

DIAMOND HILL INVESTMENT GROUP INC

Form DEF 14A

April 09, 2008

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SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Diamond Hill Investment Group, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if Other than the Registrant)

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1) Amount Previously Paid:

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3) Filing Party:

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Diamond Hill Investment Group, Inc.
325 John H. McConnell Boulevard, Suite 200
Columbus, Ohio 43215

April 8, 2008

Dear Shareholders:

We cordially invite you to attend the 2008 Annual Meeting of Shareholders of Diamond Hill Investment Group, Inc. (the Company), to be held at the Founders Club at Nationwide Arena located at 200 West Nationwide Boulevard, Columbus, Ohio 43215, on Thursday, May 22, 2008, at 1:00 p.m. Eastern Daylight Savings Time.

The attached Notice of Annual Meeting and Proxy Statement describe the formal business to be transacted at the meeting. During the meeting, we will also report on the operations of the Company and directors and officers of the Company will be present to respond to any appropriate questions you may have. **On behalf of the Board of Directors, we urge you to sign, date and return the enclosed proxy card as soon as possible, even if you currently plan to attend the Annual Meeting.** This will not prevent you from voting in person but will assure that your vote is counted if you are unable to attend the meeting. Your vote is important, regardless of the number of shares you own.

Sincerely,

R. H. Dillon
President & CEO

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**Diamond Hill Investment Group, Inc.
325 John H. McConnell Boulevard, Suite 200
Columbus, Ohio 43215**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON MAY 22, 2008**

Notice is hereby given that the 2008 Annual Meeting of Shareholders (the Annual Meeting) of Diamond Hill Investment Group, Inc. (the Company), will be held at the Founders Club at Nationwide Arena located at 200 West Nationwide Boulevard, Columbus, Ohio 43215, on Thursday, May 22, 2008, at 1:00 p.m. Eastern Daylight Savings Time to consider and act upon the following matters:

1. To elect seven directors to serve on the Company s Board of Directors;
2. To transact such other business as may properly come before the Annual Meeting or any adjournment thereof.

Action may be taken on the foregoing proposals at the Annual Meeting or at any adjournment of the Annual Meeting. The Board of Directors has fixed the close of business on April 2, 2008, as the record date for determination of the shareholders entitled to vote at the Annual Meeting and any adjournments thereof. You are requested to complete and sign the enclosed form of proxy, which is solicited by the Company s Board of Directors, and to mail it promptly in the enclosed envelope. Alternatively, you may vote by phone by using the control number identified on your proxy or electronically over the Internet in accordance with the instructions on your proxy. Returning the enclosed proxy card, or transmitting voting instructions electronically through the Internet or by telephone, does not affect your right to vote in person at the Annual Meeting. If you attend the Annual Meeting, you may revoke your proxy and vote in person if your shares are registered in your name.

THE PROMPT RETURN OF YOUR PROXY WILL SAVE THE COMPANY THE EXPENSE OF FURTHER REQUESTS FOR PROXIES IN ORDER TO OBTAIN A QUORUM. WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE, SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD IN THE ENCLOSED POSTAGE-PAID ENVELOPE. ALTERNATIVELY, REFER TO THE INSTRUCTIONS ON THE PROXY CARD TO TRANSMIT YOUR VOTING INSTRUCTIONS VIA THE INTERNET OR BY TELEPHONE.

By order of the Board of Directors

James F. Laird
Secretary

Columbus, Ohio
April 8, 2008

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**Diamond Hill Investment Group, Inc.
325 John H. McConnell Boulevard, Suite 200
Columbus, Ohio 43215**

**PROXY STATEMENT
FOR THE ANNUAL MEETING OF SHAREHOLDERS OF
DIAMOND HILL INVESTMENT GROUP, INC.
TO BE HELD ON MAY 22, 2008**

This Proxy Statement is being furnished to the shareholders of Diamond Hill Investment Group, Inc., an Ohio corporation (we, us or the Company), in connection with the solicitation of proxies by our Board of Directors (the Board) for use at our 2008 Annual Meeting of Shareholders (the Annual Meeting) to be held on May 22, 2008, and any adjournment thereof. A copy of the Notice of Annual Meeting accompanies this Proxy Statement. This Proxy Statement and the enclosed proxy are first being mailed to shareholders on or about April 8, 2008. Only shareholders of record at the close of business on April 2, 2008, the record date for the Annual Meeting, are entitled to notice of, and to vote at, the Annual Meeting.

