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040043-TX

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Trademarks
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January 14, 2004

Via Overnight Courier

Division of the Commission Clerk
and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399

**Re: *Application of Local Telecom Systems, Inc. for Authority to Provide
Alternative Local Exchange Service Within the State of Florida***


Ladies and Gentlemen:

On behalf of Local Telecom Systems, Inc. ("LTSP"), transmitted herewith is an original plus six (6) copies of its Application for Authority to Provide Alternative Local Exchange Service Within the State of Florida ("Application"). Also enclosed is a check in the amount of \$250.00, payable to the "Florida Public Service Commission," for the fee associated with the filing of this Application.

An additional copy of this filing is also enclosed, to be date-stamped and returned in the postage prepaid envelope provided.

Should there be any questions regarding this filing, kindly contact the undersigned.

Respectfully submitted,



Jonathan S. Marashlian
Regulatory Counsel

DOCUMENT NUMBER-DATE
00622 JAN 15 04
FPSC-COMMISSION CLERK

10268

THE HELEIN LAW GROUP, P.C.

8180 GREENSBORO DRIVE SUITE 700
MCLEAN VIRGINIA 22102

BB&T
BRANCH BANKING AND
TRUST COMPANY OF VIRGINIA

68-531/560

00010268

PAY TWO HUNDRED FIFTY AND XX / 100 Dollars

DATE
01/14/04

AMOUNT
*****\$250.00

TO THE ORDER OF FL Public Service Commission

Deborah Schneider
AUTHORIZED SIGNATURE

Security features. Details on back

**** FLORIDA PUBLIC SERVICE COMMISSION ****

DIVISION OF COMPETITIVE MARKETS AND ENFORCEMENT
CERTIFICATION

APPLICATION FORM
for
AUTHORITY TO PROVIDE
ALTERNATIVE LOCAL EXCHANGE SERVICE
WITHIN THE STATE OF FLORIDA

Instructions

This form is used as an application for an original certificate and for approval of the assignment or transfer of an existing certificate. In the case of an assignment or transfer, the information provided shall be for the assignee or transferee (See Page 12).

Print or type all responses to each item requested in the application and appendices. If an item is not applicable, please explain why.

Use a separate sheet for each answer which will not fit the allotted space.

Once completed, submit the original and six (6) copies of this form along with a non-refundable application fee of **\$250.00** to:

Florida Public Service Commission
Division of the Commission Clerk and Administrative Services
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850
(850) 413-6770

If you have questions about completing the form, contact:

Florida Public Service Commission
Division of Competitive Markets and Enforcement
Certification
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850
(850) 413-6600

APPLICATION

1. This is an application for (check one):

- Original certificate** (new company).
- Approval of transfer of existing certificate:** Example, a non-certificated company purchases an existing company and desires to retain the original certificate of authority.
- Approval of assignment of existing certificate:** Example, a certificated company purchases an existing company and desires to retain the certificate of authority of that company.
- Approval of transfer of control:** Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. Name of company:

Local Telecom Systems, Inc.

3. Name under which the applicant will do business (fictitious name, etc.):

Local Telecom Systems, Inc. or LTSI

4. Official mailing address (including street name & number, post office box, city, state, zip code):

3535 W. 7th St., Suite 1, Fort Worth, Texas 76107

5. Florida address (including street name & number, post office box, city, state, zip code):

NRAI Services, Inc.
526 E. Park Avenue
Tallahassee, FL 32301

6. Structure of organization:

- | | |
|---|--|
| <input type="checkbox"/> Individual | <input type="checkbox"/> Corporation |
| <input checked="" type="checkbox"/> Foreign Corporation | <input type="checkbox"/> Foreign Partnership |
| <input type="checkbox"/> General Partnership | <input type="checkbox"/> Limited Partnership |
| <input type="checkbox"/> Other | |

7. If individual, provide:

Name:

Title:

Address:

City/State/Zip:

Telephone No.: _____ Fax No.:

Internet E-Mail Address:

Internet Website Address:

8. If incorporated in Florida, provide proof of authority to operate in Florida:

(a) The Florida Secretary of State corporate registration number:

9. If foreign corporation, provide proof of authority to operate in Florida:

(a) The Florida Secretary of State corporate registration number:

See Exhibit A for Certificate of Authority.

10. If using fictitious name-d/b/a, provide proof of compliance with fictitious name statute (Chapter 865.09, FS) to operate in Florida:

(a) The Florida Secretary of State fictitious name registration number:

11. If a limited liability partnership, provide proof of registration to operate in Florida:

(a) The Florida Secretary of State registration number:

12. If a partnership, provide name, title and address of all partners and a copy of the partnership agreement.

Name:

Title:

Address:

City/State/Zip:

Telephone No.: _____ Fax No.:

Internet E-Mail Address:

Internet Website Address:

13. If a foreign limited partnership, provide proof of compliance with the foreign limited partnership statute (Chapter 620.169, FS), if applicable.

(a) The Florida registration number:

14. Provide F.E.I. Number(if applicable): 91-2170075

15. Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:

(a) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. Provide explanation.

No.

(b) an officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, give reason why not.

No.

16. Who will serve as liaison to the Commission with regard to the following?

(a) The application:

Name: Jonathan S. Marashlian, Esq.

Title: Regulatory Counsel

Address: The Helein Law Group, LLP, 8180 Greensboro Drive, Suite 700

City/State/Zip: McLean, Virginia 22102

Telephone No.: 703-714-1313

Fax No.: 703-714-1330

Internet E-Mail Address: jsm@thlglaw.com

Internet Website Address: www.thlglaw.com

(b) Official point of contact for the ongoing operations of the company:

Name: Jeremy Azif

Title: Director of Regulatory and Public Affairs

Address: 3535 W. 7th St., Suite 1

City/State/Zip: Fort Worth, Texas 76107

Telephone No.: 817-731-1171, x-230 Fax No.: 817-731-7747

Internet E-Mail Address: jazif@localtelecomsystems.com

Internet Website Address: www.localtelecomsystems.com

(c) Complaints/Inquiries from customers:

Same as (b), above.

17. List the states in which the applicant:

(a) has operated as an alternative local exchange company.

Texas, New Mexico, Arizona

(b) has applications pending to be certificated as an alternative local exchange company.

California, Illinois, New York, New Jersey

(c) is certificated to operate as an alternative local exchange company.

Texas, New Mexico, Arizona

(d) has been denied authority to operate as an alternative local exchange company and the circumstances involved.

No state has denied Applicant authority to operate

(e) has had regulatory penalties imposed for violations of telecommunications statutes and the circumstances involved.

No state has imposed regulatory penalties on Applicant for violations of telecommunications statutes

(f) has been involved in civil court proceedings with an interexchange carrier, local exchange company or other telecommunications entity, and the circumstances involved.

Applicant has not been involved in any civil court proceedings with any telecommunications entity

18. Submit the following:

A. Managerial capability: give resumes of employees/officers of the company that would indicate sufficient managerial experiences of each.

Applicant is an established telecommunications services provider based in Texas. It was founded in 2002 and currently provides resold local exchange services in Texas, New Mexico and Arizona.

Applicant is well-qualified managerially and technically to provide facilities-based and resold telecommunications services in Florida. William Miertschin has been President and Director of LTSI since the company began providing resold local exchange services. Mr. Miertschin is an accomplished manager with over 20 years prior experience in the regulated oil and gas industries.

LTSI's management team oversees all back office functions, including service ordering, provisioning and customer care, associated with LTSI's local exchange resale services. LTSI has and will continue to rely on the technical expertise of its underlying providers of telecommunications services, both resold and limited facilities-based, primarily through BellSouth's UNE-P.

LTSI's management team has substantial experience in the telecommunications industry, including significant regulatory experience, which is invaluable in operating and managing a competitive local exchange company. Jeremy Azif, LTSI's Director of Regulatory and Public Affairs, has held positions in marketing, regulatory/government affairs, and management consulting with Nortel Networks, PrimeCo Personal Communications, and Booz-Allen & Hamilton. As Director of Regulatory and Public Affairs, Mr. Azif is responsible for managing all federal and state regulatory activities impacting the company, including the maintenance of annual CLEC reporting and compliance; negotiating and managing ILEC wholesale/resale and interconnection agreements; monitoring regulatory, legal, and legislative developments; and representing the company's interests to regulatory and industry bodies.

Prior to joining LTSI, Mr. Azif was a Solutions Marketing Manager at Nortel Networks and a Manager of Strategic Communications for Nortel's Wireless & Carrier Networks Division. Before joining Nortel, Mr. Azif was Manager of Industry Relations and Regulatory for PrimeCo Personal Communications, L.P.'s Corporate Engineering Department. At PrimeCo, Mr. Azif was responsible for monitoring and managing regulatory, industry, and technical issues.

Mr. Azif received a B.A. in Political Science and a Masters degree in Public Administration with a specialization in Telecommunications from the George Washington University in Washington, D.C.

Resumes and biographical information on LTSI's management team are attached hereto at Exhibit B.

FORM PSC/CMU 8 (11/95)
Required by Commission Rule Nos. 25-24.805,
25-24.810, and 25-24.815

B. Technical capability: give resumes of employees/officers of the company that would indicate sufficient technical experiences or indicate what company has been contracted to conduct technical maintenance.

See above and Exhibit B.

C. Financial capability.

The application **should contain** the applicant's audited financial statements for the most recent 3 years. If the applicant does not have audited financial statements, it shall so be stated.

The unaudited financial statements should be signed by the applicant's chief executive officer and chief financial officer **affirming that the financial statements are true and correct** and should include:

1. the balance sheet:
2. income statement: and
3. statement of retained earnings.

NOTE: *This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.*

Further, the following (which includes supporting documentation) should be provided:

1. **written explanation** that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.
2. **written explanation** that the applicant has sufficient financial capability to maintain the requested service.
3. **written explanation** that the applicant has sufficient financial capability to meet its lease or ownership obligations.

See Exhibit C for copy of 2002 SEC Form 10-KSQ Annual Report and most recent SEC Form 10-QSB Quarterly Report.

THIS PAGE MUST BE COMPLETED AND SIGNED

APPLICANT ACKNOWLEDGMENT STATEMENT

- 1. REGULATORY ASSESSMENT FEE:** I understand that all telephone companies must pay a regulatory assessment fee in the amount of .15 of one percent of gross operating revenue derived from intrastate business. Regardless of the gross operating revenue of a company, a minimum annual assessment fee of \$50 is required.

- 2. APPLICATION FEE:** I understand that a non-refundable application fee of \$250.00 must be submitted with the application.

UTILITY OFFICIAL:

William Miertschin

Print Name

William R. Miertschin

Signature

President

Title

1/13/04

Date

817-731-1171

Telephone No.

817-731-7747

Fax No.

3535 W. 7th St., Suite 1, Fort Worth, TX 76107

Address

THIS PAGE MUST BE COMPLETED AND SIGNED

AFFIDAVIT

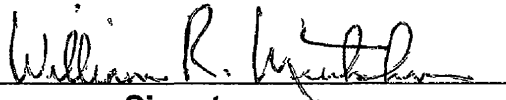
By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange company service in the State of Florida. I have read the foregoing and declare that, to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

Further, I am aware that, pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775.083."

UTILITY OFFICIAL:

William Miertschin

Print Name



Signature

President

Title

1/13/04

Date

817-731-1171

Telephone No.

817-731-7747

Fax No.

3535 W. 7th St., Suite 1, Fort Worth, TX 76107

Address

INTRASTATE NETWORK (if available)

Chapter 25-24.825 (5), Florida Administrative Code, requires the company to make available to staff the alternative local exchange service areas only upon request.

1. POP: Addresses where located, and indicate if owned or leased.

1) _____ 2) _____

3) _____ 4) _____

2. SWITCHES: Address where located, by type of switch, and indicate if owned or leased.

1) _____ 2) _____

3) _____ 4) _____

3. TRANSMISSION FACILITIES: POP-to-POP facilities by type of facilities (microwave, fiber, copper, satellite, etc.) and indicate if owned or leased.

POP-to-POP _____ OWNERSHIP

1) _____

2) _____

3) _____

4) _____

CERTIFICATE SALE, TRANSFER, OR ASSIGNMENT STATEMENT

I, (Name)
(Title) _____ of (Name of Company)

and current holder of Florida Public Service Commission Certificate Number #
_____, have reviewed this application and join in the petitioner's request for
a:

- () sale
- () transfer
- () assignment

of the above-mentioned certificate.

UTILITY OFFICIAL:

Jeremy Azif

Print Name Signature

Director of Regulatory & Public Affairs

Title Date

817-731-1171, x-230

Telephone No. Fax No. **817-731-7747**

3535 W. 7th St., Suite 1, Fort Worth, TX 76107
Address

EXHIBIT A

Certificate of Authority to Conduct Business as a Foreign Corporation

State of Florida



Department of State

I certify from the records of this office that LOCAL TELECOM SYSTEMS, INC., is a corporation organized under the laws of Nevada, authorized to transact business in the State of Florida, qualified on December 26, 2003.

