19

ability to obtain trade credit and impair present and future relationships with vendors and service providers.

UNCERTAINTY WITH RESPECT TO TREATMENT OF OUR LIABILITIES COULD NEGATIVELY AFFECT OUR OPERATIONS.

As of the filing of the Chapter 11 cases, in general all pending litigation against us has been stayed and no party may take any action to realize on our pre-petition claims except pursuant to further order of the Court. In addition, we may reject pre-petition executory contracts and unexpired lease obligations, and parties affected by these rejections may file claims with the Court. While we anticipate substantially all liabilities as of the petition date will be dealt with in accordance with a plan of reorganization which will be proposed and voted on in accordance with the provisions of the Bankruptcy Code, there can be no assurance that all the liabilities will be handled in this manner. In addition, additional liabilities subject to the bankruptcy proceedings may arise in the future as a result of the rejection of executory contracts and/or unexpired leases, and from the determination of the Court (or agreement by parties in interest) of allowed claims for contingencies and other disputed amounts. Conversely, the assumption of executory contracts and unexpired leases may convert liabilities shown as subject to compromise to post-petition liabilities. Due to the uncertain nature of many of the potential claims, we are unable to project the magnitude of such claims with any degree of certainty.

OUR FINANCIAL STATEMENTS ASSUME WE WILL CONTINUE AS A "GOING CONCERN" EVEN THOUGH THERE IS SUBSTANTIAL DOUBT IN THIS REGARD.

Our consolidated financial statements included elsewhere in this Annual Report have been prepared assuming we will continue as a "going concern." Because of the Chapter 11 cases and the circumstances leading to their filing, there is substantial doubt about our ability to continue as a "going concern." Our continuation as a "going concern" depends on, among other things, confirmation of a plan of reorganization, our ability to comply with the terms of our DIP Financing and our ability to generate sufficient cash from operations and financing arrangements to meet our obligations. If the "going concern" basis was not appropriate for our consolidated financial statements, then significant adjustments would be necessary in the carrying value of assets and liabilities, the revenues and expenses reported, and the balance sheet classifications used.

In addition, the amounts reported in the consolidated financial statements included elsewhere in this Annual Report do not reflect adjustments to the carrying value of assets or the amount and classification of liabilities that ultimately may be necessary as the result of a plan of reorganization. Adjustments necessitated by a plan of reorganization could materially change the amounts reported in the consolidated financial statements included elsewhere in this Annual Report.

WE FACE UNCERTAINTY REGARDING THE ADEQUACY OF OUR CAPITAL RESOURCES AND HAVE LIMITED ACCESS TO ADDITIONAL FINANCING.

In addition to the cash requirements necessary to fund ongoing operations, we anticipate we will incur significant professional fees and other restructuring costs in connection with the Chapter 11 cases and the restructuring of our business operations. However, as a result of the uncertainty surrounding our current circumstances, it is difficult to predict our actual liquidity needs at this time. Although, based on current and anticipated levels of operations, management believes our cash flow from operations, together with amounts available under our DIP Financing, will be adequate to meet our anticipated cash requirements during the pendency of the Chapter 11 cases, ultimately such amounts may not be sufficient to fund operations until such time as we are able to propose a plan of reorganization that will receive the requisite acceptance and be confirmed by the Court. In the event cash flows and available borrowings under the DIP Financing are not sufficient to meet future cash requirements, we may be required to reduce planned capital expenditures or seek additional financing. We can provide no assurance that reductions in planned expenditures would be sufficient to cover shortfalls or that additional financing would be available or, if available, offered on acceptable terms. As a result of the Chapter 11 cases and the circumstances leading to their filing, our access to additional financing is, and for the foreseeable future will likely continue to be, very limited. As the foregoing indicates, our long-term liquidity requirements and the adequacy of our capital resources are difficult to predict at this time, and ultimately cannot be determined until a plan of reorganization has been developed and is confirmed by the Court.

WE ARE CURRENTLY IN DEFAULT UNDER THE DIP FINANCING.

As a result of expenses incurred by Cable in connection with the issuance of coupons as part of a marketing campaign, Cable is currently not in compliance with certain covenants and provisions of the DIP Financing, including the covenant that requires it to maintain minimum earnings before interest, taxes, depreciation and amortization (EBITDA). We are also in default of certain reporting provisions and mandatory prepayment provisions of the DIP Financing. This non-compliance constitutes an event of default under the DIP Financing. We, as well as all of our subsidiaries, guarantee Cable's obligations under the DIP Financing and such obligations are secured by a lien on all of our assets as well as those of our subsidiaries. Cable is in the process of negotiating an amendment to the DIP Financing which would, among other things, relax certain financial covenants under which it is currently in default. If Cable cannot negotiate an amendment and/or waiver with respect to the DIP Financing and is unable to secure alternative financing, our ability to continue the Chapter 11 cases would be significantly compromised. We cannot assure you Cable will be successful in negotiating an amendment to the DIP Financing or that, if successful, such an amendment will be on terms and conditions favorable to Cable.

WE ARE SUBJECT TO MATERIAL RESTRICTIONS ON THE CONDUCT OF OUR BUSINESS.

