Inter-Atlantic Financial, Inc.
Form 10-Q
August 13, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the quarterly period ended June 30, 2008

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the transition period from __________ to __________.

Commission file number 001-33721

INTER-ATLANTIC FINANCIAL, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of Incorporation or Organization)

20-8237170
(I.R.S. Employer Identification No.)

400 Madison Ave.
New York, NY 10017
(Address of Principal Executive Offices)

(212) 581-2000
(Registrant s Telephone Number, Including Area Code)

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

Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer þ (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes þ No o

State the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practical date: 10,845,300 shares issued and outstanding as of August 11, 2008.

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FORWARD-LOOKING STATEMENTS

We believe that some of the information in this document constitutes forward-looking statements. You can identify these statements by forward-looking words such as may , expect , anticipate, contemplate, believe, estimate, and continue or similar words. You should read statements that contain these words carefully because they discuss future expectations; contain information which could impact future results of operations or financial condition; or state other forward-looking information.

We believe it is important to communicate our expectations to the Inter-Atlantic Financial, Inc. stockholders. However, you should be aware that there are risks, uncertainties and events that may cause actual results to differ materially from our expectations, including among other things; negative cash flow and losses; reliance on a limited number of suppliers; continued compliance with government regulations and changes in government regulations; legislation or regulatory environments; requirements or changes affecting the industry in which Inter-Atlantic Financial, Inc. expects to engage; actions by competitors; dependence on key management personnel; and general economic conditions.

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PART 1 FINANCIAL INFORMATION
ITEM 1. Condensed Financial Statements

Inter-Atlantic Financial, Inc.
(a corporation in the development stage)
CONDENSED BALANCE SHEETS

	June 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current Assets		
Cash and cash equivalents	$ 4,318	$ 6,967
Prepaid insurance	87,750	146,250
Total current assets	92,068	153,217
Other Assets		
Cash and cash equivalents held in Trust Account	68,626,398	68,725,471
Deferred tax asset	165,000	70,000
Total other assets	68,791,398	68,795,471
Total assets	$ 68,883,466	$ 68,948,688
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accrued expenses	$ 49,993	$ 35,250
Accrued offering costs		146,755
Income taxes payable	55,515	248,000
Delaware franchise tax payable	41,125	46,560
Total current liabilities	146,633	476,565
Long-term Liabilities		
Deferred underwriters fee	1,928,707	1,928,707
Common stock, subject to possible redemption, 2,582,229 shares at conversion value, $7.96 per share	20,547,927	20,547,927
Total liabilities	22,623,267	22,953,199
Stockholders equity		
Preferred stock, $.0001 par value; 1,000,000 shares authorized; none issued		
Common stock, $.0001 par value, 49,000,000 shares authorized; 10,485,300 issued and outstanding	1,049	1,049
Additional paid-in capital	45,727,725	45,727,725
Earnings accumulated during the development stage	531,425	266,715

Total stockholders equity		46,260,199		45,995,489
Total liabilities and stockholders equity	$	68,883,466	$	68,948,688

See accompanying notes to unaudited condensed financial statements.

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Inter-Atlantic Financial, Inc.
(a corporation in the development stage)
CONDENSED STATEMENTS OF OPERATIONS

	Three Months Ended June 30, 2008 (Unaudited)	**Three Months Ended June 30, 2007 (Unaudited)**	**Six Months Ended June 30, 2008 (Unaudited)**	**For the Period from January 12, 2007 (inception) through June 30, 2008 (Unaudited)**	**For the Period from January 12, 2007 (inception) through June 30, 2007 (Unaudited)**
Revenue	$	$	$	$	$
Operating costs	120,405	3,637	244,416	401,095	8,288
Loss from operations	(120,405)	(3,637)	(244,416)	(401,095)	(8,288)
Interest income	304,162		715,891	1,317,285	
Net income (loss) before provision for income taxes	183,757	(3,637)	471,475	916,190	(8,288)
Provision for income taxes	95,515		206,765	384,765	
Net income (loss)	88,242	(3,637)	264,710	531,425	(8,288)
Maximum number of shares subject to possible conversion:					
Approximate weighted average number of shares	2,582,000		2,582,000	1,275,000	
Approximate weighted average number of common shares outstanding (not subject to possible conversion):					
Basic	7,903,000	1,875,000	7,903,000	4,851,000	1,875,000
Diluted	11,740,000	1,875,000	11,701,000	6,721,000	1,875,000
Net income (loss) per common share not subject to possible conversion:					
Basic	$ 0.01	$	$ 0.03	$ 0.11	$

Diluted	$	0.01	$		$	0.02	$	0.08	$

See accompanying notes to unaudited condensed financial statements.