The document number of this corporation is F04000000063.

I further certify that said corporation has paid all fees due this office through December 31, 2003, and its status is active.

I further certify that said corporation has not filed a Certificate of Withdrawal.

Given under my hand and the
Great Seal of the State of Florida
at Tallahassee, the Capitol, this the
Sixth day of January, 2004



CR2EO22 (2-03)

Glenda E. Hood

Glenda E. Hood
Secretary of State

State of Florida



Department of State

I certify the attached is a true and correct copy of the application by LOCAL TELECOM SYSTEMS, INC., a Nevada corporation, authorized to transact business within the State of Florida on December 26, 2003 as shown by the records of this office.

The document number of this corporation is F04000000063.

Given under my hand and the
Great Seal of the State of Florida
at Tallahassee, the Capitol, this the
Sixth day of January, 2004



CR2EO22 (2-03)

Glenda E. Hood

Glenda E. Hood
Secretary of State

**APPLICATION BY FOREIGN CORPORATION FOR AUTHORIZATION TO TRANSACT
BUSINESS IN FLORIDA**

IN COMPLIANCE WITH SECTION 607.1503, FLORIDA STATUTES, THE FOLLOWING IS SUBMITTED TO REGISTER A FOREIGN CORPORATION TO TRANSACT BUSINESS IN THE STATE OF FLORIDA.

1. Local Telecom Systems, Inc.
(Name of corporation; must include the word "INCORPORATED", "COMPANY", "CORPORATION" or words or abbreviations of like import in language as will clearly indicate that it is a corporation instead of a natural person or partnership if not so contained in the name at present.)

2. Nevada 3. _____
(State or country under the law of which it is incorporated) (FEI number, if applicable)

4. February 19, 1969 5. Perpetual
(Date of incorporation) (Duration: Year corp. will cease to exist or "perpetual")

6. Upon Qualification
(Date first transacted business in Florida. If corporation has not transacted business in Florida, insert "upon qualification.")
(SEE SECTIONS 607.1501, 607.1502 and 817.155, F.S.)

7. 3535 West Seventh Street, Suite 1, Fort Worth, Texas 76107
(Principal office address)

3535 West Seventh Street, Suite 1, Fort Worth, Texas 76107
(Current mailing address)

8. Telecommunications
(Purpose(s) of corporation authorized in home state or country to be carried out in state of Florida)

9. **Name and street address of Florida registered agent:** (P.O. Box or Mail Drop Box NOT acceptable)

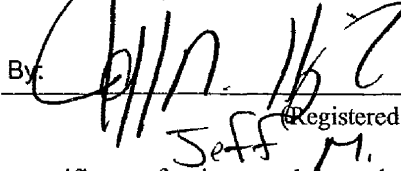
Name: NRAI Services, Inc.

Office Address: 526 E. Park Avenue

Tallahassee, Florida 32301
(City) (Zip code)

10. **Registered agent's acceptance:**
Having been named as registered agent and to accept service of process for the above stated corporation at the place designated in this application, I hereby accept the appointment as registered agent and agree to act in this capacity. I further agree to comply with the provisions of all statutes relative to the proper and complete performance of my duties, and I am familiar with and accept the obligations of my position as registered agent.

NRAI Services, Inc.

By: 
(Registered agent's signature)
Jeff M. Higdon, Special Asst. Sec.

11. Attached is a certificate of existence duly authenticated, not more than 90 days prior to delivery of this application to the Department of State, by the Secretary of State or other official having custody of corporate records in the jurisdiction under the law of which it is incorporated.

FILED
DEC 26 AM 9:19
TALLAHASSEE, FLORIDA
SECRETARY OF STATE

12. Names and business addresses of officers and/or directors:

A. DIRECTORS

Chairman: William R. Miertschin

Address: 3535 West Seventh Street, Suite 1

Fort Worth, Texas 76107

Vice Chairman: Director - Richard M. Hewitt

Address: 300 Trophy Club Drive, Suite 700

Trophy Club, Texas 76262

Director: William R. Miertschin

Address: 3535 West Seventh Street, Suite 1

Fort Worth, Texas 76107

Director: Katey Daniel

Address: 3535 West Seventh Street, Suite 1

Fort Worth, Texas 76107

FILED
03 DEC 26 AM 9:19
SECRETARY OF COMMERCE
TALLAHASSEE FLORIDA

B. OFFICERS

President: William R. Miertschin

Address: 3535 West Seventh Street, Suite 1

Fort Worth, Texas 76107

Vice President: _____

Address: _____

Secretary: Katey Daniel

Address: 3535 West Seventh Street, Suite 1, Fort Worth, Texas 76107

Treasurer: Amber Smith

Address: 3535 West Seventh Street, Suite 1, Fort Worth, Texas 76107

NOTE: If necessary, you may attach an addendum to the application listing additional officers and/or directors.

13. William R. Miertschin

(Signature of Chairman, Vice Chairman, or any officer listed in number 12 of the application)

14. William R. Miertschin

(Typed or printed name and capacity of person signing application)

EXHIBIT B

Management Bios

Key Management

President - William R. Miertschin

Treasurer – Arthur R. Berger

Secretary and Dir. Of Operations – Katey J. Daniel

Dir. Of Regulatory & Public Affairs – Jeremy Azif

Board of Directors

William R. Miertschin

Katey J. Daniel

Amber G. Smith

Richard M. Hewitt

Management Bios

William R. Miertschin, of Dallas, Texas, has been President and a Director of the Company since its inception. Previously he was President of Signature Motorcars, Inc., a publicly owned Dallas company, since 1997, until its merger with LTSI. Mr. Miertschin is a graduate of the University of Texas at Austin and has been active in the oil and gas industry for over 20 years, the last 15 years as a consultant in Dallas.

Arthur R. Berger. Mr. Arthur R. Berger is a CPA, licensed in the State of Texas. Mr. Berger has an undergraduate degree from Southern Methodist University and two master's degrees from the University of Illinois. He has held senior executive responsibilities in several industries including manufacturing and financial services. Mr. Berger is a former partner in Arthur Andersen & Company's consulting group. Prior to joining the company, Mr. Berger had a successful professional practice.

Katey J. Daniel, of Weatherford, Texas, has been Director of Operations since June 2003. A 1996 graduate from Brandon University in Manitoba, Canada with a B.Ed. and a 2000 graduate from the University of Dallas in Irving, Texas with an MBA with a major in Telecommunications. Prior to joining LTSI she has held management positions in operations in the general business sector as well as sales, marketing, training, and new business development management positions in the telecommunications sector.

Amber G. Smith, of Dallas, Texas, has been Treasurer of the Company since its inception. She is a graduate of West Texas State University in Canyon, Texas. While serving as telecommunications manager of Span Instruments, Inc., Plano, Texas, between 1990 and 1995, she completed a telecommunications program at Richland College, Dallas, Texas.

Richard M. Hewitt, of Trophy Club, Texas, has been a Director of the Company since its inception. He is an attorney specializing in securities law. A graduate of Grinnell College, Grinnell, Iowa, Mr. Hewitt holds an LLB degree from Southern Methodist University, College of Law, Dallas, Texas. He has been in private practice in the Dallas-Fort Worth area for the last 20 years.

Jeremy Azif, of Irving, Texas, has been Director of Regulatory and Public Affairs since August 2003. Prior to joining LTSI, he held positions in marketing, regulatory/government affairs, and management consulting with Nortel Networks, PrimeCo Personal Communications, and Booz-Allen & Hamilton. Mr. Azif holds a B.A. in Political Science and a Masters degree in Public Administration with a specialization in Telecommunications from the George Washington University in Washington, D.C. He also has a paralegal certificate from the Southeastern Career Institute.

Jeremy Azif

Director of Regulatory and Public Affairs

Jeremy Azif, of Irving, Texas, has been Director of Regulatory and Public Affairs since August 2003. Prior to joining LTSI, Azif held positions in marketing, regulatory/government affairs, and management consulting with Nortel Networks, PrimeCo Personal Communications, and Booz-Allen & Hamilton. In this role, Azif is responsible for managing all federal and state regulatory activities impacting the company. Specifically, this includes maintaining annual CLEC reporting and compliance; negotiating and managing ILEC wholesale/resale and interconnection agreements; monitoring regulatory, legal, and legislative developments; and representing the company's interests to regulatory and industry bodies.

Prior to this role, Azif was a Solutions Marketing Manager at Nortel Networks whereby he was responsible for managing Nortel Networks' involvement with optical industry trade shows and conferences. Azif also was a Manager of Strategic Communications for the Wireless & Carrier Networks Division where he was responsible for creating strategic messages as part of Nortel's wireless and Internet marketing initiatives.

Prior to joining Nortel, Azif was Manager of Industry Relations and Regulatory for PrimeCo Personal Communications, L.P.'s Corporate Engineering Department. At PrimeCo, Azif was responsible for monitoring and managing regulatory, industry, and technical issues, including local number portability, numbering, enhanced 911, and the Communications Assistance for Law Enforcement Act (CALEA). Azif also participated in a variety of industry forums, including the Industry Numbering Committee, PCIA BPA Numbering Group, CTIA Numbering Advisory Group (NAG), and NANC-related task forces. In addition, Azif was responsible for providing technical information for PrimeCo's External Affairs Department as part of its lobbying and legislative initiatives before Congress, the FCC, and state commissions.



Prior to joining PrimeCo, Azif was a Senior Consultant with Booz-Allen & Hamilton's Telecommunications & Information Technology Client Service Team. At Booz-Allen, Azif provided support to the Department of Justice and Federal Bureau of Investigation in implementing the Communications Assistance for Law Enforcement Act (CALEA). Azif's duties included, monitoring and tracking Federal, legislative, and regulatory body hearings, meetings, and trends; researching and developing reports, press releases, and briefings; and Azif provided significant written input into DOJ Federal Register notices.

Prior to joining Booz-Allen, Azif was a Government Relations Specialist for Nortel Networks's Washington, D.C. office where he represented Nortel's public policy, regulatory, and international trade interests before the Executive and Legislative branch agencies, and industry trade associations.

Azif received a B.A. in Political Science and a Masters degree in Public Administration with a specialization in Telecommunications from the George Washington University in Washington, D.C. Azif also holds a paralegal certificate from the Southeastern Career Institute in Dallas, TX.

EXHIBIT C

Financial Information

 <p>FreeEDGAR[®] A service of EDGAR[®] Online[®]</p>	
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LOCAL TELECOM SYSTEMS INC

Form: **10KSB** Filing Date: 1/24/2003 [Filing Index](#)

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<OTHERDOC-AVAILABLE Series=localform10k2002.txt Ver="">Document is copied.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-KSB

Annual Report Under Section 13 or 15(d) of
the Securities Exchange Act of 1934

For the fiscal year ended September 30, 2002

Commission file number: 2-42114

Local Telecom Systems, Inc.

(Name of Small Business Issuer in Its Charter)

State of Nevada

75-1310613

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer Identification No)

3537 West 7th Street, Suite 5, Fort Worth, Texas 76107

(Address of Principal Executive Offices)

Issuer's Telephone Number including Area Code: (817) 675-4237

Securities registered pursuant to Section 12(g) of the Act:

Common stock, par value \$0.0167

The issuer (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, and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. []

State issuer's revenues for its most recent fiscal year \$ 42,652

Currently no trading market exists for the voting stock (8,701,034 shares) held by non-affiliates of the Registrant on September 30, 2002. The number of shares outstanding of the Registrant's common stock on September 30, 2002, was 39,330,582 shares

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PART I

Item 1. Description of Business

(a) Business Development

Local Telecom Systems, Inc. (the "Company") was organized on February 19, 1969, as a corporation under the laws of the State of Nevada, under the name of International Royalty & Finance Co. for the general purpose of engaging in exploration for oil and gas, and on December 23, 1971, the name of the Company was changed to International Royalty & Oil Co. (IROC). Again on July 10, 1996, the Company changed its name to Signature Motorcars, Inc., in anticipation of entry into the car rental business; however, the anticipated merger was never consummated. In 1997, the Company began acquiring working interests, royalties, and overriding royalties in oil and gas properties within the United States and in foreign countries. However, with the decline of oil and gas prices in 1998, the Company began evaluating opportunities in other industries. On February 22, 2002 the Company entered into a merger agreement with Local Telecom Systems, Inc. and agreed to change its name to Local Telecom Systems, Inc. See Item 4 "Submission of Matters to Security Holders" for additional information.

During its fiscal year ended September 30, 2001 the Company was not involved in any bankruptcy, receivership, or similar proceeding and underwent no material reclassification, merger, or consolidation. The Company did during the fiscal year ended September 30, 2002, enter into a merger agreement with Local Telecom Systems, Inc. as well as effect a partial distribution of the Company's assets.

