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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

SEC  
Mail Processing  
Section  
FEB 28 2012  
Washington, DC

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Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/2011 AND ENDING 12/31/2011  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: The O.N. Equity Sales Company

|                   |
|-------------------|
| OFFICIAL USE ONLY |
| FIRM I.D. NO.     |

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

One Financial Way

(No. and Street)

Cincinnati

(City)

Ohio

(State)

45242

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Teresa R. Cooper

(513) 794-6162

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

KPMG LLC

(Name - if individual, state last, first, middle name)

191 West Nationwide Boulevard, Suite 500, Columbus, Ohio 43215

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

Certified Public Accountant

Public Accountant

Accountant not resident in United States or any of its possessions.

**FOR OFFICIAL USE ONLY**

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

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AB  
3/14

OATH OR AFFIRMATION

I, Barbara A. Turner, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of The O.N. Equity Sales Company, as of December 31, 2011, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



PETER S. WELLER  
NOTARY PUBLIC  
STATE OF OHIO  
Exp: 05, 21/15/15  
Peter S. Weller  
2/16/12

Barbara A. Turner  
Signature

President & Chief Operating Officer  
Title

This report \*\* contains (check all applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



**KPMG LLP**  
Suite 500  
191 West Nationwide Blvd.  
Columbus, OH 43215-2568

## **Report of Independent Registered Public Accounting Firm on Internal Control Pursuant to Securities and Exchange Commission Rule 17a-5**

The Board of Directors  
The O.N. Equity Sales Company:

In planning and performing our audit of the consolidated financial statements of The O.N. Equity Sales Company and subsidiaries (the Company), as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. This study included tests of compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

- 1) Making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13, and
- 2) Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls, and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's previously mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.



The Board of Directors  
The O.N. Equity Sales Company  
Page 2 of 2

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the company's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined previously.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 2011, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

February 23, 2012



**THE O. N. EQUITY SALES COMPANY AND SUBSIDIARIES**  
(A Wholly Owned Subsidiary of The Ohio National Life Insurance Company)

Consolidated Financial Statements and Schedules

December 31, 2011

(With Report of Independent Registered Public Accounting Firm Thereon)

**THE O. N. EQUITY SALES COMPANY AND SUBSIDIARIES**  
(A Wholly Owned Subsidiary of The Ohio National Life Insurance Company)

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**KPMG LLP**  
Suite 500  
191 West Nationwide Blvd.  
Columbus, OH 43215-2568

## **Report of Independent Registered Public Accounting Firm**

The Board of Directors  
The O.N. Equity Sales Company:

We have audited the accompanying consolidated statement of financial condition of The O.N. Equity Sales Company (a wholly owned subsidiary of The Ohio National Life Insurance Company) and subsidiaries (collectively, the Companies) as of December 31, 2011, and the related consolidated statements of operations, changes in stockholder's equity, and cash flows for the year then ended that are filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These consolidated financial statements are the responsibility of the Companies' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Companies' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The O.N. Equity Sales Company and subsidiaries as of December 31, 2011, and the results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating information contained in Schedules 1 and 2 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies. The supplementary information contained in Schedule 3 required by Rule 17a-5 under the Securities Exchange Act of 1934 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

**KPMG LLP**

February 23, 2012

**THE O.N. EQUITY SALES COMPANY AND SUBSIDIARIES**  
(A Wholly Owned Subsidiary of The Ohio National Life Insurance Company)

Consolidated Statement of Financial Condition

December 31, 2011

**Assets**

|   |  |              |
|---|--|--------------|
| Cash  |  | \$ 3,618,979 |
| Accounts receivable, net (note 3)             |  | 1,296,385    |
| Commission receivable                         |  | 423,788      |
| Prepaid state income taxes                    |  | 10,890       |
| Software, net of depreciation                 |  | 1,264,542    |
| Investment securities, at fair value (note 7) |  | 50,640       |
| Other assets                                  |  | 207,441      |
| Total assets                                  |  | \$ 6,872,665 |