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Inter-Atlantic Financial, Inc.
(a corporation in the development stage)
STATEMENT OF STOCKHOLDERS EQUITY
For the Period from January 12, 2007 (inception) through June 30, 2008

	Common Stock Shares	Common Stock Amount	Additional Paid-in-Capital	Earnings Accumulated During the Development Stage	Total
Balances at January 12, 2007 (inception)		$	$	$	$
Issuance of common stock to founders	1,875,000	188	24,812		25,000
Issuance of warrants in private placement			2,300,000		2,300,000
Sale of 8,610,300 units (including the 1,110,300 units pursuance to the over-allotment option) at a price of $8.00 per unit, net of underwriters discount and offering expenses (including 2,582,229 shares subject to possible conversion)	8,610,300	861	63,950,740		63,951,601
Reclassification of common stock subject to possible conversion, 2,582,229 shares			(20,547,927)		(20,547,927)
Issuance of underwriters purchase option			100		100
Net Income				266,715	266,715
Balances at December 31, 2007	10,485,300	$ 1,049	$ 45,727,725	$ 266,715	$ 45,995,489
Net income				264,710	264,710
Balances at June 30, 2008	10,485,300	$ 1,049	$ 45,727,725	$ 531,425	$ 46,260,199

See accompanying notes to unaudited condensed financial statements.

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Inter-Atlantic Financial, Inc.
(a corporation in the development stage)
CONDENSED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 2008 (Unaudited)	For the Period from January 12, 2007 (inception) through June 30, 2008 (Unaudited)	For the Period from January 12, 2007 (inception) through June 30, 2007 (Unaudited)
Cash flows from operating activities:			
Net income (loss)	$ 264,710	$ 531,425	$ (8,288)
Adjustment to reconcile net income to net cash provided by (used in) operating activities:			
Deferred income tax benefit	(95,000)	(165,000)	
Increase (decrease) in cash attributable to changes in operating assets and liabilities:			
Prepaid insurance	58,500	(87,750)	
Accrued expenses	14,743	49,993	606
Delaware franchise tax payable	(5,435)	41,125	
Income taxes payable	(192,485)	55,515	
Net cash provided by (used in) operating activities	45,033	425,308	(7,682)
Cash flows from investing activities:			
Cash and cash equivalents held in trust account	99,073	(68,626,398)	
Cash flows from financing activities:			
Proceeds from issuance of common stock to founders		25,000	25,000
Proceeds from notes payable, affiliate		250,000	250,000
Gross proceeds of public offering		68,882,400	
Proceeds from issuance of warrants in private placement		2,300,000	
Proceeds from issuance of underwriters purchase option		100	
Repayment of notes payable, affiliate		(250,000)	
Payments of offering costs	(146,755)	(3,002,092)	(85,074)
Net cash provided by (used in) financing activities	(146,755)	68,205,408	189,926
Net increase (decrease) in cash	(2,649)	4,318	182,244
Cash and cash equivalents, beginning of period	6,967		
Cash and cash equivalents, end of period	$ 4,318	$ 4,318	$ 182,244

Supplemental disclosure of cash flow information, cash paid during the period for:						
Income taxes	$	494,250	$	494,250	$	
Supplemental disclosure of non-cash financing activities:						
Deferred underwriters fees	$		$	1,928,707	$	

See accompanying notes to unaudited condensed financial statements.

