NATIONAL SCIENTIFIC CORPORATION

INFORMATION AND DISCLOSURE STATEMENT

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

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PART A GENERAL COMPANY INFORMATION

Item 1. Exact name of the issuer and its predecessor

Exact Name: National Scientific Corporation
Predecessor: American Mortgage Company

Item 11. The address of its principal executive offices

8361 E. Evans Road, Suite 106
Scottsdale, AZ 85260-3617
Telephone (480) 948-8324

Item 111. The jurisdiction and date of incorporation

Originally incorporated in Texas on June 22, 1953, we changed our name to National Scientific Corporation in 1996.

PART B SHARE STRUCTURE

Item 1V. The exact title and class of securities outstanding

National Scientific Corporation Common Stock
Trading Symbol: NSCT.PK CUSIP: 637479 10 6

National Scientific Corporation Preferred Stock
Trading Symbol: NSCTP.PK CUSIP: 637479 10 6

Item V. Par value and description of the security

a. Common Stock, $0.01 par value **;** Preferred Stock, $0.10 par value

1. Common stockholders can receive dividends, if any are declared by our board of directors out of legally available funds – none have been paid to date.
2. Each holder of common stock is entitled to one vote for each share held on all matters. The dividend rights of common stock are junior to any preferential dividend rights. The holders of our common stock are not entitled to preemptive, subscription, redemption or conversion rights.
3. For Preferred Stock our board of directors may determine the voting rights, if any, of the series of preferred stock being issued, including the right to: vote separately or as a single class with the common stock and/or other series of preferred stock; have more or less voting power per share than that possessed by the common stock or other series of preferred stock; and vote on specified matters presented to the shareholders or on all of such matters or upon the occurrence of any specified event or condition.
4. Holders of our common stock are entitled to receive distributions upon our liquidation, dissolution or winding up of our assets that are legally available for distribution, after payment of all debt and other liabilities and distribution in full of preferential amounts, if any, to be distributed to holders of our preferred stock
5. No provision to delay, defer or prevent a change in control or ownership of the issuer is incorporated into the articles of incorporation.

Item VI. **The number of shares outstanding for each class of securities authorized**

Common Stock

(i) March 31, 2009
(ii) Number of shares authorized 187,000,000
(iii) Total number of shares issued and outstanding 165,276,879
(iv) Freely tradable shares (public float) 104,521,968
(v) Total number of beneficial shareholders 863

(i) September 30, 2008
(ii) Number of shares authorized 187,000,000

(iii) Total number of shares issued and outstanding 132,276,879
(iv) Freely tradable shares (public float) 94,541,968
(v) Total number of beneficial shareholders 865

(i) September 30, 2007
(ii) Number of shares authorized 187,000,000
(iii) Total number of shares issued and outstanding 121,995,835
(iv) Freely tradable shares (public float) 94,966968
(v) Total number of beneficial shareholders 868

Preferred Stock

(i) March 31, 2009
(ii) Number of shares authorized 4,000,000
(iii) Total number of shares issued and outstanding zero
(iv) Freely tradable shares (public float) : zero
(v) Total number of beneficial shareholders : zero
(vi) Total number of shareholders of record: zero

(i) September 30, 2008
(ii) Number of shares authorized 4,000,000
(iii) Total number of shares issued and outstanding zero
(iv) Freely tradable shares (public float) : zero
(v) Total number of beneficial shareholders : zero
(vi) Total number of shareholders of record: zero

(i) September 3, 2007
(ii) Number of shares authorized 4,000,000
(iii) Total number of shares issued and outstanding zero
(iv) Freely tradable shares (public float) : zero
(v) Total number of beneficial shareholders : zero
(vi) Total number of shareholders of record: zero

PART C BUSINESS INFORMATION

Item VII. Name and address of the transfer agent

Computershare Investor Services,
350 Indiana Street, Suite 800
Golden, CO 80401
(303) 262-0600

Item VIII. Nature of the issuers Business

A. Business Development

The Company was incorporated in Texas on June 22, 1953 as American Mortgage Company. On May 16, 1996, the Company changed its name to National Scientific Corporation. During 1996, the Company acquired the operations of Eden Systems, Inc. (Eden) as a wholly owned subsidiary. Eden was engaged in water treatment and the retailing of cleaning products. Eden's operations were sold on October 1, 1997.

From September 30, 1997 through the year ended September 30, 2001, we aimed our efforts in the research and development of semiconductor proprietary technology and processes and in raising capital to fund its operations and research. Beginning in calendar 2002, we focused our efforts on the development, acquisition, enhancement and marketing of location device technologies.

Our financial year runs from Oct 1st through September 30th.

From 1997 through early 2002 we designed, developed and patented a number of electronic component products, some of which have applications in radio equipment, and some of which have applications in the memory systems of personal computers. We focused extensively on developing these products and patenting them, with the objective of licensing these products to other electronic companies. In early 2002, due to market conditions, our focus shifted away from further development of our electronic component products,

From 2002, we began to focus on the location and security market. From 2002 through 2005, we were primarily engaged in product development and market research, testing and pre-commercialization of various products combining advanced computer technology with integrated video, GPS location and radio communications. During fiscal year 2005, the Company increased its focus on its Travado-based products, a mobile computer that combined GPS location, digital video recording and Wi-Fi. This product entered the market in March 2005. We expanded the Travado product line in July 2008 to meet customer demand and take advantage of new emerging technology. We introduced a state-of-the-art upgrade to the original Travado IBUS™: Sentinel, and also introduced IMPACT, a value version of the product. Starting from the last two quarters of fiscal year 2005, we have generally seen a steady increase in the sales of our Travado products. During fiscal years 2007 and 2008 our sales have consisted entirely of Travado -based products and services.

NSC has never been in bankruptcy or receivership. There has been no material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets. There are no past, pending or anticipated stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization.

During the year ended September 30, 2006, the Company issued 5,012,580 restricted common shares or an increase in 5.3% in the number of outstanding shares.

In the year ended September 30, 2007, the Company has 22,887.796 restricted common shares or an increase in 23.1% in the number of outstanding shares. Of which 12,215,000 restricted common shares went to management and staff, in exchange for their partial forgiveness of the Company's back pay indebtedness. The remainder was used in a private placement that resulted in raising $170,000 consisting of $109,800 in cash and $60,200 in debt forgiveness.

During the year ended September 30, 2008, the Company issued 15,281,044 restricted common shares or an increase in 12.5% in the number of outstanding shares to management and staff, in exchange for their partial forgiveness of the Company's back pay indebtedness to them.

NSC was delisted from the OTC on February 10, 2009 due to the failure to complete all required SEC filings in a timely manner. The reason for this delisting was our inability to pay fees required for the audit of our financial records for the fiscal year ended September 30, 2008, as well as the subsequent quarterly period ended December 31, 2008.

We are currently a plaintiff in one lawsuit. We filed a complaint in Maricopa County Superior Court in August 2002, seeking $155,550 plus interest from E4World Corporation for breach of contract. We were awarded a judgment of $179,000 in May 2003. We are uncertain if we will be able to collect from this judgment. There are currently no other lawsuits involving NSC

B. Business of Issuer

We are not a shell company nor have we at any time been a shell company.

Our primary business involves the research, development, manufacture, and sale of mobile Digital Video Recording systems (DVR's) based on small embedded computers that are configured to record digital video and take GPS generated location bread crumbs and then wirelessly communicates this data back to a base station for subsequent review. We write all of our firmware and assemble the hardware components into a finished product.

Our primary customer focus for these products is the safety market, related in many cases to the safety of school age children. Our products and services are typically sold to school district transportation departments or to other distributors who then sell into the school districts. The majority of our distributors are major school bus manufacturer distributors.

The issuer's primary SIC Code is 8711.

Environmental Regulation

There are few if any special environmental compliance concerns unique to us that would be different than those that apply to other design companies in the United States in general. This is principally because we use third parties to manufacture and distribute our location tools products, and in the opinion of management, the significant environmental risks associated with our electronic products relate to the manufacturing of these units, not the design function.

Research and Development

Over the last two full fiscal years, we have spent approximately $339,000 directly accounted for as pure research and development of our products, and we estimate that in excess of 50% of the available personnel resources were involved in research and development of our products over the last three years. We will continue to conduct research in several areas, especially for new location services products, however most of the ongoing effort will now be switched to sustaining development that will concentrate on extended product testing and refinement.

Government Regulation

Since our location-based products are based on the use, in most cases, of radio technology, we are required to comply with a variety of Federal, State, and local regulations regarding the use of radio devices. The primary set of regulations that concerns our products are those promulgated by the Federal Communication Commission, or FCC, which is tasked with managing the use of the radio spectrum in the United States. In most cases, we elect to purchase complete and certified radio systems to incorporate into our products that have already achieved this certification. This is the case with our Travado products, which uses 2.4GHz Wi-Fi radios manufactured by a supplier of ours that has already achieved this certification. Using this second approach typically accelerates time to market over the first approach outlined, but may add to the cost of manufacturing the product over the long term.