**Liabilities and Stockholder's Equity**

|  |  |              |
|--|--|--------------|
| <b>Liabilities:</b>  |  |              |
| Accrued commission expense (note 3)  |  | \$ 723,319   |
| Amounts due to affiliates (note 3)   |  | 599,151      |
| Accounts payable and accrued expenses (note 5)   |  | 198,307      |
| Federal income tax payable (note 2)  |  | 178,524      |
| Deferred tax liability (note 2)  |  | 435,090      |
| Total liabilities  |  | 2,134,391    |
| Contingencies (note 5)   |  |              |
| Stockholder's equity (note 4):   |  |              |
| Common stock, without par value. Authorized 40,000 shares;<br>issued and outstanding 33,600 shares at stated value of \$10 per share |  | 336,000      |
| Additional paid-in capital   |  | 1,054,000    |
| Accumulated other comprehensive loss (note 8)  |  | (139)        |
| Retained earnings  |  | 3,348,413    |
| Total stockholder's equity   |  | 4,738,274    |
| Total liabilities and stockholder's equity   |  | \$ 6,872,665 |

See accompanying notes to consolidated financial statements.

**THE O.N. EQUITY SALES COMPANY AND SUBSIDIARIES**  
(A Wholly Owned Subsidiary of The Ohio National Life Insurance Company)

Consolidated Statement of Operations

Year ended December 31, 2011

|  |                     |
|--|---------------------|
| Revenues:  |                     |
| Sale of registered investment products/variable contracts (note 3) | \$ 44,674,387       |
| Sale of general securities   | 4,301,504           |
| Sale of fee-based products   | 325,413             |
| Other income   | 265,536             |
| Investment and interest income                                     | 1,143               |
| Total revenues   | <u>49,567,983</u>   |
| Expenses:  |                     |
| Commissions (note 3)   | 41,759,722          |
| Service contract (note 3)  | 1,822,086           |
| Salary expense   | 2,537,034           |
| General expenses   | 1,026,463           |
| Total expenses   | <u>47,145,305</u>   |
| Income before income taxes   | <u>2,422,678</u>    |
| Income taxes (note 2):   |                     |
| Current expense  | 879,759             |
| Deferred expense   | 89,420              |
| Total income taxes   | <u>969,179</u>      |
| Net income   | <u>\$ 1,453,499</u> |

See accompanying notes to consolidated financial statements.

**THE O.N. EQUITY SALES COMPANY AND SUBSIDIARIES**  
(A Wholly Owned Subsidiary of The Ohio National Life Insurance Company)

Consolidated Statement of Changes in Stockholder's Equity

Year ended December 31, 2011

|   | <u>Common<br/>stock</u> | <u>Additional<br/>paid-in<br/>capital</u> | <u>Accumulated<br/>other<br/>comprehensive<br/>loss</u> | <u>Retained<br/>earnings</u> | <u>Total<br/>stockholder's<br/>equity</u> |
|---|-------------------------|---|---|------------------------------|---|
| Balance at December 31, 2010                            | \$ 336,000              | 1,054,000                                 | —   | 3,507,714                    | 4,897,714                                 |
| Dividend to The Ohio National<br>Life Insurance Company | —                       | —   | —   | (1,612,800)                  | (1,612,800)                               |
| Comprehensive income:                                   |                         |   |   |                              |   |
| Net income  | —                       | —   | —   | 1,453,499                    | 1,453,499                                 |
| Other comprehensive loss                                | —                       | —   | (139)   | —                            | (139)                                     |
| Total comprehensive income                              |                         |   |   |                              | <u>1,453,360</u>                          |
| Balance at December 31, 2011                            | <u>\$ 336,000</u>       | <u>1,054,000</u>                          | <u>(139)</u>  | <u>3,348,413</u>             | <u>4,738,274</u>                          |

See accompanying notes to consolidated financial statements.