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Inter-Atlantic Financial, Inc.
(a corporation in the development stage)
Notes to unaudited Condensed Financial Statements

NOTE A BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements have been prepared by the Company and reflect all adjustments, consisting only of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the financial position as of June 30, 2008 and the financial results for the three months ended June 30, 2008, the three months ended June 30, 2007, the six months ended June 30, 2008, the period from January 12, 2007 (inception) to June 30, 2007, and the period from January 12, 2007 (inception) to June 30, 2008, in accordance with accounting principles generally accepted in the United States of America for interim financial statements and pursuant to the instructions to form 10-Q and Article 10 of Regulation S-X.

Certain information and footnote disclosures normally included in the Company s annual audited financial statements have been condensed or omitted pursuant to such rules and regulations. The balance sheet as of December 31, 2007, as presented herein, was derived from the Company s audited financial statements but does not include all disclosures required by generally accepted account principles. The results of operations for the three and six months ended June 30, 2008 are not necessarily indicative of the results of operations to be expected for a full fiscal year. These interim unaudited financial statements should be read in conjunction with the financial statements for the period from January 12, 2007 (inception) to December 31, 2007, which are included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission.

NOTE B DESCRIPTION OF ORGANIZATION AND BUSINESS OPERATIONS

Inter-Atlantic Financial, Inc. (a corporation in the development stage) (the Company) was incorporated under the laws of the State of Delaware on January 12, 2007. The Company was formed to acquire an operating business through a merger, capital stock exchange, asset acquisition, stock purchase or other similar business combination. The Company has neither engaged in any operations, other than analysis and development activities associated with investigation of prospective target businesses, nor generated revenue to date, with the exception of interest income, including interest income earned on cash held in a trust account (described below). The Company is considered to be in the development stage as defined in Statement of Financial Accounting Standards (SFAS) No. 7, Accounting and Reporting By Development Stage Enterprises, and is subject to the risks associated with activities of development stage companies. The Company selected December 31st as its fiscal year-end. All activity for the period from January 12, 2007 (inception) through June 30, 2008 relates to the Company s formation, capital raising activities, and consummating a business combination.

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The registration statement for the Company s initial public offering (the Offering) was declared effective on October 2, 2007. The Company consummated the Offering on October 9, 2007 and the underwriters for the Offering (the Underwriters) exercised a portion of their over-allotment option on October 16, 2007 (Note D). The Company s management has broad discretion with respect to the specific application of the net proceeds of the Offering and the over-allotment option exercise, although substantially all of the net proceeds of the Offering and the over-allotment option exercise are intended to be applied toward consummating a business combination with (or acquisition of) an operating business (Business Combination). There is no assurance that the Company will be able to successfully affect a Business Combination. Upon the consummation of the Offering and over-allotment exercise, approximately 99.5% of the gross proceeds, after payment of certain amounts to the Underwriters and including $2,300,000 of proceeds from the sale of 2,300,000 warrants to the Company s founders at a price of $1.00 per warrant in a pre-offering private placement immediately prior to the Offering, was placed in a trust account (Trust Account) and invested in, directly or through money market funds, either short-term securities issued or guaranteed by the United States government having a rating in the highest investment category granted thereby by a recognized credit rating agency at the time of acquisition or short-term tax exempt municipal bonds issued by governmental entities located within the United States and otherwise meeting the condition under Rule 2a-7 promulgated under the Investment Company Act of 1940. The proceeds have been and will be held in the Trust Account until the earlier of (i) the consummation of the Company s initial Business Combination or (ii) the Company s dissolution and liquidation of the Trust Account as described below. Up to $1,100,000 of interest income earned from the Trust Account, net of taxes payable, will be available to pay for business, legal and accounting due diligence on prospective acquisitions and continuing general and administrative expenses.

The Company, after signing a definitive agreement for the acquisition of a target business, will submit such transaction for stockholder approval. In the event that 30% or more of the Company s outstanding common stock, par value $0.0001 per share (the Common Stock) (excluding, for this purpose, those shares of Common Stock issued prior to the Offering) vote against the Business Combination and exercise their redemption rights described below, the Business Combination will not be consummated.