We, along with our subsidiaries, are operating our businesses as debtors-in-possession pursuant to the Bankruptcy Code. Under applicable bankruptcy law, during the pendency of the Chapter 11 cases, we will be required to obtain the approval of the Court prior to engaging in any transaction outside the ordinary course of business. In connection with any such approval, creditors and other parties in interest may raise objections to such approval and may appear and be heard at any hearing with respect to any such approval. Accordingly, although we may sell assets and settle liabilities (including for amounts other than those reflected on our financial statements), with the approval of the Court, there can be no assurance that the Court will approve any sales or settlements we propose. The Court also has the authority to oversee and exert control over our ordinary course operations.

In addition, the DIP Financing contains certain covenants requiring Cable to maintain a minimum number of subscribers, maintain minimum EBITDA levels, achieve minimum revenue levels and limit our capital expenditure levels. As a result of the restrictions described above, our ability to respond to changing business and economic conditions may be significantly restricted and we may be prevented from engaging in transactions we might otherwise consider beneficial.

We are also subject to covenants contained in our indentures and our pre-petition credit facility which materially limit our financial and operating flexibility by restricting, among other things, our ability to:

- incur additional indebtedness;
- create liens and other encumbrances;
- pay dividends and make other payments, investments, loans and guarantees;
- enter into transactions with related parties;
- sell or otherwise dispose of assets and merge or consolidate with another entity;
- repurchase or redeem capital stock or debt;
- pledge assets; and
- issue capital stock.

THE VALUE OF OUR CAPITAL STOCK IS HIGHLY SPECULATIVE.

As a result of the amount of prepetition indebtedness and the availability of the "cram down" provisions of the Bankruptcy Code, there is a very substantial possibility the holders of our capital stock will receive no value for their interests under a plan of reorganization. Because of such a possibility, the value of our capital stock is highly speculative and any investment in our capital stock would pose an extremely high degree of risk. Potential investors in our capital stock should consider the highly speculative nature of our capital stock prior to making any investment decision with respect to our capital stock.

WE HAVE HAD A HISTORY OF NET LOSSES AND CANNOT ASSURE YOU WE WILL NOT CONTINUE TO REPORT NET LOSSES FOR THE FORESEEABLE FUTURE.

We have grown rapidly and have a limited history of operating our current cable systems, which, along with the Chapter 11 cases, may make it difficult for you to evaluate our performance. We acquired a substantial portion of our operations in 1999 and early 2000 and the Star and Buford acquisitions more than doubled the number of subscribers served by our cable systems. As a result of the Chapter 11 cases and our acquisitions, you have limited information upon which to evaluate our performance in managing our current cable systems, and our historical financial information may not be indicative of the future results we can achieve with our cable systems. While any plan of reorganization we may file should provide for a feasible business plan after emergence from the bankruptcy process, we cannot guarantee we will not continue to report net losses.

WE MAY NOT BE ABLE TO OBTAIN ADDITIONAL CAPITAL TO CONTINUE THE DEVELOPMENT OF *OUR BUSINESS*.

Our business requires substantial capital for the upgrade, expansion and maintenance of our cable systems. We may not be able to obtain the funds necessary to finance our capital improvement program through internally generated funds, additional borrowings or other sources, particularly while we are subject to the Chapter 11 cases. If we are unable to obtain these funds, our growth could be adversely affected.

BRERA CLASSIC HAS THE ABILITY TO CONTROL MATTERS ON WHICH OUR STOCKHOLDERS MAY VOTE.

We have two classes of voting common stock - Class A common stock, which carries one vote per share, and Class B common stock which carries ten votes per share. As of December 31, 2001, holders of Class B common stock control approximately 87% of the voting power of our outstanding common stock. Brera Classic owns approximately 91% of our Class B common stock. As a result, Brera Classic controls us and has the ability to elect the majority of our directors. The board, in turn, may appoint new senior management and decide, subject to Court approval, which matters will be submitted to our stockholders for approval. These actions include adopting amendments to our certificate of incorporation and approving mergers or sales of substantially all of our assets. The interests of Brera Classic and its respective affiliates may conflict with the interests of the holders of Class A common stock.

Brera Classic currently has the ability to delay or prevent a change of control or changes in our management that stockholders consider favorable or beneficial. Provisions in our organizational documents may also have the effect of delaying or preventing these changes, including provisions authorizing issuance of "blank check" preferred stock, restricting the calling of special meetings of stockholders and requiring advanced notice of proposals for stockholder meetings, all of which would require Court approval. If a change of control or change in management is delayed or prevented, the market price of our Class A common stock could suffer or holders may not receive a premium over the then-current market price of the Class A common stock.

WE MAY NOT BE ABLE TO COMPETE EFFECTIVELY IN THE HIGHLY COMPETITIVE CABLE INDUSTRY.

Our industry is highly competitive. The nature and level of the competition we face affects, among other things, how much we must spend to upgrade our cable systems, how much we must spend on marketing and promotions and the prices we can charge our customers. We may not have the resources necessary to compete effectively. Many of our present and potential competitors may have fewer regulatory burdens, substantially greater resources, greater brand name recognition and long-standing relationships with regulatory authorities. We expect advancements in communications technology, as well as changes in the marketplace, to occur in the future which may compete with services that our cable systems offer. The success of these ongoing and future developments could have an adverse impact on our business and operations.

