

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the quarterly period ended: December 31, 2008

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, 2009 was 92,371,192.

Transitional Small Business Disclosure Format. Yes No

ALPHARX, INC.

FORM 10-Q

DECEMBER 31, 2008

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ALPHARx, INC.
INTERIM CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2008 AND SEPTEMBER 30, 2008
(UNAUDITED)
(All amounts in US Dollars)

	December 31, 2008	September 30, 2008
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 21,384	\$ 24,623
Trade Accounts Receivable, net	74,388	6,076
Other Accounts Receivable	2,770	2,353
Other Assets	14,350	-
TOTAL CURRENT ASSETS	112,892	33,052
PROPERTY, PLANT and EQUIPMENT, net	129,289	149,498
TOTAL ASSETS	242,181	182,550
CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities	329,367	316,306
Notes Payable (note 4)	420,399	403,665
Deferred Revenue	33,333	-
TOTAL CURRENT LIABILITIES	783,099	719,971
SHAREHOLDERS' EQUITY/(DEFICIT)		
Common Stock: \$ 0.0001 par value, Authorized: 250,000,000 shares; Issued and outstanding December 31, 2008- 92,371,192 (September 30, 2008- 92,371,192) (Notes 6-8)	9,238	9,238
Additional paid-in capital	16,978,351	16,978,351
Deficit	(17,640,969)	(17,619,930)
Accumulated Other Comprehensive Income/(loss)	9,757	(6,704)
TOTAL ALPHARX, INC. SHAREHOLDERS' DEFICIT	(643,623)	(639,045)
Non-controlling Interest (Note 5)	102,705	101,624
TOTAL DEFICIT	(540,918)	(537,421)
TOTAL LIABILITIES AND DEFICIT	\$ 242,181	\$ 182,550

Signed: Michael Lee
Director

Signed: Dr. Ford Moore
Director

See condensed notes to unaudited consolidated financial statements

ALPHARx, INC.
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2008 AND 2007
(UNAUDITED)
(All amounts in US Dollars)

December 31,	2008	2007
Consulting Revenue	\$ 86,100	-
License Fees and Royalties	<u>17,474</u>	<u>17,132</u>
TOTAL REVENUES	103,574	17,132
General and Administrative Expenses	53,243	359,822
Research and Development Expenses	42,959	215,032
Depreciation	<u>17,176</u>	<u>23,855</u>
LOSS FROM OPERATIONS	(9,804)	(581,577)
OTHER EXPENSES		
Interest Expense, net	<u>(10,154)</u>	<u>(9,629)</u>
LOSS BEFORE INCOME TAXES	(19,958)	(591,206)
Income Tax	-	-
LOSS FROM OPERATIONS, net of tax	<u>(19,958)</u>	<u>(591,206)</u>
Gain from Operations of Discontinued Component (note 4)	<u>-</u>	<u>1,808</u>
NET LOSS	<u>(19,958)</u>	<u>(589,398)</u>
Net income (loss) attributable to non-controlling interest	<u>(1,081)</u>	<u>4,209</u>
NET LOSS ATTRIBUTABLE TO ALPHARX, INC.	<u>(21,039)</u>	<u>(585,189)</u>
Cumulative Translation Adjustment	<u>16,461</u>	<u>(128)</u>
COMPREHENSIVE LOSS	<u>\$ (4,578)</u>	<u>\$ (585,317)</u>
Net Loss per Share attributable to AlphaRx, Inc. Common Shareholders, basic and diluted	<u><u>\$(0.00)</u></u>	<u><u>\$(0.01)</u></u>
Weighted Average Number of Common Shares Outstanding	92,371,192	83,876,537

See condensed notes to interim consolidated financial statements

ALPHARx, INC.
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT
FOR THE PERIOD ENDED DECEMBER 31, 2008
(UNAUDITED)
(All amounts in US Dollars)

