

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: December 31, 2007

OR

Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the transition period from: to

Commission File Number: 000-030813

AlphaRx, Inc.
(Name of Small Business Issuer in its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

98-0416123
(I.R.S. Employer Identification No.)

168 Konrad Crescent, Suite 200
Markham, Ontario, Canada L3R 9T9
(Address of principal executive offices)

Registrant's telephone number, including area code: (905) 479-3245

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, \$.0001 par value
(Title of Class)

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

The number of outstanding shares of registrant's Common Stock on February 12, 2008 was 91,496,192.

Transitional Small Business Disclosure Format. Yes No

ALPHARX, INC.

FORM 10-QSB

DECEMBER 31, 2007

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ALPHARx, INC.
INTERIM CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2007 AND SEPTEMBER 30, 2007
(UNAUDITED)
(All amounts in US Dollars)

	December 31, 2007	September 30, 2007
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 173,685	\$ 128,328
Accounts Receivable, net	8,983	11,804
Prepaid Expenses and Other Assets	2,826	6,582
Discontinued Operations (note 3)	<u>66</u>	<u>-</u>
TOTAL CURRENT ASSETS	185,560	146,714
PROPERTY, PLANT & EQUIPMENT, net	193,934	217,626
TOTAL ASSETS	<u>379,494</u>	<u>364,340</u>
CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities	285,617	519,519
Notes Payable (note 4)	-	167,804
Discontinued Operations (note 3)	<u>5,646</u>	<u>18,829</u>
TOTAL CURRENT LIABILITIES	291,263	706,152
MINORITY INTEREST (note 5)	112,777	116,986
SHAREHOLDERS' EQUITY/(DEFICIT)		
Common Stock: \$ 0.0001 par value, Authorized: 250,000,000 shares; Issued and outstanding December 31, 2007- 91,496,192 (September 30, 2007- 81,203,964) (Notes 6-8)	9,151	8,122
Additional paid-in capital	16,842,702	15,824,162
Accumulated Other Comprehensive Loss	(6,737)	(6,609)
Deficit	<u>(16,869,662)</u>	<u>(16,284,473)</u>
TOTAL SHAREHOLDERS' DEFICIT	<u>(24,546)</u>	<u>(458,798)</u>
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	<u>\$ 379,494</u>	<u>\$ 364,430</u>

See condensed notes to consolidated financial statements

ALPHARx, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2007 AND 2006
(All amounts in US Dollars)

December 31,	2007	2006
License Fees and Royalties	<u>17,132</u>	<u>11,329</u>
General and Administrative Expenses	359,822	324,489
Research and Development Expenses	215,032	246,018
Sales and Marketing Expenses	-	3,750
Depreciation	<u>23,855</u>	<u>20,018</u>
LOSS FROM OPERATIONS	(581,577)	(582,946)
OTHER EXPENSES		
Interest Expense, net	<u>(9,629)</u>	<u>(24,743)</u>
LOSS BEFORE INCOME TAXES	(591,206)	(607,689)
Income Tax	-	-
LOSS BEFORE MINORITY INTEREST	<u>(591,206)</u>	<u>(607,689)</u>
Minority Interest	<u>4,209</u>	<u>16,035</u>
LOSS BEFORE DISCONTINUED OPERATIONS	<u>(586,997)</u>	<u>(591,654)</u>
Gain from Operations of Discontinued Component (note 4)	<u>1,808</u>	<u>877</u>
NET LOSS	<u>(585,189)</u>	<u>(590,777)</u>
Cumulative Translation Adjustment	<u>(128)</u>	<u>1,650</u>
COMPREHENSIVE LOSS	<u>\$ (585,317)</u>	<u>\$ (589,127)</u>
Net Loss per Share, basic and diluted	<u><u>\$(0.01)</u></u>	<u><u>\$(0.01)</u></u>
Weighted Average Number of Common Shares Outstanding	83,876,537	57,641,808

See condensed notes to consolidated financial statements

ALPHARx, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT
FOR THE PERIOD ENDED DECEMBER 31, 2007
(All amounts in US Dollars)

Common Stock

	Number of <u>Shares</u>	<u>Amount</u>	Additional Paid in <u>Capital</u>	Accumulated Other Com- prehensive <u>Loss</u>	<u>Deficit</u>	Total Shareholders' <u>Deficit</u>
Balance, as of September 30, 2006	57,508,112	\$5,752	\$14,479,082	\$(5,329)	\$(14,534,237)	\$(54,732)
Issuance of stock for consulting services	300,000	30	29,970			30,000
Warrants			131,905			131,905
Stock based compensation			15,752			15,752
Debt Conversion	23,395,852	2,340	1,167,453			1,169,793
Foreign currency translation				(1,280)		(1,280)
Net Loss 2007					(1,750,326)	(1,750,326)
Balance as of September 30, 2007	81,203,964	\$8,122	\$15,824,162	\$(6,609)	\$(16,284,473)	\$(458,798)
Warrants			83,596			83,596
Warrants exercised	1,862,228	186	186,037			186,223
Stock Options exercised	3,430,000	343	274,407			274,750
Private Placement	5,000,000	500	474,500			475,000
Net Loss for the period					(585,189)	(585,189)
Foreign currency translation				(128)		(128)
Balance as of December 31, 2007	91,496,192	\$9,151	\$16,842,702	(6,737)	(16,869,662)	(24,546)