Continued growth of direct broadcast satellite operators could adversely affect our growth and profitability. Direct broadcast satellite operators have grown at a rate far exceeding the cable television industry growth rate and have emerged as a significant competitor to cable operators. Direct broadcast satellite service consists of television programming transmitted via high-powered satellites to individual homes, each served by a small satellite dish. The continued growth of direct broadcast satellite operators may adversely affect our growth and profitability.

Legislation permitting direct broadcast satellite operators to transmit local broadcast signals was enacted on November 29, 1999. This eliminated a significant competitive advantage which cable system operators have had over direct broadcast satellite operators. Direct broadcast satellite operators deliver local broadcast signals in many markets which we serve. These companies and others are also developing ways to bring advanced communications services to their customers. They are currently offering satellite-delivered high-speed Internet access services with a telephone return path and are beginning to provide true two-way interactivity. We are not able to predict the effects these competitive developments might have on our business and operations.

RECENT CHANGES IN THE REGULATORY ENVIRONMENT MAY INTRODUCE ADDITIONAL COMPETITORS IN OUR MARKETS.

Recent changes in federal law and recent administrative and judicial decisions have removed restrictions that have limited entry into the cable television industry by potential competitors such as telephone companies and registered utility holding companies. As a result, competition may materialize in our franchise areas from other cable television operators, other video programming distribution systems and other broadband telecommunications services to the home. For example, these developments will enable local telephone and utility companies to provide a wide variety of video services in their service areas which will be directly competitive with the services provided by cable systems in the same area.

OUR FRANCHISES ARE NON-EXCLUSIVE AND LOCAL FRANCHISING AUTHORITIES MAY GRANT COMPETING FRANCHISES IN OUR MARKETS.

Our cable systems are operated under non-exclusive franchises granted by local franchising authorities. As a result, competing operators of cable systems and other potential competitors, such as municipal utility providers, may be granted franchises and may build cable systems in markets where we hold franchises. Any such competition could adversely affect our business. The existence of multiple cable systems in the same geographic area is generally referred to as an overbuild. While we currently face overbuilds in a limited number of our markets, we are unable to predict whether competitors will develop in other franchise areas that we serve. Moreover, we are unable to predict the impact these competitive ventures might have on our business and operations.

WE MAY BE REQUIRED TO PROVIDE ACCESS TO OUR NETWORKS TO OTHER INTERNET SERVICE PROVIDERS, WHICH COULD SIGNIFICANTLY INCREASE OUR COMPETITION AND ADVERSELY AFFECT OUR ABILITY TO PROVIDE NEW PRODUCTS AND SERVICES.

The U.S. Congress and the Federal Communications Commission have been asked to require cable operators to provide access over their cable systems to other Internet service providers. If we are required to provide open access, it could prohibit us from entering into or limit our existing agreements with Internet service providers, adversely impact our anticipated revenues from high-speed Internet access services and complicate marketing and technical issues associated with the introduction of these services. To date, the U.S. Congress and the Federal Communications Commission have declined to impose these requirements. This same open access issue is also being considered by some local franchising authorities and several courts. Franchise renewals and transfers could become more difficult depending upon the outcome of this issue.

OUR FRANCHISES ARE SUBJECT TO NON-RENEWAL OR TERMINATION BY LOCAL AUTHORITIES, WHICH COULD CAUSE US TO LOSE OUR RIGHT TO OPERATE SOME OF OUR SYSTEMS.

Cable television companies operate under non-exclusive franchises granted by local authorities that are subject to renewal, renegotiation and termination from time to time. Our cable systems are dependent upon the retention and renewal of their respective local franchises. The pendency of the Chapter 11 cases may make it more difficult for us to retain or renew our franchises and any renewals may not be on terms favorable to us. The non-renewal or termination of franchises with respect to a significant portion of any of our cable systems would have a material adverse effect on our business.

There can be no assurance that we will be successful in accomplishing our objectives and meeting the challenges summarized above. If we are not successful, our business and results of operations could be materially, negatively impacted.

ITEM 2. PROPERTIES

A cable television system consists of four principal operating components. The first component, known as the headend, receives television, radio and information signals by means of special antennas and satellite earth stations. The second component, the distribution network, which originates at the headend and extends throughout the system's service area, consists of microwave relays, coaxial or fiber optic cables placed on utility poles or buried underground and associated electronic equipment. The third component of the system is a "drop cable," which extends from the distribution network into each customer's home and connects the distribution system to the customer's television set. The fourth component, a converter, is the home terminal device that expands channel capacity to permit reception of digital programming.

Our principal physical assets consist of cable television systems, including signal-receiving, encoding and decoding apparatus, headends, distribution systems and subscriber house drop equipment for each of the cable systems. The signal receiving apparatus typically includes a tower, antenna, ancillary electronic equipment and earth stations for reception of satellite signals. Headends, consisting of associated electronic equipment necessary for the reception, amplification and modulation of signals, are located near the receiving devices. Our distribution systems consist primarily of coaxial cable, optic cable and related electronic equipment. Subscriber equipment consists of taps, house drops and converters. We own our distribution systems, various office fixtures, test equipment and certain service vehicles. The physical components of the cable systems require maintenance and periodic upgrading to keep pace with technological advances.