Company Employees

As of the date of this report, we have two full time employees, three part time employees, as well as a number of part time relationships with contractors for certain services. All employees work in the Scottsdale, Arizona corporate office. NSC has created a distributor network, where local agents sell and service our products throughout the country. These agents and distributors have the ability to positively affect NSC's performance, but are not listed as employees.

Item IX. The nature of products or services offered.

Principal Product

Our principal product is the Sentinel mobile DVR (digital video recorder) system. Sentinel features a robust microprocessor-based digital video recording system using a state of the art video-encoding algorithm. The unit contains a communications network-bridge located in each of the school buses. A web browser-based software application provides authorized users access to the system for bus monitoring and video retrieval. Optionally, GPS can be added to the system.

While the bus is in operation the system automatically records video and other salient information as required such as speed, location, etc. Some of this additional data is automatically embedded into the video stream. All data is stored for later (near-time) retrieval over a Wi-Fi network located at each bus yard. Should the driver witness an incident on the bus, all they have to do is press the optional index / panic button, then the recorded DVR events and optional GPS location information will be automatically downloaded by the bus when it returns to the bus yard, or if there is a general request to get data or video from the bus, it can be requested by the dispatcher from their computer and automatically downloaded. Optionally, additional sensors can also be included to deliver information on bus functions such as stop arm deployment, door open, brake lights, etc.

Should the school district upgrade to the rider authentication option, ID card readers can be connected to the units to collect student identification. As the students embark and disembark from the bus they simply 'swipe' their ID cards and there location and ID numbers are automatically stored. This information is then automatically downloaded when the bus returns to the bus yard. If there is a discrepancy of students getting on and off the bus the driver will be automatically notified to check the bus for a potentially missing student.

This technology has the capability of extending into the classroom environment to automate time and attendance record keeping, by notifying the school of who is on the bus.

Our initial DVR product was the Travado IBUS™. In summer 2008 we introduced a solid-state version of the Travado called Sentinel. To date most of the sales have been of our new product. It is a solid state version meaning that there are no hard drives or other major mechanical or moving components. As such the overall product should be considerably more tolerant to the harsh environmental conditions typically found on a bus.

Products Sales, Marketing and Support

In February 2005 we moved our focus to concentrate on the sales and marketing of our DVR system to local Arizona school districts. These efforts culminated in appointing Auto Safety House as a local distributor covering Arizona and Nevada. Our first significant end-user was the Scottsdale Unified School District of Arizona, which has deployed our Travado IBUS™ system on roughly half their fleet during 2005. Since then we have established a reliable reputation in Arizona and this has culminated in obtaining several school districts in Arizona, California, Oregon and Washington states. We expect this trend to continue throughout the coming year as more people become familiar with our technology and good references help promote the product.

Currently we use a blend of direct sales to major school districts and local distributors to reach the smaller districts. We believe that maintaining a close relationship with our customers and providing them with ongoing backup and support is essential to the end user customer satisfaction. The vast majority of our installations allow us to provide real time remote support and therefore we can 'log in' and typically fix the vast majority of product issues remotely (that is without the need to visit the site).

As is typical of other new technologies, our products can have a lengthy sales cycle that requires extensive application engineering support. We support potential customers' activities and consider such support an important element of our sales and marketing efforts.

Our Market

NSC operates in the School Bus market. By combining a number of technologies namely DVR, student tracking, and GPS we have developed a product that offers a number of compelling features and benefits.

The products are aimed for the emerging but fragmented video security and surveillance market.

In the 2006-2007 school year, it was estimated by School Transportation News that there were 26 million pupils transported daily in the US by 500,000 school buses and in excess of $14B was spent in transporting them during that time.

In the United States, School Districts purchased a total of 37,663 new buses in 2007 a decrease of 16% from 2005. It was further estimated by School Bus Fleet that in the school year 2005-06 41% of the respondents to their survey had video in more than 60% of their fleet. In fact over 40% of the respondents had less than 20% of their fleet equipped with video. According to School Bus Fleet, they assume that the majority of the pre-2004 systems are VCR systems and not digital systems. A 2006 survey done by School Bus Fleet of the 100 largest school districts found that 73.2% of those districts see a need to track buses using GPS. Regarding child tracking there are less than 3% of buses equipped with this technology. School Bus Fleet estimated capital outlay for bus replacement in the school year 2005-06 was in excess of $368 million.

Competition

Regarding the School Bus market there are three distinct segments in which we operate. These are Bus Tracking, Video Recording, and Student Tracking.

In the Bus Tracking segment there are currently 13 companies offering GPS based school bus tracking and another 22 dabbling in the periphery of tracking systems, such as route and fleet optimization. The most notable competitors in this segment are @Road, Every Day Solutions, and Honeywell Video Systems. Most of these systems currently require the user to go to the bus and plug in a computer drive of some kind in order to download the data, others only display the GPS co-ordinates and speed on a tape or DVR recording. Our system allows users to automatically download and map the route as well as displaying speed and location on a DVR recording.

In the Video Recording segment there are at least 12 competitors. These products all require the 'video technician' to go out to the bus to collect the hard drive and then download the contents at a special workstation. With our product users do not need to go out to the bus to get video. A user can be at a different location and request and get the desired video. Notable competitors in this segment are Honeywell Video Systems, Gatekeeper, REI, and Seon.

In Student Tracking we were only able to determine one competitor of note, Every Day Solutions, however a few mobile phone companies are beginning to offer products in this area.

When you consider that each of these three components bought individually as a standalone product can cost well in excess of $6,000 per bus, the NSC product offers significant competitive advantage as our retail price is significantly less than this figure, often less than ½ of this amount, depending on the volume requirements and features requested by a given customer.

As of the date of this report we have not been able to find anyone who can offer a bundled product like the Sentinel.

Relationships and Principal Suppliers

In June 2008, we entered into an informal agreement with Western Bus Sales (the factory authorized Blue Bird school and activity bus dealer for the state of Oregon) located in Boring OR. to distribute and install our products for its customers.

In April 2008, we entered into an informal agreement with Bryant Motors (the factory authorized Blue Bird school and activity bus dealer for the state of Washington) located in Seattle. WA to distribute and install our products for its customers.

In April 2007, we entered into an informal distribution and installation agreement with Canyon State Bus Sales (the factory authorized Blue Bird school and activity bus dealer for the state of Arizona) located in Phoenix. AZ.

In February 2007, we entered into an informal distribution and installation agreement with McCandless of Arizona (the factory authorized school bus distributor of IC Corporation) located in Phoenix, Arizona.

In September 2006 we entered into an informal agreement with Zepco (a manufacturer and distributor of automotive data recorders) located in Richardson, Texas, to distribute our product in Texas. To date there have been several significant Requests for Quotation (RFQ) generated from this relationship.

In April 2006 we entered into an informal agreement with Applied Preventative Maintenance, LLC company, located in Seattle, Washington as a product representative to represent our products in the Northwest USA. To date there have been several significant RFQ's and orders generated from this relationship.

Throughout 2006 we were successful in having our product specified into several new bus orders, which had to subsequently be submitted for competitive bid to the bus distributors by the school districts; as such we have had an increasing presence in the bus distributor market in 2006, 2007 and 2008.

In the early part of 2005 we entered into an informal distribution and installation agreement with Auto Safety House (ASH), (the factory authorized school bus distributor Thomas Built Buses in Arizona and Nevada).

Our product is now listed on the Mohave Educational Services Co-operative through our bus distributor channel partners. This Co-operative allows us to sell our products directly to the school districts in Arizona without going through a formal bid process.

All these relationships have resulted in orders.

Patents and Trademarks

Our current mobile DVR technology has not been awarded any patents as of the date of this report and has been awarded trademark protection on one other. We use a combination of confidentiality agreements, copyright and other trade secret management techniques to protect our trade secrets.

Semiconductor Products - Patents and Trademarks

We have applied for U.S. patents relating to these technologies, most of which have already been issued. These include the following, all of which have a 20-year life following date of filing.