The purposes of this Annual Meeting are:

- (1) To elect seven directors for one-year terms;
- (2) To transact such other business as may properly come before the Annual Meeting or any adjournment thereof.

Those common shares represented by (i) properly signed proxy cards or (ii) properly authenticated voting instructions recorded electronically via the Internet or by telephone, and that are received prior to the Annual Meeting and not revoked will be voted by the proxies at the Annual Meeting as directed by the shareholders. If a shareholder submits a valid proxy and does not specify how the common shares should be voted, they will be voted FOR the election of Lawrence E. Baumgartner, R. H. Dillon, David P. Lauer, Dr. James G. Mathias, David R. Meuse, Diane D. Reynolds and Donald B. Shackelford as directors of the Company. The proxies will use their best judgment regarding other matters that properly come before the Annual Meeting.

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QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND VOTING

Q: When and where will the Annual Meeting take place?

A: The Annual Meeting will be held at the Founders Club at Nationwide Arena located at 200 West Nationwide Boulevard, Columbus, Ohio 43215, on Thursday, May 22, 2008, at 1:00 p.m. Eastern Daylight Savings Time. Shareholders may also listen live to the Annual Meeting via audio conference by calling 800-446-1671, and enter confirmation number 21289289 and can view presentation materials in the News and Updates section of our website, <http://www.diamond-hill.com>.

Q: What may I vote on?

A: You may vote on the election of the seven nominees for election to our Board.

Q: How does the Board recommend I vote?

A: The Board recommends that you vote FOR the election of the seven nominees.

Q: What do I need to do now?

A: After carefully reading this Proxy Statement, indicate on the enclosed proxy card how you want your shares to be voted and sign and mail the proxy promptly in the enclosed envelope. Alternatively, you may vote by phone by using the control number identified on your proxy, or vote electronically by Internet in accordance with the instructions on your proxy. The deadline for transmitting voting instructions electronically via the Internet or telephonically is 11:59 p.m., Eastern Daylight Savings Time, on May 21, 2008. The Internet and telephone voting procedures are designed to authenticate shareholders' identities, to allow shareholders to give their voting instructions and to confirm that shareholders' voting instructions have been properly recorded. If you vote by phone or over the Internet you do not need to return a proxy card. You should be aware that if you vote over the Internet or by phone, you may incur costs associated with electronic access, such as usage charges from Internet service providers and telephone companies.

Q: What does it mean if I get more than one proxy card?

A: If your shares are registered differently and are in more than one account, you will receive more than one proxy card. If you intend to vote by mail, sign and return all proxy cards to ensure that all your shares are voted. If you are a record holder and intend to vote by telephone or via the Internet, you must do so for each individual proxy card you receive.

Q: What is the difference between holding shares as a shareholder of record and as a beneficial owner?

A: Many shareholders are beneficial owners, meaning they hold their shares in street name through a stockbroker, bank or other nominee. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

Shareholder of Record. For shares registered directly in your name with our transfer agent, you are considered the shareholder of record and we are sending this Proxy Statement directly to you. As a shareholder of record, you have the right to vote in person at the Annual Meeting or you may grant your proxy directly to the Company

by completing, signing and returning the enclosed proxy card, or transmitting your voting instructions via the Internet or by phone.

Beneficial Owner. For shares held in street name, you are considered the beneficial owner and this Proxy Statement is being forwarded to you by your broker or other nominee, who is the shareholder of record. As the beneficial owner, you have the right to direct your broker or other nominee on how to vote your shares. Your broker or nominee will provide you with information on the procedures you must follow to instruct the record holder how to vote your shares or how to revoke previously given voting instructions.

Q: If my shares are held in street name by my broker, will my broker vote my shares for me?

A: Your broker will vote your shares in the manner you instruct, and you should follow the directions provided to you by your broker regarding how to instruct your broker to vote your shares. However, if you do not provide voting instructions to your broker, it may vote your shares in its discretion on certain routine matters. The

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election of directors is considered routine and if you do not submit voting instructions, your broker may choose, in its discretion, to vote or not vote your shares on the nominees for director.

Q: May I revoke my proxy or change my vote after I have mailed a proxy card or voted electronically via the Internet or by telephone?