The Company, Local Telecom Systems, Inc. (LTSI), offers local and long distance service on a prepaid basis. Specifically, local services include a "bare bones" product providing unlimited local dial tone and 911 emergency access with the option of several custom calling features, for additional fees, including Call Waiting, Caller ID, Call Forwarding and Speed Dialing. These features may be purchased individually or in a package at reduced rates.

LTSI purchases phone services from the incumbent local exchange carrier (ILEC) at deep discounts (currently up to 26%) and resells the service on a prepaid basis at a premium, allowing attractive profit margins. The markets are households without phone service due to lack of credit history or a poor credit history, and/or the inability to pay a deposit.

LTSI is a flat rate service provider with a customer base of approximately 800 in Texas, New Mexico and Arizona as of September 30, 2002. LTSI is not a measured service provider, which is when service is provided on a per call or minute basis. LTSI now has the licenses in place to expand into 42 more states for a total of 45 states. See Item 1(b) "Business of Issuer" for additional information.

From April 18, 2002 until August 30, 2002 the Company was working with the principles in the preparation of the various license agreements held in 42 states and documenting the transfer of these rights in compliance with state and federal laws.

August 30, 2002 was the effective date of this acquisition. On this date the Company released the 27,335,854 restricted shares to the principles of this acquisition and in return they conveyed the property, rights, privileges, agreements, tariffs and the 42 license agreements to LTSI. The Company issued an additional 2,719,818 restricted common shares for consulting services for the acquisition and funding arrangements for the merger with Local Telecom Systems, Inc. These shares were adjusted after the 4 for 5 reverse stock split to 2,175,854 restricted common shares representing a 5.6% fee for the services rendered in connection with this acquisition. The sole consideration for these consulting services was restricted shares of the Company's common stock.

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At the same shareholders' meeting held on February 22, 2002, the holders of a majority of outstanding common stock approved stock dividends to the shareholders of 100% of the outstanding common stock of the Company's four wholly owned subsidiaries. The effective date of these stock dividends was April 15, 2002, prior to the effectiveness of the merger with LTSI. Each stock dividend was approved on the basis of one (1) share of each subsidiary for every three (3) shares of the Company's common stock owned. Pursuant to these stock dividends, the ownership of the following subsidiaries was transferred from the Company directly to the shareholders on a pro rata manner: International Royalty & Oil Co., Signature Financial Services, Inc., Cumberland Continental Corp., and Signature Healthcare, Inc. Each former subsidiary company now has 100,000,000 shares authorized for issuance, 5,217,179 shares of restricted common stock issued and outstanding, par value of \$0.001 per share. The record date for the distribution of the 5,217,179 common shares in each of the four companies was April 15, 2002 at no additional cost to the existing shareholders.

(b) Business of Issuer

LTSI is a local telephone service reseller with an acquired three-year-old customer base in Texas, New Mexico and Arizona. LTSI has the necessary licenses and interconnect agreements to offer, on a national basis, prepaid local telephone service and various ancillary products such as 911, caller ID and prepaid long distance in 45 states. The following are brief highlights of LTSI business:

Experience - LTSI management has been in the prepaid industry since 1997 shortly after the passage of the Telecommunications Act of 1996 and has years of experience in the prepaid local telephone reseller niche, primarily the Hispanic market. LTSI also has consulting contracts with individuals that have extensive communications experience.

Hispanic Market - The Hispanic market has a higher growth rate than other demographic sectors, unusual brand loyalty, and twice the national average propensity for prepaid telephone service.

Economics - The prepaid telephone service reseller business has attractive margins, minimal capital expense and minimal bad debt. LTSI acquires heavily discounted telephone service from the incumbent local exchange carriers, such as Southwestern Bell, Bell South, Sprint, Verizon and Qwest and charges premium rates yielding above average profit margins. Additionally, customers must pay prior to receiving service, thereby mitigating bad debts.

Regulatory Approvals - LTSI possesses regulatory approval to sell and provide local and long distance phone service in 45 states plus the District of Columbia. This nationwide (footprint) affords LTSI an advantage over many competitors, as it is a very arduous and time-consuming process to acquire approvals from each state's Public Utility Commission (PUC) and Secretary of State. The footprint allows LTSI flexibility in terms of market selection and service deployment. LTSI is not licensed in Arkansas, Missouri, Oklahoma, Alaska and Hawaii.

Risk Factors

Termination of License/Certificate - Failure to pay Utility Tax, Line Charge or license fees in the states in which we operate would result in a termination of LTSI's license and/or certificate within the state. Unauthorized change in service provider, known as "Slamming", would also terminate a license or certificate to do business as a reseller of local phone service. Although the

Company does not intend on allowing any of these events to occur, if any do occur, the Company would be prohibited from engaging in the local telephone service market, which would have a material adverse effect on the Company.

Dependence on Third Parties - The Company depends on many consultants, vendors and suppliers to conduct business. For example, the Company uses a billing service to mail the monthly invoices to our customers and the Company also uses a telemarketing company for subscribing new customers during an advertising campaign. LTSI is not equipped with the necessary personnel or equipment to handle either of these services and is therefore dependent to outsource these

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types of services. A loss of any one of these third parties would significantly disrupt our operations.

Dependence Upon Management - The operations and financial success of the Company are significantly dependent on the managerial personnel of the Company, Tracey Norris and William Miertschin. In the event that the management of the Company becomes unable or unwilling to continue to direct its operations, the Company could be adversely affected.

Incumbent Local Exchange Carrier (ILEC) - The Company purchases phone lines from the ILECs at a discount and resells the lines on a prepaid basis; however, the ILEC companies could offer those same lines to the Company's customers. For the most part the ILECs are not interested in this market and have set their pricing and restrictions to exclude most of our target market. However, ILEC's may compete directly with the Company, which would drastically increase competition and likely impair our business.

Incumbent Based Operation- The Company is a resale based operation and not a facility based operation and therefore any Acts of God, Terrorist acts or Union Strikes that cause phone service to be interrupted will result in the Company's total dependence on the ILEC provider to restore operations in a timely fashion. Poor service provided by our ILEC could result in the loss of customers to our Company.

The Financial Difficulties of Other Competitive Communications Providers Could Adversely Affect our Financial Results - Many competitive local exchange carriers and other emerging communications providers have experienced substantial financial difficulties over the past year, in some cases leading to bankruptcies and liquidations. The financial difficulties of these companies could reflect poorly on the Company's financial stability, may diminish its ability to obtain further working capital and may adversely affect the willingness of potential customers to move their communications services to a competitive local carrier like Local Telecom Systems, Inc.

Competition and Markets

The telecommunications industry is highly competitive. The Company believes that the principal competitive factors affecting its business are pricing levels and clear pricing policies, customer service, accurate billing and, to a lesser extent, variety of services. The Company's ability to compete effectively depends upon its continued ability to maintain high quality, market-driven services at prices generally equal to or below those charged by our competitors. To maintain its competitive posture, the Company believes it must be in a position to reduce its prices in order to meet reductions in rates, if any, by others. Any such reductions could materially adversely affect the Company. Many of the Company's current and potential competitors have financial, personnel and

other resources, including brand name recognition, substantially greater than we do or expect to have in the near term.

Telephone service providers like LTSI are subject to competition from other providers including those incumbent local exchange carriers from which LTSI purchases phone lines. As a result of the Telecommunications Act of 1996, telephone companies are no longer afforded exclusive franchise service areas. Under that Act, competitors can offer telephone services to LTSI subscribers. The Act contemplates that various regulations will be promulgated by the Federal Communications Commission (FCC) and state regulatory agencies to implement various parts of the Act, such as regulations setting out the procedures and methodologies for implementing and promoting competition in the telephone industry. The regulations could have a material adverse effect, and the Act does open the opportunity for others to be competitive for the same markets.

LTSI is initially targeting Hispanic households in the United States that currently do not have telephone service. This sector presents opportunity, as Hispanics: are growing at a rate faster than the national average; tend to be brand loyal; have a higher than average number of residents in the home creating a need for service; have favorable feature and long distance use; and are easier to target market than other segments, as they tend to watch specific television programming formats and networks during less expensive time periods,

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allowing for reduced advertising costs. Other local exchange carriers that target this same sector include, but are not limited to, Smoke Signal, 4Aphone and ComSouth.

The Act of 1996 has significantly increased the level of competition in our local exchange markets. One of the purposes of the 1996 Act was to ensure, and accelerate, the emergence of competition in local exchange markets. Toward this end, the 1996 Act requires most existing local exchange carriers (incumbent local exchange carriers, or ILECS's), to permit competitive local exchange carriers, or CLEC's, including our Company, to purchase service from the ILEC for resale to CLEC customers and interconnect the CLEC's network with the ILEC's network. As a result, competition in the local exchange markets is expected to continue to increase.

Governmental and Other Regulations

LTSI is subject to regulation by the Public Utility Commission, FCC and each of the Utilities Boards in each state in which LTSI holds a license/certificate. LTSI operates our telephone businesses pursuant to license/certificates and various rules and regulations promulgated by these agencies. Although not anticipated to occur, these agencies have the authority to terminate LTSI's right to provide services if they fail to comply with those rules and regulations.

Agencies, like the FCC, require us to file periodic reports, pay various fees and assessments, and comply with rules governing quality of service, consumer protection, and similar issues. Although the specific requirements vary from state to state, they tend to be more detailed than the FCC's regulation because of the strong public interest in the quality of basic local exchange service. We intend to comply with all applicable state regulations, and as a general matter do not expect that these requirements of industry-wide applicability will have a material effect on our business. However, no assurance can be given that the imposition of new regulatory burdens in a particular state will not affect the profitability of our services in that state.

Under the Telecommunications Act, any entity, including cable television companies, electric and gas utilities, may enter any telecommunications market, subject to reasonable state regulation of safety, quality and consumer protection. Because of the implementation of the Telecommunications Act, LTSI is subject to numerous federal and state policy rulemaking proceedings and judicial review. There is still uncertainty as to what impact such legislation will have on us.

The Telecommunications Act is intended to increase competition. This Act was designed to open the local services market by requiring incumbent local carriers to permit interconnection to their networks and establishing incumbent local carriers' obligations with respect to:

Reciprocal Compensation. Requires all local exchange carriers to complete calls originated by competitive local exchange carriers under reciprocal arrangements at prices based on tariffs or negotiated prices.

Resale. Requires all incumbent local carriers and competitive local carriers to permit resale of their telecommunications services without unreasonable restrictions or conditions. In addition, incumbent local carriers are required to offer wholesale versions of all retail services to other telecommunications carriers for resale at discounted rates, based on the costs avoided by the incumbent local carrier in the wholesale offering.

Interconnection. Requires all incumbent local carriers and competitive local carriers to permit their competitors to interconnect with their facilities. Requires all incumbent local carriers to permit interconnection at any technically feasible point within their networks, on nondiscriminatory terms, at prices based on cost, which may include a reasonable profit. At the option of the carrier seeking interconnection, co-location of the requesting carrier's equipment in the incumbent local carriers' premises must be offered, except where an incumbent local carrier can demonstrate space limitations or other technical impediments to co-location.

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Number Portability. Requires all incumbent local carriers and competitive local carriers to permit users of telecommunications services to retain existing telephone numbers without impairment of quality, reliability or convenience when switching from one telecommunications carrier to another.

Dialing Party. Requires all incumbent local carriers and competitive local carriers to provide (1+) equal access to competing providers of telephone exchange service and toll service, and to provide nondiscriminatory access to telephone numbers, operator services, directory listing, with no unreasonable dialing delays.

Access to Rights-of-Way. Requires all incumbent local carriers and competitive local carriers to permit competing carriers access to poles, ducts, conduits and rights-of-way at regulated prices.

Incumbent local carriers are required to negotiate in good faith with carriers requesting any or all of the above arrangements. If the negotiating carriers cannot reach agreement within a prescribed time, either carrier may request binding arbitration of the disputed issues by the state regulatory commission.

Where an agreement has not been reached, incumbent local carriers remain subject to interconnection obligations established by the FCC and state telecommunications regulatory commissions.

Personnel

As of September 30, 2002, the Company had nine (9) full time employees plus both full and part time consultants.

Item 2. Description of Property

LTSI corporate offices are located at 3537 West 7th Street, Suite 5, Fort Worth, Texas. These offices are leased by LTSI from Llewellyn Realty. The monthly rental payable by LTSI is \$3,100. LTSI also pays the utilities and insurance. The office lease is a month-to-month lease.

LTSI believes that its leased real estate, buildings, and other improvements are adequate to conduct their businesses as conducted or proposed to be conducted on the date of this filing. LTSI also believes that its leased buildings and improvements have been maintained in good repair and condition, ordinary wear and tear with depreciation excepted. LTSI also believes the leased buildings and improvements are adequately insured. LTSI is not a hardware (facility) based telecommunications company. Equipment consists mainly of office furniture and equipment such as computers, telephone systems and fixtures. Value of said equipment is not material.