Product Name	Summary of Patent Information	Expected Patent Expiration Date
Heterojunction Bipolar Transistor	On September 29, 1997, we filed a U.S. Patent application for a Heterojunction Bipolar Transistor (HBT). U.S. Patent 5,912,481 was issued for this device on June 15, 1999.	Sep. 2017
Distributed Amplifier	On July 10, 1998, we filed a U.S. Patent application for a Distributed Amplifier. U.S. Patent 6,008,694 was received for this device on December 28, 1999.	Jul. 2018
TMOS® Memory	On December 17, 1997, we filed a U.S. Patent application for a High Performance N-Channel Metal-Oxide-Semiconductor (NMOS) Static Random Access Memory (SRAM). U.S. Patent 6,104,631 was received for this device on August 15, 2000.	Dec. 2017
Mode Dielectric Resonator	On June 18, 1998, we filed a U.S. Patent application for a Mode Dielectric Resonator. The U.S. Patent and Trademark Office issued us U.S. Patent 6,169,467 for this device on January 2, 2001.	Jun. 2018

We have filed patent applications for other semiconductor-related patents since 2000, including some improvements to the above existing products as well as on related devices. The commercial importance of these inventions and the final disposition of these applications are uncertain. At this time, we are not actively pursuing patent protection outside the United States for these semiconductor products. We also hold the U.S. trademark to the word TMOS®, awarded to us July 1, 2003, U.S. Trademark registration number 2732825. The commercial significance of this patent award and any new provisional patent filing are not known at this time.

Item X. The nature and extent of the issuer's facilities.

On October 20, 2006 NSC executed a lease for 1,601 square feet of office/warehouse space at 8361 E. Evans Road, Suite 106 Scottsdale, Arizona 85260-3617. The lease for this Scottsdale facility commenced on November 1, 2006 and expires October 31, 2008. On September 29, 2008 the lease for the Scottsdale office was extended for one year at a monthly rental rate including taxes of $2,093. The extended lease expires October 31, 2009.

PART D MANAGEMENT STRUCTURE AND FINANCIAL INFORMATION

Item XI. The name of the chief executive officer, members of the board of directors, as well as control persons.

Officers and Directors

The following table sets forth the names and ages of our current directors and executive officers, the principal offices and positions held by each person and the date such person became our director or executive officer.

Name	Age	Position	Date of Appointment
Michael A. Grollman	47	CEO, Chairman of the Board of Directors	October 2002
Graham L. Clark	53	President, Director, Secretary	August 2002
Gregory Szabo	55	Director (Outside)	October 2003

The members of our board of directors are elected annually and hold office until their successors are elected and qualified. Our officers are chosen by and serve at the pleasure of its board of directors. Some of the officers and directors have positions of responsibility with other businesses and will devote only such time as they believe necessary for our business. There are no family relationships between any of the directors and executive officers. There was no arrangement or understanding between any executive officer and any other person pursuant to which any person was selected as an executive officer.

Directors and Executive Officers

Michael A. Grollman. Michael Grollman first became Chief Operation Officer in October 2000. Mr. Grollman was named President in April 2001, Chief Executive Officer in January of 2002, Chairman of the Board in December 2002, and Acting Chief Financial Officer in June of 2003. From 1998 to September 2000, Mr. Grollman served as Regional Service Director of MicroAge, Inc., a company that provides customer-configured technology solutions to businesses. He served as General Manager, Executive Vice President and Chief Technology Officer for Advanced Information Systems from 1987 to 1998. Mr. Grollman received his Bachelor of Science degree in chemistry from the State University of New York. He received his MBA from Arizona State University.

Graham L. Clark. Graham Clark joined National Scientific in early 2001 as general manager of the sales organization. He became Vice President of Technology Applications & Sales for National Scientific in the spring of 2002, a Director in August of 2002, and became Corporate Secretary in January of 2003. Mr. Clark was named President of National Scientific in September of 2003. For the two years immediately before joining National Scientific, Mr. Clark was the General Manager of the Billet Precision Engineering Group, a privately held manufacturing company providing custom engineering and manufacturing solutions to the semiconductor industry and other related industries. Prior to his tenure with Billet, he worked as Corporate General Manager for Amtech Systems, Inc. a semiconductor equipment manufacturer. Six years prior, he was a founder and senior partner of GC Technology, a private representative organization for semiconductor capital equipment. Mr. Clark has a Bachelor of Science degree in mechanical engineering from Paisley University in Scotland.

Gregory Szabo joined National Scientific's board on October 1, 2003 as an outside Director. Mr. Szabo serves on the Board's Audit and Compensation Committees. Mr. Szabo served in various executive positions at Exten Corporation, including President of Exten Corp. and CEO of MultiCell Technologies, Inc. from approximately May 2000 to April 2004, where he was responsible for public reporting, fund-raising for the corporation and overall accountability for its subsidiaries, including revenue generation, intellectual property protection and organizational development. Mr. Szabo was also a director at Exten, a publicly traded company (OTC: MUCL.OB). Immediately before joining Exten, Mr. Szabo was for a number of years President and CEO of Titan Scan Corporation, a division of Titan Corporation, with subsidiaries in sterilization, defense, software and communications. Mr. Szabo has held several executive positions with Sunrise Medical Inc., a manufacturer and distributor of numerous institutional and retail products. Mr. Szabo earned a BA in Psychology from the University of Toledo and a MA in Management from the Drucker Graduate School at Claremont University.

Executive Compensation

The following table provides information regarding total compensation earned in fiscal years ended September 30, 2008 and 2007 by the named executive officers, who include our Chief Executive Officer/Acting Chief Financial Officer and President of National Scientific, and other named executive officers whose total salary and non-cash compensation exceeded $100,000.

Summary Compensation Table for 2008 and 2007

Name	Principal position	Year	Salary	Actual cash salary paid	Salary accrued for future payment	Stock awards	Option awards	Total
			$	$	$	$	$	$
Michael A. Grollman	Chairman, CEO and Acting CFO	2008	180,000	11,350	168,650	-	8,750	188,750
		2007	180,000	9,000	171,000	-		180,000
Graham L. Clark	President, Director	2008	150,000	60,299	89,701	-	3,579	153,579
		2007	150,000	51,500	98,500	-	-	150,000
Gregory Szabo	Outside Director	2008	750	-	-	5,000	2,642	8,392
		2007	1,250	-	-	4,000	2,178	7,428

Summary of Common Shares Beneficially Owned by Directors and Officers at September 30, 2008

Name and Address of Beneficial Owner (1)	Number of Common Shares Beneficially Owned (2)		Percent of Outstanding Shares
Michael A. Grollman	16,900,000	(3)	12.3%
Graham L. Clark	19,751,667	(4)	14.4%
Gregory Szabo	1,083,244	(5)	0.8%
(executive officers and directors as a group persons)	37,734,911		27.5%

(1) The business address for all directors and officers is c/o National Scientific Corporation, 8361 E. Evans Road, Suite 106, Scottsdale, Arizona 85260-3617.

(2) A person is deemed to be the beneficial owner of securities that can be acquired within 60 days from the date set forth above through the exercise of any option, warrant or right. Shares of Common Stock subject to options, warrants or rights that are currently exercisable or exercisable within 60 days are deemed outstanding for computing the percentage of the person holding such options, warrants or rights, but are not deemed outstanding for computing the percentage of any other person. The amounts and percentages are based upon the approximately 137,276,879 shares of Common Stock outstanding as September 30, 2008.

(3) Includes 1,150,000 shares underlying currently exercisable stock options and warrants, and 20,750,000 shares of restricted Common Stock including 1,250,000 shares subject to substantial risk of forfeiture.

(4) Includes 551,667 shares underlying currently exercisable stock options and warrants and 24,200,000 shares of restricted Common Stock including 1,000,000 shares subject to substantial risk of forfeiture.

(5) Includes 460,000 shares underlying currently exercisable stock options and 623,244 shares of restricted Common Stock subject to substantial risk of forfeiture.

Legal/Disciplinary History

We are not aware of any legal and or disciplinary history on any member of NSC's management team.

Disclosure of Family Relationships

There are no family relationships between any member of NSC's management team.

Disclosure of Related Party Transactions

There were no material related party transactions. See Note 13 to the financial statements.

Disclosure of Conflicts of Interest

We are not aware of any conflicts of interest with NSC's management team.

Item XII. Financial information for the issuer's most recent fiscal period.

