISTRIBUTION CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS

Amounts in tables expressed in thousands, except per share information

The average Polish Zloty/ U.S. Dollar exchange rate used to re-translate our income statement depreciated by approximately 11% as compared to the same period in 2006. The actual period-end Polish Zloty/ U.S. Dollar exchange rate used to re-translate our balance sheet appreciated by less than 9% as compared to December 31, 2006.

### ***Contractual Obligations***

As described in Note 7, the Company redeemed 20% of the outstanding Senior Secured notes, thus reducing contractual obligations due in July 2012 by €65 million. In addition, the Company drew down \$132.5 million of short term facilities primarily to finance the acquisition of additional shares of common stock of Polmos Bialystok.

### **Critical Accounting Policies and Estimates**

#### **General**

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

#### **Goodwill and Intangibles**

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

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

The calculation of the impairment charge for goodwill and indefinite lived intangible assets, requires the use of estimates. The discount rate used for the calculation was 7.47%. Factoring in a deviation of 10% for the discount rate as compared to management's estimate, there would still be no need for an impairment charge against goodwill.

#### **Accounting for Business Combinations**

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





1JT64FL4QG1GXG6

CENTRAL EUROPEAN DISTRIBUTION CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS

Amounts in tables expressed in thousands, except per share information

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 SFAS 133, Accounting for Derivative Instruments and Hedging Activities, the Company recognizes all derivatives as either assets or liabilities on the balance sheet and measures those instruments at fair value.

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

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

**Share Based Payments**

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

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

See Note 14 for more information regarding stock-based compensation.

**Recently Issued Accounting Pronouncements**

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS 157"). SFAS 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, with early adoption permitted. The Company is currently estimating the impact that the implementation of SFAS 157 would have on the consolidated financial statements when adopted.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for the Company January 1, 2008. The Company is evaluating the impact that the adoption of SFAS No. 159 will have on our consolidated financial statements



1JTB4FL4QG1KZ36

**ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

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

Our commercial foreign exchange exposure mainly arises from the fact that substantially all of our revenues are denominated in Polish Zloty, and our Senior Secured Notes are denominated in Euros. This Euro debt has been lent down to the operating subsidiary level in Poland, thus exposing the Company to movements in the Euro/Polish Zloty exchange rate. Every 1% movement in this exchange rate would result in an approximately €2.6 million change in the valuation of the liability with the offsetting pre-tax gains or losses recorded in the profit and loss of the Company per annum without considering any potential early repayments of the Senior Secured Notes.

Because all of our working capital financing is at floating rates, changes in interest rates may impact our net interest expense, positively in the event of a reduction in base rates and adversely should base rates increase. A one basis point change in our base rates for working capital financing would result in an approximately \$3,500 increase or decrease in our borrowing costs, based upon year end working capital facilities utilized.

As a result of the remaining outstanding €260 million of Senior Secured Notes due 2012, we are exposed to foreign exchange movements. Movements in the Euro/Polish Zloty exchange rate will require us to revalue our liability on the Senior Secured Notes accordingly, the impact of which will be reflected in the results of the Company's operations. In order to manage the cash flow impact of foreign exchange changes, the Company has entered into certain hedge agreements. As of September 30, 2007, the Company had outstanding a seven year interest rate swap agreement hedging 254.0 million EUR of the Senior Secured Notes. The swap agreement exchanges a fixed Euro based coupon of 8%, with a variable Euro based coupon (IRS) based upon the 6 month Euribor rate plus a margin. Any changes in Euribor will result in a change in the interest expense. Each basis point move in Euribor will result in an increase or a decrease in annual interest expense of €25,400.

**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.

*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.





## PART II. OTHER INFORMATION

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

On July 27, 2007, the Company signed the final Share Purchase Agreement, referred to above, to acquire 100% of the outstanding shares of PHS. In connection with this acquisition, CEDC paid an aggregate consideration of approximately \$8.4 million, which was comprised of (i) approximately \$6.7 in cash and approximately 48,000 shares of the Company's common stock, based on the ninety day weighted average closing price of our common stock ending on July 27, 2007 of \$33.75 per share.

The offer and sale of our securities was exempt from registration under the Securities Act of 1933, as amended, as CEDC relied upon the exemption from registration provided by Section 4(2).

### ITEM 6. EXHIBITS

#### (a) Exhibits

Exhibit Number	Exhibit Description
3.1	Amended and Restated Certificate of Incorporation (Filed as Exhibit 3.1 to the Quarterly Report on Form 10-Q filed with the SEC on August 8, 2006 and incorporated herein by reference).
3.2	Amended and Restated Bylaws (filed as Exhibit 99.3 to the Periodic Report on Form 8-K filed with the SEC on May 3, 2006 and incorporated herein by reference).
10.1	Annex 4 to the Multipurpose Non-Revolver Credit Line Agreement by and between Fortis Bank SA/NV and Carey Agri International Poland Sp. z o.o dated September 13, 2007 (filed as exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on September 14, 2007 and incorporated herein by reference).
31.1*	Certificate of the CEO pursuant to Rule 13a-15(e) or Rule 15d-15(e).
31.2*	Certificate of the CFO pursuant to Rule 13a-15(e) or Rule 15d-15(e).
32.1*	Certification of the CEO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of the CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Filed herewith



**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 8, 2007

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

Date: November 8, 2007

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



**Exhibit 31.1**

**CERTIFICATIONS**

I, William V. Carey, President and Chief Executive Officer of Central European Distribution Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Central European Distribution Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2007

By: /s/ William V. Carey  
William V. Carey  
President and Chief Executive Officer  
(principal executive officer)



**Exhibit 31.2**

**CERTIFICATIONS**

I, Chris Biedermann, Vice President and Chief Financial Officer of Central European Distribution Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Central European Distribution Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2007

By: /s/ Chris Biedermann

Chris Biedermann  
Vice President and Chief Financial Officer  
(principal financial officer)



**Exhibit 32.1**

**Written Statement of Chief Executive Officer**  
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

The undersigned, the Chief Executive Officer of Central European Distribution Corporation (the "Company"), hereby certifies that, to his knowledge on the date hereof:

- (a) the Form 10-Q of the Company for the quarterly period ended September 30, 2007, filed on the date hereof with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ William V. Carey  
William V. Carey  
Chairman, President and Chief Executive Officer

November 8, 2007



**Exhibit 32.2**

**Written Statement of Chief Financial Officer**  
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

The undersigned, the Chief Financial Officer of Central European Distribution Corporation (the "Company"), hereby certifies that, to his knowledge on the date hereof:

- (a) the Form 10-Q of the Company for the quarterly period ended September 30, 2007, filed on the date hereof with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

November 8, 2007