A: *Yes.* You can change your vote at any time before your proxy is voted at the Annual Meeting. If you are the record holder of the shares, you can do this in three ways:

send us a written statement that you would like to revoke your proxy, which we must receive prior to the start of voting at the Annual Meeting;

send our Secretary a newly signed and later-dated proxy card, which we must receive prior to the start of voting at the Annual Meeting, or submit later-dated electronic voting instructions over the Internet or by telephone no later than 11:59 p.m. on May 21, 2008; or

attend the Annual Meeting and revoke your proxy in person prior to the start of voting at the Annual Meeting or vote in person at the Annual Meeting (**attending the Annual Meeting will not, by itself, revoke your proxy or a previous Internet or telephonic vote**).

If you are a beneficial owner, you may change your vote by submitting new voting instructions to your broker or nominee, and you should review the instructions provided by your broker or nominee to determine the procedures you must follow.

Q: Can I vote my shares in person at the Annual Meeting?

A: You may vote shares held of record in person at the Annual Meeting. If you choose to attend, please bring the enclosed proxy card or proof of identification. If you are a beneficial owner and you wish to attend the Annual Meeting and vote in person, you will need a signed proxy from your broker or other nominee giving you the right to vote your shares at the Annual Meeting.

Q: How will my shares be voted if I submit a proxy without voting instructions?

A: If you submit a proxy and do not indicate how you want to vote, your proxy will be voted FOR the election of the seven director nominees.

Q: Who can answer my questions about how I can submit or revoke my proxy or vote by phone or via the Internet?

A: If you are a record shareholder and have more questions about how to submit your proxy, please call our Secretary, James F. Laird, at (614) 255-3353. If you are a beneficial owner, you should contact your broker or other nominee to determine the procedures you must follow.

THE ANNUAL MEETING

The Annual Meeting will be held at the Founders Club at Nationwide Arena located at 200 West Nationwide Boulevard, Columbus, Ohio 43215, on Thursday, May 22, 2008, at 1:00 p.m. Eastern Daylight Savings Time. The purposes of the Annual Meeting are (i) to elect seven directors to serve for one-year terms; and (ii) to transact such other business as may properly come before the Annual Meeting or any adjournment thereof. We are not currently

aware of any other matters that will come before the Annual Meeting.

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PROCEDURAL MATTERS

Record Date

Only our shareholders of record at the close of business on April 2, 2008, the record date for the Annual Meeting, will be entitled to vote at the Annual Meeting. As of the record date, there were 2,371,200 of our common shares outstanding and entitled to vote at the Annual Meeting.

Proxy

Your shares will be voted at the Annual Meeting as you direct on your signed proxy card or in your telephonic or Internet voting instructions. If you submit a proxy without voting instructions, it will be voted FOR the election of Lawrence E. Baumgartner, R. H. Dillon, David P. Lauer, Dr. James G. Mathias, David R. Meuse, Diane D. Reynolds and Donald B. Shackelford as directors of the Company. The proxies will vote in their discretion on other matters that properly come before the Annual Meeting.

Voting

Each outstanding share may cast one vote on each separate matter of business properly brought before the Annual Meeting. A plurality of the votes duly cast is required for the election of directors, and the seven nominees receiving the most votes will be elected. Boxes and a designated space are provided on the proxy card for shareholders to mark if they wish to withhold authority to vote for one or more nominees.

A shareholder voting in the election of directors may cumulate such shareholder's votes and give one candidate a number of votes equal to (i) the number of directors to be elected (seven), multiplied by (ii) the number of shares held by the shareholder, or may distribute such shareholder's total votes among as many candidates as the shareholder may select. However, no shareholder shall be entitled to cumulate votes unless the candidate's name has been placed in nomination prior to voting and a shareholder, has given us notice at least 48 hours prior to the Annual Meeting of the intention to cumulate votes. The proxies we are soliciting include the discretionary authority to cumulate votes. If cumulative voting occurs at the Annual Meeting, the proxies intend to vote the shares represented by proxy in a manner to elect as many of the seven director nominees as possible. Cumulative voting only applies to the election of directors. On all other matters each share has one vote.

Abstentions; Broker Non-Votes; Effect

Shares held in street name and not voted by broker-dealers are referred to as broker non-votes. However, broker-dealers who hold their customers' shares in street name may, under the applicable rules of the self-regulatory organizations of which they are members, vote the shares they hold for beneficial owners on routine matters. The election of directors is considered routine. Because a plurality of the votes duly cast is required for the election of directors, neither abstentions nor broker non-votes will have any impact on the election of directors.