Item 3. Legal Proceedings

As of September 30, 2002, there were no legal proceedings to which the Company was a party, and no litigation is known to be pending against the Company.

Item 4. Submission of Matters to a Vote of Security Holders

Holder of a majority (7,829,179 shares of 15,000,000 outstanding shares) of the Company's outstanding shares of common stock met at a special meeting of stockholders on February 22, 2002, and voted to approve the merger acquisition of Local Telecom Systems, Inc. (LTSI) and restructure the Company for that purpose with a four (4) shares for five (5) shares reverse stock split and the issuance of new shares for the acquisition of LTSI and related assets. At the same meeting it was also approved to distribute stock in each of the four wholly owned subsidiaries to the existing stockholders on a one (1) share for three (3) shares basis with no additional cost. All 7,829,179 shares voted for each matter and no shares voted against any matter and no shares abstained from voting on any matters.

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PART II

Item 5. Market for Common Equity and Related Stockholder Matters

(a) Market Information

Currently no trading market exists for the Company's shares, and no trading market existed for the voting stock (8,701,034 shares) held by non-affiliates of the Registrant on September 30, 2002. However, the Company's stock was trading on the over-the-counter market of the Electronic Bulletin Board until 1996.

During the fiscal year, 650,000 warrants were exercised at 20 cents per share. On September 30, 2002 the Company had 200,000 warrants outstanding to purchase 200,000 shares of the Company's common stock at an exercise price of 20 cents per share. The 200,000 warrants were still outstanding as of January 8, 2003, with an exercise price of 20 cents that expire on January 20, 2003.

On September 30, 2002, end of the fiscal year, the Company had 39,330,582 shares issued and outstanding of which the Company believes it has 4,611,163 shares that can be sold pursuant to Rule 144 under the Securities Act of which 4,021,163 shares are held by officers and directors. The Company also believes it has approximately 33,000,000 shares that are not eligible for Rule 144 of the Securities Act on September 30, 2002 and all other shares are freely tradable.

(b) Holders

The approximate number of security holders of record of the Company's common stock on January 8, 2003 was 1,502. Additional stockholders hold stock in street name; the number of holders in street name is not available to the Company.

(c) Dividends

The Company has not declared a cash dividend or paid dividends in the past. However, in April 2002, the Company did affect a stock distribution of 5,217,179 restricted common shares of each of its subsidiary companies (International Royalty & Oil Co., Signature Healthcare, Inc., Signature Financial Services, Inc and Cumberland Continental Corp.) on a one (1) share for three (3) shares pro rata basis to all of the Company's stockholders as of April 15, 2002. See Item 4 "Submission of Matters to a Vote of Security Holders".

(d) Securities Authorized of Issuance Under Equity Compensation Plans

The Company currently does not have any securities authorized for issuance under any Equity Compensation Plans.

Issuance of Unregistered Shares

During the year ended September 30, 2002, the Company issued securities in the transactions below without registering the securities under the Securities Act of 1933. No underwriter, sales or placement agent was involved in any of the transactions.

On October 25, 2001 the Company issued the following restricted shares of common stock to the following persons in exchange for their services: Karen Lee (10,000 shares), Robert Anderson (25,000 shares), Amber Smith (15,000 shares), J.V. Rhyne (10,000 shares), Benjamin Botello (45,000 shares), Barbara Williams (1,000 shares), Susie Hare (1,000 shares) and Melissa Eason (1,000 shares). The Company also sold to Dale Houlette, an existing shareholder, 25,000 restricted common shares for \$5,000. All of these restricted shares were issued in reliance on the exemption from registration including, but not limited to, Sections 3(b) and/or 4(2) of the Securities Act of 1933.

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On December 7, 2001 the Company issued 228,000 restricted common shares as compensation to its officers and directors (William R. Miertschin, Victoria Lucas and Howard Siegel). These restricted shares were issued in reliance on the exemption from registration including, but not limited to, Sections 3(b) and/or 4(2) of the Securities Act of 1933.

On March 19, 2002 the Company issued 350,000 restricted common shares when Stephen Grosberg, an existing shareholder, exercised 350,000 warrants. These warrants were issued in conjunction with the private placement of stock made on December 20, 1999. The exercise price was \$0.20 per share and resulted in cash to the Company of \$70,000. These restricted shares were issued in reliance on the exemption from registration including, but not limited to, Sections 3(b) and/or 4(2) of the Securities Act of 1933.

On April 1, 2002 the Company issued 300,000 restricted common shares when Herbert Wolas, an existing shareholder, exercised 300,000 warrants. These warrants were issued in conjunction with the private placement of stock made on December 20, 1999. The exercise price was \$0.20 per share and resulted in cash to the Company of \$60,000. These restricted shares were issued in reliance on the exemption from registration including, but not limited to, Sections 3(b) and/or 4(2) of the Securities Act of 1933.

On February 15, 2002 the Company issued 2,719,818 restricted common shares for consulting services to Graford Communications Group and Copano Bay Associates, Texas general partnerships partially owned by Richard M. Hewitt, a director, and two accredited investors, for the acquisition and for providing funding arrangements for the merger with Local Telecom Services, Inc. These consulting services received only restricted shares for compensation. These restricted shares were issued in reliance on the exemption from registration including, but not limited to, Sections 3(b) and/or 4(2) of the Securities Act of 1933.

On April 18, 2002 the Company made effective the 4-for-5 reverse stock split and allocated 27,335,584 restricted common shares for the acquisition of all property, rights, privileges, leases of LTSI which became effective on August 30, 2002 and allocated 11,374,416 restricted common shares for funding the merged entity. These restricted shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

The facts relied on to make the exemption from registration provided by Section 4(2) of the Securities Act of 1933 available for the sale of securities discussed in paragraphs 2 through 7 above were: (1) the limited number of purchasers; (2) the sophistication or accreditation of the purchasers; (3) their relationship with the Company and/or access to material information about the Company; (4) the information furnished to them by the Company; (5) the absence of any general solicitation or advertising; and (6) restrictions on transfer of the securities issued to them as indicated by a legend on the certificates representing such securities.

Item 6. Plan of Operations

Disclosure Regarding Forward-Looking Statements

This Form 10-KSB includes "forward-looking" statements within the meaning of Section 27A of the Securities Act, and the Company desires to take advantage of the "safe harbor" provisions thereof. Therefore, the Company is including this statement for the express purpose of availing itself of the protections of such safe harbor provisions with respect to all of such forward-looking statements. The forward-looking statements in this Form 10-KSB reflect the Company's current views with respect to future events and financial performance. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ from those anticipated. In the Form 10-KSB, the words "anticipates," "believes," "expects," "intends," "future" and similar expressions identify forward-looking statements. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that may arise after the date hereof. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by this section.

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General Discussion

During the fiscal year two events occurred which management considers to be positive steps toward building tangible value for the Company's shareholders. Firstly the Company made a distribution of certain assets to its former subsidiaries and subsequently distributed all of its ownership in the subsidiaries to its shareholders in the form of common stock. - See Item 4 "Submission of Matter to a Vote of Security Holders". On April 15, 2002, the Company made unregistered distributions in the form of stock dividends to the existing common shareholders of the Company of common stock of Signature Healthcare, Inc., Signature Financial Services, Inc., Cumberland Continental Corporation and International Royalty and Oil Co., Inc., each of which were originally wholly owned subsidiaries. In each instance, 5,217,179 shares of stock were issued to the existing shareholders of the Company at no additional cost. The Company has been advised that these unregistered distributions may be exempt from registration and that the Company may have some contingent liability for the distributions as a result. The Company received no funds as a result of the distributions.

The following is a brief description of the distribution of the assets to the four former subsidiaries:

International Royalty & Oil Co. has the patented enhanced oil recovery process, Canadian oil and gas royalty interests, Texas oil and gas royalty interests, stock held in two small resource companies.

Signature Financial Services, Inc. has two Promissory Note Receivables: 1) Broadband Wireless International Corporation \$50,000 promissory note, and 2) a \$151,000 Note bearing 10% simple interest secured with oil and gas lease interests located in Upton County, Texas.

Signature Healthcare, Inc. has rights to an agreement with National Healthcare, Inc. of New York. National Healthcare has a facility for packaging healthcare "single ready to use package" for the ophthalmology health field.

Cumberland Continental Corp. has a note receivable of \$150,000 from Telkin Sheetmetal, Inc. secured by contract retainage and bearing 9% simple interest.

Secondly the Company entered into a merger agreement where the Company would be the surviving corporation with a name change to Local Telecom Systems, Inc. and on August 30, 2002 this merger/acquisition became effective. The merger/acquisition of LTSI increased the cash requirements of the Company's operations that include the expansion of its prepaid phone services into 42 additional states and District of Columbia. Marketing the Company's prepaid local service will require the Company to utilize national advertising to maximize the Company's exposure as it plans to increase its customer base to over 9,000 within the next twelve months. A funding campaign to raise approximately \$2,000,000 in working capital is planned for this year through debt and/or equity financing. The Company's cash flow projections indicate an initial funding of \$2,000,000 in working capital would be sufficient to carry the Company forward without additional funding other than returning profits back into expanding the business.

During the second year of operations following the funding of \$2,000,000 in working capital, it is projected that the customer base could exceed 20,000.

Liquidity and Capital Resources

The Company on September 30, 2001 did not have any liabilities and had current assets of \$161,389. Prior to the acquisition of Local Telecom Systems, Inc. the Company had sufficient cash and or revenues to carry on the Company's limited operations. On September 30, 2002 the Company had current assets of \$20,515 and current liabilities of \$309,744 or a ratio of current assets to current liabilities of .07 to 1. As a result of the acquisition of Local Telecom Systems, Inc., the Company plans to raise additional working capital from equity and/or debt financing. These funds will be used to promote the Company's prepaid telephone services in the new 42 licensed states plus District of Columbia.

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Assets and Liabilities

The Company's current assets as of September 30, 2000, 2001 and 2002, were \$177,056, \$161,389 and \$20,515 respectively. This dramatic change in the decrease in current assets is directly related to the distribution of a \$150,000 note receivable to a former subsidiary, Cumberland Continental Corporation. These funds were initially raised through the private placement of the Company's common stock in the fiscal year ended September 30, 2000 and the Company's other investments.

The Company has Other Assets totaling \$240,275 for the fiscal year ended September 30, 2001 consisting of a Seismic Library (\$64,275) and Notes Receivable (\$176,000). The Seismic Library consists of a large data- base of seismic lines covering parts of South Louisiana and Southeast Texas and Notes Receivable consisting of oil and gas leases in Upton County, Texas, and a \$50,000 note from BroadBand Wireless International Corporation.

Total Assets of the Company have also increased dramatically from \$411,929 on September 30, 2001, to \$1,306,888 on September 30, 2002. This large increase in total assets as reported in this section is directly related the acquisition/merger with Local Telecom Systems. This acquisition/merger accounts for all of the total assets of the Company (\$1,306,888). During the fiscal year ended September 30, 2002 the Company distributed all the assets to its four former subsidiaries reflected on September 30, 2001. See General Discussion above for additional information.

The Company's liabilities on September 30, 2002, were \$309,744 for accounts payable and accrued liabilities. Of this amount the most significant amount is \$118,000 in payables for excise taxes. On September 30, 2001, the Company did not have any liabilities.

Income

The Company only had one income producing property for the fiscal year ended September 30, 2001, a small Canadian override that generated \$489 for 200. The Company reported all of its oil and gas operations as discontinued operations during the fiscal year ended September 30, 1999. During the fiscal year ended September 30, 2002 the Company transferred all oil and gas related activities to a wholly owned subsidiary, International Royalty & Oil Co. See above General Discussion for more detail.

The Company did report interest income from its loans to Telkin Sheetmetal and to an individual for oil leases reporting \$20,105 for the fiscal year ended

September 30, 2001. During the fiscal year ended September 30, 2002 the Company transferred these note receivables to its subsidiaries Signature Financial Services, Inc. and Cumberland Continental Corp. See above General Discussion for more detail. The revenues reported for the fiscal year end September 30, 2002 were \$42,652 which are basically the revenues received from the ownership of Local Telecom Systems since August 30, 2002.

Expenditures

During the fiscal year ended September 30, 2001, the Company incurred legal and professional services (\$8,857) to position the Company for a merger/acquisition compared to \$5,272 for the year ended September 30, 2002. During fiscal year 2001, in order to conserve working capital, the Company issued 793,000 common restricted shares in lieu of cash for services. These shares were issued to directors, officers and consultants based at a value of \$157,165. See Financial Statements and Consolidated Statement of Changes in Stockholders' Equity.

Salaries, Wages, and Transfer Fees decreased from \$39,916 to \$31,859 when comparing September 30, 2001 to September 30, 2002. The principle reason for the decline in this category is related to the restructuring of salaries in February 2002. Other General and Administrative expense did not change substantially when comparing the current fiscal year to the previous year.