**THE O.N. EQUITY SALES COMPANY AND SUBSIDIARIES**  
(A Wholly Owned Subsidiary of The Ohio National Life Insurance Company)

Consolidated Statement of Cash Flows

Year ended December 31, 2011

|   |                     |
|---|---------------------|
| Cash flows from operating activities:   |                     |
| Net income  | \$ 1,453,499        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                     |
| Benefit of software purchased   | 8,466               |
| Net realized losses on investments  | 289                 |
| Changes in assets and liabilities:  |                     |
| Increase in deferred tax liability (non cash)                                     | 89,420              |
| Increase in accounts receivable   | (933,273)           |
| Increase in commissions receivable  | (193,375)           |
| Decrease in other assets  | 24,525              |
| Increase in income taxes payable  | 181,067             |
| Increase in accounts payable and accrued commissions expense                      | 1,091,081           |
| Net cash provided by operating activities   | <u>1,721,699</u>    |
| Cash flows from investing activities:   |                     |
| Proceeds from sales of investment securities                                      | 288                 |
| Cost of investment securities acquired  | (51,431)            |
| Net cash used in investing activities   | <u>(51,143)</u>     |
| Cash flows from financing activities:   |                     |
| Dividend paid to The Ohio National Life Insurance Company                         | (1,612,800)         |
| Net cash used in financing activities   | <u>(1,612,800)</u>  |
| Increase in cash  | 57,756              |
| Cash at beginning of year   | <u>3,561,223</u>    |
| Cash at end of year   | <u>\$ 3,618,979</u> |
| Federal income tax paid to The Ohio National Life Insurance Company               | <u>\$ 583,324</u>   |

See accompanying notes to consolidated financial statements.

**THE O. N. EQUITY SALES COMPANY AND SUBSIDIARIES**  
(A Wholly Owned Subsidiary of The Ohio National Life Insurance Company)

Notes to Consolidated Financial Statements

December 31, 2011

**(1) General Information and Significant Accounting Policies**

The consolidated financial statements include the accounts of The O.N. Equity Sales Company (ONESCO or the Company) and its wholly owned subsidiaries, the Ohio National Investment Management Company and the Ohio National Insurance Agency, Inc. (collectively, the Companies). All significant intercompany balances and transactions have been eliminated in consolidation.

ONESCO, which is a wholly owned subsidiary of The Ohio National Life Insurance Company (the parent company or ONLIC), is registered as an introducing broker and dealer under the Securities and Exchange Act of 1934. The Company is a member of the Financial Industry Regulation Authority and the Securities Investor Protection Corporation. The Company has claimed exemption under the Customer Protection Rule, SEC Rule 15c3-3, Section K(2)(i), which requires the Company to promptly transmit all customer transactions through a bank account designated as a Special Account for the Exclusive Benefit of Customers. As a result, the Company is exempt from reporting the following schedules, "Computation for Determination of Reserve Requirements under Rule 15c3-3" and "Information for Possession or Control Requirements under Rule 15c3-3."

Management of the Companies has made a number of estimates and assumptions related to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated statement of financial condition and revenues and expenses for the reporting period to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). Actual results could differ from those estimates.

The Company earns commissions and fees from sales of variable life and annuity contracts under a distribution agreement with ONLIC. Under the distribution agreement, the Company earns revenue by distributing ONLIC's annuity products, collecting customer applications and payments, and remitting applications and payments to ONLIC. See note 3 regarding related party transactions.

Commissions and fees from the sales by registered representatives of various companies' investment company products, limited partnerships, and general securities are recognized on a trade-date basis.

Interest income is recognized when earned.

Service contract expense is recognized in the month the services are provided to the Companies (note 3).

Salary expense, professional fees, travel and entertainment and general expenses are recognized as they are incurred by the Companies.

The carrying amounts of financial assets and liabilities approximate fair value. The amounts shown for receivables represent their estimated future realizable balances. The receivables are short-term in nature, with substantially all balances expected to be received within a one month period. No recovery allowance is considered necessary for any of the receivable balances.

**THE O. N. EQUITY SALES COMPANY AND SUBSIDIARIES**  
(A Wholly Owned Subsidiary of The Ohio National Life Insurance Company)

Notes to Consolidated Financial Statements

December 31, 2011

Investment securities are stated at fair value, with the unrealized gains and losses, net of deferred federal income tax, reported as a separate component of accumulated other comprehensive income in stockholders' equity. The fair value is obtained from independent pricing services based on market quotations. Cost is determined on the first-in, first-out (FIFO) basis when calculating gains and losses.