See condensed notes to consolidated financial statements

ALPHARx, INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2007 AND 2006
(UNAUDITED)
(All amounts in US Dollars)

Three months ended December 31,	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$ (585,189)	\$ (590,777)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	23,855	20,018
Warrant amortization	149,559	127,114
Stock based compensation expense	-	10,720
Issuance of common stock for services rendered	-	30,000
Changes in assets and liabilities:		
Decrease in marketable securities	-	176,418
Decrease (Increase) in accounts receivable	2,821	(11,924)
Decrease in prepaid expenses	3,756	6,028
Decrease in accounts payable and accrued liabilities	(233,902)	(22,881)
Accrued interest on notes payable	(12,538)	9,786
Increase in deferred revenue	-	75,000
Minority interest	(4,209)	(16,035)
Discontinued operations (Note 3)	<u>(13,249)</u>	<u>(3,781)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(669,096)</u>	<u>(190,314)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Machinery & Equipment, net of disposals	<u>-</u>	<u>7,888</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>-</u>	<u>7,888</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Common Stock	935,973	-
Issuance (repayment) of Notes Payable, net	<u>(221,228)</u>	<u>211,516</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>714,745</u>	<u>211,516</u>
Effect of exchange rate changes on cash and cash equivalents	(292)	1,650
NET INCREASE IN CASH	45,357	30,740
CASH, and cash equivalents, beginning of period	<u>128,328</u>	<u>987,753</u>
CASH, and cash equivalents, end of period	<u>\$ 173,685</u>	<u>\$ 1,018,493</u>
Taxes Paid	<u>\$ 0</u>	<u>\$ 0</u>
Interest Paid	<u>\$ 19,234</u>	<u>\$ 17,115</u>

See condensed notes to consolidated financial statements

ALPHARX INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007
(UNAUDITED)

NOTE 1. NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-QSB and do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of all recurring accruals) considered necessary for fair presentation have been included. Operating results for the interim periods are not necessarily indicative of the results that may be expected for the year ended September 30, 2008. Interim financial statements should be read in conjunction with the Company's annual audited financial statements.

NOTE 2. NATURE OF BUSINESS AND GOING CONCERN

ALPHARX, INC. (the Company) was incorporated under the laws of the State of Delaware on August 7, 1997. The company is an emerging pharmaceutical company specializing in the formulation of human therapeutic products using proprietary drug delivery technologies.

Effective June 30, 2006, AlphaRx International Holdings Limited. ("AIH") acquired 100% of AlphaRx Life Sciences Ltd. ("ALS") for a nominal amount and the assumption of approximately \$63,000 of related party liabilities. ALS is involved in obtaining necessary regulatory approvals for the manufacture and distribution of the Company's products in the Asian market.

Effective June 22, 2006, New Super Limited, an independent Hong Kong based corporation, subscribed for 1,500 shares or 15% of common stock of AlphaRx International Holdings Limited. ("AIH"), previously a wholly-owned subsidiary of the Company.

Effective April 22, 2005 AlphaRx International Holdings Limited (a British Virgin Island company and an 85% owned subsidiary of AlphaRx Inc.) entered into a Joint Venture agreement with Basin Industrial Limited (a British Virgin Islands Company and a wholly-owned subsidiary of Advance Pharmaceutical Co. Ltd.). The Joint Venture, AlphaAP Inc., is involved in manufacturing and marketing of certain of the Company's existing products.

The Company holds an indirect 42.5% interest in AlphaAP Inc. ("AAP"), a joint venture established between the Company (via its AIH subsidiary) and Basin Industrial Limited (an independent third party). As the Company contributes no funds, and does not provide management or direction to the joint venture, the Company's interest in the joint venture is not consolidated into the financial statements. AIH receives a 5% royalty on all revenues generated by AAP.

The consolidated financial statements reflect the activities of the Company, 100% of AlphaRx Canada Limited and 85% of AlphaRx International Holdings Limited and AlphaRx Life Sciences Ltd. (AIH's wholly owned subsidiary). All material inter-company accounts and transactions have been eliminated.

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Accordingly, they do not include any adjustments relating to the realization of the carrying value of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Continuance of the Company as a going concern is dependent on its future profitability and on the on-going support of its shareholders, affiliates and creditors.

