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MANAGEMENT'S DISCUSSION AND ANALYSIS

ASSET IMPAIRMENTS AND RESTRUCTURING CHARGE

The opening of large multiplexes and theatres with stadium seating by Country Cinema and certain of its competitors has tended to, and is expected to continue to, draw audiences away from certain older theatres, including theatres operated by Country Cinema. In addition, demographic changes and competitive pressures can lead to the impairment of a theatre. Country Cinema reviews for impairment of long-lived assets and goodwill related to those assets to be held and used in the business whenever events or changes in circumstances indicate that the carrying amount of an asset or a group of assets may not be recoverable. In the fourth quarter of 1998, Country Cinema identified impairments of asset values for 145 theatres with 610 screens. The 145 theatres included a further impairment for 46 theatres that were part of the 1996 impairment charge (see discussion below). There can be no assurance that Country Cinema will not take additional charges in the future related to the impairment of assets.

The 1998 impairment charge of approximately $38.3 million (approximately $24.1 million after income taxes or $2.12 per diluted share) is a non-cash charge which reduced the carrying value of property and equipment by $29.4 million (costs of $49.0 million less accumulated depreciation and amortization of $19.6 million) and the excess of purchase price over net assets of businesses acquired by $8.9 million.

The 1998 impairment was primarily caused by reductions in estimated theatre cash flows due to (i) the impact of new or increased competition on certain of Country Cinema's older, auditorium-style theatres, (ii) Country Cinema's negative evaluation of the operating results produced from theatres previously converted to discount houses or (iii) Country Cinema's inability to improve a marginal theatre's operating results.

As a result of the reduced carrying amount of the impaired assets due to the 1996 impairment charge, depreciation and amortization expense for 1998, 1997 and 1996 was reduced by approximately $3.5 million, $3.8 million and $4.2 million, respectively (1998 -- $2.2 million after income taxes or $.19 per diluted share; 1997 -- $2.4 million after income taxes or $.21 per diluted share; 1996 -- $2.6 million after income taxes or $.23 per diluted share). Depreciation and amortization for 1999 will be reduced by approximately $6.7 million as a result of the 1998 and 1996 impairment charges.

The 1998 and 1996 impairment charges are reflected as operating expenses in Country Cinema's Consolidated Financial Statements.

Restructuring Charge

In December 1998, Country Cinema's Board of Directors approved a restructuring plan involving the closure or disposition of 28 theatres (116 screens) in certain markets that did not fit Country Cinema's operating and growth strategies (the "Restructuring Plan"). In accordance with the Restructuring Plan, the theatres are scheduled to be closed during 1999. Country Cinema has recognized a charge of approximately $34.7 million (approximately $21.5 million after income taxes or $1.89 per diluted share) to establish reserves for the future cash expenditures related to these theatres. The established reserves are primarily for future lease payments payable in accordance with the terms of the lease agreements and for certain lease related costs. There are no material employee termination costs as a result of the closure of these theatres. Disbursements of the restructuring reserves for 1999 are estimated to total approximately $4.6 million.

Revenues during the years ended December 31, 1998, 1997 and 1996 for the theatres identified for closure under the Restructuring Plan were approximately $8.7 million, $14.6 million and $17.3 million, respectively. Operating income (losses) during the years ended December 31, 1998, 1997 and 1996 for the theatres included in the Restructuring Plan were approximately $(3.6) million, $(.5) million and $1.1 million, respectively.

Year Ended December 31, 1998 Compared to Year Ended December 31, 1997

Total revenues for the year ended December 31, 1998 increased 5.0% to $481.6 million from $458.6 million. This increase consists of an $11.3 million increase in admissions and an $11.7 million increase in concessions and other. These increases are due primarily to the additional revenues generated by the increase in the average number of screens in operation and an increase in the average concessions sale per patron, partially offset by the loss in revenues at theatres closed during the period for renovation. Attendance per average screen was 28,453 for 1998 compared to 28,493 for 1997. Revenue per average screen was $176,205 for 1998 compared to $173,449 for 1997. Average admission prices were relatively unchanged at $4.25 for 1998 compared to $4.24 the previous year with the average concessions sale per patron increasing 6.5% to $1.79 for 1998 from $1.68 for 1997.