Software is carried at cost, net of amortization. Depreciation is computed principally using the straight-line method over the estimated useful life of the asset. When certain events or changes in operating conditions occur, asset lives may be adjusted and an impairment assessment may be performed on the recoverability of the carrying amounts.

Comprehensive income includes net income as well as certain items that are reported directly within a separate component of stockholder's equity that are excluded from net income.

**(2) Income Taxes**

The Companies file a consolidated Federal income tax return with their parent company. The method of allocation between Companies is subject to a written agreement. Allocations are based upon separate return calculations with current credit for net losses. Intercompany tax balances are settled monthly.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when it is determined that it is more likely than not that the deferred tax asset will not be fully realized. No valuation allowance is needed as of December 31, 2011.

The Companies provide for Federal income taxes based on amounts they believe they will owe in accordance with FASB ASC 740-10, *Income Taxes – Recognition*. This guidance addresses the accounting and disclosure of uncertain tax positions. This guidance also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The difference between the tax benefit recognized in the financial statements for a position in accordance with this guidance and the tax benefit claimed in the tax return is referred to as an unrecognized tax benefit. As of December 31, 2011, there are no reserves for uncertain tax positions.

**THE O. N. EQUITY SALES COMPANY AND SUBSIDIARIES**  
(A Wholly Owned Subsidiary of The Ohio National Life Insurance Company)

Notes to Consolidated Financial Statements

December 31, 2011

Total income tax expense for the year ended December 31, 2011 differs from the amount computed by applying the U.S. Federal income tax rate of 35% to income before Federal income tax expense as follows:

|   | <b>Amount</b> | <b>Percentage</b> |
|---|---------------|-------------------|
| Computed (expected) tax expense                                   | \$ 847,937    | 35.00%            |
| Nondeductible expenses (meals and entertainment)                  | 4,796         | 0.20              |
| State tax and interest expense, net of Federal income tax benefit | 116,446       | 4.80              |
| Total expense and effective rate                                  | \$ 969,179    | 40.00%            |

The Companies have established a federal deferred tax asset in the amount of \$41,040 and a state deferred tax asset of \$3,436 as of December 31, 2011, related to contingent legal matters, and a federal deferred tax asset in the amount of \$75 as of December 31, 2011, related to investment securities. In addition, the Companies have established a federal deferred tax liability of \$442,590 and a state deferred tax liability of \$37,051 as of December 31, 2011, related to software amortization methods. The Companies have determined a deferred tax asset valuation allowance was not needed as of December 31, 2011.

**(3) Related Party Transactions**

The Companies have a service contract with their parent whereby the Companies are billed for services, office space, equipment and materials necessary to the operation of the Companies' business. There is no assurance that these costs would be similar if the Companies had to obtain such services, office space, equipment and materials on their own. The expenses incurred pursuant to this contract were \$1,872,086 in 2011. There was no payable to ONLIC related to this service contract as of December 31, 2011.

ONESCO has a service contract with Ohio National Equities, Inc. (ONEQ), an affiliate, whereby ONESCO receives \$50,000 from ONEQ annually, related to contracting and licensing, marketing, compliance and training support. The fees received pursuant to this contract are recognized as a contra-expense to service contract costs, as the contract is to reimburse ONESCO for expenses paid to ONLIC on behalf of ONEQ. As of December 31, 2011, the Company had no receivable from ONEQ related to this contract.

Accounts receivable consist of receivables from affiliates and nonaffiliates. ONESCO has a distribution agreement with ONEQ which in turn contracts with agents of ONLIC to sell and distribute variable life insurance and annuity contracts of the parent. In connection with the sale of these contracts, ONESCO records sales loads and related commission expenses. During 2011, the sale of these contracts resulted in revenue from sale of variable products of \$14,403,494 and commission expense of \$12,444,873. The payable due to ONLIC related to this distribution agreement was \$589,563 as of December 31, 2011 and the receivable due from ONEQ related to this distribution agreement was \$743,896 as of December 31, 2011. In addition, ONESCO sells registered investment products and variable contracts sponsored by unaffiliated parties, resulting in revenue of \$30,270,893 and commission expense of \$29,314,849. There is no payable due related to these contracts as of December 31, 2011.