NATIONAL SCIENTIFIC CORPORATION

BALANCE SHEETS
September 30, 2008 and 2007

	2008 (Unaudited)	2007 (Audited)
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 7,602	$ 85,887
Trade receivables	101,561	6,216
Inventory	13,523	22,900
Other assets	342	68
Total current assets	123,028	115,071
Property and equipment, net	207	622
Deposits	2,340	2,340
Deferred offering costs, net	10,000	14,800
Total current assets	$ 135,575	$ 132,833
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current Liabilities:		
Accounts payable - related party	$ 262	$ 419
Accounts payable - other	190,312	195,004
Accrued expenses	1,108,725	883,400
Due to factors	71,604	2,602
Notes payable - related party	133,367	161,300
Notes payable – current portion	35,170	80,875
Total current liabilities	1,539,440	1,323,600
Notes payable, less current portion, net of discount and beneficial conversion feature of $25,639 at September 30, 2008 and $37,945 at September 30, 2007	149,361	137,055
Total liabilities	1,688,801	1,460,655
Commitments and contingencies	–	–
Shareholders' deficit:		
Preferred stock, par value $0.10; 4,000,000 shares authorized, and no shares issued and outstanding	–	–
Common stock, par value $0.01; 187,000,000 shares authorized, and shares issued and outstanding 137,276,879 and 121,995,835 at September 30, 2008 and 2007, respectively	1,372,769	1,219,959
Additional paid-in capital	22,623,307	22,693,696
Accumulated deficit	(25,549,302)	(25,241,477)
Total shareholders' deficit	(1,553,226)	(1,327,822)
Total liabilities and shareholder's deficit	$ 135,575	$ 132,833

See accompanying notes to financial statements, which are an integral part of the financial statements

NATIONAL SCIENTIFIC CORPORATION

STATEMENTS OF OPERATIONS
For the Years Ended September 30, 2008 and 2007

	2008 (Unaudited)	2007 (Audited)
Revenues	$ 668,796	$ 624,793
Cost of Sales	361,243	317,606
Gross profit	307,553	307,187
Costs and expenses		
Salaries and benefits	263,923	248,659
Research and development	169,277	169,960
Stock compensation	22,421	22,371
Other	198,796	166,134
Total costs and expenses	654,417	607,124
Loss from operations	(346,864)	(299,937)
Other income (expense)		
Other income	133,197	25,740
Interest expense	(89,358)	(166,725)
Amortization of deferred offering costs	(4,800)	(4,800)
Impairment of investment	–	–
	39,039	(145,785)
Loss before income taxes	(307,825)	(445,722)
Income tax expense	–	–
Net loss	$ (307,825)	$ (445,722)
Net loss per common share, basic and diluted	$ (0.00)	$ (0.00)
Weighted average number of shares outstanding	124,756,702	107,777,861

See accompanying notes to financial statements, which are an integral part of the financial statements

NATIONAL SCIENTIFIC CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT
For the Years Ended September 30, 2008 and 2007

	Common Stock				
	Number of Shares	**Par Value**	**Additional Paid-In Capital**	**Accumulated Deficit**	**Total**
Balance at September 30, 2007	121,995,835	$ 1,219,959	$ 22.693,696	$ (25,241,477)	$ (1,327,822)
Stock issued for services					
Price per share					
$0.0288	34,722	347	653	–	1,000
$0.0191	52,356	524	476	–	1,000
$0.0160	125,000	1,250	750	–	2,000
$0.0145	68,966	689	311	–	1,000
Stock options granted	–	–	8,322	–	8,322
Warrants extended by one year	–	–	9,099	–	9,099
Stock issued in exchange of accrued expenses for:					
$0.020	5,250,000	52,500	(37,500)	–	15,000
$0.005	10,000,000	100,000	(50,000)	–	50,000
Stock returned to treasury	(250,000)	(2,500)	(2,500)	–	(5,000)
Net loss for the year ended September 30, 2008	–	–	–	(307,825)	(307,825)
Balance at September 30, 2008	137,276,879	$ 1,372,769	$ 22,623,307	$ (25,549,302)	$ (1,553,226)

See accompanying notes to
financial statements, which are an integral part of the financial statements

NATIONAL SCIENTIFIC CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT
For the Years Ended September 30, 2007 and 2006

	Common Stock				
	Number of Shares	Par Value	Additional Paid-In Capital	Accumulated Deficit	Total
Balance at September 30, 2006	99,108,039	$ 991,081	$ 22,405,152	$ (24,795,755)	$ (1,399,522)
Stock issued for services					
Price per share					
$0.0385	25,974	260	740	–	1,000
$0.0254	78,740	787	1,213	–	2,000
$0.0288	34,722	347	653	–	1,000
Stock options granted		–	11,898	–	11,898
Warrants extended by one year	–	–	6,473	–	6,473
Warrants issued with debt	–	–	871	–	871
Stock issued in exchange of accrued expenses for:					
$0.035	714,286	7,143	17,857	–	25,000
$0.030	666,667	6,667	13,333	–	20,000
$0.020	10,134,047	101,340	101,340	–	202,680
$0.015	700,000	7,000	3,500	–	10,500
Private placement of stock					
Shares issued for:					
$0.02	8,000,000	80,000	80,000	–	160,000
$0.03	333,360	3,334	6,666	–	10,000
Stock issued to settle dispute regarding timing of interest payment on note	2,200,000	22,000	44,000	–	66,000
Net loss for the year ended September 30, 2007	–	–	–	(445,722)	(445,722)
Balance at September 30, 2007	121,995,835	$ 1,219,959	$ 22,693,696	$ (25,241,477)	$ (1,327,822)

See accompanying notes to
financial statements, which are an integral part of the financial statements

NATIONAL SCIENTIFIC CORPORATION

STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2008 and 2007

	2008 (Unaudited)	2007 (Audited)
Cash flows from operating activities:		
Net loss	$ (307,825)	$ (445,722)
Adjustments to reconcile net loss to net cash used in operating activities:		
Non cash transactions		
Depreciation	415	415
Stock issued for services	5,000	4,000
Stock options issued for services	8,322	11,898
Stock issued to settle a dispute	–	66,000
Warrant expense	9,099	7,344
Amortization of deferred offering costs	4,800	4,800
Amortization of debt discount	10,320	10,320
Amortization of beneficial conversion feature	1,986	1,987
Unclaimed note payable	(43,250)	–
Changes in assets and liabilities:		
Decrease (increase) in inventory	9,377	(16,880)
Decrease (increase) in receivables	(95,345)	135,282
Decrease (increase) in other assets and deposits	(274)	5,162
Increase in accounts payable and accrued expenses	280,476	239,380
Net cash used in operating activities	(116,899)	23,986
Cash flows from financing activities:		
Increase in notes payable	–	34,025
Repayment of notes payable	(30,388)	(24,025)
Net proceeds from factors	69,002	(101,798
Proceeds from issuance of common stock	–	109,800
Net cash provided by financing activities	38,614	18,002
Net (decrease) increase in cash and cash equivalents	(78,285)	41,988
Cash and cash equivalents, beginning of year	85,887	43,899
Cash and cash equivalents, end of year	$ 7,602	$ 85,887
Supplementary Disclosure of Cash Flow Information:		
Cash paid for interest	$ 14,788	$ 33,040
Non-cash investing and financing activities:		
Conversion of accounts payable and accrued payroll to equity	$ 65,000	$ 258,180
Conversion of debt to equity	$ –	$ 60,200
Stock returned to treasury	$ 5,000	$ –

See accompanying notes to financial statements, which are an integral part of the financial statements

Summary of Non-Cash Investing and Financing Activities

In February 2007, the Company commenced a private offering of restricted common stock and common stock purchase warrants. During the period ended March 31, 2007, the Company raised $170,000 consisting of $109,800 in cash and $60,200 in debt forgiveness and issued 8,333,360 shares of restricted common stock and granted 2,720,000 warrants to purchase common stock at an exercise price of between $0.08 and $0.30 per share. 8,000,000 shares were issued at an average market price of $0.02 per share and 333,360 shares were issued at an average market price of $0.02 per share. No underwriters were involved in connection with this private placement. The sales and issuances of the securities issued pursuant to the foregoing private placement are exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 4(2) thereof, and Rule 506 of Regulation D.

During the year ended September 30, 2007, the Company issued 12,215,000 of our restricted common shares to management and staff, at closing prices ranging from $0.015 to $0.035 in exchange for their partial forgiveness of the Company's back pay indebtedness of $258,180 to them.

During the year ended September 30, 2008, the Company issued 15,250,000 of our restricted common shares to management and staff, at closing prices ranging from $0.005 to $0.020 in exchange for their partial forgiveness of the Company's back pay indebtedness of $65,000 to them.

See accompanying notes to financial statements, which are an integral part of the financial statements

NATIONAL SCIENTIFIC CORPORATION

NOTES TO UNAUDITED FINANCIAL STATEMENTS

For the Years Ended September 30, 2008 and 2007

1. **Summary of Significant Accounting Polici**es

The following is a summary of the significant accounting policies followed by National Scientific Corporation (the "Company" or "us").

The accompanying unaudited financial statements do not include all information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been included. Operating results for the interim periods are not necessarily indicative of the results that may be expected for the respective full year.

Going Concern:

The financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that adequate sources of financing will be obtained as required and that our assets will be realized and liabilities settled in the ordinary course of business. Accordingly, the financial statements do not include any adjustments related to the recoverability of assets and classification of assets and liabilities that might be necessary should we be unable to continue as a going concern.