	Common Stock		AlphaRx, Inc. Shareholders				Non-controlling Interest	Total Equity (Deficit)
	Number of Shares	Amount	Additional Paid in Capital	Accumulated Other Comprehensive Income	Retained Earnings (Deficit)	Total AlphaRx Inc. Shareholders Deficit		
Balance as of September 30, 2007	81,203,964	\$8,122	\$15,824,162	\$(6,609)	\$(16,284,473)	\$(458,798)	\$116,986	\$(341,812)
Warrants Amortization			131,832			131,832		131,832
Warrants exercised	2,737,228	273	273,450			273,723		273,723
Stock Options exercised	3,430,000	343	274,407			274,750		274,750
Private Placement	5,000,000	500	474,500			475,000		475,000
Foreign currency translation				(95)		(95)		(95)
Non-controlling interest							(15,362)	(15,362)
Net Loss 2008					(1,335,457)	(1,335,457)		(1,335,457)
Balance as of September 30, 2008	92,371,192	\$9,238	\$16,978,351	(6,704)	(17,619,930)	(639,045)	101,624	(537,421)
Foreign Currency Translation				16,461		16,461		16,461
Non-controlling interest							1,081	1,081
Net Loss for the Period					(21,039)	(21,039)		(21,039)
Balance as of December 31, 2008	92,371,192	\$9,238	\$16,978,351	\$9,757	(17,640,969)	\$(643,623)	\$102,705	\$(540,918)

See condensed notes to interim consolidated financial statements

ALPHARx, INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2008 AND 2007
(UNAUDITED)
(All amounts in US Dollars)

Three months ended December 31,	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$ (21,039)	\$ (585,189)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	17,176	23,855
Warrant amortization	-	149,559
Changes in assets and liabilities:		
Decrease (Increase) in accounts receivable	(68,729)	2,821
Decrease (Increase) in other assets	(14,350)	3,756
(Decrease) Increase in accounts payable and accrued liabilities	13,061	(233,902)
Accrued interest on notes payable	8,559	(12,538)
Increase in deferred revenue	33,333	-
Non-controlling interest	1,081	(4,209)
Discontinued operations (Note 3)	<u>-</u>	<u>(13,249)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(30,908)</u>	<u>(669,096)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Machinery & Equipment, net of disposals	<u>-</u>	<u>-</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>-</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Common Stock	-	935,973
Issuance (repayment) of Notes Payable, net	<u>42,019</u>	<u>(221,228)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>42,019</u>	<u>714,745</u>
Effect of exchange rate changes on cash and cash equivalents	(14,350)	(292)
NET INCREASE (DECREASE) IN CASH	(3,239)	45,357
CASH, and cash equivalents, beginning of period	<u>24,623</u>	<u>128,328</u>
CASH, and cash equivalents, end of period	<u>\$ 21,384</u>	<u>\$ 173,685</u>
Taxes Paid	<u>\$ 0</u>	<u>\$ 0</u>
Interest Paid	<u>\$ 0</u>	<u>\$ 19,234</u>

See condensed notes to interim consolidated financial statements

ALPHARX INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008
(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-Q 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.

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. This joint venture is currently inactive.

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 interim 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. Factors relating to going concern issues include working capital deficiencies, operating losses, shareholders' deficits, and continued reliance on external funding sources. 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. In order to mitigate the going concern issues, the Company is constantly pursuing new business arrangements and striving to achieve profitability, and seeking capital funding on an ongoing basis via the issuance of Promissory Notes, and private placements. The Company has contracted with two parties during the three months ended December 31, 2008 for research and development consulting services that could also

result in future license fees and royalties. There is no assurance that such license fees or royalties will materialize.

NOTE 3. DISCONTINUED OPERATIONS

Interim statements of income and loss related to Flexogan sales, which were discontinued, were as follows:

Income Statements for three months ended December 31,	2008	2007
Sales	\$ <u> </u> -	<u>\$ 1,808</u>
Gain from discontinued operations	\$ <u> </u> -	<u>\$ 1,808</u>

There were no assets or liabilities remaining related to the discontinued operations as of December 31, 2008 and September 30, 2008.

NOTE 4. NOTES PAYABLE

The Company issued approximately \$42,000 in promissory notes during the three months ended December 31, 2008. (During the three months ended December 31, 2007 the Company issued \$154,000 in promissory notes, before a discount of \$83,596). 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. NON-CONTROLLING 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 non-controlling interest was established, representing net amounts owing to the non-controlling shareholder. The capital infusion into AIH is accounted for as additional paid in capital on the interim 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, 2008, there are 92,371,192 shares of Common Stock issued and outstanding with a stated par value of \$0.0001 per share. (December 31, 2007 – 91,496,192)

The Company did not issue any shares of Common Stock during the three months ended December 31, 2008. During the three months ended December 31, 2007 the Company issued the following restricted shares of Common 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.