If you hold shares in street name, the Board encourages you to instruct your broker or other nominee as to how to vote your shares.

Quorum

We can conduct business at the Annual Meeting only if holders of a majority of our outstanding shares entitled to vote are present, either in person or by proxy. Abstentions and broker non-votes will be counted in determining whether a quorum is present. In the event that a quorum is not present at the time the Annual Meeting is convened, a majority of the shares represented in person or by proxy may adjourn the Annual Meeting to a later date and time, without notice other than announcement at the Annual Meeting. At any such adjournment of the Annual Meeting at which a quorum is present, any business may be transacted which might have been transacted at the Annual Meeting as originally called.

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Solicitation; Expenses

We will pay all expenses of the solicitation of the proxies for the Annual Meeting, including the cost of preparing, assembling and mailing the Notice, form of proxy and Proxy Statement, postage for return envelopes, the handling and expenses for tabulation of proxies received, and charges of brokerage houses and other institutions, nominees or fiduciaries for forwarding such documents to beneficial owners. We will not pay electronic access charges associated with Internet or telephonic voting. Our officers, directors and employees may also solicit proxies in person or by telephone, facsimile or e-mail.

No person is authorized to give any information or to make any representation not contained in this Proxy Statement, and you should not rely on any such information or representation. This Proxy Statement does not constitute the solicitation of a proxy in any jurisdiction from any person to whom it is unlawful to make such proxy solicitation in such jurisdiction. The delivery of this Proxy Statement shall not, under any circumstances, imply that there has not been any change in the information set forth herein since the date of this Proxy Statement.

Requests for Proxy Statement and Annual Report on Form 10-K

Our Annual Report on Form 10-K for the year ended December 31, 2007, including our audited consolidated financial statements, accompanies this Proxy Statement but is not a part of the proxy solicitation material. We are delivering a single copy of this Proxy Statement and the Form 10-K to multiple shareholders sharing an address unless we have received instructions from one or more of the shareholders to the contrary. We will promptly deliver a separate copy of the Proxy Statement and/or Form 10-K, at no charge, upon receipt of a written or oral request by a record shareholder at a shared address to which a single copy of the documents was delivered. Written or oral requests for a separate copy of the documents, or to provide instructions for delivery of documents in the future, may be directed to James F. Laird, Secretary of the Company, at 325 John H. McConnell Boulevard, Suite 200, Columbus, Ohio 43215.

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Our common shares are our only outstanding voting securities. The following table sets forth, as of April 2, 2008, certain information concerning share ownership and the percentage of voting power (assuming exercise of all options which are currently exercisable or that will be exercisable in the next 60 days) of (a) all persons known by us to own beneficially five percent or more of our outstanding shares, (b) each director and director nominee, (c) our Chief Executive Officer and Chief Financial Officer (each, a Named Executive Officer), and (d) our executive officers and directors as a group. Unless otherwise indicated, the named persons exercise sole voting and investment power over the shares, which are shown as beneficially owned by them.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership			Percent of Class(2)
	Common Shares Presently Held	Common Shares Which Can Be Acquired Upon Exercise of Options or Warrants Exercisable Within 60 Days	Total	
Directors, Director Nominee, and Named Executive Officers(1)				
Lawrence E. Baumgartner				0.0%
R. H. Dillon	170,264(3)		170,264	7.2%
James F. Laird	55,688(4)	2,500	58,188	2.4%
David P. Lauer	4,210		4,210	**
Dr. James G. Mathias	34,345	6,000	40,345	1.7%
David R. Meuse	44,428		44,428	1.9%
Diane D. Reynolds	1,710		1,710	**
Donald B. Shackelford	5,730		5,730	**
All directors and executive officers as a group (7 persons)(8)	316,375	8,500	324,875	13.7%
5% Beneficial Owners				
Ascend Advisory Group, LLC(5) 7600 Olentangy River Rd. Suite 200 Columbus, Ohio 43235	307,872		307,872	12.9%
Bares Capital Management, Inc.(6) 221 W. 6 th Street Suite 1225 Austin, Texas 7870	194,839		194,839	8.2%
Arrow Capital Management, LLC(7) Alexandre von Furstenberg(7)				

Mel Serure(7) 499 Park Avenue New York, New York 10022	149,670	149,120	6.3%
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** Represents ownership of less than 1% of our outstanding common shares.