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The Company had an operating loss of \$23,682 compared to an operating loss of \$223,161 for the previous year which ended September 30, 2001. The majority of this difference is the amount of consulting services incurred which totaled \$157,165 in the previous year.

Income Taxes

The Company anticipates that it will not generate taxable income sufficient to utilize its carried forward tax losses at this time, based on historical performance. See Note 4 to Financial Statements for additional disclosure.

Net Income (Loss)



The Company incurred a Net Loss of \$202,297 for the year ended September 30, 2001, and a Net Loss of \$514,863 for the year ended 2002. These losses incurred in 2001 are attributable to the amount of expenditures incurred seeking and preparing the Company for a merger and/or acquisition partner and the losses reflected in 2002 are directly related to a \$477,843 distribution of assets through a Subsidiary Stock Dividend. See Note 1 to the Financial Statements.

Per share data the Company lost \$0.04 per common share for the year ended September 30, 2002 compared to \$0.02 for the previous year.

Item 7. Financial Statements

The financial statement information for LTSI is set forth immediately following the signature page of this Form 10KSB. See the Financial Statements attached hereto beginning on page F-1.

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LOCAL TELECOM SYSTEMS INC

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Item 7. Financial Statements

The financial statement information for LTSI is set forth immediately following the signature page of this Form 10KSB. See the Financial Statements attached hereto beginning on page F-1.

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CLYDE BAILEY P.C.

 Certified Public Accountants
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 American Institute of CPA's
 Texas Society of CPA's

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

To the Board of Directors and Shareholders
 Local Telecom Systems Inc.

We have audited the accompanying balance sheet of Local Telecom Systems Inc. (formerly Signature Motorcars Inc.) ("Company") as of September 31, 2002 and the related statement of operations, changes in stockholders' equity, and statement

of cash flows for the years ended September 30, 2002 and 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and subsidiaries as of September 30, 2002 and 2001, and the consolidated results of their operations and their cash flows for the years ended September 30, 2002 and 2001 in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has limited operations currently and suffered recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. This is further explained in the notes to financial statements.

Clyde Bailey
Certified Public Accountant

January 6, 2003
San Antonio, Texas

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Local Telecom Systems, Inc.
(formerly Signature Motorcars, Inc.)
Consolidated Balance Sheets
As of September 30, 2002

A S S E T S

Current Assets

Cash	\$	277	
Accounts Receivable		20,238	

Total Current Assets			20,515
Investments, at Market Value			-
Fixed Assets			
Equipment, net of accumulated depreciation		40,257	

Total Fixed Assets			40,257
Other Assets:			

Intangible Assets, net of amortization Licenses		721,116	
		525,000	

Total Other Assets			1,246,116
Total Assets	\$		1,306,888
			=====

L I A B I L I T I E S

Current Liabilities			
Accounts Payable and accrued expenses		309,744	

Total Current Liabilities		309,744	
Total Liabilities			309,744
Commitments and Contingencies			0

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

S T O C K H O L D E R S ' E Q U I T Y

Preferred Stock, par value \$.10 per share		-	
authorized shares 1,000,000 shares, no shares outstanding			
Common Stock		656,821	
100,000,000 authorized shares, par value \$.0167			
39,330,585 share issued and outstanding			
Additional Paid-in-Capital		8,780,662	
Accumulated Deficit		(8,440,338)	

Total Stockholders' Equity (Deficit)			997,144

Total Liabilities and Stockholders' Equity	\$		1,306,888
			=====

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The accompanying notes are an intergral part of the financial statements.

Local Telecom Systems, Inc.
(formerly Signature Motorcars, Inc.)
Statements of Operations

	For the Twelve Months Ended	
	September 30	September 30
	2002	2001
Revenues:		
Revenues	\$ 42,652	\$ -
Total Revenues	42,652	-
Cost of Revenues		
Telephone Services	\$ 22,717	\$ -
Gross Profit	\$ 19,935	-
Expenses:		
Legal and Professional Services	5,272	8,857
Advertising	9,000	-
Depreciation	2,104	2,103
Consulting	-	157,165
Salaries, Wages, and Transfer Agent Fees	31,859	39,916
Other Selling, general & administrative expenses	18,099	15,120
Total Expenses	66,334	223,161
Operating Income	(23,682)	(223,161)
Other Income (Expenses)		
Interest Income	-	20,105
Effect of Subsidiary's Stock Dividend	(477,843)	

Other Income (expenses)	(13,338)	270
Loss from Continuing Operations	\$ (514,863)	\$ (202,786)
Discontinued Operations:	-	489
Net Loss	\$ (514,863)	\$ (202,297)
	=====	=====
Basic and Diluted Earnings Per Common Share	(0.04)	(0.02)
Weighted Average number of Common Shares used in per share calculations	12,520,582	11,679,682
	=====	=====

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

Local Telecom Systems Inc.
(formerly Signature Motorcars Inc.)
Consolidated Statement of Changes in Stockholders' Equity

	Common Shares	Stock Amount	Additional Paid-In Capital	Accumulated other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
	-----	-----	-----	-----	-----	-----
Balance September 30, 1999	7,449,835	124,867	7,367,772	-	(7,505,012)	(1,233)
Stock Issued for Cash	3,098,347	51,742	532,242	-	-	583,984
Stock issued for Assets	100,000	1,670	18,330	-	-	20,000
Stock Issued for Services	478,000	7,983	87,617	-	-	95,600
Comprehensive (Loss):				(1,590)		(1,590)
Net Loss	-	-	-	-	(218,166)	(218,166)
	-----	-----	-----	-----	-----	-----
Balance September 30, 2000	11,126,182	186,262	8,005,961	(1,590)	(7,723,178)	478,595

Stock Issued for Services	793,000	13,243	143,922		157,165
Comprehensive (Loss):			(10,344)		(10,344)
Net Loss	-	-	-	(202,297)	(202,297)

Balance September 30, 2001	11,919,182	\$ 199,505	\$8,149,883	(11,934)	\$ (7,925,475) \$ 411,979
=====					
Stock Issued for Cash	25,000	418	4,583		5,000
Effect of Reverse Stock Split	(3,129,415)	(52,261)	52,261		(0)
Shares Issued for Warrants	650,000	10,855	119,145		130,000
Stock Issued for Services	336,000	5,611	61,589		67,200
Stock Issued for Acquisition	29,529,818	492,693	393,202		885,895
Comprehensive (Loss):			11,934		11,934
Net Loss	-	-	-	(514,863)	(514,863)

Balance September 30, 2002	39,330,585	656,821	8,780,662	-	(8,440,338) 997,144
=====					

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See accompanying notes to Consolidated Financial Statements.

Local Telecom Systems, Inc.
 (formerly Signature Motorcars, Inc.)
 Consolidated Statements of Cash Flows
 (Unaudited)

	Twelve Months Ended	
	September 30	September
	2002	2001

Cash Flows from Operating Activities:		
Net Income (Loss)	\$ (514,863)	\$ (202,297)

Adjustments to reconcile net income (loss) to net cash provided(used) to operating activities:		
Depreciation	2,104	2,103
Stock Issued to Consultants	67,200	157,165
Effect of Subsidiary's Stock Dividend	477,843	-
Accrued Interest Receivable	-	(7,087)
Accounts Payable	20,933	-
	-----	-----
Total Adjustments	568,080	152,181
	-----	-----
Net Cash provided (used) in Operating Activities	\$ 53,217	\$ (50,116)
Cash Flows from Investing Activities:		
Notes Receivable:		
Advances	(95,000)	25,000
Collections	5,120	-
Acquisition	(100,000)	-
	-----	-----
Net Cash provided (used) in Investing Activities	\$ (189,880)	\$ 25,000
	-----	-----
Cash Flows from Financing Activities:		
Common Stock	135,000	-
Note Payable	-	-
	-----	-----
Net Cash provided (used) by Financing Activities	\$ 135,000	-
	-----	-----
Net Increase (Decrease) in Cash	\$ (1,663)	\$ (25,116)
Cash Balance, Beginning of Period	1,940	27,056
	-----	-----
Cash Balance, End of Period	\$ 277	\$ 1,940
	=====	=====
Supplemental cashflow information		
Cash Paid for interest	\$ -	\$ -
Cash Paid for income taxes	\$ -	\$ -
Non-Cash Transactions:		
Shares Issued for Services	\$ 67,200	\$ 157,165
Shares Issued for Assets	\$ -	\$ -

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LOCALTELECOM SYSTEMS, INC.
(FORMERLY SIGNATURE MOTORCARS INC)
NOTES TO FINANCIAL STATEMENTS INC)
SEPTEMBER 30, 2002 STATEMENTS INC)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Local Telecom Systems Inc. (formerly Signature Motorcars, Inc.) (the "Company") was incorporated in Nevada on February 19, 1969, as International Royalty & Finance Co. Prior to the Company's public offering in 1972, the Company changed its name to International Royalty & Oil Co. In April 1996, the Company's controlling interest was acquired by ExotiCar Rentals, Inc. and the name was changed to Signature Motorcars, Inc. On March 27, 2002, the Articles of Merger was signed with Local Telecom Systems Inc., a Nevada company, and the Company. As part of the merger agreement, the Company agreed to the name change to Local Telecom Systems, Inc. The effective date of the agreement was August 30, 2002.

Basis of Presentation

The Company's financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Principles of Consolidation

At the shareholders' meeting held on February 22, 2002, the shareholders approved stock dividends to the shareholders of 100% of the outstanding common stock of four wholly owned subsidiaries. The effective date of these stock dividends was to be prior to the effectiveness of the merger with LTSI. Each stock dividend was approved on a one (1) share for three (3) shares basis. The stock dividends apply to International Royalty & Oil, Inc., Signature Financial Services, Inc., Cumberland Continental Corp., and Signature Healthcare, Inc. The capitalization for each company is 100,000,000 shares authorized with 5,000,000 shares outstanding with a par value of \$0.001 per share. The record date for the distribution of the 5,217,179 common shares was each of the four companies is April 15, 2002.

The following is a division of the assets of Signature Motorcars, Inc. to the subsidiaries:

International Royalty & Oil Co.

IROC patent process, Canadian Overrides, Texas Overrides and stock held in resource companies.

Signature Healthcare, Inc.

Receivables from National Healthcare for working capital advanced and assume agreement with National Healthcare, Inc. as well as other opportunities in the health care industry.

Signature Financial, Inc.

Telkin Sheetmetal, Inc. note receivable, Broadband Wireless International Corporation note receivable, Upton County note receivable Coastal Seismic Library Database of South Louisiana and Southeast Texas.

LOCALTELECOM SYSTEMS, INC.
(FORMERLY SIGNATURE MOTORCARS INC)
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

Cumberland Continental

At the time of this report no assets have been dedicated to this entity, however, this entity was created in anticipation of a potential merger that has not been consummated as of the date of this report.

Use of Estimates and Assumptions

Preparation of the Company's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Net Loss Per Common Share

In March 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, Earnings Per Share ("SFAS 128"). SFAS 128 provides a different method of calculating earnings per share than was formerly used in APB Opinion 15. SFAS 128 provides for the calculation of basic and diluted earnings per share. Basic earnings per share includes no dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Dilutive earnings per share reflects the potential dilution of securities that could share in the earnings of the Company. Because the Company has no potential dilutive securities, the accompanying presentation is only of basic loss per share.

Statement of Cash Flows

For statement of cash flow purposes, the Company considers short-term investments with original maturities of three months or less to be cash equivalents.

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 utilizes the asset and liability method of computing deferred income taxes. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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LOCALTELECOM SYSTEMS, INC.
(FORMERLY SIGNATURE MOTORCARS INC)
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

Property and Equipment

Property and equipment is stated at cost. Depreciation is expensed using straight-line and accelerated methods over the estimated useful lives of the assets. The estimated useful lives are: building-30 to 40 years; equipment and tools-5 to 7 years; software-5 years; furniture and fixtures-5 to 7 years. Depreciation expense in the amount of \$2,103 has been recognized for the years ended September 30, 2002 and 2001 respectively.

Impairment of Long-Lived Assets

The Company follows SFAS No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". The Statement requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events of changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Recent Accounting Pronouncements

Segments of an Enterprise and Related Information

Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information, supersedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise." SFAS 131 establishes standards for the way that public companies report information about operating segments in annual financial statements and requires reporting of selected information about operating segments in interim financial statements issued to the public. It also establishes standards for disclosures regarding products and services, geographic areas and major customers. SFAS 131 defines operating segments as components of a company about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company has evaluated this SFAS and does not believe it is applicable at this time.

Goodwill and Other Intangible Assets

In July 2001, the Financial Accounting Standards Board issued Statements of Financial Standards ("SFAS") No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 established accounting and reporting standards for business combinations and eliminates the pooling-of-interests method of accounting for those combinations initiated after July 1, 2001. SFAS No. 141 also includes new criteria to recognize intangible assets separately from goodwill. SFAS No. 142 establishes the accounting and reporting standards from goodwill and intangible lives. Goodwill and intangibles

with indefinite lives will no longer be amortized, but, alternatively will be reviewed periodically for indicators of impairment. Separate intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. The Company does not anticipate that the adoption of SFAS No. 141 and SFAS No. 142 will have a significant effect on its results of operations or financial position.