NOTE 7. STOCK OPTION PLANS

The Company now has only one Stock Option Plan (the “2008 Plan”) under which officers, key employees, certain independent contractors, and independent directors may be granted options to purchase shares of the Company’s authorized but unissued Common Stock. All outstanding options currently expire no later than June 30, 2012. Proceeds received by the Company from exercises of stock options are credited to Common Stock and additional paid-in capital.

At the Company’s Annual General Meeting held November 26, 2008 a majority of stockholders approved amendments to the existing Stock Option Plans including, among others: (i) combining the 2004 and 2006 Plans into the “2008 Stock Option Plan” for ease of administration; (ii) providing a cap for the number of options to be issued at 22,000,000; (iii) providing guidelines for exercise prices such that the exercise price of any newly granted option is never less than the market value or in the case of a 10%+ holder, never less than 110% of the market value on the date of grant; (iv) providing for a maximum term of 5 years for any option granted; (v) provide for a vesting schedule whereby vesting must occur over at least 18 months with no more than 1/6th of the options granted vesting in any 3 month period; (vi) providing for the maximum number of options to be granted to any one individual in any 12 month period to be no more than 5% of the issued and outstanding common stock, and (vii) providing for a maximum number of options to be granted to any Investor Relations party to be no more than 2% of the issued and outstanding common stock.

As a result of the new terms governing the Company’s Stock Option Plan, the maximum number of options that can still be issued totals 4,310,000, regardless of whether existing options are exercised or cancelled.

During the three months ended December 31, 2008 no options were granted and no options were exercised.

Additional details of the 2004 and 2006 Plans, as at December 31, 2008, which were combined into the one remaining 2008 Plan, are as follows (the 2000 and 2003 Plans no longer exist in any form):

2008 Stock Option Plan	Number Granted/ (Exercised, Expired or Cancelled)	Issue Date	Exercise Price \$	Share Price on Date of Grant \$	Expiry Date	Remaining Contractual Life (Years)
Inception	0					
Granted	12,720,000	15/11/2004	0.15	0.11	6/30/2012	3.50
Cancelled	(6,000,000)	12/28/2007	-	-	-	-
Granted	500,000	15/11/2004	0.40 – 0.50	0.11	6/30/2012	3.50
Cancelled	(40,000)	12/28/2007	-	-	-	-
Expired	(460,000)	2/10/2008	-	-	-	-
Granted	7,000,000	10/1/2005	0.16	0.14	6/30/2012	3.50
Granted	390,000	8/2/2005	0.15	0.14	6/30/2012	3.50
Cancelled	(40,000)	12/28/2007	-	-	-	-
Granted	100,000	5/25/2005	0.13	0.13	6/30/2012	3.50
Granted	3,290,000	10/17/2005	0.075	0.08	6/30/2012	3.50
Cancelled	(560,000)	12/28/2007	-	-	-	-
Granted	90,000	1/3/2007	0.10	0.10	1/3/2012	3.01
Exercised	(2,730,000)	12/27/2007	0.075	-	-	-
Remaining	14,260,000	As at December 31, 2008				
Weighted Average Exercise Price and Contractual Life of Options Remaining			\$0.15			3.48

During the three months ended December 31, 2007 options to purchase 3,430,000 were exercised. Immediately thereafter the Company cancelled options to purchase 7,660,000 shares of Common Stock under the various Option Plans with the agreement of the option holders or in accordance with the Plans' terms and conditions. Accordingly the 2000 Plan and the 2003 Plan no longer exist in any form. Also, the expiry period of options under the 2004 and 2006 Plans was accelerated, with the agreement of the option holders, such that all existing and future options will expire in less than five years.

Additional information with respect to the various Plans' stock option during the three months ended December 31, 2007 was as follows:

Options outstanding September 30, 2007:	25,810,000
Options exercised under the 2004 and 2006 Plans:	(2,730,000)
Options exercised under the 2000 and 2003 Plans:	(700,000)
Options cancelled under the 2000 and 2003 Plans:	(1,020,000)
Options cancelled under the 2004 and 2006 Plans:	<u>(6,640,000)</u>
Options remaining December 31, 2007:	<u>14,720,000</u>

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, 2008 and 2007. The Black-Scholes option-pricing model is used to calculate this expense. There are no further stock based compensation expenses to be recorded based on options granted to date and their existing terms and conditions. Multiplying the options by their exercise price and dividing the total obtained by the total outstanding options calculated the weighted average exercise price.

