

STATEMENT OF FINANCIAL CONDITION
(UNAUDITED)

ING DIRECT Investing, Inc. (formerly known as
ShareBuilder Securities Corporation)
(An Indirect Wholly Owned Subsidiary of ING Bank, fsb)
June 30, 2011

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Statement of Financial Condition (Unaudited)

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ING DIRECT Investing, Inc. (formerly known as ShareBuilder Securities
Corporation)

(An Indirect Wholly Owned Subsidiary of ING Bank, fsb)

Statement of Financial Condition (Unaudited)

June 30, 2011

Assets

Cash and cash equivalents	\$ 40,482,692
Receivable from clearing organization	65,453
Receivables from customers, net	87,954,111
Other receivable	1,157,393
Receivable from ING Bank, net	374,095
Receivable from affiliate	494,760
Securities owned	2,366,975
Prepaid expenses and other assets	789,280
Property and equipment, net	10,319,912
Goodwill	110,530,591
Intangible assets, net	68,981,185
Total assets	<u>\$ 323,516,447</u>

Liabilities and stockholder's equity

Securities sold, not yet purchased	\$ 2,878,464
Payable to customers	136,422
Accounts payable and accrued liabilities	11,884,357
Payable to SBC, net	4,922,161
Deferred tax liabilities, net	21,016,919
Total liabilities	<u>40,838,323</u>

Subordinated loan from SBC 100,000,000

Stockholder's equity:

Preferred stock, no par value:	-
Authorized shares – 30,000,000	
Issued and outstanding shares – none	
Common stock, no par value:	350,000
Authorized shares – 70,000,000	
Issued and outstanding shares – 1,000,000	
Additional paid in capital	222,594,975
Accumulated deficit	(40,266,851)
Total stockholder's equity	<u>182,678,124</u>
Total liabilities and stockholder's equity	<u>\$ 323,516,447</u>

See accompanying notes.

ING DIRECT Investing, Inc. (formerly known as ShareBuilder Securities Corporation)
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Notes to Statement of Financial Condition

June 30, 2011

1. Organization and Nature of Business

ING DIRECT Investing, Inc. (formerly known as ShareBuilder Securities Corporation) (the Company), a Washington corporation, was formed on July 1, 1998. The Company is a broker-dealer registered with the Securities and Exchange Commission (the SEC) and is a member of the Financial Industry Regulatory Authority (FINRA). The Company provides broker-dealer services to self-directed investors. The Company is a wholly owned subsidiary of ShareBuilder Corporation (SBC). SBC is a wholly owned subsidiary of ING DIRECT Securities, Inc. (IDSI), which is a wholly owned subsidiary of ING Bank, fsb (ING Bank or the Parent). ING Bank's parent is ING Direct Bancorp.

The Company is subject to the risks and challenges associated with other companies at a similar stage of development, including dependence on the Parent and SBC, key individuals, continued successful development and marketing of services, and competition from substitute services and larger companies with greater financial, technical, management, and marketing resources.

2. Summary of Significant Accounting Policies

Use of Estimates in the Preparation of Statement of Financial Condition

The preparation of the statement of financial condition in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent liabilities at the date of the statement of financial condition. Management believes that the estimates utilized in preparing its statement of financial condition are reasonable and prudent. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits and money market accounts with financial institutions. Recorded amounts approximate fair value. The Company considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents. Certain cash deposits may be in excess of Federal Deposit Insurance Corporation insurance limits.

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Notes to Statement of Financial Condition (continued)

2. Summary of Significant Accounting Policies (continued)

Securities Owned and Securities Sold, Not Yet Purchased

Securities owned include odd lot and fractional shares of readily marketable common stock, exchange-traded funds, and mutual funds retained when the Company purchases shares on behalf of customers and are reported on a settlement-date basis, which is materially consistent with the trade-date basis. Securities owned are recorded at fair value. Fair value is generally based on end-of-the-day quoted market prices.

Securities sold, not yet purchased are stated at market value and represent obligations to deliver specified securities at predetermined prices. Market value is generally based on published market prices or other relevant factors, including dealer price quotations. The Company is obligated to acquire the securities sold short at prevailing market prices in the future to satisfy these obligations. Accordingly, these transactions result in off-balance sheet risk as the Company's ultimate obligation to satisfy the sale of securities sold, not yet purchased may exceed the amount reflected on the statement of financial condition.