Cost of theatre operations (film exhibition costs, concession costs and other theatre operating costs) increased 6.2% to $385.6 million from $363.1 million due to films that did not play for an extended period of time, which provides greater percentage payments to the distributors, more screens in operation and higher attendance numbers. As a percentage of revenue, cost of operations increased from 79.2% of total revenues in 1997 to 80.1% of total revenues in 1998.

General and administrative costs increased 10.9% to $7.1 million from $6.4 million reflecting additional general and administrative costs incurred in connection with the additional screens added in 1997 and 1998. As a percentage of total revenues, general and administrative costs increased only slightly to 1.47% from 1.40% in 1997.

Depreciation and amortization increased 12.3% to $37.5 million from $33.4 million as a result of the increased screens in operation from the Company's acquisitions and expansions in 1997 and 1998. These amounts have also been reduced due to the 1996 impairment charge from the Company's adopting Statement No. 121 (see Note B of Notes to Consolidated Financial Statements).

Other Operating Data

	AS OF DECEMBER 31,				
	1994	1995	1996	1997	1998
OPERATING DATA:					
Theatre locations (5) ...	445	519	519	520	468
Screens (5)	1,942	2,383	2,518	2,720	2,658
Average screens per location	4.4	4.6	4.9	5.2	5.7
Total attendance (in thousands) .	59,660	64,496	74,213	75,336	77,763
Total average screens in operation	1,852	2,151	2,476	2,644	2,733
Average ticket price ....$	3.89	$ 3.93	$ 4.00	$ 4.24	$ 4.25
Average concession per patron . $	1.46	$ 1.59	$ 1.62	$ 1.68	$ 1.79

(5) Excludes 28 theatres with 116 screens at December 31, 1998, which will be closed by Country Cinema in accordance with its restructuring plan.

LIQUIDITY AND CAPITAL RESOURCES

Country Cinema entered into a revolving credit facility on October 17, 1997, and amended and restated this facility on January 29, 1999. The Revolving Credit Facility matures November 10, 2002 and bears interest at LIBOR plus 2.25%. Country Cinema is obligated to pay a commitment fee of .5% on the unused portion of the facility. In addition, on February 25, 1999 Country Cinema entered into a $75.0 million Term Loan B, the proceeds of which were applied to repay revolving credit borrowings. The Term Loan B matures March 30, 2005 and bears interest at LIBOR plus 2.75%. Following application of the proceeds of the Term Loan B, the maximum available borrowings under the Revolving Credit Facility was reduced from $275.0 million to $200.0 million. At March 15, 1999, Country Cinema had $108.9 million available for borrowings under the Revolving Credit Facility.

Country Cinema also obtains liquidity through its theatre leasing arrangements. The cost of constructing a new theatre is reduced substantially if Country Cinema leases the real estate and improvements rather than purchasing them. As of December 31, 1998, Country Cinema had 49 ground leases and 322 ground and improvement leases, excluding theatres scheduled to be closed in 1999. Minimum annual rent payments on these theatres totaled $53.1 million in 1998 and are expected to increase in 1999. Country Cinema is a party to a master lease facility (the "Master Lease") with Movieplex Realty Leasing, L.L.C., which provides up to $75.0 million for financing the development of multiplex theatres, of which approximately $52.8 million was available as of December 31, 1998. Theatres leased pursuant to the Master Lease have lease terms of 16 years. In connection with the amendment and restatement of the Revolving Credit Facility on January 29, 1999, Country Cinema also amended and restated its Master Lease to provide for security interests and guarantees and to amend certain covenants contained therein.