NOTE 8. WARRANTS

The Company did not issue any warrants, nor were any warrants exercised during the three month period ended December 31, 2008. The Company has the following warrants outstanding to purchase shares of Common Stock at December 31, 2008:

Outstanding as at September 30, 2008		Weighted Average Exercise Price			Weighted Average Contractual Life	
7,260,000		\$0.10			1.02	
Activity during the three months ended December 31, 2008						
(1,050,000)	Expired December 31, 2008					
Outstanding as at December 31, 2008						
6,210,000		\$0.10			0.90	
Below are details of the outstanding warrants as at December 31, 2008						
	Issue Date	Exercise Price \$	Share Price on Grant Date \$	Expiry Date	Remaining Contractual Life (Years)	Reason for Issuance

625,000	3/31/2007	0.10	0.10	3/31/2009	0.25	Issuance of Promissory Notes
585,000	9/30/2007	0.10	0.08	9/30/2009	0.75	Issuance of Promissory Notes
5,000,000	12/31/2007	0.10	0.26	12/31/2009	1.00	Private Placement of Units completed on Nov 14, 2007 and consisting of one share of common stock and one warrant.

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. The weighted average contractual life was calculated by multiplying the warrants by their remaining contractual life and dividing the total obtained by the total outstanding warrants. There were 12,370,000 warrants issued and outstanding as at December 31, 2007. The following table details warrant activity during the three months ended December 31, 2007:

Outstanding as of September 30, 2007		Weighted Average Exercise Price		Weighted Average Contractual Life	
14,336,663		\$0.22		0.53 Years	
Activity during the three months ended December 31, 2007:					
(5,204,160)	Expired October 13, 2007				
5,000,000	Granted November 14, 2007 as part of a Private Placement of 5,000,000 units				
770,000	Granted during Q1, 2008 based on issuance of Promissory Notes				
(670,275)	Expired December 19, 2007				
(1,862,228)	Exercised December 27, 2007 @ \$0.10 per share				
Outstanding as of December 31, 2007		Weighted Average Exercise Price		Weighted Average Contractual Life	
12,370,000		\$0.10		1.24 Years	

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. 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: RECLASSIFICATIONS

Certain amounts have been reclassified to conform to current period presentation. Specifically the Company has adopted SFAS 160 – Non-controlling Interests in Consolidated Financial Statements. The objective of this Statement is to improve the relevance, comparability, and transparency of the financial information that a Company provides.

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-Q. For additional information and complete financial statement note disclosure as of September 30, 2008, reference should be made to the annual Form 10-K filed during December 2008. 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 entered into a feasibility and option agreement with Gaia Biopharma Limited, a privately held, early stage biopharmaceutical company, during October 2008. Under the agreement we will use our proprietary nano drug delivery platforms to formulate two injectable products. Should development and commercialization of these product candidates proceed beyond the formulation stage, we could earn development and sales milestones as well as royalties based on net sales.

We entered into a co-development agreement with a global specialty pharmaceutical company during October 2008 whereby we have been tasked to develop a novel drug formulation using our proprietary drug delivery technology. The company will have an exclusive option period to complete a commercialization agreement with us within six months of completion of the formulation. The extent and duration of consulting services for the initial phase have been finalized and work is underway on the formulation. It is too early to determine whether the formulations will be commercially feasible. There is no assurance that any further consulting services or any other form of revenues will materialize with this company.

One of our most promising drug candidates is Zysolin that uses an inhalable version of the drug Tobramycin (an antibiotic used to treat Gram-negative bacteria) to treat Gram-negative pneumonia. We have completed animal testing on Zysolin and are in the process of preparing protocols for Phase I/II human trials. We have completed safety and efficacy testing on Streptomycin (a drug used to treat tuberculosis) and are seeking collaborative partner(s) to initiate human trials on this product candidate. We continue to test formulations and conduct research on Vansolin (MRSA- pneumonia) and Streptomycin (tuberculosis). The delivery route for all of the above product candidates is Intravenous (I.V.) or Intratracheal (I.T.).