Securities owned and securities sold, not yet purchased also include major stock index option contracts that are used by the Company to reduce the risk of significant market fluctuation on the value of marketable securities. Stock index option contracts are recorded at fair value. The Company's derivative instruments do not qualify for hedge accounting. Therefore, certain of the disclosures required under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 815, *Derivatives and Hedging*, are generally not applicable with respect to this statement of financial condition.

Margin Lending Operations

The Company offers its margin lending product to eligible customers collateralized by their respective security and cash holdings. Margin lending is subject to the margin rules of the Board of Governors of the Federal Reserve System (Federal Reserve), the margin requirements of FINRA, and the Company's internal policies. Under the margin rules of the Federal Reserve, the customer is obligated to maintain net equity equal to 25% of the value of the securities in its account. However, the Company currently requires the customer to maintain net equity greater than or equal to 30% of the value of the securities in the account. The Company may increase this requirement up to 100% on certain accounts, groups of accounts, individual securities, or groups of securities, as deemed necessary. Margin loans of \$87,842,606 at June 30, 2011 were included in "Receivables from customers, net" on the statement of financial condition.

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Notes to Statement of Financial Condition (continued)

2. Summary of Significant Accounting Policies (continued)

Margin Risk

By permitting customers to purchase on margin, the Company is subject to risks inherent in extending credit, especially during periods of rapidly declining markets in which the value of the collateral held by the Company could fall below the amount of the customer's indebtedness. To the extent that the margin loans exceed customer cash balances, the Company may not be able to obtain financing on favorable terms or in sufficient amounts from the Parent, SBC, or its clearing partner. Sharp changes in market values of substantial amounts of securities and the failure by parties to the borrowing transactions to honor their commitments could have a material adverse effect on the Company's statement of financial condition. In the event a customer fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices in order to fulfill the customer's obligations. The Company monitors required margin levels daily and, pursuant to such guidelines, requires customers to deposit additional collateral or reduce positions, when necessary. Management is responsible for supervising the risks associated with leverage and monitors the customers' margin positions to identify customer accounts that may need additional collateral or liquidation. As of June 30, 2011, management believes that it is unlikely that the Company will have to make any material payments under these arrangements.

Receivables from and Payable to Customers

Receivables from and payable to customers include the amounts due from and due to customers on margin, securities, and cash transactions. These amounts are carried at cost, net of applicable allowance.

Allowance for Doubtful Accounts and Fraud Losses

The Company evaluates customer accounts at risk and with debit balance activity on a regular basis for evidence of potential fraud or uncollectibility. The Company determines its allowance by considering a number of factors, including previous loss history, the aging of unsecured margin balances, the nature of the fraud activity and a specific customer's ability to pay its obligations to the Company. The allowance for doubtful accounts was \$241,128 at June 30, 2011.

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Notes to Statement of Financial Condition (continued)

2. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are recorded at cost and are depreciated over the estimated useful lives of the related assets using a straight-line method. The useful lives are as follows:

Computer equipment	3 years
Office equipment, furniture, fixtures	3-5 years
Software	3 years
Leasehold improvements	Shorter of useful life or lease term

Major improvements, which extend the useful life of the related assets, are capitalized.

The Company capitalizes costs associated with software developed for internal use based on ASC 350-50, *Website Development Costs*, and other related guidance. Once an application has reached the development stage, internal and external costs, if direct and incremental and deemed by management to be significant, are capitalized and amortized on a straight-line basis over the estimated useful life. Such costs include employee payroll and related benefits, fees paid to third parties for services provided to develop the software, costs incurred to obtain the software from affiliated entities and third parties, and licensing fees paid to affiliated entities and third parties. Enhancement costs relate to substantial upgrades and enhancements to the Website that result in added functionality are capitalized and amortized on a straight-line basis over the estimated useful lives. The Company reviews the capitalized software development costs for impairment whenever there are indicators of impairment.