NOTE 3. DISCONTINUED OPERATIONS

The Company terminated direct sales and marketing program for Flexogan during the year ended September 30, 2006. Substantially more funding for sales and marketing would be required than was available in order to grow sales. Accordingly direct sales and marketing activity ceased. The statements of income and loss and balance sheet items related to the discontinued operations are as follows:

Income Statements for three months ended December 31,	2007	2006
Sales	<u>\$ 1,808</u>	<u>\$ 877</u>
Gain from discontinued operations	\$ 1,808	\$ 877
Balance Sheets	December	September
	31, 2007	30, 2007
Total Current Assets	<u>\$ 66</u>	<u>\$ -</u>
Total Current Liabilities	<u>5,646</u>	<u>18,829</u>
Net Assets (Liabilities)	<u>\$(5,580)</u>	<u>\$(18,829)</u>

NOTE 4. NOTES PAYABLE

The Company issued approximately \$154,000 in promissory notes, before a discount of \$83,596 during the three months ended December 31, 2007. (During the three months ended December 31, 2006 the Company issued \$211,516 in promissory notes, before a discount of \$54,127). These notes bear interest at 12% per annum and are repayable on the first anniversary date of issuance. Prepayment of these notes prior to the first anniversary date is permitted. Prior to December 31, 2007 all third party promissory notes were repaid including interest from funds obtained via the issuance of Common Stock. In conjunction with these promissory notes, the Company issued warrants (See also Note 8 – Warrants). This in turn required a discount to be established in the amount of \$83,596. This discount was expensed during the three months ended December 31, 2007 in conjunction with the repayment of all promissory notes.

See also note 9 – Related Party Transactions.

NOTE 5. MINORITY INTEREST

Effective June 22, 2006, AlphaRx International Holdings Ltd. (“AIH”) issued 1,500 shares of its common stock to New Super Limited (“NSL”) at a price of approximately \$HK 6,667 per share or \$HK 10 million in cash. (USD \$1,288,826). There are 10,000 common shares outstanding of which 8,500 or 85% belong to the Company. With the consolidation of only 85% of AIH, a minority interest was established, representing net amounts owing to the minority shareholder. The capital infusion into AIH is accounted for as additional paid in capital on the consolidated financial statements of the Company.

NOTE 6. COMMON STOCK

The Company is authorized to issue 250,000,000 shares of common stock. As of December 31, 2007, there are 91,496,192 shares of Common Stock issued and outstanding with a stated par value of \$0.0001 per share. (December 31, 2006 – 57,808,112)

During the three months ended December 31, 2007 the Company issued the following restricted stock:

5,000,000 units, each unit consisting of one share of Common Stock and a warrant to purchase one share of Common Stock at \$0.10, expiring December 31, 2009;

Officers, directors and consultants exercised options to purchase 3,430,000 shares of Common Stock at an average exercise price of \$0.08 per share;

Michael Lee (CEO) exercised warrants to purchase 1,862,228 shares of Common Stock at an exercise price of \$0.10 per share.

There were 300,000 shares issued of restricted Common Stock during the three months ended December 31, 2006 in exchange for financial consulting services rendered in the amount of \$30,000.

NOTE 7. STOCK OPTION PLANS

The Company has a Stock Option Plan (the “Plan”) under which officers, key employees, certain independent contractors, and non-employee directors may be granted options to purchase shares of the Company’s authorized but unissued Common Stock. A majority of shareholders approved the 2006 Option Plan at the Annual General Meeting held March 29, 2006. Under this Plan up to 5,000,000 options may be granted and 90,000 have been granted up to December 31, 2007.

Outstanding stock options granted under the old Plans will remain in effect until the expiration date specified in those options. Options currently expire no later than June 30, 2012 and generally vest within one year of grant date. Proceeds received by the Company from exercises of stock options are credited to Common Stock and additional paid-in capital.

During the three months ended December 31, 2007 the Company cancelled the 2001 Plan and the 2003 Plan after the exercise of 700,000 options. The Company cancelled options to purchase 7,660,000 shares of Common Stock under the Option Plans with the agreement of the option holders or in accordance with the Plans’ terms and conditions. The expiry period of options under the 2004 and 2006 Plans was accelerated, with the agreement of the option holders, such that all options expire in less than five years.

Additional information with respect to the various Plans’ stock option activity is as follows:

Options outstanding September 30, 2007:	25,810,000
Options exercised during the three months ended December 31, 2007:	(3,430,000)
Options cancelled during the three months ended December 31, 2007:	<u>(7,660,000)</u>

Options remaining December 31, 2007:	<u>14,720,000</u>
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Option Plan	Number Granted (exercised/cancelled)	Issue Date dd/mm/yyyy	Exercise Price \$	Share Price on Date of Grant \$	Expiry Date dd/mm/yyyy	Remaining Contractual Life (Years)
2000 Plan	1,150,000	30/06/2000	0.10	0.10	-	-
Exercised	(700,000)		0.10	-	-	-
Cancelled	(450,000)					
Remaining	0					Plan Terminated
2003 Plan	480,000	10/02/2003	0.63 – 0.69	0.63	-	-
	20,000	05/05/2003	0.55	0.51	-	-
	70,000	10/05/2003	0.50	0.50	-	-