Stockholders other than the Founders (as defined below) (Public Stockholders) voting against a Business Combination will be entitled to redeem their shares of Common Stock for a cash amount equal to a pro rata share of the Trust Account (including the additional 4% fee of the gross proceeds payable to the Underwriters upon the Company s consummation of a Business Combination), including any interest earned (net of taxes payable and the amount distributed to the Company to fund its working capital requirements) on their pro rata share, if the business combination is approved and consummated. However, voting against the Business Combination alone will not result in an election to exercise a stockholder s redemption rights. A stockholder must also affirmatively exercise such redemption rights at or prior to the time the Business Combination is voted upon by the stockholders. Each of the Company s stockholders prior to the Offering (collectively, the Founders), including all of the directors of the Company, have agreed to vote its respective shares of Common Stock in accordance with the majority of the shares of Common Stock voted by the Public Stockholders. Accordingly, Public Stockholders holding up to 29.99% of the aggregate number of shares owned by all Public Stockholders may seek redemption of their shares in the event of a Business Combination. Such Public Stockholders are entitled to receive their per share interest in the Trust Account computed without regard to the shares held by the Founders. Accordingly, a portion of the net proceeds from the Offering and over-allotment exercise (29.99% of the amount held in the Trust Account) has been classified as Common Stock subject to possible redemption in the accompanying balance sheets.

In the event that the Company does not consummate a Business Combination within 24 months from the consummation of the Offering, the proceeds held in the Trust Account will be distributed to the Company s stockholders, excluding the Founders to the extent of their initial stock holdings.

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NOTE C SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Earnings Per Share:

Income per common share is based on the weighted average number of common shares outstanding. The Company complies with the accounting and disclosure requirements of SFAS No. 128, Earnings Per Share, which requires dual presentation of basic and diluted earnings per share on the face of the statement of operations. Basic income per share excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted income per common share reflects the potential dilution that could occur if securities or other contracts to issue Common Stock were exercised or converted into Common Stock or resulted in the issuance of Common Stock by the Company.

The Company s statements of operations includes a presentation of earnings per share for common stock subject to possible conversion in a manner similar to the two-class method of earnings per share in accordance with Emerging Issue Task Force, Topic No. D-98 Classification and Measurement of Redeemable Securities. Basic and diluted income per common share amounts for the maximum number of shares subject to possible conversion are calculated by dividing the net interest income attributable to Common Shares subject to conversion ($0 for all periods presented) by the weighted average number of common shares subject to possible conversion. Basic and diluted net income per share amount for the shares outstanding not subject to possible redemption is calculated by dividing the net income exclusive of the net interest income attributable to common shares subject to redemption by the weighted average number of shares not subject to possible redemption. For the periods from January 12, 2007 (inception) to June 30, 2008, and the three and six months ended June 30, 2008, the Company had dilutive securities in the form of 11,435,300 warrants, including 525,000 warrants as part of the underwriters purchase option, which resulted in approximately 3,259,000, 3,312,000, and 3,273,000 incremental common shares, respectively, using the treasury stock method, based on the assumed conversion of the warrants. The incremental shares are added to the weighted average number of common shares outstanding (not subject to possible conversion), used in the calculation of diluted income per share. For the three months ended June 30, 2007, and the period from January 12, 2007 (inception) to June 30, 2007, the company reported a net loss and, as a result, diluted loss per common share is equal to basic loss per common share as any potentially dilutive shares would become anti-dilutive.

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income tax:

The Company complies with SFAS 109, Accounting for Income Taxes, which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in future taxable or deductible amounts, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

The Company also complies with the provisions of the Financial Accounting Standards Interpretation No. 48 *Accounting for Uncertainty in Income taxes* (FIN 48). FIN 48 prescribes a recognition threshold and measurements process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. The Company adopted FIN 48 effective January 12, 2007 and has determined that the adoption did not have an impact on the Company s financial position, results of operations, or cash flows.