Goodwill and Intangible Assets

Goodwill is not amortized but is reviewed for potential impairment on an annual basis, or when events or circumstances indicate a potential impairment, at the reporting unit level. The review of impairment is performed in two steps. First, a comparison is made of the fair value of the reporting unit with its carrying value amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill is considered not impaired. If the carrying amount exceeds its fair value, the implied fair value of the reporting unit's goodwill (as defined in ASC 350-20, *Goodwill*) is compared with the carrying amount of that goodwill. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value.

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Notes to Statement of Financial Condition (continued)

2. Summary of Significant Accounting Policies (continued)

Intangible assets subject to amortization are evaluated for impairment in accordance with ASC 360-10-35, *Impairment or Disposal of Long-Lived Assets*. An impairment loss will be recognized if the carrying amount of the intangible asset is not recoverable and exceeds fair value. The carrying amount of the intangible asset is considered not recoverable if it exceeds the sum of the undiscounted net cash flows expected to result from the use of the asset. Intangible assets consist of customer and partner relationships, developed technology, trade name and trademark, and licenses that are amortized on a straight-line basis over the estimated useful life of the related asset ranging from 5 to 17 years.

Income Taxes

The Company is included in the consolidated federal income tax return of the Parent. The Company accounts for income taxes on a separate return basis. The Company receives reimbursement from or makes payment to the Parent for current taxes in accordance with the Tax Sharing Agreement among the Parent, ING DIRECT Bancorp, and the Parent's subsidiaries. In accordance with this agreement, the Parent determines the Company's share of federal and state and local (if any) income tax liability or benefit based on its contribution to the consolidated taxable income or loss.

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes*. Under ASC 740, the Company recognizes the deferred tax effects of temporary differences between book and tax basis of assets and liabilities. Deferred tax assets are reduced, if deemed necessary, by a valuation allowance for the amount of any tax benefits which, more likely than not, based on current circumstances, are not expected to be realized. Uncertain tax positions are recognized to the extent they satisfy the criteria under FASB ASC 740-10, formerly FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, which requires that an uncertain tax position be more likely than not to be sustained upon examination, based on the technical merits of the position.

3. Receivable from and Payable to Clearing Organization

The Company clears its proprietary and customer transactions with another broker-dealer through an omnibus relationship. The Company keeps a deposit of \$25,000 to maintain this relationship.

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Notes to Statement of Financial Condition (continued)

4. Securities Owned and Securities Sold, Not Yet Purchased

Securities owned and securities sold, not yet purchased, include the following:

	June 30, 2011	
	Securities Owned	Sold, Not Yet Purchased
Corporate stocks	\$ 2,363,975	\$ (2,855,184)
Stock index option contracts	3,000	(23,280)
	<u>\$ 2,366,975</u>	<u>\$ (2,878,464)</u>

The clearing broker has the right to hypothecate the corporate shares owned by the Company.

5. Financial Instruments

Cash and cash equivalents, securities owned, and receivables are carried at fair value, or contracted amounts approximating fair value, at June 30, 2011. Similarly, certain liabilities, including securities sold, not yet purchased, and payables and accrued liabilities are carried at fair value, or contracted amounts approximating fair value, at June 30, 2011. It is not practicable to estimate the fair value of the subordinated loan at June 30, 2011, since it is a related-party transaction and has no maturity date.

In the normal course of business, the Company may enter into transactions in financial instruments to reduce exposure to changes in the fair value of the portfolio. At June 30, 2011, the Company had 12 stock index call options and 12 stock index put options. The underlying values (notional amounts) of the call and put options are approximately \$1,584,768 and \$1,584,768, respectively. Such option contracts are exchange-traded and settle on a daily basis. The notional amounts are not reflected on the statement of financial condition and are indicative only of the position at June 30, 2011. The fair value of these options is included in securities owned and securities sold, not yet purchased on the statement of financial condition.

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Notes to Statement of Financial Condition (continued)

6. Fair Values of Assets and Liabilities

The Company recognizes or discloses all financial assets and liabilities and nonfinancial assets and liabilities at fair value in accordance with ASC 820, *Fair Value Measurements*. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Depending on the nature of the asset or liability, the Company uses various valuation techniques and assumptions when estimating fair value. In accordance with ASC 820, the Company applied the following fair value hierarchy:

Level 1 – Assets and liabilities for which the identical item is traded on an active exchange, such as publicly-traded instruments or future contracts.