Our cables generally are attached to utility poles under pole rental agreements with local public utilities; although in some areas the distribution cable is buried in underground ducts or trenches. The FCC regulates most pole attachment rates under the federal Pole Attachment Act except for utility poles of municipal or cooperative owned utilities or in states that have certified to the FCC that the state will regulate such pole attachments.

At December 31, 2001, our cable systems were principally located in Texas, Arkansas, Oklahoma, Louisiana, Missouri, Kansas, Colorado, Nebraska, New Mexico and Ohio. We own or lease parcels of real property throughout our region of operations for signal reception sites, such as antenna towers and headends, microwave complexes and business offices, including our principal executive offices. We believe that our properties, both owned and leased, are in good condition and are suitable and adequate for our business operations as presently conducted.

ITEM 3. LEGAL PROCEEDINGS

On November 13, 2001, we and our subsidiaries filed voluntary petitions under chapter 11 of title 11 of the United States Code in the United States Bankruptcy Court for the District of Delaware (the "Court"). We and our subsidiaries remain in possession of our assets and properties, and continue to operate our businesses and manage our properties as debtors-in-possession pursuant to the provisions of the Bankruptcy Code.

In the ordinary course of business, we are the subject of various pending or threatened legal actions. Prosecution of certain of these actions may be stayed by our Chapter 11 filing. We believe any ultimate liability arising from these actions should not have a material adverse effect on our consolidated financial position at December 31, 2001.

The Chapter 11 cases are being jointly administered under Case No. 01-11257. We anticipate that substantially all of our liabilities as of the date of the filing will be resolved under one or more Chapter 11 plans of reorganization to be proposed and voted on in the Chapter 11 cases in accordance with the provisions of the Bankruptcy Code. As a consequence of the bankruptcy filing, all pending litigation against us is stayed automatically by section 362 of the Bankruptcy Code and, absent further order of the Court, no party may take any action to recover on pre-petition claims against us. Please see Note 2 to the Consolidated Financial Statements.

On December 13, 2001, the Court entered a final order approving our post-petition DIP Financing in the amount of $30 million with certain of our pre-petition senior lenders. The DIP Financing was arranged by Goldman Sachs

Credit Partners LP as administrative agent under Section 364 of the Bankruptcy Code.

In addition to the post-petition financing motion, we obtained Court authority to (1) pay certain "critical vendors and service providers" in an amount up to approximately $8 million, (2) continue use of our existing cash management system, (3) pay certain pre-petition compensation and benefits to our employees, (4) address adequate assurance demands made by utilities, and (5) continue certain customer practices designed to maintain and attract customers.

On March 13, 2002, we filed a motion asking the Court to extend the time in which we have an exclusive right to file a plan of reorganization to May 13, 2002. Pursuant to local rules, our exclusive periods are extended until the Court rules on the motion. The motion also sought Court authorization to extend the exclusive period within which we may solicit acceptances of any such plan of reorganization through July 9, 2002.

In addition to the Chapter 11 cases, we are involved in various claims and lawsuits incidental to our business. The outcome of such suits, however, is not expected to have a material adverse effect on our financial position or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR THE COMPANY'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Following our Chapter 11 filing on November 13, 2001, the Nasdaq Stock Market immediately suspended trading in our securities. On December 11, 2001, our securities were delisted from the Nasdaq system. Our Class A stock is currently quoted on the NASD's OTC Bulletin Board under the symbol "CLSCQ".

Prior to December 11, 2001, our Class A Common Stock was traded on the Nasdaq National Market under the symbol "CLSC". The following table sets forth, for the periods indicated, the high and low closing sales prices for our Class A Common Stock as reported by the Nasdaq National Market or the OTC Bulletin Board:

<Caption>

	High	Low
First Quarter 2000	$ 32.63	$ 15.69
Second Quarter 2000	15.25	6.38
Third Quarter 2000	9.06	3.69
Fourth Quarter 2000	5.75	1.56
First Quarter 2001	3.88	2.00
Second Quarter 2001	1.50	0.25
Third Quarter 2001	0.84	0.10
Fourth Quarter 2001	0.17	0.01

There is no established public trading market for our Class B Voting Common Stock ("Class B Common Stock") or our Nonvoting Common Stock. Our Class B Common Stock and Nonvoting Common Stock can be converted, on a share for share basis, into Class A Common Stock.

We do not expect to pay any cash dividends on our Class A Common Stock, Class B Common Stock or Nonvoting Common Stock in the foreseeable future. The Court prevents the payment of dividends. In addition, covenants in the indentures and credit agreements governing the indebtedness of our subsidiaries restrict their ability to make distributions to us and, accordingly, limit our ability to declare or pay cash dividends.

The holders of Class A Common Stock and Class B Common Stock will generally vote as a single class on all matters on which stockholders have a right to vote, subject to the requirements of the applicable laws and the rights of any series of preferred stock or common stock to a separate class vote. Each stockholder is entitled to one vote for each share of Class A Common Stock held and each stockholder is entitled to ten votes for each share of Class B Common Stock held.