- (1) Each of our officers and directors may be reached at our address at 325 John H. McConnell Boulevard, Suite 200, Columbus, Ohio 43215.
- (2) The percent of class is based upon (a) the number of shares owned by the named person plus the number of shares the named person has the right to acquire upon the exercise of options or warrants exercisable within 60 days of April 2, 2008, divided by (b) the total number of shares which are issued and outstanding as of April 2, 2008 (2,371,200 shares), plus the total number of shares, if any, the named person has the right to acquire upon the exercise of options or warrants exercisable within 60 days of April 2, 2008.
- (3) Includes 400 shares held in our 401(k) plan, over which the Trustees of the 401(k) Plan possess the voting power and which are subject to restrictions on the power to dispose of these shares.

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- (4) Includes 1,324 shares held in our 401(k) plan, over which the Trustees of the 401(k) Plan possess the voting power and which are subject to restrictions on the power to dispose of these shares.
- (5) Based on information contained in a Schedule 13G/A, Amendment No. 1, filed with the Securities and Exchange Commission (SEC) on February 15, 2008, by Ascend Advisory Group, LLC. In this Schedule 13G/A, Ascend Advisory Group, LLC reported shared dispositive power over 307,872 of our shares.
- (6) Based on information contained in a Schedule 13G/A, Amendment No. 1, filed with the SEC on February 15, 2008, by Bares Capital Management, Inc. In this Schedule 13G/A, Bares Capital Management, Inc. reported shared voting and shared dispositive power over 193,327 of our shares, and sole voting and sole dispositive power over 1,512 of our shares.
- (7) Based on information contained in a Schedule 13G/A, Amendment No. 1 filed with the SEC on February 13, 2008, by Arrow Capital Management, LLC, Alexandre von Furstenberg and Mel Serure. In this Schedule 13G/A, Arrow Capital Management, LLC and Mel Serure each reported shared voting and shared dispositive power over 147,120 of our shares, and Alexandre von Furstenberg reported shared voting and shared dispositive power over 147,120 of our shares and sole voting and sole dispositive power over 2,550 of our shares.
- (8) Directors and Named Executive Officers listed in the table, together with all other employees of Diamond Hill Investment Group, Inc., collectively own or have the right to acquire 32% of the Company.

PROPOSAL 1 ELECTION OF DIRECTORS

Our Board guides our strategic direction and oversees our management. All of our directors are elected annually. The Board is currently comprised of R. H. Dillon, David P. Lauer, Dr. James G. Mathias, David R. Meuse, Diane D. Reynolds and Donald B. Shackelford, each of whom has been nominated for reelection to the Board to hold office for terms expiring at the next annual meeting of shareholders and when their successors are duly elected and qualified.

On February 28, 2008, the Board increased the size of our Board from six to seven members, and has nominated Lawrence E. Baumgartner for election at the Annual Meeting to fill this newly created seat. Mr. Baumgartner was known to, and recommended as a director candidate by, both our CEO and our Chairman, who is an independent director. The Board has determined that, with the exception of Mr. Dillon, all of our current directors are, and upon election Mr. Baumgartner would be, independent under the rules and independence standards of the Securities and Exchange Commission (the SEC) and The NASDAQ Stock Market (NASDAQ). There are no family relationships among the directors and executive officers of the Company.

A proposal to elect these seven nominees will be presented to the shareholders at the Annual Meeting. Information regarding the nominees, including their ages, length of service on the Board, where applicable, and relevant business experience for the past five years is set forth below.

Nominee	Age	Position(s) Held with the Company and Principal Occupation(s)	Director of the Company Continuously Since	Nominee for Term Expiring in
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Lawrence E. Baumgartner	49	Private investor since December 2004. Chief Investment Officer of equity securities for Banc One Investment Advisors from February 2003 until December 2004 responsible for management of more than \$37 billion in assets. Mr. Baumgartner also holds the Chartered Financial Analyst designation.(1)		2009
R.H. Dillon	51	President and CEO of the Company since 2000; Director of the Company; Chief Investment Officer of Diamond Hill Capital Management, Inc., a wholly-owned subsidiary of the Company. Mr. Dillon also holds the Chartered Financial Analyst designation.(2)	2001	2009