Our objectives for the remainder of this fiscal year include:

- Deliver co-development services and initiate follow on formulations for our two customers;
- Pursue other co-development agreements, license and royalty arrangements;
- Seek and obtain capital funding to continue with our research initiatives including:
- Completion of pre-clinical studies of Zysolin and preparation of protocol for Phase I/II human trials;
- Initiation of Phase I human trials for Zysolin.

During March 2008 Cypress Bioscience, Inc. (“Cypress”) completed the acquisition of our partner Proprius Pharmaceuticals Inc. (“Proprius”). Proprius has development and commercialization rights for Indaflex – our topical cream for the treatment of osteoarthritis of the knee. Additional funding is now available through Cypress in order to further Phase II and III human trials for Indaflex and continue the FDA application 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 or guarantees that Proprius and or Cypress will continue with human trials of Indaflex.

Our 85% owned subsidiary AlphaRx International Holdings Ltd. (“AIH”), through its wholly-owned subsidiary AlphaRx Life Sciences Ltd. is seeking commercial arrangements and is responsible for the commercialization of Indaflex in China.

We suspended application to have the Company listed on the Toronto Stock Exchange – Venture Market during October 2008 due to market conditions and our stock price among other factors. Should market conditions improve in the future we may consider re-applying for a Canadian stock market listing. There is no assurance that we will re-apply for this or any other listing.

Overview of Results of Operations

The following tables summarize the results of operations for the eight quarters ended December 31, 2008:

Three Months Ended	Dec 31 2008	Sep 30 2008	June 30 2008	Mar 31 2008	Dec 31 2007	Sep 30 2007	Jun 30 2007	Mar 31 2007
	\$	\$	\$	\$	\$	\$	\$	\$
Net Sales	103,574	16,326	46,798	17,243	17,132	95,891	35,856	27,365
Net Loss	(21,039)	(59,252)	(293,761)	(397,255)	(585,189)	(227,583)	(462,236)	(469,640)
Net Loss per Share	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2008, AS COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2007

The Company incurred a net loss of \$21,039 for the three month period ended December 31, 2008 as compared to a net loss of \$585,189 incurred for the same period a year ago, a decrease of \$564,150 or about 96%. The Company signed two co-development agreements in the three months ended December 31, 2008 and generated \$86,100 in consulting revenues for the period with no comparable revenue during the same period a year ago. Operations in research and development and general and administrative expenses have also been cost-restructured based on the absence of capital funding available in the current environment.

Revenues

Total revenues for the three-month period ended December 31, 2008 were \$103,574 as compared to \$17,132 generated for the same period a year ago, an increase of \$86,442 or about 505%. Royalty revenues were comparable year over year at \$17,474 for the three months ended December 31, 2008 as compared to \$17,132 for the same period a year ago. The Company generated consulting revenues in the amount of \$86,100 for the three months ended December 31, 2008 with no comparable revenues for the same period a year ago. Consulting revenues relate to the formulation of compounds for a larger pharmaceutical concern, which if pursued to commercialization, could result in license fees and royalties. There is no assurance, however, that any such license fee or royalty revenues will materialize.

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 were \$53,243 for the three month period ended December 31, 2008 as compared to \$359,822 incurred for the same period a year ago, a decrease of \$306,579 or about 85%. We incurred \$149,559 in warrant amortization during the three months ended December 31, 2007 with no

comparable expense in the current period. We also incurred \$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 \$9,023 in the current period (for investor relations only), a decrease of \$128,677 or about 93%. With the improvement of the US Dollar compared to the Canadian dollar during the quarter, we realized a foreign exchange gain of \$37,510 during the three months ended December 31, 2008 as compared to a foreign exchange loss of \$9,926 incurred in the same period a year ago, an improvement of \$47,436.

Savings during the three months ended December 31, 2007 included the writing off of reserves for sale returns - \$6,556 and the forgiveness of certain legal fees totalling \$20,677 for a total general and administrative expense reduction of \$27,233. There were no comparable write offs or forgiveness of legal or other expenses during the three months ended December 31, 2008.