As of December 31, 2001, there were 23 record holders of our Class A Common Stock, eight record holders of our Class B Common Stock and one record holder of our Nonvoting Common Stock. This number does not include persons whose shares are held of record by a bank, brokerage house or clearing agency, but does include any such bank, brokerage house or clearing agency that is a holder of record.

ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected historical financial and operating data about us. You should read this information together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the notes relating to those statements included elsewhere in this document. You should see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Annual Report for a discussion of events which affect the comparability of the information reflected in this financial data.

<Caption>

	YEAR ENDED DECEMBER 31,				
	2001	2000	1999	1998	1997
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
INCOME STATEMENT DATA:					
Revenues	$ 177,304	$ 182,349	$ 114,405	$ 71,667	$ 62,557
Costs and expenses	135,082	112,665	74,421	43,935	38,117
Depreciation and amortization	99,212	88,524	51,484	30,531	27,832
Asset impairment	199,613	--	--	--	--
Chapter 11 related reorganization items	16,099	--	--	--	--
Operating income (loss)	(272,702)	(18,840)	(11,500)	(2,799)	(3,392
Interest expense	(57,741)	(56,278)	(40,775)	(24,442)	(21,299
Gain on sale of cable systems	9,457	370	--	--	3,644
Write-off of abandoned telephone operations	--	--	--	(220)	(500
Other income (expense)	16	2,340	605	192	71
Loss before income tax benefit and extraordinary loss	(320,970)	(72,408)	(51,670)	(27,269)	(21,476
Income tax benefit	--	20,182	11,901	1,930	7,347
Extraordinary loss	--	(14,767)	(4,093)	(5,524)	--
Net loss	$(320,970)	$ (66,993)	$ (43,862)	$ (30,863)	$ (14,129
Basic and diluted loss per common share before extraordinary item	$ (18.09)	$ (2.96)	$ (6.24)	$ (11.43)	$ (7.53
Basic and diluted loss per common share	$ (18.09)	$ (3.80)	$ (6.88)	$ (13.55)	$ (7.53
BALANCE SHEET DATA:					
Total assets	$ 463,659	$ 744,579	$ 761,871	$ 254,604	$ 220,162
Total debt	579,871	559,036	525,037	282,842	191,990
Total liabilities	664,417	624,560	588,889	301,392	206,643
Total redeemable preferred stock	--	--	--	--	26,705
Total stockholders' equity (deficit)	(200,758)	120,019	172,982	(46,788)	(13,186

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Reference is made to the "Risk Factors" above for a discussion of important factors that could cause actual results to differ from expectations and any of our forward-looking statements contained herein. In some cases, you can identify those so-called "forward-looking statements" by words such as "may," "will," "should," "expects," "anticipates," "considering," "believe," "estimates," "predicts," "potential," or "continue" or the negative of those words and other comparable words. In addition, the following discussion should be read in conjunction with our audited consolidated financial statements as of and for the years ended December 31, 2001, 2000 and 1999.

We do not believe the discussion and analysis of our historical financial condition and results of operations set forth below are indicative nor should they be relied upon as an indicator of our future performance.

Our discussion and analysis of our financial condition and results of operations are based upon our 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 that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to bad debts, inventories, long-lived assets, income taxes, restructuring, and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Property, plant and equipment, goodwill, and other intangible assets are amortized over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

OVERVIEW

On November 13, 2001 we and all of our wholly owned subsidiaries listed below filed voluntary petitions for reorganization (the "Petitions") under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (the "Court"). The following subsidiaries filed Chapter 11 petitions:

CallCom24, Inc.	Classic Cable, Inc.	Classic Cable Holding, Inc.
Classic Telephone, Inc.	Classic Cable of Oklahoma, Inc.	Correctional Cable TV, Inc.
Friendship Cable of Arkansas, Inc.	Friendship Cable of Texas, Inc.	Television Enterprises, Inc.
Universal Cable Communications, Inc.	Universal Cable Holdings, Inc.	Universal Cable of Beaver, Oklahoma, Inc.
Universal Cable Midwest, Inc.	W.K. Communications, Inc.	WT Acquisition Corporation

We and each of our debtor subsidiaries continue to manage our business as a debtor-in-possession. The Chapter 11 cases are being jointly administered under Case No. 01-11257. The Chapter 11 cases are discussed in greater detail in the Notes to the Consolidated Financial Statements. As debtors-in-possession, management is generally authorized to operate the businesses, but may not engage in certain transactions, including those outside the ordinary course of business, unless approved by the Court. After the Chapter 11 filings, we obtained several Court orders authorizing the payment of certain pre-petition liabilities (such as certain employee wages and benefits and programming fees) and taking certain actions designed to preserve the going concern value of the business and thereby enhance the reorganization prospects.