The Company's ability to continue as a going concern is contingent upon its ability to attain profitable operations and secure financing. There can be no assurance that additional financing will be available to us when needed or, if available, that it can be obtained on commercially reasonable terms. If we are not able to continue as a going concern, we would likely be unable to realize the carrying value of our assets reflected in the balances set out in our financial statements. Historically, our auditors have expressed substantial doubt about the Company's ability to continue as a going concern.

Use of Estimates:

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reported period. Actual results could differ from those estimates.

Revenue Recognition:

The Company recognizes revenue when persuasive evidence of an arrangement exists, the sales price is fixed or determinable, collection is reasonably assured and delivery of products has occurred or services have been rendered. Accordingly, the Company recognizes revenues upon shipment of product to customers.

Cash Equivalents:

Cash equivalents include money market accounts and other short-term investments with an original maturity of three months or less.

Trade Receivables:

The Company provides for potentially uncollectible accounts receivable by use of the allowance method. An allowance is provided based upon a review of the individual accounts outstanding and the Company's prior history of uncollectible accounts. A provision for uncollectible accounts receivable was not required at September 30, 2008 and 2007. The Company does not typically require collateral or accrue interest or fees on past due amounts.

Inventory:

Inventories, primarily parts and finished goods, are stated at the lower of cost or market values. Cost is primarily determined on a FIFO (first-in, first-out) basis.

Property and Equipment:

Property and equipment are recorded at cost and are being depreciated over estimated useful lives of five years using the straight-line method.

Advertising and Promotion Costs:

Advertising and promotion costs, which totaled $2,692 in 2008 and $1,648 in 2007, are expensed as incurred.

Stock Based Compensation:

Effective October 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment” (“SFAS 123R”), using the modified prospective transition method and therefore the Company has not restated its results for prior periods. Under this transition method, stock-based compensation expense for the years ended September 30, 2008 and 2007 includes compensation expense for all stock-based compensation awards granted, based on the grant date fair value estimated in accordance with the original provision of Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation” (“SFAS 123”). All stock based compensation awards were fully vested as of September 30, 2006. Stock-based compensation expense for all stock-based compensation awards granted after October 1, 2006 is based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R.

We estimate fair value using the Black-Scholes option-pricing model.

Prior to the adoption of SFAS 123R, the Company recognized stock-based compensation expense in accordance with Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB 25”). In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (“SAB 107”) regarding the SEC’s interpretation of SFAS 123R and the valuation of share-based payments for public companies. The Company has applied the provisions of SAB 107 in its adoption of SFAS 123R. See Note 10 to the financial statements for a further discussion on stock-based compensation.

Income Taxes:

Income taxes are recorded using the asset and liability method. Under the asset and liability method, tax assets and liabilities are recognized for the tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of change in tax rates is recognized in income in the period that enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Research and Development / Patents:

Both research and development and the costs associated with obtaining patents and product development have been expensed as incurred. Patent costs are expensed, since the Company has not yet developed products, which have gained market acceptance.

Off-Balance Sheet Arrangements:

The company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

2. Trade Receivables

On September 7, 2005, we entered into a factoring agreement with United Capital Funding (UCF) of Florida. UCF is a specialized financial services firm offering Accounts Receivable Management and working capital funding via factoring. We expect to improve our cash flow with this arrangement.

Under the arrangement, we sell to UCF as absolute owner, invoices that we submit to UCF to be factored. Upon purchase, UCF assumes the risk of non-payment on purchased invoices, so long as the cause of non-payment is solely due to the occurrence of an insolvency event. As collateral securing the obligations, we grant UCF a continuing first priority security interest in all accounts and related inventory. Notwithstanding the creation of the above security interest, our relationship with UCF is one of Seller and Purchaser of accounts, and not that of lender and borrower. However, as there is certain recourse for non-payment, the accounts receivable are recorded at the estimated realizable value, net of allowances and the net advanced amount from UCF is recorded as an obligation at the end of fiscal 2008 and 2007. The initial and periodic factoring fee is .45% of the face amount of factored invoices. The factoring period is five days and the purchase price is 80% of the face amount, excluding sales tax.

UCF typically advances to us 80% of the total amount of invoices factored, excluding sales tax. UCF retains 20% of the outstanding factored invoices as a reserve, which it holds until the customer pays the factored invoice to UCF.

As of September 30, 2008, Trade Receivables of $101,561 included factored invoices totaling $89,505. As of September 30, 2007, Trade Receivables of $6,216 included factored invoices totaling $3,470. There were no reserves for doubtful accounts at September 30, 2008 and 2007, as all amounts were deemed collectable.

3. Property and Equipment

Property and equipment consists of the following at September 30, 2008 and 2007:

	2008 **(Unaudited)**	2007 **(Audited)**
Computer equipment	$ 2,074	$ 2,074
Total property and equipment	2,074	2,074
Less: accumulated depreciation	(1,867)	(1,452)
Net property and equipment	$ 207	$ 622

Depreciation expense for the years ended September 30, 2008 and 2007 was $415.

4. Inventory

Inventories, primarily purchased parts and finished goods, are stated at the lower of cost or market values. Cost is determined on a FIFO (first-in, first-out) basis. There were no reserves at September 30, 2008 and 2007.

5. Accrued Expenses

Accrued Expenses consisted of the following at September 30, 2008 and 2007:

	2008 (Unaudited)	2007 (Audited)
Salaries & vacation pay - current management and staff	$ 786,653	$ 575,727
Salaries & vacation pay - former employee	29,375	29,375
Payroll taxes for back pay	62,224	40,781
Interest	216,471	156,271
Employee stock retainage pool	–	50,250
Other liabilities	14,002	30,996
	$ 1,108,725	$ 883,400

6. Earnings Per Share

The following table reconciles weighted average shares outstanding to amounts used to calculate basic and diluted earnings per share for fiscal years 2008 and 2007.

	2008 (Unaudited)	2007 (Audited)
Net (loss)	$ (307,825)	$ (445,722)
Weighted average shares:		
Average shares outstanding	124,756,702	107,777,861
Effect of diluted shares	–	–
Average Shares outstanding, adjusted for dilutive effect	124,756,702	107,777,861
(Loss) per share – basic	$ (0.00)	$ (0.00)
(Loss) per share – diluted	$ (0.00)	$ (0.00)

Incremental common shares (not included in denominator of diluted earnings per share because of their anti-dilutive nature):

	2008 (Unaudited)	2007 (Audited)
Options	3,628,666	4,786,756
Warrants	17,529,197	17,714,197
Potential common equivalents	21,157,863	22,500,953

7. Lease Commitments

On October 20, 2006 NSC executed a lease for 1,601 square feet of office/warehouse space at 8361 E. Evans Road, Suite 106 Scottsdale, Arizona 85260. The lease for this Scottsdale facility commenced on November 1, 2006 and expires October 31, 2008. On September 29, 2008 the lease for the Scottsdale office was extended for one year at a monthly rental rate including taxes of $2,093. The extended lease expires October 31, 2009.

Future minimum lease obligations at September 30, 2008 are as follows:

Year ending September 30,	Amount
2009	25,051
2010	2,093
	$ 27,144

Rent expense for the years ended September 30, 2008 and 2007 was approximately $24,000 and $25,000, respectively.

8. Income Taxes

Deferred income taxes consist of the following at September 30, 2008 and 2007:

	2008 (Unaudited)	2007 (Audited)
Tax benefit of net operating loss carry-forwards	$ 6,839,000	$ 6,795,000
Impairment reserve	–	–
Compensation payable	51,000	44,000
Allowance for doubtful accounts	–	–
Total	6,890,000	6,839,000
Less: Valuation allowance	(6,890,000)	(6,839,000)
	$ –	$ –

A reconciliation of expected to actual taxes follows:

	2008 (Unaudited)	2007 (Audited)
Expected federal and state tax recovery at 40%	$ (131,000)	$ (178,000)
Non-deductible stock compensation	–	–
Other	–	–
	(131,000)	(178,000)
Tax benefits not realized - valuation allowance	131,000	178,000
Realized tax benefit	$ –	$ –

The Company has recorded valuation allowances to offset the value of deferred tax assets, since it has recorded losses from operations since 1996 and the utilization of those assets is uncertain. During fiscal 2008 and 2007, the valuation allowance increased by $131,000 and $178,000, respectively.

The Company has the following net operating loss carry-forwards at September 30, 2008 and 2007, which may be used to offset future federal taxable income through 2027 and 2026 respectively, and state taxable income through 2013 and 2012 respectively:

	2008 (Unaudited)	2007 (Audited)
Federal loss carry forwards	$ 4,400,000	$ 4,600,000

9. Related Party Transactions

As described in the Company's 10-KSB filing for the year ending September 30, 2003, and also in the Company's Proxy Statement for 2004 filed January 30, 2004, the Company's Board initiated on September 30, 2002 a restricted Employee Stock Retainage Plan (See Employee Stock Retainage Plan above) to retain key staff during a period of financial difficulty. The Company allocated 3,350,000 shares of restricted under SEC Section

144Common Stock from this pool of shares in fiscal 2002, to be granted to key employees during the year, subject to the Company meeting certain objectives in 2003. The board made several extensions to the program in subsequent years. On June 25, 2008, the board decided to keep the plan in existence, but not actively use it, accordingly they voted to extinguish the plan balance of 550,000 shares. On September 30, 2008, the board extended this program into calendar year 2009 with a sales goal of $1M. As of the date of this report this goal had not yet been met.