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LOCALTELECOM SYSTEMS, INC.
(FORMERLY SIGNATURE MOTORCARS INC)
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

Impairment or Disposal of Long-Lived Assets

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. It supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of", and the accounting and reporting provisions of Accounting Principles Board Statement ("APB") 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business. The Company is required to adopt SFAS No. 144 on October 1, 2002. The Company does not expect that the adoption of SFAS No. 144 will have a material effect on its financial position, results of operations or cash flows.

Accounting for Costs Associated with Exit or Disposal Activities

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 replaces "Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company does not expect the adoption of SFAS No. 146 to have a material effect on its financial position, results of operations or cash flows.

2. COMMON STOCK

The Company has 100,000,000 common shares authorized with a par value of

\$0.0167 of which 39,330,585 are issued and outstanding as of September 30, 2002. The Company also has 1,000,000 preferred shares authorized with a par value of \$0.10 of which no shares are issued and outstanding.

As of September 30, 2002 the Company had 200,000 warrants outstanding to purchase 200,000 restricted common shares at an exercise price of \$0.20 per share. In March 2002, 650,000 warrants were exercised causing the issuance of 650,000 restricted common shares. The remaining 200,000 warrants have an expiration date of January 20, 2003.

During the year ended September 30, 2001, the Company issued securities in the transactions below without registering the securities under the Securities Act of 1933. No underwriter, sales or placement agent was involved in any of the transactions.

On April 2, 2001 the Company issued 165,000 restricted common shares for consideration to extend a note for the Troell oil and gas lease located in south Texas. Of the 165,000 shares issued for this extension 15,000 were issued for professional fees to prepare the legal documentation for the extension.

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LOCALTELECOM SYSTEMS, INC.
(FORMERLY SIGNATURE MOTORCARS INC)
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

During the year ended September 30, 2002, the Company issued securities in the transactions below without registering the securities under the Securities Act of 1933. No underwriter, sales or placement agent was involved in any of the transactions.

On October 25, 2001 the Company issued the following restricted shares of common stock to the following persons in exchange for their services: Karen Lee (10,000 shares), Robert Anderson (25,000 shares), Amber Smith (15,000 shares), J.V. Rhyne (10,000 shares), Benjamin Botello (45,000 shares), Barbara Williams (1,000 shares), Susie Hare (1,000 shares) and Melissa Eason (1,000 shares). The Company also sold to Dale Houlette, an existing shareholder, 25,000 restricted common shares for \$5,000.

On December 7, 2001 the Company issued 228,000 restricted common shares as compensation to its officers and directors (William R. Miertschin, Victoria Lucas and Howard Siegel).

On March 19, 2002 the Company issued 350,000 restricted common shares when Stephen Grosberg, an existing shareholder, exercised 350,000 warrants. These warrants were issued in conjunction with the private placement of stock made on December 20, 1999. The exercise price was \$0.20 per share and resulted in cash to the Company of \$70,000.

On April 1, 2002 the Company issued 300,000 restricted common shares when Herbert Wolas, an existing shareholder, exercised 300,000 warrants. These

warrants were issued in conjunction with the private placement of stock made on December 20, 1999. The exercise price was \$0.20 per share and resulted in cash to the Company of \$60,000.

On February 15, 2002 the Company issued 2,719,818 restricted common shares for consulting services to Graford Communications Group and Copano Bay Associates, Texas general partnerships partially owned by Richard M. Hewitt, a director, and two accredited investors, for the acquisition and for providing funding arrangements for the merger with Local Telecom Services, Inc. These consulting services received only restricted shares for compensation.

On April 18, 2002 the Company made effective the 4-for-5 reverse stock split and allocated 27,335,584 restricted common shares for the acquisition of all property, rights, privileges, leases of LTSI which became effective on August 30, 2002 and allocated 11,374,416 restricted common shares for funding the merged entity.

3. RELATED PARTY TRANSACTIONS

The Company has significant relations with the President and principal shareholder, William R. Miertschin in the form of salary and expenses.

4. INCOME TAXES

At September 30, 2002, the Company had net operating loss carryforwards totaling approximately \$8,100,000 available to reduce future taxable income through the year 2021. Due to changes in control of the Company, these carryforwards are limited on an annual basis.

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LOCALTELECOM SYSTEMS, INC.
(FORMERLY SIGNATURE MOTORCARS INC)
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

5. ACQUISITION

Local Telecom Systems, Inc. (LTSI) is a local telephone service reseller with a three year old customer base in Texas, New Mexico and Arizona. LTSI recently acquired the necessary licenses and interconnect agreements to offer, on a national basis, prepaid local telephone service and various ancillary products such as 911, caller ID and prepaid long distance in 45 states.

The transaction is being accounted for as a "purchase" following the procedures of SFAS 142, "Accounting for Business Combinations.

The following table summarizes the estimated fair value of the assets of the assets acquired and liabilities assumed at the date of acquisition:

Current Assets	\$	20,582
Fixed Assets		35,000
Goodwill		721,116
Licenses		525,000
Debt Assumed	(415,803)
Net Assets Acquired	\$	885,895
		=====

Pro Forma Summary Data (Unaudited)

The following proforma summary data for the twelve months ended September, 2002 and 2001 presents the consolidated results of operations as if the acquisition of LTSI made on August 30, 2002 had occurred on October 1, 2000. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what would have occurred had the acquisition been made as of October 1, 2000 or of results that may occur in the future.

	Twelve Months Ended September 30	
	2002	2001
Proforma Revenue	\$ 665,745	\$ 732,203
Proforma Net Loss	(137,155)	(87,925)
Proforma net loss per share	(\$.04)	(\$.02)

6. COMMITMENTS AND CONTINGENCIES

Concentration of Credit Risk

The Company invests its cash and certificates of deposit primarily in deposits with major banks. The Company has not incurred losses related to its cash.

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LOCALTELECOM SYSTEMS, INC.
(FORMERLY SIGNATURE MOTORCARS INC)
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

Fair Value of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS No. 107, Disclosures about Fair Value of Financial Instruments. The estimated fair value amounts have been determined by the Company, using available market information and appropriate valuation methodologies.

The fair value of financial instruments classified as current assets or liabilities including cash and cash equivalents and accounts payable approximate carrying value due to the short-term maturity of the instruments.

7. GOING CONCERN

The Company's financial statements are prepared using generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. However, the Company does not have significant cash or other material assets. The issues related to unpaid telephone excise tax and a potential debt that was not assumed raises substantial doubt about its ability to continue as a going concern. The stockholders/officers and or directors have committed to advancing operating costs of the Company interest free to continue operations for the next twelve months, but they are not legally obligated to do so.

8. SUBSEQUENT EVENTS

There were no other subsequent events that have occurred after the balance sheet date that warrants disclosure.

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7. GOING CONCERN

The Company's financial statements are prepared using generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. However, the Company does not have significant cash or other material assets. The issues related to unpaid telephone excise tax and a potential debt that was not assumed raises substantial doubt about its ability to continue as a going concern. The stockholders/officers and or directors have committed to advancing operating costs of the Company interest free to continue operations for the next twelve months, but they are not legally obligated to do so.

8. SUBSEQUENT EVENTS

There were no other subsequent events that have occurred after the balance sheet date that warrants disclosure.

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Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no disagreements between the Company and its auditor, Clyde Bailey, P.C., San Antonio, Texas, regarding accounting and/or financial disclosure.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons

The following are the officers and directors of the Company as of January 8, 2003:

Name	Age	Date First Elected	Term	Position
William R. Miertschin	55	1997	1 year	President, CEO &

				Director
Tracey Norris	32	2002	1 year	Secretary & Director
Amber G. Smith	38	2002	1 year	Treasurer
Richard M. Hewitt	65	2002	1 year	Director

William R. Miertschin, President, Chief Executive Officer, and Chairman of the Board of Directors, is an oil and gas consultant with offices in Dallas, Texas. A 1972 graduate of the University of Texas at Austin, with a BA in Mathematics, he completed additional courses in petroleum engineering at the University of Texas of the Permian Basin in 1978. Beginning his oil and gas career in 1975, Miertschin served as an Engineer with the Baroid Division of NL Industries in Odessa, Texas. From 1977 to 1979, Mr. Miertschin was Drilling Supervisor for Gulf Oil Exploration and Production, being the first trainee to complete Gulf Oil's drilling and production engineering training program. Thereafter, he was employed with Mesa Petroleum (1979-1985) as Corporate Supervisor of Regulatory and Safety in Amarillo, Texas, and as Drilling Supervisor and Senior Drilling Engineer in Midland and Amarillo, Texas, managing Mesa's corporate drilling and completion operations for all of the Permian Basin Division, Texas Panhandle and Kansas. In 1986 he graduated from the Leadership Amarillo Program of the Amarillo Chamber of Commerce. A former member of the Society of Petroleum Engineers, Mr. Miertschin has served as an expert witness before the Kansas Corporation Commission (KCC) and the New Mexico Oil Conservation Commission (NMOCC) on regulatory affairs, drilling and completion, and analysis of potential production purchases. He also served on the Oil and Gas Advisory Committee to KCC to revise statewide rules in Kansas. Mr. Miertschin has been active in the oil and gas industry as an investor and operator, and has been in private practice as a consultant in the Dallas-Fort Worth area for the last fourteen (14) years. Since 1997, Mr. Miertschin has served as President, Chief Executive Officer and Chairman of the Board of Directors of the Company and its subsidiaries. During this period he maintained, funded and expanded the operations of the Company. He has agreed to continue with Local Telecom Systems, Inc. in those same capacities. Mr. Mierstchin is also currently serving as the President of each of the former subsidiaries of the Company. See Item 13 "Certain Relationships and Related Transactions." Also, he is currently a Vice-President of the Dallas Safari Club.

Tracey Norris, Secretary, Director of Operations, and a Director of the Company since February 2002, previously served as Office Manager and Director of Operations of Local Telecom Service, LLC (a prepaid telephone resale company) since 1998. Before joining Local Telecom Service, LLC, Ms. Norris worked for Southwestern Bell in the Department of Resale Specialization. Between 1996 and 1998 Ms. Norris was trained in local resale telephone service including, but not limited to, order processing, order completion, and billing. Prior to 1996 Ms. Norris was Manager of Accounting for Twenty-First Century Connection and

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Research and Processing Department at Vought Heritage Federal Credit Union, Grand Prairie. Ms. Norris attended University of Texas at Arlington, majoring in accounting.

Amber G. Smith, Treasurer of the Company since February 2002, a native of Friona, Texas, Ms. Smith is a 1986 graduate of West Texas State University, Canyon, Texas. Ms. Smith worked as Telecommunications Manager of Span

Instruments, Inc., Plano, Texas from 1991 until 1996. Since 1996 she has been active in managing her personal investment portfolio and performing consulting services for both public and private companies. In 1989 and 1990 she was Communications Manager of H.D. Vest Financial Services, Inc., Irving, Texas, a securities broker dealer. Ms. Smith also currently serves as Secretary of Cumberland Continental Corp. and Signature Financial Services, Inc. both of which are former subsidiaries of the Company.

Richard M. Hewitt, Director of the Company since February 2002, is a sole practitioner attorney specializing in securities law. A 1958 graduate of Grinnell College, Grinnell, Iowa, with an AB degree, Mr. Hewitt holds an LLB degree from Southern Methodist University, College of Law in Dallas, Texas (1963). He has been in private practice in the Dallas-Fort Worth area for the last 20 years. Mr. Hewitt is currently Vice President and a Director of Gas Transmission Organization, Inc., Dallas, Texas, a Secretary/Treasurer and Director of Signature Healthcare, Inc. and a Director of Golden Chief Resources, Inc., Dallas, Texas, a publicly owned independent oil and gas producer.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely on a review of reports filed with the Company, several persons (William Miertschin, Amber Smith, Tracey Norris and Richard M. Hewitt) did not file all reports on time regarding transactions in the Company's securities required to be filed for 2002 by Section 16(a) under the Securities Exchange Act of 1934. Though the required reports were not filed timely, they were subsequently filed after the year end.

Item 10. Executive Compensation

The Company's total remuneration for annual salary and bonuses does not exceed \$100,000 per officer. The Company currently does not have a compensation committee, however, since the merger with Local Telecom Systems, Inc. an independent compensation committee will be formed to evaluate the annual remuneration for each of its officers.

Name	Position	Annual Compensation
William Miertschin	President & CEO	\$30,000
Tracey Norris	Secretary	\$40,000
Amber Smith	Treasurer	\$ 6,000

The Directors of the Company, William Miertschin, Richard M. Hewitt and Tracey Norris each receive 36,000 shares of restricted common stock per year as compensation for their services as directors plus reimbursement of any approved out of pocket expenses incurred on behalf of the Company.