Under bankruptcy law, absent a court order, actions by creditors to collect certain pre-petition indebtedness owed by us at the filing date are stayed and certain other pre-petition contractual obligations may not be enforced against us. In addition, we have the right, subject to Court approval and other conditions, to assume or reject any pre-petition executory contracts and unexpired leases. Parties affected by these rejections may file claims with the Court. The amounts of claims filed by creditors could be significantly different from the amounts we have recorded. Due to material uncertainties, it is not possible to predict the length of time we will operate under Chapter 11 protection, the outcome of the proceedings in general, whether we will continue to operate under our current organizational structure, the effect of the proceedings on our businesses or the recovery by our creditors and equity holders.

BASIS OF PRESENTATION

Our consolidated financial statements included elsewhere in this Annual Report have been prepared assuming we will continue as a "going concern." Because of the Chapter 11 cases and the circumstances leading to their filing, there is substantial doubt about our ability to continue as a "going concern." Our continuation as a "going concern" depends on, among other things, confirmation of a plan of reorganization, our ability to comply with the terms of our DIP Financing and our ability to generate sufficient cash from operations and financing arrangements to meet our obligations. If the "going concern" basis was not appropriate for our consolidated financial statements, then significant adjustments would be necessary in the carrying value of assets and liabilities, the revenues and expenses reported, and the balance sheet classifications used.

In addition, the amounts reported in the consolidated financial statements included elsewhere in this Annual Report do not reflect adjustments to the carrying value of assets or the amount and classification of liabilities that ultimately may be necessary as the result of a plan of reorganization. Adjustments necessitated by a plan of reorganization could materially change the amounts reported in the consolidated financial statements included elsewhere in this Annual Report. The appropriateness of the "going concern" basis is dependent on, among other things, confirmation of a plan of reorganization, our ability to comply with the terms of our DIP Financing and our ability to generate sufficient cash flow from operations and financing arrangements to meet our obligations.

GENERAL

REVENUES. Revenues are primarily attributable to monthly subscription fees charged to subscribers for our basic, premium and digital cable television product offerings. Basic revenues consist of monthly subscription fees for all services, other than digital services and premium programming, as well as monthly charges for customer equipment rental. Premium revenues consist of monthly subscription fees for programming provided on a per channel basis. Digital revenues consist of the incremental revenues over and above our full basic revenues for digital based programming. In addition, other revenues are derived from:

- High Speed data services;
- installation and reconnection fees charged to basic subscribers to commence or reinstate service;
- pay-per-view charges;
- late payment fees;
- advertising revenues; and
- commissions related to the sale of merchandise by home shopping services.

At December 31, 2001, our collective systems served approximately 331,000 basic subscribers, 164,000 premium subscribers, 31,000 digital subscribers and 1,000 High Speed data customers. We have a basic penetration rate of approximately 46%, a premium penetration rate of approximately 50% and a digital penetration rate of approximately 10%. The table below sets forth the percentage of our total revenues attributable to the various sources for the year ended December 31, 2001:

Basic	82%
Premium	9%
Digital	3%
Data	--%
Other	6%
Total revenues	100%

OPERATING EXPENSES. Our operating expenses generally consist of (a) programming fees, (b) plant and operating costs, (c) general and administrative expenses, (d) marketing costs, (e) corporate overhead and (f) amortization and depreciation of intangible assets and property, plant and equipment. Programming fees have historically increased at rates in excess of inflation due to system acquisitions and internal growth, as well as increases in the number, quality and cost of programming services offered by us. Plant and operating costs include expenses related to wages and employee benefits of technical personnel, electricity, systems supplies, vehicles and other operating costs. General and administrative expenses include wages and employee benefits for customer service, accounting and administrative personnel, expenses related to billing, payment processing, and office administration. Corporate overhead consists primarily of expenses incurred by our executive management, which are not directly attributable to any one system.

NET LOSSES. The high level of depreciation and amortization associated with our acquisitions and capital expenditures related to continued construction and upgrading of the current systems, together with interest costs related to our financing activities, have contributed to our net losses. In 2001, our net loss was further increased by costs associated with our Chapter 11 related reorganization items and our asset impairment charge.

ACTUAL RESULTS OF OPERATIONS

<Caption>

	2001	2000	1999
STATEMENT OF OPERATIONS DATA:			
Revenues	$ 177,304	$ 182,349	$ 114,405
Operating expenses:			
Programming	60,834	56,541	32,901
Plant and operating	26,224	20,052	12,744
General and administrative	31,895	26,563	17,126
Marketing and advertising	3,452	3,673	1,929
Corporate overhead	12,677	5,836	9,721
Depreciation and amortization	99,212	88,524	51,484
Chapter 11 related reorganization items	16,099	--	--
Asset impairment	199,613	--	--
Total operating expenses	450,006	201,189	125,905
Loss from operations	(272,702)	(18,840)	(11,500)
Interest expense	(57,741)	(56,278)	(40,775)
Other Income	9,473	2,710	605
Loss before income taxes and extraordinary item	(320,970)	(72,408)	(51,670)
Income tax benefit	--	20,182	11,901
Loss before extraordinary item	(320,970)	(52,226)	(39,769)
Extraordinary loss on extinguishment of debt, net of taxes	--	(14,767)	(4,093)
Net loss	$(320,970)	$ (66,993)	$ (43,862)

The following discussion pertains to our results of operations and financial condition for the years ended December 31, 2001, 2000 and 1999.