Cancelled	(570,000)					
Remaining	0					Plan Terminated
2004 Plan	12,720,000	15/11/2004	0.15	0.11	30/06/2012	4.5
Cancelled	(6,000,000)					
	500,000	15/11/2004	0.40 – 0.50	0.11	10/02/2008	0.1
Cancelled	(40,000)					
	7,000,000	10/1/2005	0.16	0.14	06/30/2012	4.5
	390,000	08/02/2005	0.15	0.14	06/30/2012	4.5
Cancelled	(40,000)					
	100,000	25/05/2005	0.13	0.13	25/05/2010	2.4
	3,290,000	17/10/2005	0.075	0.08	-	-
Exercised	(2,730,000)		0.075	-	-	-
Cancelled	(560,000)					
Remaining	14,630,000					
2006 Plan	90,000	03/01/2007	0.10	0.10	03/01/2012	4.0
Total	14,720,000					
Weighted Average			0.16			4.35

The Company has adopted the fair value accounting for employee stock options as per SFAS 123(R) using the modified retrospective application method, effective April 1, 2005. The Company did not record any stock based compensation expense during the three months ended December 31, 2007 (\$10,720 in stock based compensation expense during the three months ended December 31, 2006). The Black-Scholes option pricing model was used to calculate this expense. There are no further stock based compensation expenses to be recorded based on options granted to date. See also subsequent event Note 10 for options that expired subsequent to December 31, 2007. The weighted average exercise price was calculated by multiplying the options by their exercise price and dividing the total obtained by the total outstanding options.

NOTE 8. WARRANTS

The Company has the following warrants outstanding to purchase common stock at December 31, 2007:

Number Granted and Exercisable	Issue Date	Exercise Price \$	Share Price on Grant Date \$	Expiry Date	Remaining Contractual Life (Years)	Reason for Issuance
1,075,000	2/13/2006	0.10	0.13	2/13/2008	0.1	Issuance of Promissory Notes
3,150,000	3/31/2006	0.10	0.20	3/31/2008	0.25	Issuance of Promissory Notes
115,000	9/30/2006	0.10	0.10	9/30/2008	0.75	Issuance of Promissory Notes
1,050,000	12/31/2006	0.10	0.09	12/31/2008	1.0	Issuance of Promissory Notes
625,000	3/31/2007	0.10	0.10	3/31/2009	1.25	Issuance of Promissory Notes
585,000	9/30/2007	0.10	0.08	9/30/2009	1.75	Issuance of Promissory Notes

5,770,000	12/31/2007	0.10		12/31/2009	2.0	Issuance of Promissory Notes for 770,000 warrants, and Private Placement for remaining 5,000,000 warrants
12,370,000						
Weighted Average		0.10			1.25	

The weighted average exercise price was calculated by multiplying the warrants by their exercise price and dividing the total obtained by the total outstanding warrants. There were 61,112,691 warrants issued and outstanding as at December 31, 2006.

NOTE 9: RELATED PARTY TRANSACTIONS

The Company sources some of its funding in the form of promissory notes from directors. The directors loaned the Company approximately \$154,000 during the three months ended December 31, 2007 (\$62,200 during the three months ended December 31, 2006). All promissory notes outstanding to directors were repaid prior to December 31, 2007 from funds obtained via issuance of Common Stock (as of December 31, 2006 approximately \$368,000 in promissory notes were owing to directors including accrued interest of approximately \$30,000). These loans attracted interest at 12% per annum and were unsecured.

Edward Lee, brother of Michael Lee (President & CEO of the Company) and managing director of AlphaRx Life Sciences Ltd. an 85% owned subsidiary of the Company, received a commission of \$25,000 in conjunction with the sourcing of funds related to the \$500,000 issuance of Common Stock during the three months ended December 31, 2007. The net proceeds to the Company were \$475,000.

NOTE 10: SUBSEQUENT EVENT

On February 10, 2008 options to purchase 460,000 shares of Common Stock expired.

NOTE 11: RECLASSIFICATIONS

Certain amounts in prior year’s financial statements have been reclassified to conform to current year presentation.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND PLAN OF OPERATION

The following discussion and analysis should be read in conjunction with the Financial Statements, including the condensed Notes thereto, appearing in this Form 10-QSB. For additional information and complete financial statement note disclosure as of September 30, 2007, reference should be made to the annual Form 10KSB filed during December 2007. Except for the historical information contained herein the foregoing discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those projected in the forward-looking statements discussed herein.

General

AlphaRx is a drug delivery company specializing in the development of innovative human therapeutic products for the pharmaceutical and consumer health care market. Our core competence is in the development of novel drug formulations for therapeutic molecules or compounds that have exhibited poor gastro intestinal absorption due to poor solubility or have yet be administerable to the human body with an acceptable delivery method. Our drug delivery system is versatile and offers significant flexibility in the development of suitable dosage formulations (i.e. oral, topical or parenteral) to meet the requirements of specific drug molecules. We are no longer pursuing direct marketing and sales of our market ready products, nor do we intend to pursue direct marketing and commercialization of any newly developed products. The absence of marketing expertise, and significant ongoing funding required to introduce and promote a product successfully into the market are the principal factors limiting our ability to directly market our proprietary products. We are and will continue to seek out established collaborative partners, distributors and licensees to commercialize and market our products in exchange for milestone payments and royalties.