Recently Issued Accounting Pronouncements:

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R). SFAS 141R establishes principles and requirements for how the acquirer in a business combination recognizes and measures in its financial statements the fair value of identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date. SFAS 141R determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Acquisition cost associated with the business combination will generally be expensed as incurred. SFAS 141R is effective for business combinations occurring in fiscal years beginning after December 15, 2008, which will require the Company to adopt these provisions for business combinations occurring in fiscal 2009 and thereafter. The Company is currently evaluating the expected effect, if any, SFAS 141R will have on its financial statements.

In December 2007, the FASB issued SFAS 160, Noncontrolling Interests in Consolidated Financial Statements (FAS 160), an amendment of Accounting Research Bulletin No. 51, Consolidated Financial Statements (ARB 51). FAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent s equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. This pronouncement is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact of adopting FAS 160 on its results of operations and financial condition and plan to adopt it as required in the first quarter of fiscal 2009.

Management does not believe that any other recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying financial statements.

Redeemable Common Stock:

The Company accounts for redeemable common stock in accordance with Emerging Issue Task Force Topic No. D-98 Classification and Measurement of Redeemable Securities . Securities that are redeemable for cash or other assets are classified outside of permanent equity if they are redeemable at the option of the holder. In addition, if the redemption causes a redemption event, the redeemable securities should not be classified outside of permanent equity. As discussed in Note B, the Business Combination will only be consummated if a majority of the shares of common stock voted by the Public Stockholders are voted in favor of the Business Combination and Public Stockholders holding less than 30% of common shares sold in the Offering and over-allotment exercise their conversion rights. As further discussed in Note B, if a Business Combination is not consummated by October 9, 2009, the Company will liquidate. Accordingly, 2,582,229 shares of common stock have been classified outside of permanent equity at redemption value. The Company recognizes changes in the redemption value immediately as they occur and adjusts the carrying value of the redeemable common stock to equal its redemption value at the end of each reporting period. The initial per share redemption price was $7.99 immediately following the Offering. The redemption price was reduced to $7.96 after the consummation of the over-allotment option and remains at $7.96 as of June 30, 2008.

Holders of common stock issued in the Offering have the opportunity and right to redeem their shares at the conversion price at the time the Company seeks stockholder approval of any Business Combination. The conversion price is determined by the amounts held in the Trust Account (i.e., the amounts initially placed in the Trust Account from the Offering, the over-allotment and sale of founders warrants plus accrued interest, net of taxes) divided by the number of Units issued in the Offering and over-allotment. This redemption feature lapses upon the approval of the Business Combination.

Cash and Cash Equivalents:

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

NOTE D INITIAL PUBLIC OFFERING AND OVER-ALLOTMENT OPTION EXERCISE

On October 9, 2007, we completed our initial public offering (the IPO) of 7,500,000 Units. Each Unit consists of one share of our common stock and one warrant entitling the holder to purchase one share of our Common Stock at a price of $4.50. The public offering price of each Unit was $8.00 and we generated gross proceeds of $60,000,000 in the IPO. On October 16, 2007, we consummated the closing of 1,110,300 Units pursuant to the underwriters over-allotment option which generated gross proceeds of $8,882,400. Of the $68,882,400 in gross proceeds from the IPO and the exercise of the over-allotment option: (i) we deposited $66,215,928 into a trust account maintained by American Stock Transfer & Trust Company, as trustee, which proceeds were invested in money market funds meeting certain conditions under Rule 2a-7 promulgated under the Investment Company Act of 1940, and included $2,755,296 of contingent underwriting discount; (ii) the underwriters received $2,066,472 as underwriting discount (excluding the contingent underwriting discount); and (iii) we retained approximately $600,000 for offering expenses and working capital. In addition, we deposited into the trust account $2,300,000 that we received from the issuance and sale of an aggregate of 2,100,000 warrants to our executive officers and directors and 200,000 warrants to one of our stockholders.

Each Warrant will entitle the holder to purchase from the Company one share of common stock at an exercise price of $4.50 commencing on the later of (a) October 2, 2008 or (b) the completion of a Business Combination with a target business, and will expire October 2, 2011. The Warrants will be redeemable at a price of $0.01 per Warrant upon 30 days prior notice after the Warrants become exercisable only in the event that the last sale price of the common stock is at least $11.50 per share for any 20 trading days within a 30 trading day period ending on the third business day prior to the date on which notice of redemption is given. If the Company is unable to deliver registered shares of common stock to the holder upon exercise of the warrants during the exercise period, there will be no cash settlement of the warrants.