Level 2 – Assets and liabilities valued based on observable market data for similar instruments.

Level 3 – Assets and liabilities for which significant valuation assumptions are not readily observable in the market; instruments valued based on the best available data, some of which is internally-developed, and considers risk premiums that a market participant would require.

The following is fair value measurement information for the Company's financial assets and financial liabilities measured at fair value on a recurring basis:

Assets

Money market funds – The fair value measurement of money market funds is based on quoted market prices in active markets (Level 1).

Securities owned – The fair value measurement of securities owned is based on quoted market prices in active markets (Level 1).

Liabilities

Securities sold, not yet purchased – The fair value measurement of securities sold, not yet purchased is based on quoted market prices in active markets (Level 1).

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Notes to Statement of Financial Condition (continued)

6. Fair Values of Assets and Liabilities (continued)

The table below presents the balances of financial assets and liabilities measured at fair value on a recurring basis:

	June 30, 2011			
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Money market funds	\$40,482,692	\$ –	\$ –	\$40,482,692
Securities owned	\$ 2,366,975	\$ –	\$ –	\$ 2,366,975
Liabilities:				
Securities sold, not yet purchased	\$ 2,878,464	\$ –	\$ –	\$ 2,878,464

There are no financial assets or liabilities recorded at fair value on a nonrecurring basis or any adjustments to nonfinancial assets or liabilities to record them at fair value.

7. Property and Equipment, Net

Property and equipment, net consists of the following:

	June 30, 2011
Computer equipment	\$ 8,595,270
Software	14,361,092
Work in process (software development)	1,680,975
Other property and equipment	733,869
	25,371,206
Less: accumulated depreciation and amortization	(15,051,294)
Property and equipment, net	\$ 10,319,912

Internally developed software costs at June 30, 2011 are \$5.4 million, net of accumulated amortization of \$2.8 million. Net unamortized costs of internally developed software costs are \$0.9 million at June 30, 2011.

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Notes to Statement of Financial Condition (continued)

8. Intangible Assets

The gross carrying values and accumulated amortization of intangible assets are as follows:

		June 30, 2011			
		Useful Life	Gross	Accumulated Amortization	Net
<i>Dollars in Thousands</i>					
Intangible Assets:					
Customer and partner relationships	14-17 years	\$ 76,500	\$ (19,470)	\$ 57,030	
Developed technology	5 years	15,700	(11,383)	4,317	
Trade name and trademark	10 years	10,600	(3,842)	6,758	
License	11 years	1,350	(474)	876	
		\$ 104,150	\$ (35,169)	\$ 68,981	

9. Income Taxes

The components of the Company's deferred tax assets and liabilities were as follows:

		June 30, 2011
Deferred tax assets:		
Accrued vacation		\$ 130,488
Allowance for doubtful accounts and fraud losses		84,395
Accrued bonus		748,734
Net operating loss carryforwards		1,856,411
Total deferred tax assets		2,820,028
Deferred tax liabilities:		
Intangible assets		(23,836,947)
Total deferred tax liabilities		(23,836,947)
Deferred tax liabilities, net		\$ (21,016,919)

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Notes to Statement of Financial Condition (continued)

9. Income Taxes (continued)

The Company does not have a valuation allowance because it is more likely than not that the deferred tax assets will be realized. The Company has net operating loss carryforwards of approximately \$1.8 million at June 30, 2011, which are available to reduce future taxable income for federal income tax purposes. Such net operating loss carryforwards begin to expire in 2020. The Internal Revenue Code contains provisions that may limit the net operating loss carryforwards available to be used in any given year if certain events occur, including changes in ownership interests.

10. Related-Party Transactions

The Company has certain payables to and receivables from the Parent relating to its operating transactions arising from the normal course of business, including income taxes and payroll. The Company also records its allocated share of the Parent's expenses related to IT, marketing, and rent. The net of payables to and receivables from the Parent are included in "Receivable from ING Bank, net" on the statement of financial condition. The Company also has certain payables to SBC relating to management fees and other operating transactions arising from the normal course of business.