The costs incurred for individual research and development initiatives to date cannot be readily determined because (i) there is no clear distinction between initiatives in order to be able to differentiate between them; (ii) all initiatives have a common goal and that is to adopt our Bioadhesive Colloidal Dispersion drug delivery system to the specific drug in order to improve that drug's effectiveness; and (iii) we do not maintain a time control system to separately classify research and development activities between similar initiatives.

The nature, timing and estimated costs to complete a research and development initiative and anticipated completion dates cannot be estimated because: (i) the nature of research is experimental and we could encounter unforeseen situations which could significantly delay project completion or require us to abandon the project; (ii) timing to complete a research initiative depends, to a certain extent, on financial resources and we cannot predict with any degree of certainty that financial resources will be available when needed to complete any specific initiative; (iii) we cannot significantly influence our partners and licensees as to timing and completion of collaborative efforts, and (iii) cost estimates cannot be predicted with any acceptable degree of accuracy due to unforeseen issues arising during the clinical stages or the approval stages of any specific initiative.

If we cannot complete our research and development initiatives on a timely basis consequences to our operations could be significant to the point where the initiative would be delayed or even abandoned. We could also face the risk of competitors developing the same or similar products and being first to market. Finally, our failure to develop products on a timely basis could substantially impair our ability to generate revenues and materially harm our financial position.

We cannot predict the timing of material net cash inflows from significant initiatives due to a number of factors including (i) availability of financial resources required to market a new product via a partner, (ii) our lack of experience in bringing a new product to market successfully and gaining market share; (iii) competitors' products and the nature and timing of their marketing initiatives.

We intend to continue investing in the further development of our drug delivery technologies and to actively seek collaborators and licensees to accelerate the development and commercialization of products incorporating our drug delivery systems. Depending upon a variety of factors, including collaborative arrangements, available personnel and financial resources, we will conduct or fund clinical trials on such products and will undertake the associated regulatory activities.

Recent Developments

We have commenced or are about to commence animal testing for the following potential products: Vansolin (Nosocomial pneumonia), Zysolin (Gram-negative pneumonia), ARX 828 (Systemic inflammation), Streptomycin (Tuberculosis). The delivery route for all of the above product candidates is Intravenous (I.V.) as opposed to topical or tablet form. Our immediate objectives for the remainder of this fiscal year include:

- Complete pre-clinical studies of Vansolin and Zysolin;
- Initiate Phase I/II human Trials for Vansolin and Zysolin;

Collaboration with our partner Proprius Pharmaceuticals Inc. on Indaflex Phase II trials continues. Proprius is presently raising funding in order to further Phase II testing for Indaflex and continue the commercialization process. Under the terms of our agreement, Proprius will undertake completion of clinical trials for Indaflex and will have exclusive global rights (except for Asia and Mexico) to sell and or sublicense Indaflex and any successor NSAID products developed by us. Should clinical trials for Indaflex be successful and sales commence, we will receive clinical trial completion milestone payments and sales milestone payments including a milestone payment of \$3 million for the successful completion of the Phase II trials. In addition to the milestone payments, we will receive royalty payments on sales of Indaflex by Proprius, its affiliates and its sublicensees. There are no assurances that Proprius will be able to raise the necessary funding required to be able to continue with commercialization of Indaflex.

We are in the process of applying to have the Company listed on the Toronto Stock Exchange –Venture market (“TSX-V”). In that regard we cancelled 7.66 million options with the agreement of the option holders during the three months ended December 31, 2007 in order to comply with the TSX-V regulations regarding maximum number of options. We are also in the process of raising additional funding for the Company – a precondition to being listed on the TSX-V.

Our 85% owned subsidiary AlphaRx International Holdings Ltd. (“AIH”), through its wholly-owned subsidiary AlphaRx Life Sciences Ltd. has commenced several research initiatives in China. Research initiatives have commenced with Streptomycin for Tuberculosis, Levofloxacin for eye infection and we are continuing our research with Doxorubicin to address hepatic cancer. Other initiatives slated for pre-clinical development include amoxicillin and clarithromycin to address heli pylori bacteria, a common cause of ulcers. Reduced costs and labor rates in China as compared to North America allows us to expand research and development activities more efficiently even when taking increased travel into account.

In June 2006 AIH issued 1,500 shares of its common stock to New Super Limited (“NSL”) in accordance with an agreement concluded during April 2006. The shares were issued for total cash consideration of \$HK 10 million (USD \$1,288,826). These funds are being utilized for research and development initiatives in China. There are presently 10,000 shares of common stock issued and outstanding, of which we own 85%. In accordance with SAB No. 51, we have accounted for the issuance of our subsidiary’s stock as a capital transaction. Considering that AIH is essentially a non-operating entity, and that the capital infusion was meant for commencement of research and development in Asia region, gain recognition was not appropriate.