NOTE E TRUST ACCOUNT

Under the Trust Account agreement, up to $1,100,000 of the interest earned on the Trust Account (net of taxes) can be used for the Company s operating activities. As of June 30, 2008, the balance in the Trust Account was approximately $68,600,000, which included approximately $1,300,000 of interest earned since inception, net of approximately $1,200,000 disbursed thru June 30, 2008, for operating activities and offering costs inclusive of approximately $500,000 for tax payments.

NOTE F RELATED PARTY TRANSACTIONS

The Company presently occupies office space provided by Inter-Atlantic Management Services, LLC (IAMS, LLC). IAMS, LLC has agreed that, until the acquisition of a target business by the Company, it will make such office space, as well as certain office and secretarial services, available to the Company, as may be required by the Company from time to time. Commencing in October 2007, the Company agreed to pay IAMS, LLC $7,500 per month for such services. For the period January 12, 2007 (inception) through June 30, 2008, the Company incurred $67,500 related to this arrangement, of which $7,500 is included in accrued expenses in the accompanying June 30, 2008 balance sheet.

NOTE G COMMITMENT

The Company paid an underwriters fee of 3% of the gross proceeds of the Offering (or $2,066,472) at the closing of the Offering, with an additional 4% fee of the gross Offering proceeds (or $2,755,296) payable upon the consummation of a Business Combination. Public Stockholders that vote against the Business Combination and elect to redeem their shares to cash will be entitled to receive their pro rata portion of the $2,755,296 held in the Trust Account. Accordingly, the deferred underwriters fee reflected in the accompanying June 30, 2008 balance sheet excludes $826,589 of deferred underwriters fee that is subject to forfeiture in the event of a 29.99% redemption.

NOTE H FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Company implemented SFAS No. 157, *Fair Value Measurement*, for its financial assets and liabilities that are re-measured and reported at fair value at each reporting period, and non-financial assets and liabilities that are re-measured and reported at fair value at least annually. In accordance with the provisions of FSP No. FAS 157-2, *Effective Date of FASB Statement No. 157,* the Company has elected to defer implementation of SFAS 157 as it relates to its non-financial assets and non-financial liabilities that are recognized and disclosed at fair value in the financial statements on a nonrecurring basis until January 1, 2009. The Company is evaluating the impact, if any, this standard will have on its non-financial assets and liabilities.

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The adoption of SFAS 157 to the Company s financial assets and liabilities and non-financial assets and liabilities that are re-measured and reported at fair value at least annually did not have an impact on the Company s financial results. The following table presents information about the Company s assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2008, and indicates the fair value hierarchy of the valuation techniques the Company utilized to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and includes situations where there is little, if any, market activity for the asset or liability (in thousands):

	Financial Assets at Fair Value as of June 30, 2008			
Description	**June 30, 2008**	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Cash and cash equivalents	$ 4.3	$ 4.3	$	$
Cash and cash equivalents held in trust	$ 68,626.4	$ 68,626.4		
Total	$ 68,630.7	$ 68,630.7	$	$

The fair values of the Company s cash and cash equivalents and cash and cash equivalents held in the Trust Account are determined through market, observable and corroborated sources.

The carrying amounts reflected in the condensed balance sheets for other current assets and accrued expenses approximate fair value due to their short-term maturities.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Overview

Inter-Atlantic Financial, Inc. is a blank check company formed on January 12, 2007, for the purpose of acquiring, through a merger, a capital stock exchange, asset acquisition, stock purchase or other similar business combination of an unidentified domestic and/or foreign operating business in the financial services industry or businesses deriving a majority of their revenues from providing services to financial services companies, including for example, payment processing companies and technology providers.