The Company CEO, Michael Grollman was granted a total 1,250,000 shares of stock from the Employee Stock Retainage Plan. The Company's President, Graham Clark was granted 1,000,000 shares of stock from the Company's Employee Stock Retainage Plan. A further 550,000 shares were allocated under this program to other Company staff, and is subject to substantially the same risk of forfeiture as the stock granted to Grollman and Clark under the Program.

During the year ended September 30, 2003, Mr. Grollman agreed to convert $150,000 of his back pay and accrued vacation pay to 1,500,000 shares of our restricted common stock, at the rate of the average market price per share of $0.10.

In December 2004, our Chairman Michael Grollman made unsecured personal loans to the Company in the amount of $65,000 to assist us with short-term cash requirements. We paid this Note in full in February 2005.

On February 24, 2005, March 28, 2005, May 2, 2005, and May 27, 2005 our Chairman Michael Grollman made new personal loans to the Company totaling $159,000 to assist us with working capital needs. The loans are evidenced by a demand note that provides for repayment within five business days of a demand notice from Mr. Grollman, with interest of 6% compounded annually from June 1, 2005. During fiscal year 2007, these loans were paid down by $11,000. On September 30, 2007, the Company converted unpaid interest of $13,300 on demand notes payable to Michael Grollman into a new demand note of $13,300. The note provides for repayment within five business days of a demand notice from Mr. Grollman. As of September 30, 2007, these loans had a balance outstanding of $161,300 and the interest rate going forward was adjusted to 8% compounded annually from October 1, 2007. During fiscal year 2008, these loans were paid down by $27,933. As of September 30, 2008, these loans had a balance outstanding of $133,367.

During the year ended September 30, 2006, Mr. Grollman agreed to convert $34,000 of his back pay to 1,000,000 shares of our restricted common stock, at rates of the average market price per share ranging from $0.032 to $0.036.

During the year ended September 30, 2006, Mr. Clark agreed to convert $55,300 of his back pay to 1,580,000 shares of our restricted common stock, at the rate of the average market price per share of $0.035.

During the year ended September 30, 2007, Mr. Grollman agreed to convert $116,700 of his back pay to 5,300,000 shares of our restricted common stock, at rates of the average market price per share ranging from $0.020 to $0.035.

During the year ended September 30, 2007, Mr. Clark agreed to convert $118,066 of his back pay to 5,745,000 shares of our restricted common stock, at rates of the average market price per share ranging from $0.015 to $0.035.

During the year ended September 30, 2008, Mr. Grollman agreed to convert $30,000 of his back pay to

5,250,000 shares of our restricted common stock, at rates of the average market price per share ranging from $0.005 to $0.020.

During the year ended September 30, 2008, Mr. Clark agreed to convert $35,000 of his back pay to 10,000,000 shares of our restricted common stock, at rates of the average market price per share ranging from $0.002 to $0.005

On November 14, 2007, 100,000 options were granted to Mr. Grollman and 225,000 options were granted to Mr. Clark, The compensation committee as an incentive to retain key staff members approved these grants. The weighted average grant date fair value of these options was $0.016. Stock based compensation of $5,170 was recognized in the financial statements using the Black-Scholes option pricing model value on the grant date. The options have a life of ten years, an exercise price of $0.03 and vested immediately.

Also, on November 14, 2007, in lieu of taking a larger grant, 450,000 options granted to Michael Grollman on December 1, 2000 at an exercise price of $1.84 were canceled and exchanged for 450,000 options having an exercise price of $0.03.The incremental cost of the modified award recognized in the financial statements was $4,785.

The CEO and the President have employment contracts previously filed with the SEC that includes termination clauses that fully vest their ownership of shares.

10. Stock Options and Warrants

Stock Options

On October 1, 2006, the Company adopted the fair value recognition provisions of SFAS 123R. Prior to October 1, 2006, the Company accounted for share-based payments under the recognition and measurement provisions of APB 25, and related Interpretations, as permitted by SFAS 123. In accordance with APB 25, no compensation cost was required to be recognized for options granted that had an exercise price equal to the market value of the underlying common stock on the date of grant.

The Company adopted SFAS 123R using the modified prospective transition method. Under this transition method, compensation cost recognized in the year ended September 30, 2008includes compensation cost for all share-based payments granted subsequent to October 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. All stock based compensation awards were fully vested as of October 1, 2006; therefore, the results for prior periods have not been restated.

As of September 30, 2008, we have a stock-based compensation plan initially adopted in 2000 wherein officers and employees were granted stock options. Under the 2000 Stock Option Plan, the purchase price must be at least 100% of the fair market value of our common stock (if the option is an incentive stock option), or at least 25% of the fair market value of our common stock at the time the option is granted (if the option is a nonqualified grant), or such higher price as may be determined by the Board of Directors at the time of grant. If however, an incentive stock option is granted to an individual who would, immediately before the grant, directly or indirectly own more than 10% of the total combined voting power of all our classes of stock, the purchase price of the shares of common stock covered by such incentive stock option may not be less than 110% of the fair market value of such shares on the day the incentive stock option is granted. As the price of the Company’s common stock is currently quoted on the OTC Bulletin Board, the fair market value of the common stock underlying options granted under the 2000 Stock Option Plan shall be the last closing sale price of the common stock on the day the options are granted. If there is no market price for the common stock, then our Board of Directors may, after taking all relevant facts into consideration, determine the fair market value of our common stock.

Our board of directors adopted the 2000 Stock Option Plan effective January 1, 2001. Our stockholders formally approved the 2000 Stock Option Plan on February 14, 2001.

As of September 30, 2008, we have issued options to purchase an aggregate of 3,628,666 shares of our common stock, under the plan, leaving a balance of 3,371,334 available for grant. Also as of September 30, 2008, 3,628,666 options are exercisable and, 3,628,666 are vested. We have reserved the right to issue a total of 7,000,000 shares of our common stock for issuance under the 2000 Stock Option Plan.

As required by SFAS 123R, the fair value of each grant is estimated on the date of the grant using the Black-Scholes option pricing method with the following assumptions to value options for the years ended September 30, 2008and 2006:

	2008 (Unaudited)	2007 (Audited)
Risk - free interest rate	2.66% to 4.23%	4.23% to 5.16%
Expected life (years)	5	5 to 10
Expected volatility	118.8% to 139.0%	91.4% to 187.7%
Expected dividends	None	None
Forfeitures assumed	None	None
Weighted average grant date fair value	$0.015	$0.02

The following table summarizes the stock option activity during fiscal 2008:

	Number of Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (1)		Aggregate Intrinsic Value (2)
Options Outstanding, September 30, 2007	4,786,756	$	0.74	6.16		
Granted	975,000		0.03			
Exercised	-		-			
Forfeited or expired	(2,133,090)		1.10			
Options Outstanding, September 30, 2008	3,628,666	$	0.21	6.83	$	-
Options Exercisable September 30, 2008	3,628,666	$	0.21	6.83	$	-

(1) Remaining contractual term is presented in years

(2) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the closing price of our common stock as of September 30, 2008, for those awards that have an exercise price currently below the closing price as of September 30, 2008. Awards with an exercise price above the closing price of $0.006 as of September 30, 2008 are considered to have no intrinsic value.

Warrants

The following assumptions were utilized to value warrants during the fiscal years ended September 30, 2008 and 2007:

	2008 (Unaudited)	2007 (Audited)
Risk - free interest rate	2.36%	4.60% to 4.91%
Expected life (years)	1	2 to5
Expected volatility	228.0%	83.5% to 184.8%
Expected dividends	None	None
Forfeitures assumed	None	None
Weighted average grant date fair value	$0.07	$0.02

The following table summarizes the warrant activity during fiscal 2008:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (1)	Aggregate Intrinsic Value (2)
Warrants Outstanding, September 30, 2007	17,714,197	$ 0.17	1.56	
Granted	-	-		
Exercised	-	-		
Cancelled	(185,000)	0.07		
Warrants Outstanding, September 30, 2008	17,529,197	$ 0.16	0.94	$ -

(1) Remaining contractual term is presented in years.

(2) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the closing price of our common stock as of September 30, 2008, for those awards that have

an exercise price currently below the closing price as of September 30, 2008. Awards with an exercise price above the closing price of $0.006 as of September 30, 2008 are considered to have no intrinsic value.