2001 VS. 2000

Revenues decreased $5.0 million from period to period. Basic subscriber declines in 2001 were partially mitigated by rate increases implemented in the first quarter of 2001, all of which resulted in basic revenue decline of $4.0 million. Basic revenue per subscriber increased from $31.78 to $33.25. Digital subscribers increased by 9,000 which led to increased digital revenue of $3.3 million. Premium and other revenue sources declined $4.3 million. Revenue per subscriber increased from $38.77 to $41.04.

Operating expenses increased $248.8 million, or 124%, in 2001. Programming expenses increased $4.3 million primarily due to increased rates charged by programming vendors. Plant and operating and general and administrative costs increased $11.5 million, or 25%. Capitalization of internal labor and overhead increased as we completed significantly larger numbers of digital service installations as compared to the previous year. This positive impact on the expenses was offset by increased labor costs, contract labor and bad debt expense. Corporate overhead increased $6.8 million, primarily due to the following two items. During 2001, we engaged in various negotiations related to potential financing and restructuring transactions, and we incurred $7.5 million related to the due diligence efforts and commitments related to these potential transactions. We initiated a restructuring plan in the fourth quarter of 2000, and costs related to our restructuring efforts incurred during 2001 were $0.7 million. Depreciation and amortization expense in 2001 was $99.2 million, an increase of $10.7 million over the same period in 2000. The increase is partly due to continuing capital spending on digital services and the utilization of inventory balances. In the fourth quarter of 2001, we wrote-down the value of certain excess inventory to fair market value and recorded a pretax expense of approximately $2.0 million. This amount is included in the depreciation and amortization expense line item.

The amounts for Chapter 11 related reorganization items consist of accelerated amortization of debt issuance costs of $15.4 million and professional fees of $0.7 million.

During the three months ended September 30, 2001, we incurred a net basic subscriber decline of approximately 24,000 subscribers. This represented a 6% decline in the basic subscriber base. Overall for the nine months ended September 30, 2001, we incurred a net basic subscriber decline of approximately 40,000 subscribers. As a result of these declines, we determined that various long-lived assets associated with the subscriber base were impaired. Based upon recent third-party cable systems sales of comparable systems, we recognized in the third quarter of 2001 an impairment charge of approximately $200 million.

Interest expense increased $1.5 million, or 3%, in 2001. The increase is primarily due to higher average debt balances and our effective interest rates in 2001. Effective interest rates were higher in 2001 as a result of penalty interest accruing on the 1999 credit facility.

Other income increased $6.8 million in 2001. This increase is primarily the result of gains from the sale of our cable system in Breckenridge, Colorado.

No income tax benefit was recognized in 2001. The income tax benefit was $20.2 million in 2000. The effective tax rates for 2001 and 2000 differ from the statutory rates primarily due to increases in the valuation allowance on deferred tax assets.

In January 2000, the senior discount notes were redeemed resulting in an extraordinary loss on early redemption of $13.3 million ($9.3 million, net of taxes). In February 2000, the 1999 credit facility was amended resulting in an extraordinary loss of $8.5 million ($5.5 million, net of taxes).

As a result of the above described fluctuations in our results of operations, the net loss of $321.0 million in 2001 increased by $254.0 million, as compared to the net loss of $67.0 million in 2000.

2000 VS. 1999

Revenues increased $67.9 million, or 59%, in 2000. Revenues increased primarily due to increased subscribers resulting from acquisitions and basic rate increases. The Buford acquisition added approximately 170,000 subscribers in July 1999 and the Star acquisition added approximately 57,000 subscribers in February 2000. There was a rate increase of approximately 6% affecting approximately two-thirds of our customers in February 2000, resulting in a year to year increase in basic revenues per subscriber of 7% from $29.81 to $31.78.

Operating expenses increased $75.3 million, or 60%, in 2000. Programming expenses increased $23.6 million due to the continued escalation in rates charged by programming vendors, the addition of new channels to our existing channel lineups as well as an increase in the subscriber base over the same period in 1999. Plant and operating and general and administrative expenses increased $16.7 million, or 56%, as a result of the additional costs associated with the systems acquired in 1999 and 2000. Corporate overhead decreased from $9.7 million to $5.8 million as a result of the assimilation of our acquisitions from 1999 to 2000. Depreciation and amortization expense in 2000 was $88.5 million, an increase of $37.0 million over the same period in 1999. The increase represents the effect of acquisitions and capital expenditures.

Interest expense increased $15.5 million, or 38%, in 2000. This increase is primarily the result of the debt issued in conjunction with the Buford acquisition and the Star acquisition.

Other income increased $2.1 million in 2000. This increase is primarily the result of increased income on cash reserves.

The income tax benefit increased $8.3 million in 2000. The pretax loss increased in 2000 and the effective tax rate increased from 23.0% to 27.9% for 2000. The effective tax rates for 2000 and 1999 differ from the statutory rates primarily due to the impact of permanent differences and increases in the valuation allowance on deferred tax assets. We believe it is more likely than not that such deferred tax assets will not be utilized in the near term.