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, 2008 were \$42,959 as compared to \$215,032 incurred for the same period a year ago, a decrease of \$172,073 or about 80%. We currently have 3 full time staff as compared to 4 full time staff during the same period a year ago. Also, research staff costs were reduced during the three months ended December 31, 2008 as compared to the same period a year ago. Staff costs totalled \$33,760 for the three months ended December 31, 2008 as compared to \$120,398 incurred for the same period a year ago, a reduction of \$86,638 or about 72%. We are re-aligning our costs to be more in line with revenue expectations until capital markets improve or additional funding is sourced. Research efforts will again increase in the future depending on the timing and availability of additional funds.

Depreciation

Depreciation totalled \$17,176 for the three months ended December 31, 2008 as compared to \$23,855 incurred during the same period a year ago, a decrease of \$6,679 or about 29%. Our capital asset purchases were minimized during the last two fiscal years totalling less than \$17,000. Certain assets are now fully depreciated resulting in decreasing depreciation expense. Should any assets become permanently impaired they are written off to income as determined.

Loss from Operations

Loss from operations were \$9,804 for the three months ended December 31, 2008 as compared to a loss of \$581,577 incurred for the same period a year ago, a decrease of \$571,773 or 98%.

Interest Expense

Interest expense for the three months ended December 31, 2008 was \$10,154 as compared to interest expense of \$9,629 generated during the same period a year ago. There were similar levels of promissory notes outstanding during the two periods.

Gain from operations of Discontinued Component

We ceased entirely our sales of Flexogan during fiscal 2008 and hence no such sales were generated during the three months ended December 31, 2008 as compared to \$1,808 in sales for the same period a year ago.

Net Income (loss) attributable to Non-Controlling Interest

We reflected a non-controlling interest loss of \$1,081 for the three months ended December 31, 2008 as compared to an income of \$4,209 for the same period a year ago, a decrease of \$5,290. Non-Controlling

interest represents our minority shareholder's proportionate interest in our 85% owned subsidiary – AIH. The non-controlling interest resulted in the investment in our subsidiary AlphaRx International Holdings Ltd. by an independent third party – New Super Ltd. during June 2006.

Net Loss Attributable to AlphaRx, Inc.

As a result of the above revenues and expenses, we incurred a net loss of \$21,039 for the three months ended December 31, 2008 as compared to a net loss of \$585,189 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 gain of \$16,461 for the three months ended December 31, 2008 as compared to a translation loss of \$128 for the same period a year ago. The gain stems primarily from the strengthening of the US dollar versus the Canadian dollar during the period.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2008 the Company had working capital deficiency of \$(670,207) as compared to a working capital deficiency of \$(686,919) as at September 30, 2008. The Company has also increased its shareholders' deficiency of \$(643,623) as at December 31, 2008 as compared to a shareholders' deficiency of \$(639,045) as at September 30, 2008. We did not issue any stock during the three months ended December 31, 2008.

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 which led to an improved deficiency position as compared to the three months ended December 31, 2008.

We have a licensing arrangement with Andromaco, which provides us with a small royalty stream. We entered into two co-development agreements during the three months ended December 31, 2008 and we continue to seek out new arrangements. 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, 2008. 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 did not issue nor purchase any equity securities during the three months ended December 31, 2008.

Warrants to purchase 1,050,000 shares of Common Stock expired on December 31, 2008. There were 92,371,192 shares of Common Stock issued and outstanding as of December 31, 2008 and there would be 112,841,192 shares of Common Stock issued and outstanding if all warrants and options were exercised as of December 31, 2008.

During the three months ended December 31, 2007 we issued the following securities and made amendments to our stock options and warrants as follows:

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 were 91,496,192 shares of Common Stock issued and outstanding, as of December 31, 2007 and there would be 123,496,192 shares of Common Stock issued and outstanding if all warrants and options were exercised as of December 31, 2007.

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**

Not applicable

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 13, 2009

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 10-Q 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 13, 2009

/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 10-Q 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 13, 2009

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-Q for the period ending December 31, 2008 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-Q report fully complies with the requirements of Section 13(a) of the Exchange Act; and
2. The information contained in this 10-Q 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 13, 2009

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-Q for the period ending December 31, 2008 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-Q report fully complies with the requirements of Section 13(a) of the Exchange Act; and
4. The information contained in this 10-Q 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 13, 2009