**THE O. N. EQUITY SALES COMPANY AND SUBSIDIARIES**  
(A Wholly Owned Subsidiary of The Ohio National Life Insurance Company)

Notes to Consolidated Financial Statements

December 31, 2011

As of December 31, 2011, there were receivables from other affiliates of \$221 related to product marketing and distribution services provided to those affiliates.

As of December 31, 2011, there were payables to ONLIC of \$9,809 for expenses paid by ONLIC on behalf of ONESCO.

**(4) Net Capital**

ONESCO, as a registered broker and dealer in securities, is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1 or the Rule). Under the computation provided by the Rule, ONESCO is required to maintain “net capital” equal to the greater of \$50,000 or 1/15 of “aggregate indebtedness,” as those terms are defined by the Rule. The Rule also provides that equity capital may not be withdrawn or cash dividends paid if the resulting indebtedness to net capital ratio would exceed 10 to 1. At December 31, 2011, ONESCO had a minimum net capital requirement of \$141,677, “aggregate indebtedness” and “net capital” of \$2,125,153 and \$1,165,631, respectively and ratio of aggregate indebtedness to net capital of 1.82 to 1.

**(5) Contingencies**

The Companies are defendants in various claims and legal actions arising in the ordinary course of business. The Companies have accrued for estimated legal expenses to defend against these claims. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the Companies’ financial condition or results of operations.

**(6) Disclosures about the Fair Value of Assets, including Financial Instruments**

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. In determining fair value, the Companies use various methods including market, income and cost approaches. The Companies utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Companies utilize the deferral for nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, in accordance with FASB ASC 820-10-15, *Fair Value Measurements and Disclosures – Scope and Scope Exceptions*.

In accordance with FASB Accounting Standards Update (ASU) 2010-06, disclosures about recurring or nonrecurring fair value measurements including significant transfers into and out of Level 1 and Level 2 fair value measurements are not required as the Companies have no asset transfers between levels as all assets, including Financial Instruments, are classified as Level 1 assets (see further discussion below). In addition, ASU 2010-06 also requires information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair value measurements, effective January 1, 2011. The adoption of this new accounting guidance did not have an impact on the Companies’ financial statements as all assets, including financial instruments, are classified as Level 1 assets (see discussion below).

**THE O. N. EQUITY SALES COMPANY AND SUBSIDIARIES**  
(A Wholly Owned Subsidiary of The Ohio National Life Insurance Company)

Notes to Consolidated Financial Statements

December 31, 2011

In May 2011, the FASB issued new guidance regarding fair value measurements ASU 2011-04, *Fair Value Measurement: Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. and IFRSs*, effective for the annual period beginning after December 15, 2011. The guidance should be applied prospectively. The amendments in the ASU are intended to establish common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and IFRS. Some of the amendments clarify the FASB's intent on the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The Companies do not expect the adoption of this new accounting guidance to have an impact on its financial statements.

The Companies categorize their financial instruments into a three level hierarchy based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument in its entirety.

The Companies categorize financial assets recorded at fair value on the consolidated statement of financial position as follows:

- **Level 1** – Unadjusted quoted prices accessible in active markets for identical assets at the measurement date. The types of assets utilizing Level 1 valuations include U.S. Treasury and agency securities, equity securities listed in active markets, investments in publicly traded mutual funds with quoted market prices, and listed derivatives.
- **Level 2** – Unadjusted quoted prices for similar assets in active markets or inputs (other than quoted prices) that are observable or that are derived principally from or corroborated by observable market data through correlation or other means. The types of assets utilizing Level 2 valuations generally include U.S. government securities not backed by the full faith of the government, municipal bonds, structured notes and certain mortgage-backed securities (MBSs) and asset-backed securities (ABSs), certain corporate debt, certain private equity investments, and certain derivatives, including basis swaps and commodity total return swaps. As of December 31, 2011, the Companies had no assets measured in Level 2 of the hierarchy.
- **Level 3** – Prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Inputs reflect management's best estimate about the assumptions market participants would use at the measurement date in pricing the asset. Consideration is given to the risk inherent in both the method of valuation and the valuation inputs. Generally, the types of assets utilizing Level 3 valuations are certain mortgage-backed and asset-backed securities, certain corporate debt, certain private equity investments, certain mutual fund holdings, and certain derivatives. As of December 31, 2011, the Companies had no assets measured in Level 3 of the hierarchy.