The Company has four Subordinated Equity Loan Agreements (The Subordinated Loan Agreements) with SBC. The subordinated loans have been approved by FINRA and are available in computing net capital under the SEC's uniform net capital rule. To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid. Interest accrues per annum on the principal as follows: \$35 million at 4.75%, \$15 million at 2.25%, \$25 million at 1.55% and \$25 million at 1.51%. Accrued interest payable of \$4,860,653 is included in "Payable to SBC, net" and \$100,000,000 is reflected as "Subordinated loan from SBC" in the statement of financial condition. The maturity dates for these subordinated loans are as follows: \$35 million matures on April 14, 2012 \$15 million matures on June 8, 2013, \$25 million matures on September 24, 2012 and \$25 million matures on May 17, 2013. Without further action by SBC or the Company, these loans will be extended an additional year from each respective maturity date. The \$35 million subordinated loan's maturity was extended through April 14, 2012 on April 14, 2011.

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Notes to Statement of Financial Condition (continued)

10. Related-Party Transactions (continued)

The Company has a series of four dealer and omnibus operating agreements (Funds Agreements) with ING Funds Distributor, LLC, an indirect subsidiary of ING Group N.V. and an affiliate of the Company. The Funds Agreements provide the Company with revenue-sharing arrangements in exchange for selling ING mutual funds. The Funds Agreements are omnibus in nature in that customer records reside with the Company and the Company receives service fees from ING Funds Distributor, LLC for managing customer accounts. Receivable from affiliate of \$494,760 is included on the statement of financial condition at June 30, 2011.

During 2010, the Parent implemented a Money Purchase Pension Plan (the Pension Plan) for the benefit of all employees, including the Company's employees. The Pension Plan supplements the Parent's current 401(k) Plan, as the contributions are 100% employer made. This qualified plan will provide a uniform 5% contribution on applicable compensation, and investment of the funds will be directed by the Parent. The plan has a six year graded vesting schedule with credit towards vesting provided for past service. The Company's employees may also participate in the 401 (k) and other employee programs of the Parent and its affiliates.

11. Commitments and Contingencies

The Company is involved in litigation arising in the normal course of business. In the opinion of management, after consultation with legal counsel, the ultimate resolution of such litigation is not expected to have a materially adverse effect on the Company's financial position. In the normal course of business, the Company enters into underwriting commitments. There are no open transactions relating to such underwriting commitments at June 30, 2011.

In the normal course of its business, the Company indemnifies and guarantees certain service providers, such as clearing and custody agents, trustees and administrators, against specified potential losses in connection with their acting as an agent of, or providing services to, the Company or its affiliates. The Company also indemnifies some clients against potential losses incurred in the event specified third-party service providers, including sub custodians and third-party brokers, improperly executed transactions. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the statement of financial condition for these indemnifications.

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Notes to Statement of Financial Condition (continued)

12. Net Capital Requirements

The Company is subject to the U.S. SEC Uniform Net Capital Rule (SEC Rule 15c3-1), which requires that the Company maintain minimum net capital equivalent to the greater of \$250,000 or 1/15 of aggregate indebtedness, and requires that the ratio of aggregate indebtedness to net capital shall not exceed 15 to 1. At June 30, 2011, the Company has net capital of \$113,728,317 as defined, which is \$112,574,684 in excess of its required minimum net capital of \$1,153,633. The Company's ratio of aggregate indebtedness to net capital is 0.15 to 1 at June 30, 2011.

Advances to affiliates, repayment of subordinated loans, dividend payments, and other equity withdrawals are subject to certain notification and other provisions of the SEC Uniform Net Capital Rule or other regulatory bodies.

Under the clearing arrangement with the clearing broker, the Company is required to maintain certain minimum levels of net capital and to comply with other financial ratio requirements. The Company is in compliance with all such requirements at June 30, 2011.

13. Subsequent Events

On August 18, 2011, the Company amended The Subordinated Loan Agreements for all four loans to lower the interest rate to 0.94% per annum. The new interest rate will be effective September 1, 2011. The Company and SBC will review the rate and make necessary adjustments at a minimum each September.