On October 9, 2007, we completed our initial public offering (IPO) of 7,500,000 Units. Each Unit consists of one share of our common stock, par value $0.0001 per share, (the Common Stock) and one warrant entitling the holder to purchase one share of our Common Stock at a price of $4.50. The public offering price of each Unit was $8.00, and we generated gross proceeds of $60,000,000 in the IPO. On October 16, 2007, we consummated the closing of 1,110,300 Units pursuant to the underwriters over-allotment option which generated gross proceeds of $8,882,400. Of the $68,882,400 in gross proceeds from the IPO and the exercise of the over-allotment option: (i) we deposited $66,215,928 into a trust account maintained by American Stock Transfer & Trust Company, as trustee, which proceeds were invested in money market funds meeting certain conditions under Rule 2a-7 promulgated under the Investment Company Act of 1940, and included $2,755,296 of contingent underwriting discount; (ii) the underwriters received $2,066,472 as underwriting discount (excluding the contingent underwriting discount); and (iii) we retained approximately $600,000 for offering expenses. In addition, we deposited into the trust account $2,300,000 that we received from the issuance and sale of an aggregate of 2,100,000 warrants to our executive officers and directors and 200,000 warrants to one of our stockholders.

Our trust account is invested in a money market fund that invests in short-term US Treasury securities. The decline in short-term interest rates since our IPO has decreased the interest income generated by the funds held in trust. As a result, our expectation of future interest income is significantly lower than anticipated at the time of our IPO. As of July 30, 2008, the funds held in trust earned interest at an annual interest rate of 1.88%, based on a 7-day average yield.

We intend to utilize cash (derived from the proceeds of the IPO, overallotment, and pre-offering private placement of the founders warrants), our capital stock, debt or a combination of cash, capital stock and debt, in effecting a business combination. The issuance of additional capital stock, including upon conversion of any convertible debt securities we may issue, or the incurrence of debt could have material consequences on our business and financial condition. The issuance of additional shares of our capital stock (including upon conversion of convertible debt securities):

- may significantly reduce the equity interest of our stockholders;
- will likely cause a change in control if a substantial number of our shares of common stock are issued, which may affect, among other things, our ability to use our net operating loss carry forwards, if any, and may also result in the resignation or removal of one or more of our present officers and directors; and
- may adversely affect prevailing market prices for our common stock.

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Similarly, if we issued debt securities, it could result in:

- default and foreclosure on our assets if our operating revenues after a business combination were insufficient to pay our debt obligations;
- acceleration of our obligations to repay the indebtedness even if we have made all principal and interest payments when due if the debt security contained covenants that required the maintenance of certain financial ratios or reserves and any such covenant were breached without a waiver or renegotiation of that covenant; our immediate payment of all principal and accrued interest, if any, if the debt security was payable on demand; and
- our inability to obtain additional financing, if necessary, if the debt security contained covenants restricting our ability to obtain additional financing while such security was outstanding.

We may use substantially all of the funds held in the trust account, less the payment due the underwriter for the deferred underwriting discount, to acquire a target business. However, as long as we consummate a business combination with one or more target acquisitions with a fair market value equal to at least 80% of our net assets (excluding the amount held in the trust account representing the underwriters deferred discount), we may use the assets in the trust account for any purpose we may choose. To the extent that our capital stock or debt is used in whole or in part as consideration to consummate a business combination, the remaining proceeds from the trust account will be used as working capital, including director and officer compensation, change-in-control payments or payments to affiliates, or to finance the operations of the target business, make other acquisitions and pursue our growth strategies.

As indicated in the accompanying financial statements, at June 30, 2008, we had $4,318 in cash plus an additional $110,370 available from interest income earned on the trust property which had not been withdrawn as of June 30, 2008. Further, we have incurred and expect to continue to incur costs in pursuit of our financing and acquisition plans. We cannot assure you that our plan to consummate a business combination will be successful.