Item 11. Security Ownership of Certain Beneficial Owners and Management

The following is certain information concerning the officer and directors and persons or firms who are known by the Company to own beneficially more than 5% of the Company's common stock (39,330,582 shares) and voting shares on January 8, 2003:

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Title of Class	Name and Address of Beneficial Owner	Number of Shares Owned	Percent of Class
Common Stock \$0.0167 Par Value	Connect Holding Corp. 1133 Empire Drive Dallas, Texas 75247	12,580,000	31.985

Common Stock	Sammy Dog, Ltd.	12,580,000	31.985
\$0.0167 Par Value	400 North Bailey Ave. Fort Worth, Texas 76107		

Executive Officers and Directors

Common Stock	William R. Miertschin	4,049,163	10.295
\$0.0167 Par Value	7738 Forest Lane #102 Dallas, Texas 75230		
Common Stock	Tracey Norris	50,000	0.127
\$0.0167 Par Value	2034 Misty Glen, #1910 Arlington, Texas 76011		
Common Stock	Amber G. Smith	52,800	0.134
\$0.0167 Par Value	6867 Anglebluff Circle Dallas, Texas 75248		
Common Stock	Richard M. Hewitt	1,317,585	3.351
\$0.0167 Par Value	202 Fresh Meadow Drive Trophy Club, Texas 76262		
All Directors and Officers as a group (4 persons)		5,469,548	13.907

On April 18, 2002 the Company implemented a 4 for 5 reverse stock split. The above share numbers are share positions as of January 8, 2003 and do reflect the reduction in the number of shares caused by the reverse stock split.

Changes in Control of Issuer

On August 30, 2002 a merger/acquisition with Local Telecom Systems, Inc. and related transactions thereto resulted in a change of control and change of name of the Company. See Item 4 "Submission of Matters to a Vote of Security Holders"

Item 12. Certain Relationships and Related Transactions

William R. Miertschin, President of the Company, is also President and Director of the four former subsidiaries of the Company that were distributed to the Companies shareholders in April 2002. These four former subsidiaries are International Royalty & Oil Co., formed in July 1999, Signature Financial Services, Inc., formed in July 2000, Cumberland Continental Corporation, formed in June 2001 and Signature Financial Services, Inc. formed in September 2001. However, the Company does not anticipate any conflicts of interest with him holding these corporate positions in these companies mentioned in this section.

Item 13. Exhibits and Reports on Form 8-K

- (a) On June 6, 2002 the Company filed a Form 8-K notifying the change of accountants from Jackson & Rhodes, P.C. of Dallas, Texas to Clyde Bailey, P.C. of San Antonio, Texas.

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- (b) The Index to Exhibits is found on page 16.

Item 14. Controls and Procedures

- (a) The Company plans to expand the Board of Directors within the fiscal year ending September 30, 2003 to provide an independent board which will then create two committees independent of management 1) audit committee and 2) compensation committee.

- (b) No significant changes occurred in the internal controls of the Company during the fiscal year ended September 30, 2002.
- (c) Not Applicable

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SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, Local Telecom Systems, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: January 17, 2003

LOCAL TELECOM SYSTEMS, INC.
/s/ William R. Miertschin

By: William R. Miertschin, President,
Chief Executive Officer, Principal

Accounting Officer, Principal
Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Tracey Norris ----- Tracey Norris	Secretary & Director	January 17, 2003
/s/ William R. Miertschin ----- William R. Miertschin	President, CEO & Director	January 17, 2003
/s/ Richard M. Hewitt ----- Richard M. Hewitt	Director	January 17, 2003

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CERTIFICATION

I, William R. Miertschin, certify that:

- 1.. I have reviewed this annual report on Form 10-KSB of Local Telecom Systems, Inc
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report.
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules L3a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures 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 annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date:
5. The registrant's other certifying officers and I have disclosed, base on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in

internal controls; and

- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date January 17, 2003

/s/William R. Miertschin

William R. Miertschin, President, Chief Executive Officer
And Chief Financial Officer of Local Telecom Systems, Inc.

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INDEX TO EXHIBITS

Exhibit No.	Page No.	Description
-----	-----	-----
3(i)	*	Articles of Incorporation of the Company
3(ii)	*	Bylaws of the Company

* Previously filed as indicated and incorporated herein by reference from the filings previously made by the Company.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period ended June 30, 2003

Commission File No. 2-42114

Local Telecom Systems, Inc.
(Exact Name of Small Business Issuer as Specified in its Charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

75-1310613
(I.R.S. Employer I.D. No.)

3537 West 7th Street, Suite 5
Fort Worth, Texas 76107
(Address of principal executive offices)

Registrant's telephone number, including area code: (817) 675-4237

Securities registered pursuant to Section 12(g) of the Act

Common Stock, Par Value \$0.0167

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

On June 30, 2003 the Registrant had 39,330,585 shares of its common stock outstanding of its common stock, par value \$0.0167 per share.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

As used herein, the term "Company" refers to Local Telecom Systems, Inc., a Nevada corporation, and its subsidiaries and predecessors, unless otherwise indicated. Consolidated, unaudited, condensed interim financial statements

including a balance sheet for the Company as of the quarter ended June 30, 2003, statement of operations, statement of shareholders equity and statement of cash flows for the interim period up to the date of such balance sheet and the comparable period of the preceding year are attached hereto beginning on Page F-1 and are incorporated herein by this reference.

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Local Telecom Systems Inc.
(formerly Signature Motorcars Inc.)
Consolidated Balance Sheets
Unaudited

<TABLE>

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A S S E T S

	June 30 2003	September 30 2002
<u>Current Assets</u>		
Cash	\$ 1,584	\$ 277
Accounts Receivable	25,482	20,238
Total Current Assets	27,066	20,515
<u>Fixed Assets</u>		
Equipment, net of accumulated depreciation	26,049	40,257
Total Fixed Assets	26,049	40,257
<u>Other Assets</u>		
Intangible Assets, net of amortization	685,024	721,116
Licenses	525,000	525,000
Total Other Assets	1,210,024	1,246,116
Total Assets	\$ 1,263,139	\$ 1,306,888

L I A B I L I T I E S

Current Liabilities

Accounts Payable and accrued expenses	438,281	309,743
Notes Payable	13,975	0
Total Current Liabilities	452,256	309,743
Total Liabilities	452,256	309,743
Commitments and Contingencies	0	0

S T O C K H O L D E R S ' E Q U I T Y

Preferred Stock, par value \$.10 per share authorized shares 1,000,000 shares, no shares outstanding	0.00	0.00
Common Stock 100,000,000 authorized shares, par value \$.0167 39,330,585 shares issued and outstanding	656,821	656,821
Additional Paid-in-Capital	8,780,662	8,780,662
Accumulated Deficit	(8,626,600)	(8,440,338)
	-----	-----
Total Stockholders' Equity (Deficit)	810,883	997,145
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 1,263,139	\$ 1,306,888
	=====	=====

</TABLE>

The accompanying notes are integral part of the financial statements.
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Local Telecom Systems Inc.
(formerly Signature Motorcars Inc.)
Statements of Operations
(Unaudited)

<TABLE>

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	<C>	<C>	<C>
	Three Months Ended June 30	June 30	Nine Mont June 30
	----- 2003	----- 2002	----- 2003
Revenues:			
Revenues	\$48,549	\$0	\$187,161
Total Revenues	\$48,549	\$0	\$187,161
Cost of Revenues:			
Cost of Revenues	\$24,109	\$0	\$132,222
Gross Profit	\$24,440	\$0	\$54,939
Expenses:			
Legal and Professional Services	1,000	5,272	19,605
Depreciation	1,584	526	14,208
Amortization	12,126	0	36,164
Consulting	0	0	0
Rent & Utilities	10,498	0	42,942
Salaries, Wages, and Transfer Agent Fees	26,554	0	93,862
Other Selling, general & administrative expenses	4,566	9,540	34,420
Total Expenses	56,328	15,338	241,201
Operating Income	(31,888)	(15,338)	(186,262)
Other Income (Expenses)			
Interest Income	0	0	0
Effect of Subsidiary's Stock Dividend	0	(477,843)	0
Other Income (expenses)	0	(13,338)	0

Loss from Continuing Operations	\$ (31,888)	\$ (506,519)	\$ (186,262)
Discontinued Operations:	0	0	0
Net Loss	\$ (31,888)	\$ (506,519)	\$ (186,262)
Basic and Diluted Earnings Per Common Share	(0.00)	(0.04)	(0.00)
Weighted Average number of Common Shares used in per share calculations	39,330,585	12,520,582	39,330,585

The accompanying notes are integral part of the financial statements.

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Local Telecom Systems Inc.
(formerly Signature Motorcars Inc.)
Consolidated Statements of Cash Flows
(Unaudited)

<TABLE>

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<S>	<C>	<C>
	Nine Months Ended	
	June 30	June 30
	2003	2002
Cash Flows from Operating Activities:		
Net Income (Loss)	\$ (186,262)	\$ (642,604)
Adjustments to reconcile net income (loss) to net cash provided(used) to operating activities:		
Depreciation	50,302	1,578
Stock Issued to Consultants	0	67,200
Effect of Subsidiary's Stock Dividend	0	477,843
Accounts Receivable	(5,244)	31,599
Accounts Payable	128,536	22,601
Total Adjustments	173,594	600,821
Net Cash provided (used) in Operating Activities	\$ (12,668)	\$ (41,783)
Cash Flows from Investing Activities:		
Notes Receivable:		
Advances	0	0
Collections	0	5,120
Capital Expenditures	0	0
Deposit on Acquisition	0	(100,000)
Net Cash provided (used) in Investing Activities	\$ 0	\$ (94,880)
Cash Flows from Financing Activities:		
Common Stock	0	135,000
Note Payable	13,975	0

Net Cash provided (used) by Financing Activities	\$ 13,975	\$ 135,000
Net Increase (Decrease) in Cash	\$ 1,307	\$ (1,663)
Cash Balance, Beginning of Period	277	1,940
Cash Balance, End of Period	1,584	\$ 277
Supplemental cash flow information:		
Cash Paid for interest	\$ 0	\$ 0
Cash Paid for income taxes	\$ 0	\$ 0

See accompanying notes to Consolidated Financial Statements

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LOCAL TELECOM SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

(Unaudited)

NOTE 1 - GENERAL

Local Telecom Systems, Inc. (formerly Signature Motorcars, Inc.) ("Company") was incorporated in Nevada on February 19, 1969, as International Royalty & Finance Co. Prior to the Company's public offering in 1972, the Company changed its name to International Royalty & Oil Co. In April 1996, the Company's controlling interest was acquired by ExotiCar Rentals, Inc. and the name was changed to Signature Motorcars, Inc. On March 27, 2002, the Articles of Merger was signed with Local Telecom Systems Inc., a Nevada company, and the Company. As part of the merger agreement, the Company agreed to the name to be changed to Local Telecom Systems, Inc.

NOTE 2 - BASIS OF PRESENTATION

The Company's financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Company has suffered continuing net losses from operations. The Company is dependant on raising additional funds in order to provide capital for the Company to continue as a going concern.

The unaudited financial statements included herein have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Item 301(b) of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended June 30, 2003 are not necessarily indicative of the results that may be expected for the fiscal years ended September 30, 2003. The September 30, 2002 balance sheet was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles. Certain information and

note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations relating to interim consolidated financial statements. For further information, the statements should be read in conjunction with the financial statements and notes thereto included in the Company's Form 10KSB.

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Notes to Financial Statements Continued
Quarter Ended June 30, 2003

Shares of common stock issued by the Company for other than cash have been assigned amount equivalent to the fair value of the service or assets received in exchange.

Start-up and organization costs are recorded in accordance with the provisions of Statement of Position 98-5, "Reporting Costs of Start-up Activities" ("SOP 98-5"). SOP 98-5 requires that the costs of start-up activities, including organization costs, be expensed as incurred.

The Company adopted Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share," that simplifies the computation of earnings per share requiring the restatement of all prior periods. Basic earnings per share are computed on the basis of the weighted average number of common shares outstanding during each year. Diluted earnings per share are computed on the basis of the weighted average number of common shares and dilutive securities outstanding. Dilutive securities having an anti-dilutive effect on diluted earnings per share are excluded from the calculation.

NOTE 3 - COMMON STOCK

In December of 2002, the previous quarter, the Company granted 3,250 options with a grant price of \$.10 per share to certain employees. No shares of common stock were issued during the quarter ended June 30, 2003.