**THE O. N. EQUITY SALES COMPANY AND SUBSIDIARIES**  
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The following table presents the Companies' hierarchy for its assets measured at fair value on a recurring basis as of December 31, 2011:

|                               | <u>Level 1</u>      | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>     |
|-------------------------------|---------------------|----------------|----------------|------------------|
| <b>Assets:</b>                |                     |                |                |                  |
| Cash                          | \$ 3,618,979        | —              | —              | 3,618,979        |
| Deposits                      | 141,085             | —              | —              | 141,085          |
| <b>Investment securities:</b> |                     |                |                |                  |
| Money market                  | 2,556               | —              | —              | 2,556            |
| Mutual funds                  | 48,084              | —              | —              | 48,084           |
| Total assets                  | <u>\$ 3,810,704</u> | <u>—</u>       | <u>—</u>       | <u>3,810,704</u> |

*Cash* – Cash is considered Level 1 as it is the functional currency in the U.S. and is the most liquid form of an asset and not subject to valuation fluctuations.

*Deposits* – The Companies hold cash deposits with various regulatory agencies. These deposits will be considered Level 1 since cash is the most liquid form of asset. The fair value of the deposit would be equal to the cash balance since there are no restrictions that would impact the amount of cash held on deposit. Deposits are classified in other assets in the Consolidated Statement of Financial Position.

*Investment securities* – The Companies hold investments in money market and mutual funds that have quoted prices and are in active markets. These mutual funds are considered Level 1 since these types of securities have the most verifiable fair value measurement.

The Company did not have assets that are measured at fair value on a nonrecurring basis in periods subsequent to initial recognition.

**(7) Investments**

Investments in mutual funds are traded on national exchange and are stated at the last reported sales price on the day of valuation. Analyses of investment income and realized gains (losses) follows for the year ended December 31:

|   | <u>2011</u>     |
|---|-----------------|
| Gross investment income on mutual fund securities | \$ 1,431        |
| Investment expenses                               | (288)           |
| Net investment income                             | <u>\$ 1,143</u> |
| Gross realized loss on mutual fund securities     | <u>\$ (289)</u> |

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Notes to Consolidated Financial Statements

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The amortized cost and estimated fair value of investment securities for the year ended December 31, 2011 were as follows:

|                             | <b>2011</b>                  |                               |                         |        |
|-----------------------------|------------------------------|-------------------------------|-------------------------|--------|
| Amortized<br>cost           | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Estimated<br>fair value |        |
| Money market funds          | \$ 2,556                     | —                             | —                       | 2,556  |
| Mutual fund securities      | 48,298                       | —                             | (214)                   | 48,084 |
| Total investment securities | \$ 50,854                    | —                             | (214)                   | 50,640 |

The components of unrealized gains (losses) on mutual fund securities, net, were as follows as of December 31:

|  | <b>2011</b> |
|--|-------------|
| Net unrealized losses before adjustments and taxes | \$ (214)    |
| Less: Deferred federal income tax benefit          | 75          |
| Net unrealized losses                              | \$ (139)    |

The Companies regularly review investment holdings for other-than-temporary impairments. The Companies have concluded securities in an unrealized loss position as of December 31, 2011 were not other-than-temporarily impaired due to the Company's ability and intent to hold the investments for a reasonable period of time sufficient for recovery of fair value or amortized cost. Accordingly, no write-downs were deemed necessary.

**(8) Comprehensive Income**

Comprehensive income includes net income as well as certain items that are reported directly within the separate components of stockholders' equity that are not recorded in net income (other comprehensive income (loss)). The amount of other comprehensive loss is \$214, with related tax benefit of \$75, as of December 31, 2011, related to unrealized gains and losses on investment securities arising during the period.

**(9) Subsequent Events**

The Companies have evaluated subsequent events through February 23, 2012, the date at which the financial statements were available to be issued, and determined there are no additional items to disclose.