In February 2007, the Company commenced a private offering of restricted common stock and common stock purchase warrants. During the period ended March 31, 2007, the Company raised $170,000 consisting of $109,800 in cash and $60,200 in debt forgiveness and issued 8,333,360 shares of restricted common stock and granted 2,720,000 warrants to purchase common stock at an exercise price of between $0.08 and $0.30 per share. 8,000,000 shares were issued at an average market price of $0.02 per share and 333,360 shares were issued at an average market price of $0.03 per share. No underwriters were involved in connection with this private placement. The sales and issuances of the securities issued pursuant to the foregoing private placement are exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 4(2) thereof, and Rule 506 of Regulation D.

On June 25, 2008, our board of directors resolved to instruct management to extend the expiration date of 2,550,000 warrants previously set to expire on June 30, 2008, by twelve months. The warrants, issued to purchase 2,550,000 shares of common stock exercisable at prices ranging from $0.35 to $0.75 per share were issued between July 2003 and March 2004 in connection with the June 2003 Private Placement Memorandum. The fair value of these warrants, on June 30, 2008, determined to be $9,099 was expensed as stock based compensation.

During the year ended September 30, 2008, 185,000 warrants with exercise prices ranging from $0.062 to $0.090 expired.

No share purchase warrants have been exercised during fiscal year 2008.

11. Commitments and Contingencies

In January 2002, the Company initiated legal proceedings against Phoenix Semiconductor, Inc. (PSI) for breach of contract. The Company was awarded a judgment of approximately $179,000 in May 2003 against E4World Corporation. However, there is no assurance that NSC will collect any of this amount. Since collection of this judgment by NSC is uncertain, this positive judgment is not reflected in NSC’s current financial statements. The Company continues to press its claim to secure assets held by E4World in a separate legal matter, although there is no assurance that NSC will collect this claim, and thus this claim is not shown in the NSC financial statements. The Company is from time to time subject to claims and suits arising in the ordinary course of operations. In the opinion of management, the ultimate resolution of such pending legal proceedings will not have a material adverse effect on the Company’s financial position, results of operation or liquidity.

12. Notes Payable and Long Term Debt

As of September 30, 3008 and 2007, all long-term debt consisted of the following notes payable:

	2008 (Unaudited)	2007 (Audited)
Non-interest bearing note payable, due June 2006; unsecured; repayment may be made by the Company with either cash or its restricted common stock or a combination of cash and stock	$ -	$ 43,250
8% (6% in 2006) note payable to an Officer of the Company; unsecured; principal and interest payable on demand	133,367	161,300
12% note payable; secured; payable on demand	11,625	11,625
12% note payable; secured; payable on demand	20,000	20,000
8% note payable; unsecured; principal payable in full in November 2010; with semi- annual interest payments in May and November	175,000	175,000
12% note payable; secured; payable on demand	-	-
6% note payable; unsecured; payable on demand	3,545	6,000
	343,537	417,175
Less:		
Current portion of long term debt	(168,537)	(242,175)
Discount	(21,500)	(31,820)
Beneficial conversion feature	(4,139)	(6,125)
Long-term debt, net of current portion	$ 149,361	$ 137,055

On November 1, 2005, as an important phase in the current year's financing plan, we entered into a financing program with a U.S. investment fund. The terms of this program include a five-year Note payable at maturity in November 2010 for $175,000, at an effective annual interest rate of 8%. Interest is due and payable semi-annually on May 1st and November 1st for each year in which the note is outstanding The transaction also included 1,200,000 restricted common shares and a conversion/exchange option to convert the principal amount and any unpaid interest of the Note into common shares at a per share conversion price of $0.0525. These shares include weighted average anti-dilution provisions, as well as piggyback registration rights. Additionally, the Note has various put and call rights, and has a right to early payment under certain conditions after 2 years. The 1,200,000 restricted common shares were recorded at $0.043, which was the five-day average market closing price of our stock. The note and common stock were issued with a debt discount of $51,600 and a beneficial conversion feature of $9,933. The discount and beneficial conversion feature are being amortized to interest expense over the term of the note, which is approximately 60 months. The issuance of the shares resulted in deferred financing costs of $24,000. The deferred financing costs are being amortized over term of the note, which is approximately 60 months, and are included in the statement of operations as offering costs.

On February 24, 2005, March 28, 2005, May 2, 2005, and May 27, 2005 our Chairman Michael Grollman made new personal loans to the Company totaling $159,000 to assist us with working capital needs. The loans are evidenced by a demand note that provides for repayment within five business days of a demand notice from Mr. Grollman, with interest of 6% compounded annually from June 1, 2005. These loans were secured by an interest in the copyrights in the Company's iBus software and designs. During fiscal year 2007, these loans were paid down by $11,000. On September 30, 2007, the Company converted unpaid interest of $13,300 on demand notes payable to Michael Grollman into a new demand note of $13,300. The note provides for repayment within five business days of a demand notice from Mr. Grollman. As of September 30, 2007, these loans had a balance outstanding of $161,300 and the interest rate going forward was adjusted to 8% compounded annually from October 1, 2007. During fiscal year 2008, these loans were paid down by $27,933. As of September 30, 2008, these loans had a balance outstanding of $133,367.

On April 27, 2006, we secured a short-term loan of $16,625 from a shareholder. The loan carries an origination/placement fee of $500 and has a perfectible security interest a) prior to delivery in any assets purchased for the fulfillment of a customer's order dated March 16, 2006, and b) in any receivable resulting from the fulfillment of the customer's purchase order. The interest rate on the loan is 12%. The transaction also included 100,000 warrants to purchase our common stock at $0.036 at any time before April 27, 2009. The note had an approximate maturity date of June 15, 2006. A partial payment towards principal and interest of $5,258 was made on October 6, 2006. At September 30, 2006, 2007 and 2008 this note was in default. As of September 30, 2008, $11,625 of this loan was outstanding.

On May 31, 2006, we secured a short-term loan of $20,000 from a shareholder. The loan carries an origination/placement fee of $500 and has a perfectible security interest a) prior to delivery in any assets purchased for the fulfillment of Clover Park, WA's order and b) in any receivable resulting from the fulfillment of the Clover Park purchase order. The interest rate on the loan is 12%. The transaction also included 100,000 warrants to purchase our common stock at $0.036 at any time before May 31, 2009. The note had a maturity date of July 10, 2006. At September 30, 2006, 2007 and 2008 this note was in default. As of September 30, 2008 this loan was outstanding.

On December 27, 2006, we signed a loan agreement with an employee for $8,000. The loan is unsecured and carries an interest rate of 6%. The note is payable on demand with 30 days prior notice. As of September 30, 2008, $3,545 of this loan was outstanding.

The aggregate maturities of long-term debt at September 30, 2008 were as follows:

2009	$	168,537
2010		175,000
	$	343,537

Item XIII. Financial information for such part of the two preceding fiscal years as the issuer or its predecessor has been in existence.

See the Company's **Forms 10-KSB** on the US Securities and Exchange Commission's EDGAR reporting system for the years ending September 30, 2007 and September 30, 2006. Copy the link below into your browser and you will be taken to the web page.

Item XIV. Beneficial Owners

Cede & Company : 62,289,120 common stock - 45.4%
Michael A. Grollman: 16,900,000 common stock - 12.3%
Graham L. Clark: 19,751,667 common stock - 14.4%

Item XV. The name, address, telephone number, and email address of each of the following outside providers that advise the issuer on matters relating to operations, business development and disclosure.

Intellectual Property Counsel
Lowell W. Gresham
Meschkow & Gresham, P.L.C.
5727 North 7th Street, Suite 409
Phoenix, Arizona 85014
Telephone (602) 274-6996
Telecopier (602) 274-6970
e-mail LWG@patentmg.com

Securities Counsel
David M. Dobbs, P.C.
P.O. Box 12364
Scottsdale, Arizona 85267-2364
Telephone (480) 922-0077
Telecopier (480)922-0127

Certified Public Accountant
Steven D. Marchal, CPA
Semple, Marchal & Cooper, LLP
2700 N. Central Ave, Suite 900
Phoenix, Arizona 85004
Telephone (602) 241-1500
Telecopier (602) 234-1867
e-mail sdm@semplecpa.com

Independent Financial Reporting Counsel
None

Public Relations Consultant
None

Investor Relations Consultant
None

Item XVI. Management's Discussion and Analysis or Plan of Operation.

A. Plan of Operation.

Our primary business involves the research, development, manufacture, and sale of mobile Digital Video Recording systems (DVR's) based on small embedded computers that are configured to record digital video and location bread crumbs and then wirelessly communicates this data back to a base station for subsequent review. We write all of our firmware and assemble the hardware components into a finished product.