NOTE 4 - COMMITMENTS AND CONTINGENCIES

The Company, from time to time, may be subject to legal proceedings and claims that arise in the ordinary course of its business. Currently, the Company is not subject to any legal proceedings or other claims.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

General Discussion:

Local Telecom Systems, Inc. ("LTSI" or "Company") offers local and long distance service on a prepaid basis. Specifically, local services include a "bare bones" product providing unlimited local dial tone and 911 emergency access with the option of several customer calling features, for an additional fee, including Call Waiting, Caller ID, Call Forwarding and Speed Dialing. These features may

be purchased individually or in a package at reduced rates.

LTSI purchases phone services from the incumbent local exchange carrier at deep discounts (currently up to 26%) and resells the service on a prepaid basis at a premium, allowing attractive profit margins. The markets are households without phone service due to lack of credit history or a poor credit history, and/or the inability to pay a deposit.

LTSI is a flat rate service provider with a customer base of approximately 500 in Texas, New Mexico and Arizona. LTSI is not a measured service provider, which is when service is provided on a "per call" or "minute basis". LTSI has the licenses in place to expand into 42 more states for a total of 44 states plus the District of Columbia.

The Company has been meeting with various venture capital companies for source of funds for implementing the Company's business plan of expansion into the new licenses. In order to expand the Company's operations working capital must be raised. Subsequent to the end of the quarter, the Company initiated plans for a funding campaign in Europe to raise a portion of this needed working capital.

Assets and Liquidity:

Total assets of the Company on March 31, 2003 were \$1,270,963 compared to \$1,263,139 on June 30, 2003 and at the fiscal year end, September 30, 2002, the Company had total assets of \$1,306,888. Also in comparison the Company had total assets of \$187,655 on June 30, 2002. The dramatic increase in total assets from June 30, 2002 to September 30, 2002 is directly attributable to the acquisition/merger with Local Telecom Systems on August 30, 2002. The slight decrease in assets during the current quarter from \$1,270,963 to \$1,263,139 is related to the reduction in intangible assets from \$721,116 to \$685,024.

On September 30, 2002, March 31, 2003 and June 30, 2003 the Company had accounts payable and accrued expenses of \$309,744, \$428,192, \$438,281 respectively. Of these amounts the most significant portion is \$118,000 in payables for excise taxes. During the quarter the Company borrowed \$13,975 from unrelated third parties.

The Company has Stockholders' Equity of \$165,054 on June 30, 2002 compared to \$997,145 on September 30, 2002 and had Stockholders' Equity of \$842,771 on March 31, 2003 and \$810,883 on June 30, 2003. The reduction in Stockholders' Equity is related to a slight reduction in intangible assets and an increase in accounts payable and accrued expenses.

Prior to the acquisition of Local Telecom Systems, Inc. the Company had sufficient cash and or revenues to carry on the Company's limited operations. However, as a result of the acquisition of Local Telecom Systems, Inc., the Company must raise additional working capital to meet the expansion plans of the Company. The expansion plans include but are not limited to promoting the Company's prepaid telephone services in the new 42 licensed states that were acquired on August 30, 2002. The Company has initiated plans for a form of equity financing to raise a portion of the working capital needed.

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Revenues:

The quarter ended June 30, 2003 marked the third full quarter of reported revenues since the acquisition/merger of LTSI. These revenues were generated

from the operations of the Company through providing prepaid telephone service to the Company's customers. Plans for the next quarter are to seek to expand the customer base through an advertising campaign. Total revenues for the three months ended June 30, 2003 were \$48,549 and were \$187,161 for the nine months ended March 31, 2003.

Expenditures

Cost of revenues were \$41,058 leaving a gross profit of \$20,694 for the quarter ended March 31, 2003 compared to the current quarter where cost of revenues were \$24,109 leaving a gross profit of \$24,440. The nine months revenues incurred costs of \$132,222 leaving a gross profit of \$54,939 from the Company's prepaid phone service.

Salaries, Wages, and Transfer Agent Fees totaled \$9,540 during this quarter compared to \$3,398 for salaries, wages or transfer agent fees incurred during the same period in 2002. The nine month expenses for Salaries, Wages and Transfer Agent Fees were \$39,953 for the period ended June 30, 2003 compared to \$14,212 for the same period in 2002. This substantial increase is attributable to an increase in employees for staffing the prepaid telephone office operations. General Administration expenses remained fairly constant during these reporting periods.

Net Income (Loss)

The Company incurred a Net Loss of \$506,519 for the quarter ended June 30, 2002, and a Net Loss of \$59,434 for the quarter ended March 31, 2003 compared to a net loss of \$31,888 for the current quarter ended June 30, 2003. The Company incurred a Net Loss of \$642,604 for the nine months ended June 30, 2002, compared to a Net Loss of \$186,262 for the nine month period ended June 30, 2003. The losses incurred in 2002 are attributable to the distribution of stock dividends to shareholders in preparation of the merger with Local Telecom Systems, Inc. The losses incurred subsequent to year-end have been related to the cost of operations for Local Telecom.

Material change and Working Capital Requirements:

As a result of the Company's merger with LTSI, the Company business, as of August 30, 2002, increased its cash requirements through the expansion of its services in 42 additional states. A funding campaign is very important to expanding the Company's operations. Marketing the Company's prepaid local service will require the Company to utilize national advertising to maximize the Company's exposure as it plans to increase its customer base from 500 to over 9,000 within the next twelve months. A funding campaign to raise up to \$2,000,000 in working capital is planned through equity/debt financing and/or the placement of the Company's common stock. The Company's cash flow projections indicate that an initial funding of \$2,000,000 in working capital would be sufficient to expand the Company's current business to the broader national market. During the second year of operations following the desired funding of \$2,000,000 in working capital, it is projected that the customer base could exceed 20,000. However, no assurance can be given that the Company will be successful in raising this amount of financing, or any amount, or that the Company's growth projections will be met.

The Company has been meeting with various venture capital companies for source of funds for implementing the Company's business plan of expansion into the new licenses and with private business combinations that would complement the Company's operations in an overall plan to benefit the Company.

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Caution Respecting Forward-Looking Information

This Form 10-QSB includes "forward-looking" statements within the meaning of Section 27A of the Securities Act and the Company desires to take advantage of the "safe harbor" provisions thereof. Therefore, the Company is including this statement for the express purpose of availing itself of the protections of such safe harbor provisions with respect to all of such forward-looking statements. The forward-looking statements in this Form 10-QSB reflect the Company's current views with respect to future events and financial performance. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ from those anticipated. In the Form 10-QSB, the words "anticipates," "believes," "expects," "intends," "future" and similar expressions identify forward-looking statements. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that may arise after the date hereof. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by this section.

Item 3. Controls and Procedures

1. Quarterly evaluation of Disclosure Controls and Internal Controls

Within the 90 days prior to the date of the quarterly report on Form 10-QSB, the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures' (Disclosure Controls), and its "internal controls and procedures for financial reporting" (Internal Controls). This evaluation (the Controls Evaluation) was done under the supervision and with the participation of management, including our President (who performs all of the functions typically associated with a Chief Executive Officer, CEO) and Chief Financial Officer (CFO). Rules adopted by the SEC require that in this section of the Quarterly Report we present the conclusions of the President and the CFO about the effectiveness of our Disclosure Controls and Internal Controls based on and as of the date of the Controls Evaluation.

2. President and CFO Certifications

Appearing immediately following the Signatures section of this Quarterly Report there are two separate forms of "Certifications" of the President and the CFO. The first form of Certification is required in accord with Section 302 of the Sarbanes-Oxley Act of 2002 (the Section 302 Certification). This section of the Quarterly Report that you are currently reading is the information concerning the Controls Evaluation referred to in the Section 302 Certifications for a more complete understanding of the topics presented.

3. Disclosure Controls and Internal Controls;

Disclosure Controls are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 (Exchange Act), such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's (SEC) rules and forms. Disclosure Controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the President and CFO, as appropriate to allow timely decisions regarding required disclosure. Internal Controls are procedures which are designed with the objective of providing reasonable assurance that (1) our transactions are properly authorized; (2) our assets are safeguarded against unauthorized or improper use; and (3) our transactions are properly recorded and reported, all to permit the preparation of our financial statements in conformity with

generally accepted accounting principles.

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4. Limitations on the Effectiveness of Controls;

The Company's management, including the President and CFO, does not expect that our Disclosure Controls or our Internal Controls will prevent all error 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. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent 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. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also 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; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

5. Scope of the Controls Evaluation;

The President/CFO evaluation of our Disclosure Controls and our Internal Controls included a review of the controls' objectives and design, the controls' implementation by the company and the effect of the controls on the information generated for use in this Quarterly Report. In the course of the Controls Evaluation, we sought to identify data errors, controls problems or acts of fraud and to confirm that appropriate corrective action, including process improvements, were being undertaken. This type of evaluation will be done on a quarterly basis so that the conclusions concerning controls effectiveness can be reported in our Quarterly Reports on Form 10-QSB and Annual Report on Form 10-KSB. The overall goals of these various evaluation activities are to monitor our Disclosure Controls and our Internal Controls and to make modifications as necessary; our intent in this regard is that the Disclosure Controls and the Internal Controls will be maintained as dynamic systems that change (including with improvements and corrections) as conditions warrant.

Among other matters, we sought in our evaluation to determine whether there were any "significant deficiencies" or "material weaknesses" in the Company's Internal Controls, or whether the Company had identified any acts of fraud involving personnel who have a significant role in the Company's Internal Controls. This information was important both for the Controls Evaluation generally and because items 5 and 6 in the Section 302 Certifications of the President and CFO require that the President and CFO disclose that information to our Board and to our independent auditors and to report on related matters in this section of the Quarterly Report. In the professional auditing literature, "significant deficiencies" are referred to as "reportable conditions"; these are control issues that could have a significant adverse effect on the ability to record, process, summarize and report financial data in the financial statements. A "material weakness" is defined in the auditing literature as a

particularly serious reportable condition where the internal control does not reduce to a relatively low level the risk that misstatements caused by error or fraud may occur in amounts that would be material in relation to the financial statements and not be detected within a timely period by employees in the normal course of performing their assigned functions. We also sought to deal with other controls matters in the Controls Evaluation, and in each case if a problem was identified, we considered what revision, improvement and/or correction to make in accord with our on-going procedures.

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In accord with SEC requirements, the President and CFO note that, since the date of the Controls Evaluation to the date of this Quarterly Report, there have been no significant changes in Internal Controls or in other factors that could significantly affect Internal Controls, including any corrective actions with regard to significant deficiencies and material weaknesses. Based upon the Controls Evaluation, our President and CFO have concluded that, subject to the limitations noted above, our Disclosure Controls are effective to ensure that material information relating to the Company is made known to management, including the President and CFO, particularly during the period when our periodic reports are being prepared, and that our Internal Controls are effective to provide reasonable assurance that our financial statements are fairly presented in conformity with generally accepted accounting principles.

Item 5. Other Information

On June 17, 2003 the Board of Directors met and accepted the resignation of Tracey Norris as director, officer and employee. Ms. Norris submitted her resignation on June 6 for personal reasons. At the same Board meeting the Directors appointed Katey J. Daniel to fill Ms. Norris's positions. The following is a resume of Katey J. Daniel:

Katey J. Daniel, Director of Operations. A 1996 graduate from Brandon University in Manitoba, Canada with a Bachelor's Degree in Education and a 2000 graduate from the University of Dallas in Irving, Texas with a Master's Degree in Business Administration with a major in Telecommunications. In 1998 she was employed by the University of Dallas as the Marketing Specialist and Distance Learning Coordinator where she managed the Distance Learning program and was a key member of the team that developed the University's Internet MBA program. She then went on to become the Senior Telecommunications Account Manager for Global Direct Resources, Dallas, TX in 2000. Ms. Daniel was also employed by Aesthetics Medical, Dallas, TX as the Director of Operations where she managed daily operations as well as the marketing and sales of the business. Throughout her corporate career Ms. Daniel has also maintained a teaching career as an adjunct professor of English (ESL). Ms. Daniel had a successful consulting practice before joining LTSI.

SIGNATURES

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

LOCAL TELECOM SYSTEMS, INC.
(Registrant)

/s/ WILLIAM R. MIERSTCHIN

Date: August 11, 2003

By: William R. Miertschin, President &
Chief Executive Officer

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CERTIFICATION

I, William R. Miertschin, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Local Telecom Systems, Inc.;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 a Quarterly Report.

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

- a) designed such disclosure controls and procedures 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 quarterly report is being prepared;
- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
- c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date:

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit functions):

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: August 11, 2003

/s/ WILLIAM R. MIERSTCHIN

William R. Miertschin, President, Chief Executive Officer
And Chief Financial Officer of Local Telecom Systems, Inc.

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CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Local Telecom Systems, Inc. ("LTSI") on Form 10-QSB for the period ended March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), William R. Miertschin, Chief Executive Officer and Chief Financial Officer of LTSI, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Local Telecom Systems, Inc.

Date August 11, 2003

/s/ WILLIAM R. MIERTSCHIN

William R. Miertschin, President, Chief Executive Officer
and Chief Financial Officer of Local Telecom Systems, Inc.

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