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Nominee	Age	Position(s) Held with the Company and Principal Occupation(s)	Director of the Company Continuously Since	Nominee for Term Expiring in
David P. Lauer, CPA	65	Director of the Company; Self-employed Certified Public Accountant since 2001; President and Chief Operating Officer of Bank One Columbus, NA from June 1997 until his retirement in January 2001; Certified Public Accountant since 1968(3)	2002	2009
Dr. James G. Mathias	55	Director of the Company; Veterinarian and owner of Tipp City Veterinary Hospital and Wellness Center since 1988(4)	1993	2009
David R. Meuse	62	Director of the Company; Principal of Stonehenge Financial Holdings, Inc., Columbus, Ohio, investment bankers, since 1999(5)	2000	2009
Diane D. Reynolds	48	Director of the Company; Partner with the law firm of Taft, Stettinius & Hollister LLP since June 2006; General Counsel of Estate Information Services, LLC and of counsel with Taft, Stettinius & Hollister LLP from June 2005 to June 2006; Partner with Taft, Stettinius & Hollister LLP from 2004 to 2005; Partner with the law firm of Benesch, Friedlander, Coplan & Aronoff, LLP from 2000 to 2004(6)	2001	2009
Donald B. Shackelford	75	Director of the Company; Chairman of the Board of Fifth Third Bank, Central Ohio since 1998(7)	2005	2009

- (1) Mr. Baumgartner also serves on the Investment Committee of the Columbus Foundation and the Columbus Zoo and Aquarium Endowment.
- (2) Mr. Dillon also serves on the boards of Ohio Dominican University and A Call to College.
- (3) Mr. Lauer also serves on the boards of Evans Capital Corp., Huntington Bancshares, R. G. Barry Corporation, Wendy's International, Inc., Tim Hortons Inc., W.W. Williams Company, and Online Computer Library.
- (4) Mr. Mathias also serves on the Veterinary Advisory Board of the Iams Company.
- (5) Mr. Meuse also serves on the boards of State Auto Financial Corporation, Central Benefits Mutual Insurance Company, ORIX USA Corporation, The Columbus Foundation, The Columbus Partnership, Kenyon College, Diamond Cellar, Stonehenge Financial Holdings, Inc., Stonehenge Securities, Inc. and Skybus Airlines, Inc.
- (6) Ms. Reynolds also serves on the board of Estate Information Services, LLC.

- (7) Mr. Shackelford also serves on the boards of The Progressive Corporation, Granville Golf Course Company, Heads & Threads International, LLC, Lowell Group and The Affordable Housing Trust of Columbus and Franklin County.

OUR BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE ELECTION OF LAWRENCE E. BAUMGARTNER, R. H. DILLON, DAVID P. LAUER, DR. JAMES G. MATHIAS, DAVID R. MEUSE, DIANE D. REYNOLDS AND DONALD B. SHACKELFORD AS DIRECTORS OF THE COMPANY.

CORPORATE GOVERNANCE

The Board held a total of four meetings during the year ended December 31, 2007. The Board has three standing committees: the Executive Committee, the Audit Committee and the Compensation Committee. Each director attended at least 75% of the aggregate of (a) the total number of Board meetings held during the period for which he or she has been a director during the last fiscal year, and (b) the total number of meetings held by all

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committees of the Board on which he or she served during the periods that he or she served during the last fiscal year.

Director Independence

The Board has determined that, with the exception of Mr. Dillon, (i) none of our directors, has any relationship with the Company that would interfere with him or her carrying out the duties of a director and (ii) all of our directors, are independent under the rules and independence standards of the SEC and NASDAQ. In making its determination, the Board did not consider any relationships between the Company and any of our independent directors that are not disclosable under Item 404 of SEC Regulation S-K.

Director Nomination Process

Given the relatively small size of the Company and our Board, we do not believe that a standing nominating committee is necessary. All of our directors participate in the consideration of director nominees, with nominees recommended for the Board's selection by a majority of our independent directors. All of our directors, other than Mr. Dillon, are independent under the rules and independence standards of the SEC and NASDAQ. Although we do not have a formal charter governing the nomination of directors, we do have certain criteria that the Board uses to assess potential directors, including significant skill and experience in financial services, investments, accounting, marketing, operations, legal matters or in other areas that are important to our success.