**THE O.N. EQUITY SALES COMPANY AND SUBSIDIARIES**  
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Consolidating Schedule – Statement of Financial Condition

December 31, 2011

| Assets  | The O.N.<br>Equity<br>Sales<br>Company | O.N.<br>Investment<br>Management<br>Company | O.N.<br>Insurance<br>Agency,<br>Inc. | Eliminations     | Consolidated     |
|---|--|---|--------------------------------------|------------------|------------------|
| Cash  | \$ 3,364,882                           | 169,638                                     | 84,459                               | —                | 3,618,979        |
| Accounts receivable   | 1,294,781                              | 1,604                                       | —                                    | —                | 1,296,385        |
| Commission receivable   | 423,788                                | —   | —                                    | —                | 423,788          |
| Investment in wholly owned subsidiaries, at equity<br>in their net assets | 247,009                                | —   | —                                    | (247,009)        | —                |
| Prepaid state income taxes  | 14,284                                 | (1,459)                                     | (1,935)                              | —                | 10,890           |
| Software, net of depreciation   | 1,264,542                              | —   | —                                    | —                | 1,264,542        |
| Investment securities, at fair value                                      | 50,640                                 | —   | —                                    | —                | 50,640           |
| Other assets  | 203,501                                | 3,940                                       | —                                    | —                | 207,441          |
| <b>Total assets</b>   | <b>\$ 6,863,427</b>                    | <b>173,723</b>                              | <b>82,524</b>                        | <b>(247,009)</b> | <b>6,872,665</b> |
| <b>Liabilities and Stockholder's Equity</b>                               |  |   |                                      |                  |                  |
| <b>Liabilities:</b>   |  |   |                                      |                  |                  |
| Accrued commission expense  | \$ 723,319                             | —   | —                                    | —                | 723,319          |
| Amounts due to affiliates   | 599,151                                | —   | —                                    | —                | 599,151          |
| Accounts payable and accrued expenses                                     | 198,307                                | —   | —                                    | —                | 198,307          |
| Federal income tax payable  | 169,286                                | 6,950                                       | 2,288                                | —                | 178,524          |
| Deferred tax liability  | 435,090                                | —   | —                                    | —                | 435,090          |
| <b>Total liabilities</b>  | <b>2,125,153</b>                       | <b>6,950</b>                                | <b>2,288</b>                         | <b>—</b>         | <b>2,134,391</b> |
| <b>Stockholder's equity:</b>  |  |   |                                      |                  |                  |
| Common stock  | 336,000                                | 36,250                                      | 10,000                               | (46,250)         | 336,000          |
| Additional paid-in capital  | 1,054,000                              | 108,750                                     | —                                    | (108,750)        | 1,054,000        |
| Accumulated other comprehensive loss                                      | (139)                                  | —   | —                                    | —                | (139)            |
| Retained earnings   | 3,348,413                              | 21,773                                      | 70,236                               | (92,009)         | 3,348,413        |
| <b>Total stockholder's equity</b>   | <b>4,738,274</b>                       | <b>166,773</b>                              | <b>80,236</b>                        | <b>(247,009)</b> | <b>4,738,274</b> |
| <b>Total liabilities and stockholder's equity</b>                         | <b>\$ 6,863,427</b>                    | <b>173,723</b>                              | <b>82,524</b>                        | <b>(247,009)</b> | <b>6,872,665</b> |

See accompanying report of independent registered public accounting firm.

**THE O.N. EQUITY SALES COMPANY AND SUBSIDIARIES**  
(A Wholly Owned Subsidiary of The Ohio National Life Insurance Company)