On May 1, 2006 we announced that AIH has entered into an agreement with China Lianyungang City Golden Enterprises Limited (“China Party”) to establish a Joint Venture in mainland China. The Joint Venture intends to establish a manufacturing facility in Lianyungang City, Jiangsu Province and a distribution network in order to manufacture and market pharmaceutical products licensed by AIH. In

addition AIH will help to develop branded generic products in lieu of capital payment into the Joint Venture. China Party has agreed to inject working capital of RMB 250 million (approximately \$31 million) into the Joint Venture in the form of equity. AIH will own 30% of the Joint Venture common stock and China Party will own 70%. AIH is also to receive a 5% royalty on all AIH licensed product sales generated by the Joint Venture.

We signed a licensing agreement with Industria Farmaceutica Andromaco, S.A. de C.V. (“Andromaco”) in August 2003 for the commercialization of our lead pharmaceutical product “Indaflex” in Mexico. Mexican health authorities gave approval to Andromaco to start sales of Indaflex™ in Mexico. We collected our first royalties from Indaflex sales in the year ended September 30, 2005. Royalties continue to flow into the Company based on sales generated in Mexico by Andromaco.

We established a wholly-owned subsidiary – AlphaRx International Holdings Limited (“AIH”) in April 2005 and entered into a Joint Venture Agreement with Basin Industrial Limited (a wholly-owned subsidiary of Advance Pharmaceutical Co. Ltd.). The joint venture – AlphaAP Inc., is involved in the manufacture and marketing of certain of the Company’s existing products in the Asia region.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2007, AS COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2006

The Company incurred a net loss before discontinued operations of \$586,997 for the three month period ended December 31, 2007 as compared to a net loss before discontinued operations of \$591,654 incurred for the same period a year ago, a decrease of \$4,657 or less than 1%.

Revenues

Revenues represent royalties earned from Andromaco from the sales in Indaflex in Mexico. Total revenues for the three-month period ended December 31, 2007 were \$17,132 as compared to \$11,329 generated for the same period a year ago, an increase of \$5,803 or about 51%. Indaflex sales in Mexico continue to increase on a year over year basis since commencement in 2005.

General and Administrative Expenses

General and Administrative expenses consist primarily of personnel costs related to general management functions, finance, office overheads, as well as insurance costs and professional fees related to legal, audit and tax matters. General and Administrative expenses for the three month period ended December 31, 2007 were \$359,822 as compared to \$324,489 incurred for the same period a year ago, an increase of \$35,333 or approximately 11%. We spent approximately \$137,700 in investor relations and application fees for a Canadian stock exchange listing during the three months ended December 31, 2007 as compared to \$3,950 for the same period a year ago, an increase of about \$133,750. We reduced general and administrative payroll and consulting expenses to \$45,768 for the three months ended December 31, 2007 as compared to \$141,222 a decrease of about \$95,454, primarily as a result of salary reductions and reduced consulting efforts. Head count has remained the same at 4 full time equivalents in this category during the three months ended December 31, 2007 as compared to the same period a year ago. Warrant and stock option expense totalled \$149,559 for the three months ended December 31, 2007 as compared to \$137,834 incurred in the same period a year ago, an increase of \$11,725. We were able to reduce certain legal fees related to patent filings made in prior periods during the three months ended December 31, 2007 thereby reducing our legal fees to a credit of \$(9,275) as compared to \$28,350 incurred in the same period a year ago, a decrease of about \$37,625. Offsetting our general and administrative expenses, we recognized foreign exchange gains of about \$9,402 during the three months ended December 31, 2007 as compared to about \$37,446 foreign exchange gain for the same period a year ago, a decrease of \$28,044.

Research and Development Expenses

Research and development expenses include costs for scientific personnel, supplies, equipment, and outsourced clinical and other research activities.

Research and development expenses for the three months ended December 31, 2007 were \$215,032 as compared to \$246,018 incurred for the same period a year ago, a decrease of \$30,986 or about 13%. We incurred \$12,200 in research initiatives and efforts in China for the three months ended December 31, 2007 as compared to \$48,356 for the same period a year ago, a decrease of \$36,156. Research efforts will again increase in the future depending on the timing and availability of additional funds.

Sales and Marketing

We did not incur any sales and marketing expenses for the three months ended December 31, 2007 as compared to \$3,750 in the same period a year ago. Our sales and marketing efforts will increase in the future as our product candidates approach Phase I and II testing. Our future sales efforts will focus on sourcing a licensee, collaborative partner or other arrangements in order to commercialize our product candidates.

Depreciation

Depreciation totalled \$23,855 for the three months ended December 31, 2007 as compared to \$20,018 incurred during the same period a year ago, an increase of \$3,837 or about 19%. The increase stems from additional capital expenditures incurred during 2007, which are now being depreciated at maximum depreciation rates as compared to one half of the maximum depreciation rate in the year of acquisition. We do not anticipate any significant capital expenditures for the remainder of our fiscal year.