Country Cinema's capital expenditures arise principally in connection with the development of new theatres, renovation and expansion of existing theatres and theatre acquisitions. During 1998, such capital expenditures totaled $146.7 million, net of lease financings. Country Cinema estimates that capital expenditures for 1999 will be approximately $129.0 million, net of any lease financings. Country Cinema expects to build 22 new theatres having an aggregate of 334 screens, add 48 stadium seating auditoriums to existing theatres, and retrofit approximately 83 existing auditoriums in 1999. Country Cinema estimates that the average cost of a new 16-screen multiplex will be approximately $9.0 million ($4.0 million if the land and improvements are leased rather than owned). Country Cinema intends to enter into leasing arrangements whenever possible in order to minimize capital requirements. Country Cinema expects that capital expenditures for theatre construction, expansion and renovation will be approximately $75.0 million, net of lease financings for 2000. Country Cinema believes that its currently anticipated capital needs for theatre construction, expansion and renovation and possible acquisitions for at least the next two years will be satisfied by the cash and cash equivalents and short-term investments on hand, borrowings under the Revolving Credit Facility, additional sale of debt and/or equity securities, additional bank financings and other forms of long-term debt and internally generated cash flow. Additionally, Country Cinema may supplement its current sources of capital through sales and leasebacks of theatre properties where market conditions for such transactions are favorable.

Our ability to make scheduled payments of principal of, or to pay the interest on, or to refinance our indebtedness, or to fund planned capital expenditures for theatre construction, expansion, renovation or acquisition will depend on our future performance. Our future performance is, to a certain extent, subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Based upon our current level of operations and anticipated increases in revenues and cash flow as a result of our theatre construction, expansion and renovation program, and the scheduled closing of certain underperforming theatres, we believe that cash flow from operations and available cash, together with available borrowings under the Revolving Credit Facility, lease financing arrangements and/or sales of additional debt or equity securities, will be adequate to meet our future liquidity needs for at least the next two years.

We cannot assure you, however, that our business will generate sufficient cash flow from operations, that currently anticipated revenue growth and operating improvements will be realized or that future capital will be available to us from the sale of debt or equity securities, additional bank financings, other long-term debt or lease financings in an amount sufficient to enable us to pay our indebtedness, or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness on or before maturity. We cannot assure you that we will be able to refinance any of our indebtedness or raise additional capital through other means, on commercially reasonable terms or at all.

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	DECEMBER 31 1998	DECEMBER 31 1997
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 17,771	$ 16,545
Short-term investments	801	3,042
Accounts and notes receivable	522	758
Inventories	3,851	3,082
Prepaid expenses	5,886	5,448
Recoverable construction allowances under capital leases	-0-	2,100
TOTAL CURRENT ASSETS	28,831	30,975
OTHER ASSETS		
Investments in and advances to partnerships	20,334	14,148
Deferred income taxes-- Note I	14,059	-0-
Other	3,753	9,669
	38,146	23,817
PROPERTY AND EQUIPMENT -- Notes B, D, E and F		
Land	60,846	59,546
Buildings and improvements	261,887	184,769
Leasehold improvements	176,004	177,970
Leasehold interests	22,221	37,921
Equipment	212,976	185,955
	733,934	646,161
Accumulated depreciation and amortization	(160,322)	(149,105)
	573,612	497,056
EXCESS OF PURCHASE PRICE OVER NET ASSETS OF BUSINESSES ACQUIRED	56,954	68,149
	$ 697,543	$ 619,997
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 45,533	$ 26,122
Accrued expenses-- Notes A and C	37,842	17,833
Current maturities of long-term indebtedness and capital lease obligations	1,290	19,077
TOTAL CURRENT LIABILITIES	84,665	63,032
LONG-TERM LIABILITIES		
Long-term debt, less current maturities-- Note E	232,013	222,242
Senior Notes-- Note E	79,870	79,870
Capital lease obligations, less current maturities -- Note F	38,587	39,550
Restructuring reserve, less current portion -- Note C	30,099	-0-
Other	6,000	-0-
Deferred income taxes -- Note I	-0-	12,431
	386,569	354,093
SHAREHOLDERS' EQUITY -- Notes D, E, G, and H		
5.5% Series A Senior Cumulative Convertible Exchangeable Preferred Stock	550	-0-
Class A Common Stock, issued and outstanding 9,942,487 and 9,918,587 shares, respectively	298	298
Class B Common Stock, issued and outstanding 1,420,700 shares	43	43
Paid-in capital	158,543	104,677
Retained earnings	66,875	97,854
	226,309	202,872
	697,543	619,997