Our primary customer focus for these location-tracking products is the safety market, related in many cases to the safety of school age children. Our products and services are typically sold to school district transportation departments or to other distributors who then sell into the school districts. The majority of our distributors are major school bus manufacturer distributors.

During the coming twelve months we will work on the following points:

1. Customers – NSC will provide excellent service, will develop new channel partners in specifically in CA, WA and OR and continue to improve or support and product offerings in other geographic areas.
2. Shareholders – Profitability is a key to increasing the value of the Company and avoiding the need for debt or share issuances, which erode shareholder value. NSC will work diligently towards this goal as well as providing timely information.
3. Employees – NSC works hard to attract and maintain the best and brightest employees in the industry.

B. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations

Years Ended September 30, 2008 and 2007

Revenues.

We generated $668,796 and $624,793 of revenue for the fiscal years ending September 30, 2008 and 2007, respectively. During the years ended September 30, 2008 and 2007, the Company's increased focus on business-oriented products, such as Travado IBUS™, generated all of the revenues of $668,796 and $624,793 respectively, while our consumer-oriented Gotcha!® products did not generate any revenues.

Gross Profit.

Gross profit recorded an increase to $307,553 in fiscal 2008 from $307,187 in fiscal 2007 and the gross profit margin decreased to 46% in fiscal 2008 from 49.2% in fiscal 2007. The decrease in the gross profit margin during fiscal 2008 when compared to fiscal 2007 was primarily due to reduced average selling prices.

Total Costs and Expenses.

Total costs and expenses increased to $654,417 in fiscal 2008 from $607,124 in fiscal 2007.

Salaries and Benefits.

Salaries and benefits, of administration and marketing personnel increased to $263,923 in fiscal 2008, from $248,659 in fiscal 2007. This increase is mainly attributable to related payroll taxes.

Research and Development.

Research and development expenditures remained virtually unchanged at $169,277 in fiscal 2008 compared to $169,960 in fiscal 2007. The Company has focused an increasingly significant amount of its time and energy on development of new sources of revenue through the building of new customer relationships. The Company has also spent and plans to spend resources on the development of strategic partnerships with other technology firms to assist us in taking products to market faster. The Company will continue to explore innovative ways to take its technology expertise and products to market, across its entire portfolio of semiconductor and location electronics related devices.

Stock Compensation.

Stock compensation remained virtually unchanged at $22,421 in fiscal 2008 compared to $22,371 in fiscal 2007.

Other Expenses.

Other expenses increased to $198,796 in fiscal 2008 from $166,134 in fiscal 2007 primarily due to increases in insurance, principal accountants' fees, shareholder meeting expenses, the forfeiture of a financing facility deposit, and warranty and system upgrade expenses. The expense increases were somewhat offset by reductions in factoring fees, delivery costs and selling expenses.

Other Income.

Other income in fiscal 2008 reflects a gain on extinguishment of liabilities of $133,197. This relates to the extinguishment of amounts previously considered to be owed by the Company. Other income of $25,740 in fiscal 2007 consisted primarily of the extinguishment of an unclaimed liability related to a fully amortized investment.

Interest Expense.

Interest expenses decreased to $89,358 during fiscal 2008 from $166,725 in fiscal 2007 primarily because interest expense during fiscal 2007 included a one time charge of $66,000 representing the value of stock issued to settle a dispute regarding the timing of interest payments on a note and approximately $10,000 of beneficial conversion feature expense not incurred in fiscal 2008.

Amortization of Deferred Financing Costs.

Amortization of Deferred Financing Costs remained unchanged at $4,800 in fiscal 2008 and 2007.

Liquidity and Capital Resources

NSC has not been profitable and has experienced a cash flow deficit from operations due to its development stage and substantial on-going investment in research and development efforts. We have financed our operations primarily through the sale of common stock, through personal loans from officers and directors, some debt financing, and to a very limited extent and only just recently, through the sale of our products.

As of September 30, 2008, NSC's cash and cash equivalents totaled $7,602 and total current assets were $123,028. NSC has recently initiated product-marketing efforts after several years of research and development and has not yet reached break even in terms of both cash flow and profitability. As of September 30, 2008, NSC has total liabilities of $1,688,801 including notes payable of $317,898, accounts payable of $190,574, accrued expenses of $1,108,725 and amounts due to factors of $71,604. The accounts payables total of $190,574 includes invoices of approximately $38,000 that are aged over three years. The accrued expenses total of $1,108,725 includes $660,166 of unpaid wages.

We have an accumulated deficit of approximately $25.5 million as of September 30, 2008 which includes approximately $10 million of non-cash transactions, in fiscal years 2000 and 2001, for restricted common stock issued as payment for research, consulting and capital formation expenses. A substantial portion of the consulting expenses related to the issuance of one million shares of common stock to Dr. Hashemi, our former Group President, as a signing bonus on September 1, 2000. These shares were later returned to us. We expect operating losses in the foreseeable future as we continue our efforts to commercially exploit our portfolio of patents and develop commercial products. Accumulated cash used in operating services from the Company's inception to September 30, 2008 totaled approximately $8.8 million.

Our operation activities resulted in net cash outflows of approximately $117,000 in fiscal year 2008, compared to net cash inflows of approximately $24,000 in fiscal 2007. The net operating cash flow for the current fiscal year was primarily the result of net loss (adjusted for non cash items), the increased level of salary deferrals and higher accounts receivable. Net operating cash flow for fiscal year 2007 reflects net loss (adjusted for non cash items), salary deferrals and lower accounts receivables.

Cash provided by financing activities during fiscal 2008 of $38,614 represents a $20,612 increase from the amount provided by financing activities during fiscal 2007. The increase in financing activities during 2008 was primarily the result of increased net proceeds from factors offset by no cash proceeds from the issuance of common stock. During fiscal 2007, proceeds from the issuance of common stock totaled $109,800.

We have financed our operations primarily through the sale of common stock, granting of options and warrants, and through some debt financing and sales.

Our auditors have expressed substantial doubt about the Company's ability to continue as a going concern in their report dated December 19, 2007 (refer to the Company's annual report on Form 10-KSB for the fiscal year ended September 30, 2007).

PART E ISSUANCE HISTORY

II. List of securities offerings and shares issued in the past two years.

The Company had the following common stock transactions during the 12 months ended September 30, 2007:

In February 2007, we commenced a private offering of restricted common stock and common stock purchase warrants. During the period ended March 31, 2007, the Company raised $170,000 consisting of $109,800 in cash and $60,200 in debt forgiveness and issued 8,333,360 shares of restricted common stock and granted 2,720,000 warrants to purchase common stock at an exercise price of between $0.08 and $0.30 per share. 8,000,000 shares were issued at an average market price of $0.02 per share and 333,360 shares were issued at an average market price of $0.02 per share. No underwriters were involved in connection with this private placement. The sales and issuances of the securities issued pursuant to the foregoing private placement are exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 4(2) thereof, and Rule 506 of Regulation D.

During the year ended September 30, 2007, the Company issued 12,215,000 of our restricted common shares to management and staff, at closing prices ranging from $0.015 to $0.035 in exchange for their partial forgiveness of the Company's back pay indebtedness of $258,180 to them.

The Company had the following common stock transactions during the 12 months ended September 30, 2008:

During the year ended September 30, 2008, the Company issued 15,250,000 of our restricted common shares to management, at closing prices ranging from $0.005 to $0.020 in exchange for their partial forgiveness of the Company's back pay indebtedness of $65,000 to them.

At September 30, 2008 there were 17,529,197 outstanding warrants to purchase 17,529,197 shares of common stock, at prices ranging from $0.035 to $0.75, with expiration dates from June 2009 to August 2011. There were 17,714,197outstanding warrants at September 30, 2007.

Off-Balance Sheet Arrangements

The company did not have any off-balance sheet arrangements as of September 30, 2008.

PART F EXHIBITS

Item XVIII. Material Contracts.

There are no material contracts in force as of September 30, 2008.

Item XIX. Articles of Incorporation and Bylaws.

See Pinksheets.com posting of the Article of Incorporation, Articles of Amendment and Articles of Correction posted for the reporting period end date 9/30/2008.

See Pinksheets.com for a posting of the Company's Bylaws.

Item XX. Purchase of Equity Securities by the Issuer and Affiliated Purchasers.

There were no purchases of equity securities by NSC or an affiliated purchaser during year ending September 30, 2008.

Item XXI. Certifications of President.

Certificate of the President

I, Graham L. Clark, certify that:

(1) I have reviewed this annual disclosure statement of National Scientific Corporation;

(2) Based on my knowledge, this disclosure statement 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 disclosure statement; and

(3) Based on my knowledge, the financial statements, and other financial information included in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report:

/s/ Graham L Clark

Graham L Clark
President,
April 30, 2009