Loss from Operations

Loss from operations were \$581,577 for the three months ended December 31, 2007 as compared to a loss of \$582,946 incurred for the same period a year ago, a decrease of \$1,369 or less than 1%.

Interest Expense

Interest expense for the three months ended December 31, 2007 was \$9,629 as compared to net interest expense of \$24,743 generated during the same period a year ago. The decrease in interest expense resulted primarily from the repayment of \$1,169,793 in promissory notes during September 2007, thereby avoiding interest expense on these notes during the three months ended December 31, 2007.

Minority Interest

We reflected a minority interest credit of \$4,209 for the three months ended December 31, 2007 as compared to a credit of \$16,035 for the same period a year ago, a decrease of \$11,826 or about 74%. Minority interest represents our minority shareholder's proportionate interest in our 85% owned subsidiary – AIH. The minority interest resulted in the investment in our subsidiary AlphaRx International Holdings Ltd. by an independent third party – New Super Ltd. during June 2006.

Gain from operations of Discontinued Component

We continue to sell small amounts of Flexogan and generated sales of \$1,808 during the three months ended December 31, 2007 as compared to \$877 in sales for the same period a year ago.

Net Loss

As a result of the above revenues and expenses, we incurred a net loss of \$585,189 for the three months ended December 31, 2007 as compared to a net loss of \$590,777 incurred in the same period a year ago.

Cumulative Translation Adjustment

This adjustment results from unrealized foreign exchange gain and losses stemming from translation of our foreign subsidiaries into U.S. Dollars. We incurred a translation adjustment loss of \$128 for the three months ended December 31, 2007 as compared to a translation gain of \$1,650 for the same period a year ago.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2007 the Company had working capital deficiency of \$(105,703) as compared to a working capital deficiency of \$(559,438) as at September 30, 2007. The Company also has a shareholders' deficiency of \$(24,546) as at December 31, 2007 as compared to a shareholders' deficiency of \$(458,798) as at September 30, 2007). We issued 10,292,228 shares of Common Stock during the three months ended December 31, 2007. We used the resulting funds to repay all outstanding promissory notes and to improve our cash position and hence our working capital deficiency.

We have a licensing arrangement with Andromaco, which provides us with a small royalty stream. We also have licensing arrangements with Proprius Pharmaceuticals Inc. and a joint venture agreement with AlphaAP Inc., which may provide us with milestone payments and/or royalty streams in the future. There is no assurance that such payments or royalty streams will materialize.

Since inception, we have financed operations principally from the sale of Common Stock and issuance of promissory notes and expect to continue this practice to fund our ongoing activities.

We currently do not have sufficient resources to complete the commercialization of any of our proposed products or to carry out our entire business strategy. Therefore, we will likely need to raise substantial additional capital to fund our operations in the future. We cannot be certain that any financing will be available when needed on acceptable terms or at all. Any additional equity financings will be dilutive to our existing shareholders, and debt financing, if available, may require additional stock to be issued and/or involve restrictive covenants on our business.

We expect to continue to spend capital on:

1. research and development programs;
2. preclinical studies and clinical trials;
3. regulatory processes; and
4. third party licensees and distribution partners to manufacture and market our products for us.

The amount of capital we may need will depend on many factors, including:

1. the progress, timing and scope of our research and development programs;
2. the progress, timing and scope of our preclinical studies and clinical trials;
3. the time and cost necessary to obtain regulatory approvals;
4. the time and cost necessary to establish or to retain sales and marketing partners to market our products;
5. the time and cost necessary to respond to technological and market developments; and
6. new collaborative, licensing and other commercial relationships that we may establish.

The inability to raise capital would have a material adverse effect on the Company. We currently have no capital commitments other than the payment of rent on our facilities lease, one leased auto and for certain research equipment.

CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS

Certain of the information contained in this document constitutes "forward-looking statements", including but not limited to those with respect to the future revenues, our development strategy, involve known and

unknown risks, uncertainties, and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the risks and uncertainties associated with a drug delivery company which has not successfully commercialized our first product, including a history of net losses, unproven technology, lack of manufacturing experience, current and potential competitors with significant technical and marketing resources, need for future capital and dependence on collaborative partners and on key personnel. Additionally, we are subject to the risks and uncertainties associated with all drug delivery companies, including compliance with government regulations and the possibility of patent infringement litigation, as well as those factors disclosed in our documents filed from time to time with the United States Securities and Exchange Commission.

ITEM 3. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer and Principal Accounting Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2007. The Company's Chief Executive Officer and Chief Financial Officer and Principal Accounting Officer concluded that the Company's disclosure controls and procedures are effective for gathering, analyzing and disclosing the information the Company is required to disclose in the reports it files under the Securities Exchange Act of 1934, within the time periods specified in the SEC's rules and forms.

PART II: OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

There are currently no legal proceedings against the Company or any of its subsidiaries.