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	YEARS ENDED DECEMBER 31, 1998	1997	1996
Revenues:			
Admissions	$ 330,534	$ 319,235	$ 296,629
Concessions and other	151,034	139,363	130,097
	481,568	458,598	426,726
Costs and expenses:			
Film exhibition costs	177,754	169,672	156,968
Concession costs	19,911	18,334	17,252
Other theatre operating costs	187,870	175,103	164,149
General and administrative expenses	7,115	6,352	5,959
Depreciation and amortization expenses	37,502	33,443	28,408
Impairments of long-lived assets-- Note B	38,300	-0-	45,447
Restructuring charge-- Note C	34,699	-0-	-0-
	503,151	402,904	418,183
OPERATING INCOME (LOSS)	(21,583)	55,694	8,543
Interest expense	27,230	23,142	20,289
INCOME (LOSS) BEFORE INCOME TAXES	(48,813)	32,552	(11,746)
Income tax expense (benefit)-- Note I	(18,166)	12,366	(4,469)
NET INCOME (LOSS)	(30,647)	20,186	(7,277)
Preferred stock dividends	(332)	-0-	-0-
NET INCOME (LOSS) AVAILABLE FOR COMMON STOCK	$ (30,979)	20,186	(7,277)

	YEARS ENDED DECEMBER 31 1998	1997	1996
OPERATING ACTIVITIES			
Net income (loss)	$ (30,647)	$ 20,186	$ (7,277)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	37,502	33,443	28,408
Impairment charges	38,300	-0-	45,447
Restructuring charge	34,699	-0-	-0-
Deferred income taxes	(26,490)	7,011	(14,811)
Gain on sales of property and equipment	(282)	(2,202)	(767)
Other gains	(898)	-0-	-0-
Changes in operating assets and liabilities:			
Accounts and notes receivable and inventories	(533)	(565)	7,572
Prepaid expenses	(438)	(85)	(231)
Accounts payable	19,411	4,690	(2,941)
Accrued expenses and other liabilities	21,409	593	(962)
NET CASH PROVIDED BY OPERATING ACTIVITIES	92,033	63,071	54,438
INVESTING ACTIVITIES			
Purchases of property and equipment	(146,713)	(126,144)	(70,926)
Purchases of assets from other theatre operators	-0-	(11,647)	(23,075)
Proceeds from sales of property and equipment	6,007	8,729	1,808
Decrease (increase) in:			
Short-term investments	2,241	4,684	(224)
Other	121	(11,216)	(5,781)
NET CASH USED IN INVESTING ACTIVITIES	(138,344)	(135,594)	(98,198)
FINANCING ACTIVITIES			
Debt:			
Additional borrowings	3,215,000	2,354,594	1,205,678
Repayments	(3,223,979)	(2,273,674)	(1,167,929)
Issuance of Preferred Stock, net	54,000	-0-	-0-
Issuance of Class A Common Stock	416	501	113
Recoverable construction allowances under capital leases	2,100	2,078	122
NET CASH PROVIDED BY FINANCING ACTIVITIES	47,537	83,499	37,984
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,226	10,976	(5,776)
Cash and cash equivalents at beginning of year	16,545	5,569	11,345
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 17,771	$ 16,545	$ 5,569

NOTE F -- LEASES

Certain of the Company's theatres and equipment are leased under non-cancelable leases expiring in various years through 2023. The theatre leases generally provide, among other things, for the payment of fixed monthly rentals, contingent rentals based on a percentage of revenue over a specified amount, and the payment of property taxes, common area maintenance, insurance and repairs. The Company, at its option, can renew a substantial portion of its theatre leases, at the then fair rental rate, for various periods with the maximum renewal period totaling 40 years.

Future minimum payments, by year and in the aggregate, under capital leases and non-cancelable operating leases with terms over one year as of December 31, 1998 are as follows (in thousands):

	OPERATING LEASES	CAPITAL LEASES
1999	$ 48,178	$ 5,817
2000	45,917	5,668
2001	43,037	5,628
2002	40,271	5,689
2003	38,019	5,615
Thereafter	267,117	75,572
Total minimum lease payments	$ 482,539	103,989
Less amounts representing interest		(64,384)
Present value of future minimum lease payments		39,605
Less current maturities		(1,018)
		$ 38,587

Rent expense was approximately $66.8 million, $57.6 million and $54.8 million for 1998, 1997 and 1996, respectively.