Consolidating Schedule – Statement of Operations

Year ended December 31, 2011

|   | <u>The O.N.<br/>Equity<br/>Sales<br/>Company</u> | <u>O.N.<br/>Investment<br/>Management<br/>Company</u> | <u>O.N.<br/>Insurance<br/>Agency,<br/>Inc.</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|---|--|---|--|---------------------|---------------------|
| Revenues:   |  |   |  |                     |                     |
| Sale of registered investment products/variable contracts | \$ 44,449,656                                    | 2,211,626   | 2,283,036                                      | (4,269,931)         | 44,674,387          |
| Sale of general securities                                | 4,301,504  | —   | —  | —                   | 4,301,504           |
| Sale of fee-based products                                | 325,413  | —   | —  | —                   | 325,413             |
| Other income  | 265,536  | —   | —  | —                   | 265,536             |
| Investment and interest income                            | 1,143  | —   | —  | —                   | 1,143               |
| Total revenues  | <u>49,343,252</u>                                | <u>2,211,626</u>                                      | <u>2,283,036</u>                               | <u>(4,269,931)</u>  | <u>49,567,983</u>   |
| Expenses:   |  |   |  |                     |                     |
| Commissions   | 41,759,722                                       | 2,101,045   | 2,168,886                                      | (4,269,931)         | 41,759,722          |
| Service contract  | 1,822,086  | —   | —  | —                   | 1,822,086           |
| Salary expense  | 2,537,034  | —   | —  | —                   | 2,537,034           |
| General expenses  | 1,002,588  | 16,409  | 7,466  | —                   | 1,026,463           |
| Total expenses  | <u>47,121,430</u>                                | <u>2,117,454</u>                                      | <u>2,176,352</u>                               | <u>(4,269,931)</u>  | <u>47,145,305</u>   |
| Income before income taxes                                | <u>2,221,822</u>                                 | <u>94,172</u>   | <u>106,684</u>                                 | <u>—</u>            | <u>2,422,678</u>    |
| Income taxes:   |  |   |  |                     |                     |
| Current expense   | 803,471  | 33,026  | 43,262   | —                   | 879,759             |
| Deferred expense  | 89,420   | —   | —  | —                   | 89,420              |
|   | <u>892,891</u>                                   | <u>33,026</u>   | <u>43,262</u>                                  | <u>—</u>            | <u>969,179</u>      |
| Net income before net income of wholly owned subsidiaries | 1,328,931  | 61,146  | 63,422   | —                   | 1,453,499           |
| Net income of wholly owned subsidiaries                   | 124,568  | —   | —  | (124,568)           | —                   |
| Net income  | <u>\$ 1,453,499</u>                              | <u>61,146</u>   | <u>63,422</u>                                  | <u>(124,568)</u>    | <u>1,453,499</u>    |

See accompanying report of independent registered public accounting firm.

**THE O.N. EQUITY SALES COMPANY**  
(A Wholly Owned Subsidiary of The Ohio National Life Insurance Company)

Computation of Net Capital under Rule 15c3-1

December 31, 2011

|  |                            |
|--|----------------------------|
| Aggregate indebtedness:  |                            |
| Accounts payable and accrued expenses, including payable to affiliate  | \$ <u>2,125,153</u>        |
| Net capital  | 1,165,631                  |
| Minimum capital required to be maintained (greater of \$50,000 or 1/15 of aggregate indebtedness of \$2,125,153) | <u>141,677</u>             |
| Net capital in excess of requirements  | \$ <u><u>1,023,954</u></u> |
| Ratio of aggregate indebtedness to net capital   | 1.8232                     |
| Net worth:   |                            |
| Common stock   | \$ 336,000                 |
| Additional paid-in capital   | 1,054,000                  |
| Accumulated other comprehensive loss   | (139)                      |
| Retained earnings  | <u>3,348,413</u>           |
| Total net worth  | <u><u>4,738,274</u></u>    |
| Deduct:  |                            |
| Nonallowable assets:   |                            |
| Investment in wholly owned unconsolidated subsidiaries and receivables from affiliates                           | 990,905                    |
| Other assets   | 2,337,000                  |
| Fidelity bond deductible   | <u>237,474</u>             |
|  | <u>3,565,379</u>           |
| Net capital before haircuts on securities positions  | 1,172,895                  |
| Haircuts on securities computed pursuant to Rule 15c3-1:   |                            |
| Other securities   | <u>(7,264)</u>             |
| Net capital  | \$ <u><u>1,165,631</u></u> |

Note: The above computation does not materially differ from the computation of net capital under Rule 15c3-1 at December 31, 2011 filed on unaudited Form X-17A-5, Part IIA on January 24, 2012.

See accompanying report of independent registered public accounting firm.