ITEM 2 - CHANGES IN SECURITIES AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

We issued 5,000,000 shares of Common Stock plus 5,000,000 warrants to purchase shares of Common Stock on November 14, 2007 in a private placement for net proceeds of \$475,000. We issued 3,430,000 shares of Common Stock as a result of option exercises on December 27, 2007. Total proceeds were \$274,750. Finally we issued 1,862,228 shares of Common Stock as a result of warrant exercises on December 27, 2007. Total proceeds were \$186,223. All of the above securities are restricted in accordance with Rule 144.

We cancelled options to purchase 7,660,000 shares of Common Stock in accordance with the Stock Option Plan terms and conditions and with the agreement of existing option holders during the three months ended December 31, 2007. No new options were issued.

During the three months ended December 31, 2007 warrants to purchase 5,874,435 shares of Common Stock expired. We also issued 5,770,000 new warrants in conjunction with the private placement of 5,000,000 shares of Common Stock and in conjunction with the issuance of \$154,000 in promissory notes.

As a result of the above transactions there are 91,496,192 shares of Common Stock issued and outstanding, and there would be 123,496,192 shares of Common Stock issued and outstanding if all warrants and options were exercised.

We issued 300,000 shares of common stock in lieu of cash payments of \$30,000 for financial consulting services during the three months ending December 31, 2006. We also issued 1,500,000 warrants in conjunction with the promissory notes issued during the three months ended December 31, 2006. These warrants entitle the holder to purchase common stock at \$0.10 per share and expire in December 2008.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

N/A

ITEM 4 - OTHER INFORMATION

None.

ITEM 5 - EXHIBITS AND REPORTS ON FORM 8-K

(i) EXHIBITS.

- 31.1 Certification of C.E.O. Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of C.F.O. Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Michael Lee pursuant to Section 1350 of Chapter 63 of Title 18 United States Code.
- 32.2 Certification of Marcel Urbanc pursuant to Section 1350 of Chapter 63 of Title 18 United States Code.

(ii) **REPORTS ON FORM 8-K**

- (a) On November 14, 2007 we announced the private placement with a foreign and accredited investor, of 5,000,000 units for gross consideration of \$500,000. Each unit consists of one share of Common Stock and a warrant to purchase a share of Common Stock for \$0.10 expiring December 31, 2009. The shares of Common Stock are restricted as to resale conditions in accordance with regulations. Any shares resulting from the exercise of warrants will also be restricted as to resale from the date of exercise, in accordance with regulations.
- (b) On December 28, 2007 we announced the exercise of 3,430,000 options to purchase Common Stock and the cancellation of 7,660,000 options to purchase shares of Common Stock by certain directors, officers and employees. Also, we announced the exercise of 1,862,228 warrants to purchase shares of Common Stock by our President and CEO Michael Lee.

SIGNATURES:

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

DATED: February 12, 2008

ALPHARx, INC.

By: /S/ Michael M. Lee
Michael M. Lee, Chief Executive Officer

Directors:

By: /S/ Michael M. Lee
Michael M. Lee, Director

By: /S/ David Milroy
David Milroy, Director

By: /S/ Ford Moore
Ford Moore, Director

EXHIBIT 31.1

I, Michael Lee, chief executive officer of AlphaRx, Inc. certify that:

1. I have reviewed this quarterly report on Form 10QSB of AlphaRx, 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 quarterly report;
4. I am 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 me 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 my conclusions about the effectiveness of the disclosure controls and procedures based on my evaluation as of the Evaluation Date;
5. We have disclosed, based on my 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. 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 my most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 12, 2008

/s/ Michael Lee

Michael Lee, Chief Executive Officer

EXHIBIT 31.2

I, Marcel Urbanc, chief financial officer and principal accounting officer of AlphaRx, Inc. certify that:

1. I have reviewed this quarterly report on Form 10QSB of AlphaRx, 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 quarterly report;
4. I am 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 me 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 my conclusions about the effectiveness of the disclosure controls and procedures based on my evaluation as of the Evaluation Date;
5. We have disclosed, based on my 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. 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 my most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Marcel Urbanc

Marcel Urbanc

Chief Financial Officer and Principal Accounting Officer

February 12, 2008

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of AlphaRx, Inc. on Form 10-QSB for the period ending December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof, Michael Lee, as chief executive officer of AlphaRx, Inc., does hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

1. This 10-QSB report fully complies with the requirements of Section 13(a) of the Exchange Act; and
2. The information contained in this 10-QSB report fairly presents, in all material respects, the financial condition and result of operations of AlphaRx, Inc.

/s/ Michael Lee
Michael Lee
Chief Executive Officer
February 12, 2008

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of AlphaRx, Inc. on Form 10-QSB for the period ending December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof, Marcel Urbanc, as chief financial officer and principal accounting officer of AlphaRx, Inc., does hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

3. This 10-QSB report fully complies with the requirements of Section 13(a) of the Exchange Act; and
4. The information contained in this 10-QSB report fairly presents, in all material respects, the financial condition and result of operations of AlphaRx, Inc.

/s/ Marcel Urbanc
Marcel Urbanc
Chief Financial Officer and Principal Accounting Officer
February 12, 2008