In January 2000, the senior discount notes were redeemed resulting in an extraordinary loss on early redemption of $13.3 million ($9.3 million, net of taxes). In February 2000, the 1999 credit facility was amended resulting in an extraordinary loss of $8.5 million ($5.5 million, net of taxes). In 1999, we redeemed a portion of our outstanding 9.875% senior subordinated notes due 2008, which resulted in an extraordinary loss from the early extinguishment of debt equal to $6.6 million.

As a result of the above described fluctuations in our results of operations and extraordinary losses recognized in connection with the 2000 and 1999 refinancing of debt, the net loss of $67.0 million in 2000 increased by $23.1 million, as compared to the net loss of $43.9 million in 1999.

LIQUIDITY AND CAPITAL RESOURCES

The cable television industry is a capital intensive business that generally requires financing for the upgrade, expansion and maintenance of the technical infrastructure. Historically, we have funded our working capital requirements, capital expenditures and acquisitions through a combination of internally generated funds, long- and short-term borrowings and equity contributions. Our ability to generate cash to meet our future needs will depend generally on our results of operations and the continued availability of external financing.

For the years ended December 31, 2001 and 2000, cash provided by operating activities totaled $20.7 million and $33.7 million, respectively; cash used for investing activities totaled $51.8 million and $195.4 million (including $111 million related to the Star acquisition), respectively. Cash provided by financing activities was $19.7 million and $12.4 million, respectively. Cable's aggregate outstanding borrowings as of December 31, 2001 were $579.9 million of which $201.9 million was collateralized by our assets.

For the years ended December 31, 2000 and 1999, cash provided by operating activities totaled $33.7 million and $17.9 million, respectively; cash used for investing activities totaled $195.4 million (including $111 million related to the Star acquisition) and $325.5 million (including $300 million related to the Buford acquisition), respectively. Cash provided by financing activities was $12.4 million and $473.1 million, respectively. Cable's aggregate outstanding borrowings as of December 31, 2000 were $559 million.

EBITDA for the years ended December 31, 2001 and 2000, before non-cash charges, restructuring and financing related professional fees and bankruptcy-related expenses, was $51.0 million and $71.9 million, respectively. EBITDA represents earnings before interest, taxes, depreciation and amortization. EBITDA is not intended to be a performance measure that should be regarded as an alternative to, or more meaningful than, either operating income or net income as an indicator of operating performance or to the statement of cash flows as a measure of liquidity; is not intended to represent funds available for debt service, dividends, reinvestment or other discretionary uses; and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles. EBITDA is included because our management believes that EBITDA is a meaningful measure of performance as it is commonly used by the cable television industry and by the investment community to analyze and compare cable television companies. Our definition of EBITDA may not be identical to similarly titled measures reported by other companies.

We have not been able to generate sufficient cash flow from operations to service our debt obligations. We have also been unsuccessful in our efforts to obtain additional financing and/or restructure our debt. As a result, it became necessary for us to seek protection under Chapter 11 of the United States Bankruptcy Code.

A final order of the Court approved a $30 million secured super-priority debtor-in-possession revolving DIP Financing for Cable with Goldman Sachs as administrative agent, lead arranger and syndication agent. The DIP Financing is collateralized by, among other things, a senior lien on substantially all of our assets, including assets that had previously been subject to a lien. We and our subsidiaries have guaranteed the obligations under the DIP Financing and we have pledged the outstanding stock of our subsidiaries in connection with the DIP Financing. The DIP Financing expires on the one-year anniversary of the first loan under the DIP Financing, unless it is extended to fifteen months following the closing of the first loan. The DIP Financing can be terminated if an event of default occurs and Cable can terminate portions of the revolving credit commitment in certain circumstances.

We have borrowed $2.0 million against the DIP Financing. As of December 31, 2001, we were in default of certain covenants of the DIP Financing and prohibited from drawing any more funds on the facility until we either cured the defaults or the lenders agreed to waive such defaults. We are currently in negotiations on an amendment and waiver to the DIP Financing to cure such covenant violations. There are no guarantees that the negotiations will be successful or if they are that we will be able to comply with the covenants.

As a result of the bankruptcy filing, all available commitments of the 1999 credit facility were cancelled.

The DIP Financing and the senior credit facility are collateralized by a substantial portion of the assets of Cable. We have no operations of our own. Consequently, we rely on dividends from, and cash flow of, Cable to meet our debt service obligations. The terms of the DIP Financing and the senior credit facility restrict certain of our activities as well as those of Cable, including the incurrence of additional indebtedness, limits on asset sales, investments, affiliate transactions and the payment of certain dividends.

We believe, based on information presently available to us, that cash available from operations and the DIP Financing will provide sufficient liquidity to allow us to continue as a going concern for the foreseeable future. However, our ability to continue as a going concern (including our ability to meet post-petition obligations) and the appropriateness of using the going concern basis for our financial statements are dependent upon, among other things, (i) our ability to comply with the terms of the DIP Financing and any cash management order entered by the Court in connection with the Chapter 11 cases, (ii) our ability to maintain adequate cash on hand, (iii) our ability to generate cash from operations, (iv) confirmation of a plan or plans of reorganization under the Bankruptcy Code, and (v) our ability to achieve profitability following such confirmation.