The Board process for identifying and evaluating nominees is generally as follows: In the case of an incumbent director whose term of office is set to expire, the Board reviews the director's overall service to the Company during his or her term, including the number of meetings attended, level of participation and quality of performance. In the case of new director candidates, the Board determines whether the nominee is independent and whether the new director must be independent for us to remain in compliance with NASDAQ rules. Incumbent directors will be nominated for reelection or, if the Board feels a new director is necessary or desirable, it will use its network of contacts to compile a list of potential candidates. The Board then meets to discuss and consider each candidate's qualifications, and the independent directors choose the nominees by majority vote.

The Board policy regarding the consideration of director candidates recommended by shareholders, is to evaluate such recommendations on a case-by-case basis. The Board will consider shareholder recommendations for directors, and does not alter the manner in which it evaluates candidates, including the criteria set forth above, based upon the source of the recommendation. Shareholder recommendations for Board candidates must be directed in writing to the Company at 325 John H. McConnell Boulevard, Suite 200, Columbus, Ohio 43215, Attention: Secretary, and must include the candidate's name, home and business contact information, detailed biographical data and qualifications, information regarding any relationships between the candidate and us within the last three years, and evidence of the recommending person's ownership of our common shares.

Executive Committee

The Executive Committee is authorized, when it is not practical or in the Company's best interest to wait until a Board meeting for approval, to take any and all actions or incur any obligations which could be taken by the full Board. The members of the Executive Committee as of December 31, 2007, were Mr. Meuse, the Chair, and Dr. Mathias. The Executive Committee did not meet during the year ended December 31, 2007.

Audit Committee

The Audit Committee engages our independent registered public accounting firm and reviews and approves the scope and results of any outside audit of the Company and the fees therefore and generally oversees our auditing and

accounting matters. The Audit Committee also reviews all related person transactions for potential conflicts of interest situations on an ongoing basis, and all such transactions are approved by the Audit Committee. Additional information on the approval of related person transactions is available under the heading Certain Relationships and Related Person Transactions below. The Audit Committee's responsibilities are outlined further in its written charter, a copy of which is available on the Investor Relations page of our website, <http://www.diamond-hill.com>.

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The Audit Committee is comprised of Mr. Lauer, Dr. Mathias and Ms. Reynolds, each of whom qualifies as independent under the rules and independence standards of the SEC and NASDAQ. The Board has determined that Mr. Lauer, the Chair of the Audit Committee, is a financial expert as defined by applicable SEC rules. The Audit Committee met four times during the year ended December 31, 2007, and its report relating to the Company's 2007 fiscal year appears below under the heading **AUDIT COMMITTEE MATTERS**.

Compensation Committee

The Compensation Committee is comprised of Mr. Lauer, Mr. Shackelford and Ms. Reynolds, each of whom is independent under NASDAQ and SEC rules, is a non-employee director under SEC rules and is an outside director under applicable tax laws. Mr. Shackelford serves as the Chair of the Compensation Committee. The Compensation Committee is organized and conducts its business pursuant to a written charter adopted by the Board, a copy of which is available on the Investor Relations page of our website, <http://www.diamond-hill.com>.

The Compensation Committee reviews and approves the Company's executive compensation policy, evaluates the performance of our executive officers in light of corporate goals and objectives approved by the Compensation Committee, approves the annual salary, bonus, stock options and other benefits, direct and indirect, of our other senior employees, makes recommendations to the full Board with respect to incentive-compensation plans and equity-based plans and determines director and committee member/chair compensation for non-employee directors. The Compensation Committee also administers the Company's equity and other incentive plans. The Compensation Committee met four times during the 2007 fiscal year. A description of the Company's processes and procedures for the consideration and determination of executive officer compensation are discussed under the heading **Compensation Discussion and Analysis** below.

Director Compensation

During the 2007 fiscal year, our non-employee directors received an annual retainer of \$30,000, which was paid entirely in our shares, and an additional quarterly cash retainer of \$2,000. The Chairs of the Board, Audit Committee and Compensation Committee each receive an additional quarterly cash retainer of \$1,250. Members of the Audit Committee and Compensation Committee, including the Chairs, received \$1,000 for each meeting attended. Directors are also eligible for participation in the Company's 2005 Employee and Director Equity Incentive Plan.

The following table sets forth information regarding the compensation we paid to our directors during 2007. Mr. Dillon, our President and Chief Executive Officer, does not receive any compensation for his service as a director.

Name	Fees Earned or Paid in Cash(1)	Stock Awards(2)	Option Awards	Non-Equity Incentive Plan Compensati	Change in Pension Value and Nonqualified	All Other
					Deferred Compensation	