For the period from January 12, 2007 (inception) through June 30, 2008, we had net income of $531,425, attributable to interest income of $1,317,285 offset by operating costs and income taxes of $401,095 and $384,765 respectively. For the three months ended June 30, 2008, we had net income of $88,242, attributable to interest income of $304,162 offset by operating costs and income taxes of $120,405 and $95,515, respectively. We have neither engaged in any operations nor generated any operating revenues to date, other than in connection with our initial public offering. Our entire activity since inception has been to prepare for and consummate our initial public offering and to identify and investigate targets for a business combination. We will not generate any operating revenues until consummation of a business combination. We will generate non-operating income in the form of interest income on cash and cash held in Trust Account.

We will use substantially all of the net proceeds of the IPO, the overallotment, the pre-offering private placement of the founders warrants, as well as interest on the funds in our trust account released to us including those funds held in trust, to acquire a target business, including identifying and evaluating prospective acquisition candidates, selecting the target business, and structuring, negotiating and consummating the business combination. The proceeds held in our trust account (exclusive of any funds held for the benefit of the underwriters or used to pay public stockholders who have exercised their redemption rights) may be used as consideration to pay the sellers of a target business with which we ultimately complete a business combination or, if there is insufficient funds not held in trust, to pay other expenses relating to such transaction such as reimbursement to insiders for out-of-pocket expenses, third party due diligence expenses or potential finders fees, in each case only upon the consummation of a business combination. Any amounts not paid as consideration to the sellers of the target business may be used to finance operations of the target business or to effect other acquisitions, as determined by our board of directors at that time. To the extent our capital stock is used in whole or in part as consideration to effect a business combination, the proceeds held in our trust account as well as any other net proceeds not expended will be released to us and will be used to finance the operations of the target business.

At June 30, 2008, we had cash outside of the trust account of $4,318, cash held in the trust account of $68,626,398, a $165,000 deferred tax asset, accrued expenses of $49,993, income taxes payable of $55,515, Delaware franchise tax payable of $41,125 and total liabilities of $22,623,267 (which includes $20,547,927 of common stock which is subject to possible redemption and $1,928,707 of deferred underwriters fees). We believe that we have funds sufficient to allow us to operate at least until October 2, 2009, including (i) the unused portion of $1,100,000 of the interest earned on funds in our trust account (net of taxes payable) which will be released to us, and (ii) up to $500,000 from the Company s limited recourse revolving line of credit which will be repayable prior to the consummation of the business combination solely from the $1,100,000 of interest earned on the trust account which is available for working capital, assuming that a business combination is not consummated during that time. Up to $1,100,000 of the interest earned on our trust account (net of taxes payable) is being released to us to fund our working capital requirements and is available to fund the costs associated with such plan of dissolution and liquidation (which we currently estimate to be between $50,000 and $75,000) if we do not consummate a business combination. The rate of interest earned on our trust account has decreased since our IPO and will fluctuate through the duration of our trust account, therefore the interest that will accrue on our trust account during the time it will take to identify a target and complete an acquisition may not be sufficient to fund our working capital requirements.

During the quarter ended June 30, 2008, publicly traded financial services companies generally experienced declines in market valuation. As a result, we believe that privately-held financial services companies may be less willing to enter into a business combination with us at these lower prevailing valuation metrics.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of U.S. interest rates, including recent reductions instituted by the US Federal Reserve Bank, particularly because the majority of our investments held in the trust account are in rate sensitive short-term marketable securities. Due to the nature of our short-term investments, we believe that we are not subject to any material market risk exposure other than interest rate fluctuations. We do not have any foreign currency or other derivative financial instruments.

Item 4. Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of June 30, 2008, the end of the quarter covered by this report, the Company carried out an evaluation under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures. In designing and evaluating the Company s disclosure controls and procedures, the Company and its management recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and the Company s management necessarily was required to apply its judgment in evaluating and implementing possible controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective at the reasonable assurance level to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure, and is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms.

There has not been any change in our internal control over financial reporting during the quarter ended June 30, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

OTHER INFORMATION

Item 1. Legal Proceedings.

Not applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Not applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

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

Not applicable.

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Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

Exhibit Number	Exhibit Description
31.1	Certification by Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification by Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification by Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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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.

INTER-ATLANTIC FINANCIAL, INC.

By: /s/ Andrew S. Lerner
Name: Andrew S. Lerner
Title: Chief Executive Officer

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